14th December 2011

IIRC Secretariat
c/o The Prince’s Charities Foundation
Clarence House
Stable Yard Road
London SW1A 1AA

Re: Response to the IIRC Discussion Paper consultation

Dear Sir/Madam,

Thank you for the opportunity to respond to the IIRC’s Discussion Paper on Integrated Reporting. Radley Yeldar is a corporate communications agency who helps companies tell their story simply, in one clear voice, by whatever means works best. We have been active in the corporate reporting space for over 25 years and are committed to improving the effectiveness of corporate reporting both in print and online, through our own thought leadership initiatives and our work with clients.

We regularly undertake research and analysis in the area of corporate reporting. Our annual ‘How Does It Stack Up?’ research, for example, assesses annual and sustainability reporting trends in the FTSE 100 and beyond. Report Leadership, meanwhile, is a joint initiative with PwC and CIMA that aims to challenge established thinking on corporate reporting. We also regularly collaborate with Accounting for Sustainability and the Global Reporting Initiative on various research projects, including the connected reporting framework and biannual research into trends in online reporting.

The following consultation response is based on our own viewpoint and discussions with clients on the topic of Integrated Reporting. Overall, we are very supportive of the recommendations set out in the Discussion Paper. In particular, we acknowledge the need to provide investors and other stakeholder audiences with a more joined up story of company performance and prospects and believe that Integrated Reporting has the potential to address this need. Our response details areas where we feel further attention is needed to ensure that the forthcoming Integrated Reporting Framework is fit for purpose and meets the needs of companies and stakeholders alike.

Thank you for the opportunity to respond to your consultation. We would be happy to discuss our comments with you further and contribute to your proposals over the coming months.

Yours faithfully,

Clive Bidwell
Head of Corporate Reporting

Ben Richards
Head of Sustainability
Q1. (a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?

Yes. Radley Yeldar recognises that many companies have long underplayed the effects of social and environmental issues on the value creation process in their corporate reporting. The short-term focus of markets has compounded this, such that important drivers of value have been largely overlooked. We believe that Integrated Reporting will give sustainability issues a new legitimacy in the context of corporate reporting which will lead to a more enlightened, long-term and sophisticated understanding of risk and opportunity. We believe that this will ultimately lead to more efficient capital allocation (both in terms of financial capital e.g. investment funds, and non-financial capital e.g. natural resources) as investors consider the implications of the social and environmental context when making investment decisions over the short, medium and long-term.

Q1 (b) Do you agree that this action should be international in scope? Why/why not?

Yes. Radley Yeldar believes that the world’s largest economies need to recognise and adopt the concepts and principles of Integrated Reporting for it to be successful. We do, however, urge caution in a one-size-fits all approach.

Q2. Do you agree with the above definition of Integrated Reporting? Why/why not?

We agree with the stated definition in respect of Integrated Reporting’s concern with material information on company strategy, governance and performance set within a wider sustainability context. However, we believe it is also worth recognising the role of other communication channels, beyond the report, to communicate, engage and create dialogue with stakeholders on both the integration of sustainability issues throughout a business, as well as the detail of those particular issues that may be deemed beyond the scope of the Integrated Report.

Q3. Do you support the development of an International Integrated Reporting Framework? Why/why not?

Yes. See response to Q1 a). Furthermore, we acknowledge the need to provide investors and other stakeholder audiences with a more joined up story of company performance and prospects. We believe that non-financial disclosure in its current form, whilst often useful for wider corporate stakeholder audiences does not always provide the most relevant information to investors. Radley Yeldar research conducted in collaboration with GRI and Accounting for Sustainability (to be published in early 2012) revealed that 100% of investors and 100% of analysts surveyed use ‘extra financial factors’ as part of investment decision making. Furthermore, 65% of investors and 63% of analysts said analysis of access to and use of natural resources is ‘very relevant’ for investment decision making. With this apparent endorsement for disclosure of non-financial information the challenge for the IIRC will be to create a framework to encourage companies to report on increasingly material information for investor audiences such that non-financial information becomes integral to investment decision making.

Q4. (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/why not?

We partially agree that the initial focus should be on large companies. However, we also believe that it will be important to acknowledge the benefits and relevance of Integrated Reporting for large, medium and small companies. We believe that material non-financial drivers of value is as relevant for medium and smaller size companies as it is for large companies.
On whether the focus of Integrated Reporting should just be on the needs of investors, Radley Yeldar believes that, while investors should be considered a primary audience, the information contained within an Integrated Report could be of use to other stakeholders who would like to understand how a company is responding to critical social and environmental challenges and indeed their performance in respect of mitigating and addressing these challenges. We see Integrated Reporting as an important gateway or hub through which interested stakeholders can access relevant content on the performance of a business across its material impacts – set within the wider social and environmental context. It is our view that the Integrated Report may be supplemented by more tailored and detailed communications, such as issue-specific reports or stakeholder focused micro-sites.

Complementing our strong support for Integrated Reporting, we also endorse the case for other forms of sustainability communication and reporting, notably those targeted at stakeholders such as employees, customers, suppliers, NGOs and governments. Whilst a sustainability report per se may not always be the best way of reaching such stakeholder groups, the requirements and benefits supporting broad disclosure and transparency will, we believe, always remain. Furthermore, the management discipline of producing a sustainability report can generate internal buy-in and robust performance data and analysis, which in turn can spur a virtuous cycle of improvement.

Finally, we would like the IIRC's principle of materiality to emphasise that what is immaterial to one stakeholder (e.g. investor) may be material to another (e.g. employee). On this basis, the IIRC should acknowledge that there may be other channels or means by which to communicate information which is deemed to be immaterial for investor audiences.

