Report model doesn't simply go by the numbers

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INTEGRATED REPORTING

The complex nature of global business and investors' improving understanding of environmental and social issues are underscoring the need for a new type of corporate reporting – one that goes beyond the numbers to examine equally pertinent nonfinancial issues.

A growing number of large corporations in Europe and the United States are already embracing the integrated reporting model, which covers an organisation's strategy, governance, performance and prospects – issues that lead to the creation of value over the short, medium and long term.

"Integrated reporting provides a clear and concise representation of how an organisation demonstrates stewardship, and how it creates value in the short and long term," explains Chris Joy, executive director of the Hong Kong Institute of Certified Public Accountants (HKICPA).

The International Integrated Reporting Council (IIRC) – a global coalition of regulators, investors, companies and accountants, among others – is seeking feedback to its recently released consultation draft on integrated reporting. This approach encourages companies to collate all relevant data about an organisation's strategy, risks and governance processes, environmental and societal impact, and financial data and results, according to the IIRC. Companies can then create a report that is transparent and focused on value creation in the long and short term, and explains how these elements form a coherent whole.

Many in the industry say the time is ripe for a single holistic report, as the traditional form of corporate reporting is no longer sufficient for investors with soaring expectations and a tightened regulatory regime.

"Presently, most organisations provide separate, chunky standalone reports that may satisfy different stakeholders' needs to varying extents, but never quite provide the full picture," says Chiew Chun-wee, head of policy at the Association of Chartered Certified Accountants (ACCA) in Asia-Pacific. "Financial reports and sustainability reports are seemingly prepared in silos, when what stakeholders really want to know is how they cross-pollinate. What is missing now is a well-thought-through synopsis that tells the main story of the organisation – some background, a little history and, more importantly, the future aspirations both in the short and longer term."

Although adoption of the integrated reporting model has been slower in Hong Kong, accountants say it is headed in the right direction. Earlier this year, the Hong Kong stock exchange's Environmental, Social and Governance (ESG) Reporting Guide became recommended practice for listed companies, with talk of a move towards a "comply or explain" approach to ESG reporting by 2015.

"The ESG can be seen as part of the journey towards integrated reporting, as it goes further in promoting the reporting of nonfinancial information," explains Ivan Au, chairman of the continuing professional development committee and member of the corporate sector committee at CPA Australia – Greater China. "Some of the larger companies in Hong Kong are already adopting integrated reporting. The drive towards integrated reporting is there."

Although integrated reporting has been adopted mainly by large companies, the approach is suitable for businesses of any size.

"Integrated reporting is focused on providing investors with the information they need to make better decisions, so the size of the company does not matter. Smaller companies should also be looking at issues pertaining to value creation in the short, medium and long term," Joy says.

Although ideal as a concept, industry sources say a gamut of challenges need to be addressed before integrated reporting becomes mainstream practice.

"Aside from management buy-in, one of the biggest challenges is how a company can produce one report that can speak to so many different stakeholders with different agendas," Au notes.

Other concerns include managing information overload that is already overwhelming businesses, the risk of giving away trade secrets when discussing the future, compromising proprietary information, and the considerable set-up costs involved.

Chris Joy

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