

## Consultation questions

The IIRC welcomes comments on all aspects of the Draft International <IR> Framework (Draft Framework) from all stakeholders, whether to express agreement or to recommend changes.

The following questions are focused on areas where there has been significant discussion during the development process. Comments on any other aspect of the Draft Framework are also encouraged through the questions.

Please provide all comments in English.

All comments received will be considered a matter of public record and will be posted on the IIRC's website ([www.theiirc.org](http://www.theiirc.org)).

**Comments should be submitted by Monday 15<sup>th</sup>, July 2013.**

Name:

Email:

Stakeholder group:

If replying on behalf of an Organization please complete the following:

Organization name:

Industry sector:

Geographical region:

### Key Points

If you wish to briefly express any key points, or to emphasize particular aspects of your submission, or add comments in the nature of a cover letter, then the following space can be used for this purpose. Please do not repeat large amounts of material appearing elsewhere in your comments.

Our prime recommendation to IIRC is to readjust the term "Intellectual Capital". "Intellectual Capital" is - in accordance with established academic sources (Journal for Intellectual Capital) and applied experts (Amidon, Adams, Bontis, Choo, Edvinsson, Guthry, Lev, Roos, Starbuck, Steward, Sveiby, ...) - the category-name or topic title that includes Human, Structural and Relational Capital.

Our second recommendation is to use learnings from system dynamics in general and from "Intellectual Capital reporting - made in Germany" in particular in order to support materiality and to connect the capitals and stakeholders requirements.

## Chapter 1: Overview

### ***Principles-based requirements***

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

1. *Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.*

No additional principle should be added. However, the already stated principles might create trade offs such as the principle of comparability and the principle of materiality and conciseness.

### ***Interaction with other reports and communications***

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

2. *Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?*

Linking to existing material and avoiding duplication seems reasonable. However, the principle may not always be applicable, as the IR has to deliver a clear integrated statement. Linking long reports without integration does not fulfill the information requirements of an IR. Some content might have to be duplicated or presented in a new way in order to follow the guiding principles. Another potential problem is that different reports sometimes may contradict each other.

3. *If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?*

Wissensbilanz - Made in Germany and InCaS should be included as a tested reliable method to come up with useful indicators: European Commission – DG Research: European ICS Guideline, Intellectual Capital Statements – made in Europe. Brüssel, 2007.

Alwert K. / Bornemann M. / Will M: Wissensbilanz – Made in Germany. Leitfaden 2.0. Herausgegeben durch das Bundesministerium für Wirtschaft und Technologie BMWI Berlin 2008.

Furthermore the BenchmarkIndex provides a proven set of indicators. More than 25,000 businesses have used the service and there are over 100,000 records in total providing unparalleled data for objective comparisons. Looking at all aspects of business performance – not just financial - the service leads to improvement in processes, customers service and people management. Further information: <http://www.benchmarkindex.com/>

## **Other**

### **4. Please provide any other comments you have about Chapter 1.**

Other stakeholders complementing investors such as customers or NGO's are gaining importance in the mid and long term, especially because of increasing influence of social media and therefore should be considered.

With regard to integrated thinking the ICS approach "Wissensbilanz – Made in Germany" can be useful because integrated thinking requires methods which can analyse and deal with complex context. The "Wissensbilanz" provides a clear and systematic procedure model for the analysis of strengths and weaknesses and improvement activities. For this purpose the "Wissensbilanz" methodology uses elements of Vester's network thinking and sensitivity analysis. Network thinking combines cybernetics, system and complexity theory and allows examining a system as a network of interrelated elements – including feedback loops (Vester, 2007). The results of this analysis can be illustrated in an interdependency network. It permits the visual identification of interdependencies and takes the different strengths of these impacts into account (Mertins, Kohl, Orth, 2012).

## **Chapter 2: Fundamental concepts**

### **The capitals (Section 2B)**

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

### **5. Do you agree with this approach to the capitals? Why/why not?**

Our prime recommendation to IIRC is to readjust the term "Intellectual Capital". "Intellectual Capital" is - in accordance with established academic sources (Journal for Intellectual Capital) and applied experts (Amidon, Adams, Bontis, Choo, Edvinsson, Guthry, Lev, Roos, Starbuck, Steward, Sveiby, ...) - the category-name or topic title that includes Human, Structural and Relational Capital.

