

Comments on the Framework for Integrated Reporting and the Integrated Report ('the Framework') Discussion Paper

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1. The Framework discussion paper is concise and not too long or overwhelming. It adequately stresses that the process of integrated reporting is a journey and will evolve as time progresses. Preparers need to understand this as they embark on the process of preparation.
2. The Framework refers a lot to the need to 'create and sustain value over the short-, medium- and long-term'. It is proposed that the Framework expand on the meaning of value in this context, *inter alia*:
 - The understanding of value will vary across companies therefore a company needs to define its own understanding of value to enable it to prepare a meaningful integrated report (section 3.2).
 - In determining the focus of the integrated report, a company needs to identify and understand its relevant stakeholder groups, define value for these groups and communicate this in the report (from Consultation session in Cape Town).
 - With the expanding acceptance of the need for sustainable business practice, the stakeholder perspective of value is being integrated with the existing shareholder perspective to varying degrees. The Framework may wish to articulate this and thereby provide companies with a clearer guide for the preparation of the report. On page three of this document is an outline of the shareholder perspective of value versus the stakeholder perspective of value.
3. The Framework still seems to be holding on to the old paradigm of business in some areas. This needs to be completely released in order to allow new paradigms to develop. More specifically:

- Co-operation and co-creation and not competition are fundamental principles of sustainable business. The Framework needs to remain reflective of genuine sustainability principles (Page 8 of Framework).
 - Acceptance of stakeholder perspective of value as discussed above.
 - Focus on attainment of purpose as opposed to demonstration of performance (Sections 3.5 and 3.6). Purpose would encompass development of meaningful stakeholder relationships, and hence value within the stakeholder base.
 - In Box 2, section 3.5 on page 15, 'explanation of factors influencing change in profit' should possibly be expanded to include cash flows.
 - In Box 2, section 3.5 on page 15, 'financial investment in future capacity' could include investment in reputation, stakeholder relationships, business processes and other valuable intangible resources.
4. Business has not operated in this integrated dimension previously therefore it needs to be open to new meanings, assessment and measures of value and success.
 5. Is there a risk of creating silos of economic, environmental, social and financial capital? It is important to sustainability that these resource categories are dealt with holistically on an integrated basis. The Framework may wish to articulate this more clearly. The pools of capital do and need to interact and synthesise in order to generate sustainable business. Page 14 of the Framework does address this saying that the performance review needs to be holistically integrated; however, the issue could be specifically addressed earlier in the document.
 6. Point 3.2 on page 12 – discusses 'discharging responsibilities of using resources responsibly'. These resources are internal and external to a business and comprise all stakeholder groups, which the Framework may wish to make clearer.

7. Intention of a business is fundamental to its ability to sustain and create value. Communication of a business's intention and attainment of this intention could be included in the integrated report. This may form part of its understanding of value.

Table 1: Shareholder/stakeholder value perspective

<p><i>Shareholder value perspective:</i></p> <p>Business must be profitable to survive and provide returns to shareholders relative to risk:</p> <ul style="list-style-type: none">• profitability over responsibility;• return to shareholders is the most important for growth going forward; and• value measured: share price, dividend payout, economic profit.
<p><i>Stakeholder value perspective:</i></p> <ul style="list-style-type: none">• networks of parties and people working together (coalitions to serve all parties involved);• responsibility over profitability;• employees are major parts of companies;• trust critical to be built between all stakeholders;• objective to increase the common wealth and maximise societal wealth; and• success measured by satisfaction amongst stakeholders; stakeholder management

Source: Value based management, 2009