Better Corporate Reporting

Summary of research findings by Associate Professor Wendy Stubbs
and Associate Professor Colin Higgins

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Executive Summary

This resource outlines the summary of research findings by Associate Professor Wendy Stubbs and Associate Professor Colin Higgins. Their integrated reporting (IR) work has focused on:

- The enablers and barriers for organisational adoption of IR
- The needs, perspectives and experiences of users/stakeholders
- The necessity/desirability of regulation/standards or voluntary guidelines
- Relationships between organisational processes: risk and materiality

The resource contains Research Project Summaries that address three questions:

1. *How do we improve corporate reporting to meet business, investor and stakeholder needs?*
2. *What impact is Integrated Reporting having?*
3. *In what ways is it contributing to the organisations that prepare them, and the users that read them?*

Key takeaways

- Preparers/organisations report that the benefits of IR (and other new frameworks) are largely internal (leads to a better story and focus for the reporting effort, and brings together a wider group of people)
- Preparers/organisations have considerable faith that IR (and other new frameworks) are better positioned for external stakeholders. Overall, the key benefits are more about clarity of communication and internal organisation.
- The benefits to preparers/organisations are largely reporting related, rather than organisational related (e.g. little impact on strategy development, integrated thinking)
- There is no evidence that preparers/organisations are generating meaningful and specific benefits from their reporting efforts (e.g. better access to capital, cheaper access to capital) – although this hasn't been a large focus of our work to date. The preparers are certainly mindful of the needs of the providers of financial capital and believe that their reporting assists in their decision-making
- Users appreciate the efforts of companies to disclose more and better information, and they see benefit in gaining insight in to the company's thinking. They don't see these reports are comprehensive and completely reliable – but they also typically do not feel they are targeted towards them. Most significant stakeholders (providers of financial capital) or those who can exert significant pressure have additional and extensive links and connections to significant organisational managers (who they rely on more specifically)

The main challenges of integrated reports

1. Some users find that (parts of) integrated reports are useful, but many find they do not provide sufficient depth and detail to fully meet their needs. There is doubt that a single report can meet all users' needs

2. Many target stakeholders (providers of financial capital) enjoy direct access to companies to get the information they need, thus many do not 'use' the reports in ways that drive their main interactions. In this way, IR is limited in securing direct and specific benefits (e.g. better access to capital, cheaper capital) for companies, although stakeholders do suggest they play a role in broader transparency

3. Preparers attempt to both communicate the company's 'story' and to share concrete data – but the reports become too long and not sufficiently granular for users.

In order to improve corporate (Integrated) reporting going forward some trade-offs will be required. Based on the views of various stakeholders and their use of IRs, we suggest that it will not be possible to satisfy all users (stakeholders) with a single report (or single reporting framework), and it will not be possible to meet all corporate objectives for reporting with one single report either.

Going forward it is also necessary to attempt to:

- Lower the cost of reporting, and the organisational burden of preparing reports with large, complex data sets
- Introduce changes that recognise the complexity of large organisations and how realistic it is that they will simply pivot towards and introduce an entirely new reporting framework

Options for improvement

In order to improve corporate reporting so that it better meets business, investor and stakeholder needs, the following are options to consider:

1. Re-frame Integrated Reporting as an over-arching framework that integrates the suite of corporate reports, reporting frameworks, communication activities rather than it being a new, replacement singular reporting framework

a) 'Integrated Reporting' becomes the 'roadmap' that integrates and co-ordinates the different reporting and communication activities of the organisation (including existing financial reports and sustainability reports).

b) The IR roadmap will identify gaps in current reporting and communication activities, and provide a guide for different users about how to find the information they require, to the depth that they require.

c) A 'roadmap' approach will enable the organisation to tell its story, and direct users to the more granular information they require in order to make appropriate judgements about the organisation's performance

d) This appears to be the approach being taken by more experienced and mature reporters – in which reporting managers select from and incorporate aspects of various reporting frameworks – but it goes beyond replacing data generated with a map of how it fits together.