Q4. (b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?
Yes. See response to Q4 a). Furthermore, we believe that the concept of creating and sustaining value is a key principle driving public sector and not-for-profit organisations and could be applied with equal benefit as it is for large companies.

Q5. Are: (a) the organization’s business model, and (b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/why not?

a) Yes. We welcome the recent trend towards more detailed disclosure of companies’ business models, as a way to engage investors on key issues such as how a company generates revenue and where profit is made, as well as how sustainability issues underpin value creation (e.g. through resource management, innovation, talent and customer attraction, increased productivity or risk management) or directly drive value creation (e.g. through revenue growth, cost reduction or cheaper access to capital). We believe that it would be valuable for the IIRC to outline what makes a good business model by describing key attributes of a business model.

b) Yes. We view the ability to create and sustain value as essentially the strategy which delivers the business model. As mentioned in the recent UK government consultation on the future of narrative reporting, strategy is central to a good annual report which provides “a clear line of sight from the strategy, business model and risks of the company and to the financial results and the resulting rewards for the companies’ directors.” We strongly support this view and would encourage the IIRC to emphasise the importance of strategy in its forthcoming framework.

In light of the recent financial turmoil and the increasingly short and near-term focus of equity markets, we believe there is a critical need for investors and corporations to take a longer-term view of performance and strategy. Understanding the fundamental long-term sustainability of a business in the context of natural resource and ecological constraints is crucial to this long-term
view and we believe that businesses need to urgently examine their future prospects from a resource and ecological constraint perspective in particular. Integrated Reporting rightly acknowledges this tension. However, we believe that the IIRC could be more explicit in highlighting examples of industries where long-term sustainability may be jeopardised unless transformation occurs.

Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?

Yes. Radley Yeldar understands the concept of capitals as enablers of corporate activity. It is our view that the overarching framework for describing how an organisation creates or sustains value should be maintained as resources and relationships since this is a familiar concept for many businesses. However, we also believe that the six capitals framework should layered on top of this to show examples of value creation across different aspects of resources and relationships. We recognise that the multiple capitals concept is a fundamental cornerstone of a new – and more enlightened – view of value creation. Radley Yeldar supports a move towards such a framework since we believe that it will facilitate an important conversation around value creation in other capital domains, beyond purely financial.

Q7. Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added? Why/why not?

Partially. Radley Yeldar generally supports the concept of Guiding Principles and Content Elements outlined in the Discussion Paper. However, we believe that there is presently too much overlap between the Guiding Principles and Content Elements, for example, ‘strategic focus’ and ‘strategic objectives’ and ‘future orientation’ and ‘future outlook’ essentially say the same thing. We believe it would make more sense to rationalise one or other so that there is more synergy and no confusion or overlap.

Furthermore, we believe that the way in which the Guiding Principles and Content Elements are presented does not really succeed in communicating a fundamental concept which underpins Integrated Reporting – Integrated Thinking. The Guiding Principles and Content Elements are heavily geared towards preparing an Integrated Report when in fact the IIRC should – we believe – be providing guidance to help companies realise Integrated Thinking. Integrated Reporting is, after all an outcome of Integrated Thinking and so the Guiding Principles and Content Elements should focus as much if not more on ‘Thinking’ as on ‘Reporting’.

Specifically in reference to Guiding Principles, we also believe that there is an important principle missing, notably communication and engagement, beyond the Integrated Report. Most companies are increasingly adopting a variety of approaches to communication as part of a broad communication mix, for example through the use of social media platforms and new digital tools. We believe that the emphasis on reporting in the Discussion Paper underplays the inter-relationships between the report and other channels and ways to engage with relevant audiences (for example, see Q10 and comments regarding social IR).

Q8. Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added? Why/why not?

See answer to Q7 above.
Q9. From your perspective as a reporting organization: (a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not? (b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?

Radley Yeldar believes that benefits and challenges should be acknowledged as speculative and that they should evolve as the Integrated Reporting framework is applied to reflect actual benefits and challenges experienced by reporters and report readers. We recommend an open and transparent process from the pilot programme, showing the successes and challenges experienced by pilot programme participants. We would also encourage a spirit of collective learning and sharing from all pilot programme participants so that lessons can be applied by others seeking to move towards Integrated Reporting.

The Discussion Paper lists some of the main strategic, high-level challenges related to Integrated Reporting. In our regular conversations with clients, we often hear that more practical considerations such as limited CEO or Board buy-in, limited investor engagement and managing contributions from multiple authors are key challenges that reporters face in terms of corporate reporting. Examples of practical challenges such as these should be flagged more explicitly.

Q10. (a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/why not? Are there other significant actions that should be added? (b) What priority should be afforded to each action? Why?

Radley Yeldar agrees with the actions listed. We would also add three other important work streams or actions:

1) A work stream exploring the concept of Integrated Thinking, including its practical application to Integrated Reporting.

2) A work stream focusing on Integrated Reporting in the context broader financial and non-financial communication and engagement, including the use of digital channels, mobile and social media. See response to Q7 for further insights.

3) An investor and analyst engagement exercise to communicate the benefits of Integrated Reporting and how they can incorporate this information in their investment appraisals.

In terms of priority, we believe that harmonisation with existing future regulatory frameworks is fundamental to the success of Integrated Reporting. Whilst we believe regulation alone will not determine the success of Integrated Reporting (indeed, voluntary adoption will also be an important driver), the IIRC should encourage the adoption of the same principles, or at the very least, principles aligned with the IIRC’s Integrated Reporting framework by national and international regulators. As per our answer to Q1b) Radley Yeldar believes that there must be global recognition and adoption of the concepts and principles it endorses for Integrated Reporting to be successful.

Q11. Do you have any other comments that you would like the IIRC to consider?

None.