"Intellectual Capital" includes three major categories. Two of them ("Social and Relationship Capital" and "Human Capital") are part of the consultation draft as it is.

So our second recommendation to IIRC is to add "Structural and Organizational Capital" as the third category of intellectual capital. For further details, please refer to our detailed comment paper.

### **6. Please provide any other comments you have about Section 2B?**

"Storage of value" is a problematic concept. The more relevant category seems to be the flow perspective because it represents "value in use". The flow perspective is represented by the processes within an organization.

### **Business model (Section 2C)**

A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

### **7. Do you agree with this definition? Why/why not?**

An organization should explain its business model. Our favoured method to describe the existing business model in contrast to a pure theoretical one is grounded in system dynamics (Argyris, Probst Sterman, Ulrich, Vester, Weick) and provides a comprehensive view on the cause and effect relations between the capitals, the input, processes, output and outcomes. Simultaneously, system thinking supports the test for "materiality": if capitals are only marginally influencing the business model, they are not material.

## **Business model (Section 2C) continued**

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

8. *Do you agree with this definition? Why/why not?*

An organization should explain its business model. Our favoured method to describe the existing business model in contrast to an abstract one is grounded in system dynamics (Argyris, Probst Sterman, Ulrich, Vester, Weick) and provides a comprehensive view on the cause and effect relations between the capitals, the input, processes, output and outcomes. Simultaneously, system thinking supports the test for "materiality": if capitals are only marginally influencing the business model, they are not material. Additionally, see 9.

9. *Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (see Section 4E)?*

The definitions in 2.34 and 2.35 will most likely lead to misunderstandings. Reason: "output" and "outcome" are often used as synonyms. For the IIRC model, their correct differentiation is crucial. Therefore we recommend to be as precise as possible in regard to the labeling of the mentioned things: "output" should be changed in "products, services and by-products", and "outcomes" should be changed in "impact on capitals" or "effects on capitals". Additionally we want to confirm the importance of this differentiation from our experience based on many practical cases of the ICS "Wissensbilanz made in Germany": This concept also refers to "influencing factors", which are comparable with the "outcomes". Therefore the procedures for assessment and steering of these "influencing factors" can also be used for "outcomes". Using this approach makes it particularly possible to assess intangible "outcomes" systematically and to prioritize them according to their materiality.

### **Other**

10. *Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.*

Business Modelling is one of the most crucial requirements in growing as well as in mature organizations. System thinking (Senge, Sterman, Vester, Fischer) provides a conceptual framework with excellent applicability to analyze and communicate complex interdependencies of (integrated) systems and to support integrated management, a necessity for reporting. When dealing with more than the financial dimension, such a powerful and established framework might be beneficial. Formal methods such as an cross-impact matrix support reducing risks for resource allocation as well as learning about connections within an organization. Please confer our detailed comment paper. Within that document we describe an additional technique regarding the fostering of integrated thinking, i.e. the usage of impact maps / system dynamics.

## **Chapter 3: Guiding Principles**

### **Materiality and conciseness (Section 3D)**

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

11. *Do you agree with this approach to materiality? If not, how would you change it?*

Materiality can be covered with the instrument "Intellectual Capital Statement - Made in Germany". A cause-and-effect analysis involves representatives from relevant stakeholders (i.e. not only top management!) in a workshop. In a comprehensive setting, they identify the influence of all capitals and their underlying driving factors on the business processes and business success and thus define their materiality. With this procedure, the unique context as well as relative differences become transparent and support deep insight into the reporting organization.

*12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).*

Please confer our additional comment paper. There we describe an complementary technique (cross impact analysis) regarding the materiality determination process.

**Reliability and completeness (Section 3E)**

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

*13. How should the reliability of an integrated report be demonstrated?*

Reliability is provided by the signature of all board members (board of directors and supervisory board) with their legal accountability and personal liability.

*14. Please provide any other comments you have about Section 3E.*

Completeness is one of the most critical dimensions in IR. As long as the Capitals are not covering all relevant dimensions, a report is - by definition - not complete. However, this is a trade off to a brief report that covers only "the most relevant".  
In addition to covering all perspectives, an IR should be comprehensive in its reporting dimensions and complement the financial figures with measures on quantity and quality of the capitals as well as some remarks on their systematic management and development in the future (in contrast to random emergence).

