FINANCIAL TIMES

lunes, 21 de noviembre de 2011

Big groups sign up to integrated challenge

Company reporting

Some of the world's largest companies are taking part in a pilot to report on wider capital issues, says **Mike Scott**

More than 50 companies around the world have signed up to a two-year pilot programme on integrated reporting that could change the way businesses report on their activities.

The pilot, run by the International Integrated Reporting Committee, involves some of the world's biggest companies, including HSBC, Coca-Cola and Microsoft, with involvement from organisations around the globe such as South African power company Eskom, Russia's state-owned nuclear power company Rosatom and CLP, the Chinese utility.

A new approach to reporting is needed, it is claimed, because the world has changed and the way companies present information has failed to keep up. "Corporate reporting does not show the story and the strategy of a company at the moment," says Paul Druckman, chief executive of the IIRC. "It is very compliance-driven and there are many instances where companies would like to tell people what they are doing, but they are not allowed to. At the same time, there is often too much information in reports. We want better reporting, not more reporting."

Integrated reporting "brings together material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates", says the IIRC in a discussion paper that is open for consultation until December 14.

Reports have become increasingly unwieldy partly because reporting requirements differ so much from country to country, says Richard Scurr, head of group finance operations at HSBC. "If the IIRC can bring together governments and regulators to establish a degree of unity on reporting it would help international organisations such as ours to keep the size of the document down."

The balance sheet does not tell the whole story, Mr Druckman adds. Issues such as globalisation, resource scarcity, the demand for greater transparency, population growth and environmental issues mean that the type of information that is needed to assess the past and current performance of organisations and their future resilience is much wider than is provided for by the existing business reporting model.

"Corporate reporting at the moment does not seem to satisfy most of its users. The annual report and accounts have become compliance documents. They have lost their way as communications documents," says Mr Scurr.

Current reports focus on financial and manufacturing capital, but fail to take into account other forms of capital including intellectual capital, natural capital, human capital and social capital, Mr Druckman says.

"The need for a broader information set is clearly demonstrated by the small percentage of market value now explained by physical and financial assets – down to only 19 per cent in 2009 from 83 per cent in 1975," says the consultation report. "The remainder represents intangible factors, some of which are explained within financial statements, but many of which are not."

While these issues are increasingly contained in corporate responsibility reports, these are separate from a company's accounts so the issues are not integrated into business strategy decisions.

> 'Integrated reporting is an attempt to tell people what we are doing and why'

"ESG (environmental, social and corporate governance) data on its own is meaningless," says Curtis Ravenel, head of global sustainability initiatives at Bloomberg, the data provider. "Investors want to see trends, for example CO2 emissions relative to peers or relative to the amount of energy produced. The point of integrated reporting is to get this information into financial filings."

There has been a 50 per cent increase in the number of people looking at ESG data on Bloomberg's platforms, he adds, "but we think that number would skyrocket if these numbers were in financial statements".

There is a debate within the integrated reporting community about the extent to which ESG information needs to have a financial value put on it to be taken seriously by analysts.

"Not everything needs to be monetised to be compared," Mr Druckman says, but Mr Ravenel points out that "the financial community has a certain way of doing things and we need to provide them with a stepping stone. We have to speak to analysts in their own language. "

The issue of what to keep in and what to leave out may be one of the central dilemmas in integrated reporting. It is important for companies to explain coherently and concisely their performance and what they are trying to achieve, Mr Scurr adds. "I'm not sure any of us know where this is going to lead us, but integrated reporting is an attempt to tell people what we are doing and why.

"If you don't explain what you are trying to do, how can you expect people to buy your shares?"

Ultimately, integrated reporting should bring better investment decisions, otherwise it is a waste of time, says David Matthews, who is leading KPMG's work on integrated reporting. "Capital should be invested in businesses that are best able to create long-term value in a sustainable manner. Current reports are very backward-looking. They need to be much more forward-looking."

Once consensus emerges around what should be in an integrated report that it will start to be really useful to investors, says Mr Ravenel. "Our tools work best when we have complete datasets – the biggest barrier is that only half the sector has data and everyone discloses it slightly differently."