Communicating Value With Concise Information

Paul Druckman
CEO del International Integrated Reporting Council (IIRC)

Information is the life-blood of capital markets. Without proper and thorough information, investors are unable to allocate capital efficiently. This is not to say that investors need more and more information because when information is diluted it loses its messaging and thus its power. Concise robust information, however, is crucial. TS Elliott contemplated «where is the wisdom we have lost in knowledge? Where is the knowledge we have lost in information?» Current information overloads mean that we have lost the 'wisdom' or the key message in information. The sheer size of current corporate reports produced in order to comply with regulatory requirements and that have endless back pages produced in the name of transparency, has increasingly meant that stakeholders are not using reports for the reason they were intended: to give investors the insight into how a business will use its strategy and business model to create value in the short, medium and long term. Although corporate reporting is now more accurate and robust in some ways, the complete story has been lost. Reporting is focused on providing historic information rather than providing strategic messaging and an overview of the business model. This means investors cannot efficiently and without unnecessary risks make long-term investments.

Information is the life-blood of capital markets. Without proper and thorough information, investors are unable to allocate capital efficiently

Corporate Reporting needs to adapt to the current needs of the markets, becoming a useful tool for stakeholders and part of the answer to market stability

There is no doubt that attitudes towards the importance of efficient conveyance of information are changing as markets and businesses adapt to the ramifications of the Global Financial Crisis. **Al Gore** and **David Blood** recently suggested that a short-term perspective is «driving economies and our planet into liquidation». The mean duration of US equity holders has fallen abruptly, from around seven years in the 1940s to just seven months in 2007. Although a fall in transaction costs and incentive structures that reward short term performance are to some extent responsible for this short termism, it is also due to the fact investors do not have access to the key messages businesses should be communicating about their strategy and ability to make value in the short, medium and long term. Corporate Reporting needs to adapt to the current needs of the markets, becoming a useful tool for stakeholders and part of the answer to market stability. The first step in this process is to phase out quarterly reporting, which means convoluted and multiple messaging, and instead focus on the process of producing short, clear, concise and strategic reports that convey the entire story of value creation.

The International Integrated Reporting Council (IIRC) is currently constructing the International <IR> Framework, the published Prototype of which is already proving to be dynamic tool for organizations to work with in order to consider the materiality, guiding principles and content elements of their reporting process. The primary audience for Integrated Reporting <IR> is the investor in order to aid their capital allocation needs, with benefits also applicable to businesses as it is a tool for creating a culture of integrated thinking, a focus on the future and the breaking down of silos. This clarity will be felt by the likes of employees, customers and suppliers alike.

The 21st century brings with it is increasing numbers of multinational organizations, albeit with cultural differences in their different offices and branches. Resultantly, businesses and the information they convey needs to speak to a universal audience – with consistency in the standards and the type of information investors are given across the globe. The International <IR> Framework is intended to be universally beneficial – guiding the reporting process of organizations across the world, as a result, multi-national organizations will be able to work more efficiently across borders. The Framework does not prescribe what facts and figures reporting should include as this is only relevant to the organization and the climate that they operate in and should not be prescribed. However, what <IR> does is allow for comparability of multinational organizations across markets.

Integrated Reporting tackles the issue of what type of information is and is not currently conveyed to investors. Increasingly investors recognise that much of a company's value is not captured in current financial statements. Research has found that it is around 80% of a company's value not captured, and yet reporting structures are still widely based on purely financial information. Extra financial information has a vast impact on the value of an organization – capitals such as intellectual, manufactured, social, human and natural greatly affect the value an organization is able to create in the short, medium and long term. This information must be conveyed to the investor as part of the main strategy of a business, in one integrated, thought out process. Therefore, whilst the IIRC applauds the movements that are currently happening towards sustainability reporting, it maintains that for

Businesses and the information they convey needs to speak to a universal audience

an investor to be able to have the most appropriate information available, a business should be incorporating all extra financial information alongside the financial factors, producing a culture of integrated thinking and resultantly the relevant messaging for investors. Accountants especially will have a large role to play in the reporting revolution, they will be extending their remit in order to ensure that businesses do not just account for financial statements, but take into account all the factors that have a tangible effect on a business's ability to create value now and in the future.

Integrated Reporting is a market-led concept. Since the creation of the IIRC just two years ago there has been a convergence of opinion around the notion that reporting should, and can be, improved. <IR> is the reaction to the needs of investors and businesses in order for businesses to become more resilient in the modern day markets and have a more comprehensive relationship with investors. The Framework is being developed in order to be of the highest quality and capable of adoption in all markets – and to do so the IIRC has a Pilot Programme which involves over 80 of the world's most prestigious businesses and investors such as Microsoft, China Light & Power and Unilever contributing their expertise towards its development. The concepts contained in the Prototype Framework, published in December 2012, are also being tested by our Investor Network of 25 institutional investors, in order to ensure it meets the expectations and needs of investors. In April 2013 the IIRC will publish the Consultation Draft of the Framework in order to encourage a global response from all stakeholders. Accountants, businesses, investors, regulators and academics will be called upon to evaluate and improve the Framework before the release of Version 1.0 of the Framework in December 2013.

Increasingly investors recognise that much of a company's value is not captured in current financial statements

The IIRC is here to challenge current thinking and to lead a broad and powerful coalition that will enable businesses to convey their full story of value creation, and as a result, produce the long-term investments that are so crucial to the interests of global stability

Social Media and the internet have changed dramatically the impact of information. In many ways this has been hugely beneficial; information about a company can be found at the click of a button online, meaning organizations have fewer places to hide any of their failings – massively benefitting the culture of transparency. However, it has also meant information-overload, and rather than adapting and being innovative in a reaction to this, businesses have until now responded by just increasing the bulk of information they release in order to fulfil the rigidity of regulatory boundaries and expectations. Corporate Reporting needs to be innovative, dynamic and evolving at this critical point in the crossroads of business information, and this means taking into account the words of TS Elliott and finding the wisdom and the key message in the information we are conveying and doing so succinctly and efficiently in order to attract investors into more long-term investments. The IIRC is here to challenge current thinking and to lead a broad and powerful coalition that will enable businesses to convey their full story of value creation, and as a result, produce the long-term investments that are so crucial to the interests of global stability.