**Other**

*15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.*

The ICS "Wissensbilanz - Made in Germany" facilitates a qualitative, future oriented assessment of Human-, Structural and Organizational Capital. The strategy of the organization provides the reference of the assessment. By the identification of interaction between all influencing factors, this kind of ICS fosters the connectivity of information at the same time. Many German Companies have developed ICS following this approach and confirming its validity. I.E. the German utility company ENBW has used this instrument since 2005 successfully more than 60 times.  
<http://www.enbw.com/media/downloadcenter/annual-reports/enbw-financial-report-2012-management-report-plus-not-es-and-explanations.pdf> - see pages 44/45 and 56/57.

Please confer our detailed comment paper. There we describe an additional technique regarding the combination of materiality and completeness using the "Management Portfolio" as an example from the ICS Toolbox.

## Chapter 4: Content Elements

16. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).

It should be possible to apply IR on organizations with multiple business models in a scalable way.  
4C For the identification of opportunities and risks within human, structural and organizational capital the application of the "Wissensbilanz - Made in Germany" (a German ICS approach) has proven it's capableness.  
4F The status quo of a material driver indicated by a KPI should be explained in regard to the current situation and the strategic objectives of the organization. This includes a clear statement about whether the current situation - indicated by the value of an KPI - is good / advantageous or bad /disadvantageous for the organization and what the reasons are as well as what potential short-, mid- or long term effects may arise from this (see also 4.3.6 and 4.3.7).

## Chapter 5: Preparation and presentation

### ***Involvement of those charged with governance (Section 5D)***

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

17. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?

Yes, depending on the legal environment, all "official" communication requires the signature of someone with "procura" (the right to sign a legally binding document). It is a small additional effort for the organization and simultaneously indicates "high priority" by top management.

18. Please provide any other comments you have about involvement of those charged with governance (Section 5D).

no comment

**Credibility (Section 5E)**

The Framework provides reporting criteria against which organizations and assurance providers assess a report’s adherence (paragraph 5.21).

*19. If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?*

As long as the CEO of the organization signs the document, he is accountable and liable for the correctness of the content. Right now, we have not enough experience with integrated reporting procedures and thus should postpone the requirements for additional assurance.

*20. Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.*

no comment

**Other**

*21. Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).*

no comment

## Overall view

22. *Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?*

Drawing up an Integrated Report that takes advantage of Intellectual Capital Statements in a company helps to:

- determine strengths and weaknesses of strategic capitals and factors (diagnosis)
- prioritise improvement opportunities with the highest impact (decision support)
- support the implementation of actions for organisational development (optimisation and innovation)
- enhance transparency and the involvement of employees (internal communication)
- diminish strategic risks and controls the success of actions (monitoring)
- facilitate the communication of corporate value towards stakeholders (reporting)

Source: [http://www.psych.lse.ac.uk/incas/page114/files/page114\\_1.pdf](http://www.psych.lse.ac.uk/incas/page114/files/page114_1.pdf) page 8

## Development of <IR>

23. *If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?*

The topics with highest priority are:

- Connectivity and interdependence: Increasing the perspectives of Integrated Reporting inevitably leads to rising complexity. All dimensions of an IR (business model, Capitals, processes and Outcome) need to be aligned to the mission and business model, as well as to the other chapters of the IR, otherwise the IR loses focus and the idea of "integration" and "transparency" is reversed to its contradiction.
- Interpretation: As for accounting we have specialists to interpret financial data and come up with an "analysts report" of only a few lines and one ultimate recommendation (buy, hold, sell), we might need specialists that fully grasp the complexity of IR and its implication. Because the stakeholders are diverse, a simple answer (buy-hold-sell) will be difficult to come up. This is even more relevant, when an IR is only a "short report" with highly specialized phrasing.
- Indicators: High priority on establishing "Standard Key Performance Indicators" (a contradiction in itself, as "what is key" depends on the specific organizations priorities) increases the risk of losing the focus on the materiality of factors in organizations. The effect of "what gets measured, gets done" might turn to be a source of strategic failure (see the bad practice of measurement in many organizations).

## Other

24. *Please provide any other comments not already addressed by your responses to Questions 1-23.*

Please save the completed PDF form to your computer and submit via the IIRC website at [www.theiirc.org/consultationdraft2013](http://www.theiirc.org/consultationdraft2013)