2. Materiality and inter-organisational consistency need to be considered as a trade-off and/or separated out

a) The basic challenge users/stakeholders face is either a lack of depth about what really matters (materiality) to them or an inability to make sense of what is reported in the context of others or widely understood protocols and benchmarks (consistency)

b) IR could develop different protocols and guidance for undertaking a robust and rigorous materiality process (including stakeholders to include, approaches to take, methods of analysis, and presentation of insights) in much the same way that financial reporting has agreed approaches to how, for example, depreciation is calculated.

c) Striving to standardise materiality processes would go some way towards providing assurance to users of the rigours of the process undertaken to capture materiality issues, and the rigour of the data and information analysed and presented.

d) Issues of consistency present challenges to both intra-organisational consistency (in terms of how matters are treated from report-to-report) and inter-organisational consistency (how to compare organisations and their performance on ESG matters). A focus on consistency (rather than materiality) would emphasise the type of information that must be included in an IR.

e) A focus on consistency runs the risk of returning to long and complex GRI-style reports that substantially increase the reporting burden for organisation.

f) The choice of an organisation's focus on either materiality or consistency could be taken in the context of suggestion (1) above where an organisation considers the main gap in its current reporting suite. Where is the focus best placed so that, overall, the reporting and communications suite satisfies the needs for specificity that some stakeholders/users have, and the need for consistency that others have?

3. Specific guidance and frameworks/approaches could be developed to introduce consistency in to how material issues are identified, analysed, and reported

a) This attempts to bridge the divide between materiality (including material risks) and consistency in so far that an organisation's material issues are formulated and presented in a consistent way across organisations (e.g. there is a standardised approach to, for example, staff satisfaction, so that all organisations reporting on this do so in a common way according to agreed protocols and measures)

b) This is particularly important for the identification, measurement and reporting of risks where there is wide variation in how these are disclosed by organisations – but yet are material to most users

4. Links between integrated thinking and integrated reporting

a) Organisations appear to approach integrated reporting from one or two directions: some see it as an approach to driving more integrated thinking in the organisation. Others see it as an outcome of renewed integrated thinking and strategy work undertaken (and which may have come from a new strategy, new CEO).

b) Guidance is necessary for the routes that could be taken to improve reporting via both tracks. In some cases, this will involve more internal work around identification of issues and indicator development. In other cases, it will involve greater clarity of the report (as per point 1 above).

c) Integrated thinking rests on engaging more substantially the finance and risk teams within organisations, and raising the saliency of the ESG-related disclosures. One of the big issues with improving corporate reporting is the level of engagement and visibility that the Board has of how the reporting activities are developed, received and evaluated.

In summary, moving forward requires choices to be made. It isn't possible to satisfy everyone with one single report. We also need to resist simply introducing a whole new approach to reporting in the face of some limitations with what exists. To improve corporate reporting it is necessary to identify specific issues and to undertake focused work on addressing those.

Literature Review

Year	Study Focus	Study Details	Impact: Preparers	Impact: User/stakeholder	Overall observations	Follow-up questions
2012	What are the inhibitors of, and enablers for, organisations adopting integrated reporting Read the report here.	23 Managers, 15 companies • Sustainability managers (14) • Investor relations/communications managers (5) • Finance managers (4)	*Intended* to bring clarity to the organisation's strategy for external audiences Has brought **greater clarity internally** about what the organisation is trying to do strategically, which helps to **drive change**. Has assisted to **break down internal organisational silos** **Cost savings**. Consolidation of reporting is more cost-effective. Enables more **focused and efficient communication** to stakeholders with a **single source of truth** Greater **executive involvement** in reporting – and awareness of sustainability issues	Not a focus of this study	Very early study, IR was just an emerging phenomenon. It was not widespread practice. Observations tended to reflect what was *expected* not what was occurring Early challenges associated with audience, some scepticism that it will deliver value (to anyone), some internal scepticism related to cost/benefit of IR (especially by Finance managers), and lack of clarity about what IR is and meant to look like. Reflected discourse at the time around directors' liability and uncertainty about that from preparers	Question about whether IR just delivers more efficient and integrated *reporting* rather than more efficient and integrated *organisation* There is a need for more work that goes beyond the impact on sustainability and reporting managers Issues associated with the internal processes required to deliver the necessary integration to realise the benefits Need to recognise that organisations are large and complex and it isn't simple to just drop in a new reporting framework
2014	Is regulation is necessary and desirable for IR to be effective, or are voluntary guidelines best? Read the report here.	22 stakeholders of organisational reporting • Regulators (3) • Standard setters (2) • Industry bodies and professional associations (6) • Accounting firms (3) • Financial stakeholders (8)		A small number felt that existing reporting requirements and information sources provided sufficient information for their needs. There wasn't a problem that needed fixing. A range of problems with current reporting were identified and shared by many: • Reports are too complex • Reports contain too much information • Corporate reports don't tell the full story • Reports are too backward looking and don't address the connections between strategy, prospects and risks • Lack of a shared vocabulary and approach across reports – making comparisons difficult • A lack of rigour and consistency To be effective, IRs need to focus on the **material issues** and flesh out the **real financial drivers** of the business	Study focused predominantly on stakeholders' views of IR – rather than how they use it and the impact it has on their engagement with a firm Not a unanimous view that current reporting is 'broken' – although wide acknowledgement that there is room for improvement It is a lack of clarity around audience and purpose that underlies the problem. It is trying to be all things to all people and ends up meeting no one's needs well. Some trade-offs will be required between the communications role of reports and data that is concrete and standardised to ensure the integrity of the financial system in agreeing to a new reporting framework Regulation *for* IR was not seen as necessary, but regulatory reform of *some elements* were necessary. There was no need to reinvent the wheel – consideration should be given to OFR and ASX listing requirements.	What is the main problem that IR is seeking to address? Who is it for and what do they want? There is a tension between materiality and comparability. A focus on what is most material to an organisation will likely mean it is less comparable to other businesses. There is a need to explore more specifically what the IRs have changed for the stakeholders and their engagement with the organisation

