Integrated Reporting – The Role of a CFO

CS Amitava Banerjee stresses the need for CFOs to use sharper tools to stay ahead of disruptive change

Investors today base their investment decisions on more than just financial data, and integrated reporting can serve as a useful tool to meet the information requirements of new age investors. In this regard, the CFO has a central role to play in consolidating diverse strands of information, and thus transforming the concept of integrated reporting into reality. This demands,from the CFO, an in-depth understanding of the significance and impact of various inputs used by the organisation as well as the ability to deploy integrated reporting to communicate a holistic story to stakeholders.

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Integrated reporting is now the new norm for certain categories of companies

The Securities Exchange Board of India (SEBI) issued a circular on 6 February 2017 advising the top 500 listed companies in India to adopt integrated reporting on a voluntary basis from the financial year 2017-18. This would substitute Business Responsibility Reporting (BRR), which had been mandated by SEBI vide regulation 34(2) (f) of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 (SEBI LODR) for the same category of companies (top 500 listed companies).

Companies can incorporate the integrated report separately in the annual report, or in the management discussion and analysis section. They can also prepare an annual report as per the integrated reporting framework. However, in case the company has already provided relevant information in another report prepared in accordance with national or international norms, it may provide an appropriate reference to it in its integrated report to avoid duplication of information.

Benefits of integrated reporting

- **Enables better communication:** Integrated reporting can bring to fore the current financial condition of an organisation and help forecast its direction of growth and future performance. It enables clear articulation of the required future course of action, and does not merely provide information about past actions (such as those related to compliance).

- **Increases transparency:** Integrated reporting aims to convey in-depth information about organisational performance to investors and the public. Such transparency helps bankers and investors understand the organisation better.
- **Streamlining information:** Integrated reporting focuses on strategic and material issues, and provides a more efficiently organised report that is easier for stakeholders to use.
- **Accounts for intangibles:** Organisational value is increasingly driven by intangible assets such as employee relations, as well as public perception about the organisation and the way it operates in relation to environmental, social, and governance issues. Integrated reporting considers such intangible factors, and helps an organisation report on its sources of value and accomplishments, taking reporting beyond financial results.
- **Inter-departmental efficiencies:** Integrated reporting promotes multi-disciplinary collaboration between departments, leading to proper use of internal skillsets and better, more holistic decision-making for achieving business objectives.
- **Better stakeholder relations:** Integrated reporting helps investors develop a better understanding of the organisation's strategy and long-term objectives, and thereby improves the quality of their engagement with the organisation.

There is a strong business argument in favour of companies getting started now, rather than later, on adopting this new framework. Integrated reporting will help them to re-examine risks and opportunities in today's environment of increasingly stringent disclosure requirements. Further, with rising awareness of social and community-related issues, businesses simply cannot do without a keen understanding of their wider responsibilities towards society and how to fulfil those, and this too can be achieved through integrated reporting.

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Integrated thinking for integrated reporting

For high quality, integrated reporting, it is imperative for an organisation to identify its key drivers of value,and to involve its board of directors and senior management in evaluating different types of 'capital', including not only financial, but also capital related to resources and inter-personal relationships. Integrated reporting compels an organisation to focus on creating both short- and long-term value.

The six 'capitals' (6 Cs approach) for integrated reporting

The International Integrated Reporting Council (IIRC) defines 'capital' as stocks of value that de-

The Six 'Capitals'

The category	What it means
Financial	A pool of funds obtained through debt, equity or grants, or generated through operations or investments
Manufactured	Resources available to an organisation for use in the production of goods or provision of services, such as buildings, equipment, infrastructure (including roads, ports, bridges, as well as waste and water treatment plants)
Intellectual	Patents, copyrights, software, rights and licences
Human	Individual competencies, capabilities, experience, and drive to innovate
Social and relationship	The relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being
Natural	All renewable and non-renewable environmental resources and processes that provide goods or services that support the prosperity of an organisation

termine an organisation's success, act as inputs in the business, and can be increased, decreased or transformed through the organisation's business activities and outputs. Such 'capital' is categorised in the integrated reporting framework as financial, manufactured, intellectual, human, social and relationship, and natural.

Content requirements for integrated reporting

An integrated report requires different types of information, which are fundamentally linked to each other and are not mutually exclusive. These content elements are stated in the form of questions to be answered in a way that makes the relationship between them apparent.

The role of the CFO

Over time, the role of CFOs has expanded from primarily financial control to other aspects as well, including governance, compliance, and efficiency optimisation. With investors increasingly believing that a long-term perspective helps them to understand short-term financial results in the right context, the need for non-financial reporting has gained prominence.

Further, new business models and start-up companies are driving disruption in traditional business models, including through the adoption of new and innovative ways of applying technology to existing business practices. In today's volatile environment, CFOs must stay ahead of disruption with the use of sharper tools to enable them to make the best decisions. This in turn requires the analysis of both financial and non-financial data to assess the full impact of a given decision.

CFOs must also carefully find the right balance between disclosure and loss of competitive edge while determining how much detail to incorporate in an integrated report. They must also select the right key performance indicators (KPIs) for the organisation. The wrong KPIs and key risk indicators can lead to misleading results, and in turn adversely impact investor sentiment. Finally, CFOs have an instrumental role to play in developing company-wide and departmental sustainability programmes, and setting goals and measuring results for the same, in the context of integrated reporting. ■

The content elements are categorised as below:

Constituents of content elements	Questions to be answered
Organisational overview and the external environment	What does the organisation do and what is its operating environment?
Business model	What is the organisation's business model?
Governance	How does the organisation's governance structure support its ability to create value in the short, medium, and long term?
Risks and opportunities	What are the specific risks and opportunities that affect the organisation's ability to create value over the short, medium and long term, and how is the organisation tackling them?
Strategy and resource allocation	Where does the organisation want to go and how does it intend to get there?
Performance	To what extent has the organisation achieved its strategic objectives for thetime under consideration, and what are its outcomes in terms of effects on the capitals?
Outlook	What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?

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