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2014	Financial Capital Providers' Perceptions of Integrated Reporting Read the report here.	4 of the 6 Australian members of the IIRC Pilot Programme Investor Network (IN). The IN was active in shaping the <IR> framework. The network comprised over 35 global investor organisations, six of whom are Australian. This network represents the key users of integrated reports, the 'providers of financial capital'.	Not a focus of this study.	**Benefits and outcomes of IR according to participants:** • catalyst for change • have better conversations with companies (engagement) • increased focus on value drivers and material issues • help clarify a company's approach on its long term strategic opportunities and risks • increase availability (disclosure) of information, but issue of whether investment community will share this information because of competitive issues • linkage to strategy • address gap between management and investors • make better informed decisions and assumptions • better capital allocation decisions • IR may not necessarily lead to more stable markets	Questions remain whether IR is the solution to reporting problems, and moves afoot by the ASX and ASIC to encourage companies to report environmental and social sustainability risks may be more influential in corporate reporting reform than IR. IR benefits are anticipated rather than actually being realised at this stage. The six capitals framework has not ignited the interest of the participants, as they use ESG frameworks which they feel are broad enough to encompass the six capitals. A more significant issue however, is the gap between the information supplied by companies and the information required by providers of financial capital to make investment decisions. While IR has the potential to bridge this information gap, it is not yet happening.	Identify ways and means to bridge the information gap and provide guidance to preparers.
2015	Where have the early adopters of IR got to? What are they doing, and how are they finding it? Read the report here.	18 managers in seven of the companies that participated in the 2012 study above • Sustainability/CSR/Environment or Stakeholder-related Managers (11) • Finance-related Manager (3) • People/Culture/HR/Other (4)	**The IIRC framework is not a major driver** of the approaches being taken Reporting changes have brought a new **strategic approach to reporting** that didn't exist in the past. Reports have become **more aligned with strategy** but not universally so. New approaches have enabled some previously peripheral issues around **environment/sustainability to be recast as business issues** and less focus on **sustainability for its own sake** New reporting approach has introduced a more **rigorous focus on materiality** There was **not a consistent approach** being taken to reporting by organisations adopting IR There was considerable **variation in how materiality** was understood and applied	Not a focus of this study – although preparers do not see IR as an accountability mechanism	New reporting frameworks stimulate various internal organisational re-arrangements and new ways of working – but this is not simply to implement and embed a new reporting framework Organisations are always looking for ways to improve their reporting and new reporting frameworks are used as a source of new ideas about what they could do Some organisations found value in integrated reporting due to other changes happening in the organisation (e.g. new CEO, new strategy) thus necessitating a new way to communicate Most changes witnessed are around *reporting* rather than *organisational* change. Reporting is not driving strategy, strategy is driving the approach to reporting.	There is a need to drill down in to the types of changes that companies need to make to their reporting efforts, rather than constantly introducing new frameworks.

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			Integrated reports alone do **not provide evidence of integrated thinking**		Reporting reform is more successful when taken as part of a wider organisational reform process, rather than limited or ad-hoc 'framework' driven change	
2016	What do organisational stakeholders think about IR and what value and benefit do they see in it? Read the report here.	24 interviews of report preparers and users • Reporting managers (4) • Civil society groups (7) • Green/environmental groups (7) • Financial stakeholders (6)		What stakeholders need and expect, and their views of the usefulness of IR Stakeholders have extensive, but varied, information needs that are not sufficiently addressed by a single, static report. They tend to be more interested in 'issues' related to what they're concerned with, rather than with the organisation as a whole. Company reports are mostly used for 'background information' or to cross-check before undertaking other research or engagement. Some see it as providing the 'manager's view' on an issue Stakeholders tend to still engage directly with the organisation (usually through well-developed contacts) to get the information they need/want The *practice* of reporting is seen as positive – it is a good discipline for organisation's to have – even if stakeholders aren't using them fully Reports are limited due to a lack of comparability, quality and perceived spin The transition to IR from SR has resulted in the loss of some disclosure (and detail) about ESG issues. Loss of granularity – further limiting the useful of IR Most felt the reports were targeted at financial stakeholders/investors – except that stakeholder group who didn't have a firm view of the report's audience		Do stakeholder groups change their behaviour towards an organisation because of what's been reported? Regarding financial stakeholders – does the reporting lead to better financing decisions, access to capital, lower cost of capital, availability of capital?

Year	Study Focus	Study Details	Impact: Preparers	Impact: User/stakeholder	Overall observations	Follow-up questions
2017	How is risk and materiality viewed in different parts of the organisation, and in what ways are they coming together to drive effective IR? Read the report here.	9 companies, 25 interviews: • 4 board members • 9 risk managers • 11 sustainability managers • 1 investor relations manager (who was involved in the materiality process and producing the integrated report)	The study was predicated on the assumption that risk and materiality are closely related – and both are critical in ensuring integrated reporting is effective. And in light of observations that organisational processes are poorly integrated – leading to some limitations in integrated reports in most organisations. The materiality insights are utilised by the reporting function, but are rarely reported to the board and do not extend widely in to the reaches of the organisation. In contrast, number of people across the organisation are involved in identifying risks, and the risk profile of the organisation occupied a lot of senior management and board-level discussions. The wider acceptance of ESG was still evolving in many organisations – and there was still some way to go before these issues were seen quite as critical to the overall management of the firm.	Not a focus of this study.	There are varying degrees of integration between risk and materiality processes in Australian Integrated Reports. Overall, some structural innovation is necessary within (especially large) organisations to leverage the insights produced by specialists involved in risk and materiality processes. Not only would this lead to more efficiency in the information generated, it would also ensure that a better-rounded picture is offered to those with an interest in the organisation's strategic priorities and value-creation activities.	
2019	How are companies using the GRI, the IR Framework and the SDGs? What issues arise? Read the report here.	Interviews with 27 managers from 23 companies who were involved in their company's reporting in Australia.	• The use of multiple frameworks and increasing requests for data have led to significant complexity; • Reporting frameworks facilitate communication to internal and external stakeholders, helping to tell a company's story, and inform or test its strategy; • While IR is seen as complex and difficult to implement, it provides a progressive framework for integration of other frameworks, and for driving integrated thinking; • Participants held mixed views about the relevance of the GRI. For some, it is becoming less relevant and useful, while for others it is the most credible and comprehensive global reporting tool; • While the SDGs are seen as a useful communication tool to tell an organisation's sustainability story, participants held mixed views about its usefulness in driving change. At this stage reporting against the SDGs is mainly confined to aligning, or retrofitting, the goals to sections in reports. • All participants saw a substantive role for the accounting profession in the reporting framework space,	Not a focus of this study.	The growing experience and maturity of reporting managers provides confidence in picking and choosing the most appropriate (ESG) reporting frameworks for the strategic challenges they face. New reporting managers would have more difficulty navigating this space than experienced managers, but focusing on materiality, the organisation's strategic priorities, and understanding the reporting appetite of senior managers would assist in choosing and evaluating the options before them.	

Year	Study Focus	Study Details	Impact: Preparers	Impact: User/stakeholder	Overall observations	Follow-up questions
			particularly in providing practice guidance; • The major challenges identified by participants were: complexity due to a “cacophony” of frameworks and the lack of integration; a compliance mentality; translating frameworks for internal stakeholders; and, resourcing issues.			

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