

BENEFITS OF Comprehensive Integrated Reporting

Financial executives are responsible for managing a wide range of information regarding organizational strategic objectives, governance, risk and performance. It's a complex task.

Accessing, analyzing, managing and communicating the critical information can be a costly, inflexible and often manual, error-prone effort requiring a wide range of methods and documents.

Due to internal barriers — most notably, the high cost of information access and reuse — many financial executives often focus more narrowly on the information required for regulatory compliance. Unfortunately, managing a business on required regulatory compliance information may not be fully aligned with creating long-term corporate or personal value.

Integrated reporting redefines the scope of information relevant to strategic corporate objectives and provides a broader method of accessing, analyzing, managing and communicating strategic information both internally and externally. Integrated reporting refers to the integrated representation of a company's performance, in terms of both financial and nonfinancial results.

Companies are providing inte-

grated reports as a means to seek new business opportunities, safeguard reputation, maximize competitive advantage and mitigate operations risk.

This holistic supply chain approach provides transparent alignment of company strategy with underlying business risks, key performance indicators (KPIs), business and risk developments, incentive programs and other relevant internal and external information. (See the diagram on page 30.)

Benefits of Integrated Reporting

Those familiar with the Indian parable about blind men and an elephant might agree it provides a useful paradigm for many current reporting processes. In the telling, each man's perspective of the elephant was dependent on what part of the elephant they happened to be touching. For example, its side felt like a wall, its tusk a spear, its leg a tree trunk.

Many financial executives currently are faced with similarly narrow perspectives based on distinct information silos or reports, reflecting information that is oriented to its specific, largely compliance purpose such as financial, tax, management,



governance or environmental.

For many multinationals, information problems go well beyond access to disparate internal silos. They include inconsistent definitions of commonly used terms — full-time equivalent, sick days, square foot, customer and others. Of course, financial executives are not the only ones translating disparate definitions into common terms.

Further, the ability to understand and act on external market drivers (competitive, economic, technological, etc.) is important to managing business risks and opportunities.

The common lack of a comprehensive approach to relevant, consistent, quality internal and external information obscures the holistic picture company financial executives seek to effectively manage the sustainable performance of their business and respective investments.

Integrated reporting moves beyond today's common "elephant view" of individual company financial attributes toward a more comprehensive assessment of company value and performance and addresses a broad range of financial, value, social and strategic disclosures.

The primary benefit of integrated

reporting is a more holistic view of information relevant to the company and its value proposition and strategy. As outlined in *One Report: Integrated Reporting for a Sustainable Strategy*, by Robert G. Eccles and Michael P. Krzus, this approach promotes a wider perspective of the information vital to a company's long-term strategic objectives. As a result, financial executives have an opportunity to transform corporate processes and enhance long-term corporate value.

Information standardization provides new information-processing capabilities that facilitate the more comprehensive integrated reporting approach yielding benefits, including:

- >> Greater access to and transparency of information from a wide range of both internal and external information sources, to improve analysis in both the short and long term;
- >> More automated and streamlined assembly and review processes, eliminating pervasive manual assembly and review systems;
- >> More transparency, reuse and collaboration on reporting and analytical concepts used by both internal and external analysts,

By standardizing disparate information sources, financial executives can eliminate the narrow perspectives of the elephant and the blind man parable — and "see" beyond merely information silos or reports.

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enhancing process agility;

>> More relevant information available for management and stakeholder decision analysis of both the short and long term; and

>> Wider collaboration on reporting standards and disclosure concepts providing a broader dialogue on reporting standards as suggested by the International Integrated Reporting Committee (IIRC) and the World Intellectual Capital Initiative (WICI).

An Elephant in the Grocery Store

Financial executives around the world currently work in environments that often require significant manual effort to access and repurpose information from a wide range of disparate internal enterprise resource planning systems, consolidation applications and spreadsheets. Internal company reports reflect information from their system of origin and are often too narrow or are manually assembled and thereby either too expensive or untimely to be valuable for decision-making.

Similar to the blind men in the analogy above, many financial executives and their stakeholders can only cost-effectively access partial information relevant to their analysis. Limited access is often created by a range of proprietary information silos, manual report assembly processes and disclosures reported in content specific documents.

Further, common manual report assembly processes create inherent opacity for those seeking to more effectively manage information relevant to corporate strategies and internal and external compliance requirements.

The capability to more effectively access, manage, analyze and report information is dramatically improved by supply chain information standardization. One standardization example — the application of the Universal Product Code (UPC) to grocery store products — significantly enhanced transparency and process improvements for all supply chain participants from vendors to

distributors to retailers to consumers to analysts.

Unlike the physical grocery shopping processes, standardized business information is intangible and can be assembled using automated processes. If grocery store products were intangible, consumers could pull their shopping list of products directly into their carts without going through the store. Further, the UPC exposes standardized product information that can be used for a broad range of purposes including:

>> Standardized definitions for product comparisons and analysis;

>> Automated inventory management impacting retail pricing, product placement and procurement schedules;

>> Consumer check out; and

>> Relationships between products such that consumers can better understand which menu options might be available or optimized on a particular day or within a specific store.

(This last example certainly would have helped the blind men to more comprehensively understand the elephant parts — not just the one they were touching.)

Likewise, the improved access and reuse enabled by information standardization can assist financial executives in more effectively accessing, analyzing and reporting of the comprehensive information strategically relevant to long-term company performance and value.

Using standardized information processes, internal (and potentially external) consumers can “pull” relevant information into their integrated report from across a wide range of disparate information sources.

Financial executives realizing that they are consumers before they are producers of information are the first to benefit. Such a consumer-centric orientation places a premium on the comprehensive nature, context and relevance of information for both internal and external consumers.

Regulators, investors, analysts, creditors and companies are capable of pulling public company disclosures they deem relevant directly

into their individually unique analysis or integrated report. In this context, integrated reporting is not only a reporting option but rather a new analytical capability that provides more timely, comprehensive and effective insights.

Compliance Migration to The Internet

Regulators around the world are migrating their compliance processes from paper to the Internet, which commonly includes a transition from unstructured, such as html, PDF and Word, to structured, standardized formats (e.g. eXtensible Business Reporting Language, or XBRL) that are designed to enhance both production and consumption processes. This Internet compliance transition facilitates enhancements in the reporting process for financial executives, depending on their implementation approach.

Some executives perceive these regulatory changes as incremental requirements and thereby “bolt on” the requirements to the end of their existing compliance processes, thus adding cost and time. Others regard these regulatory changes as opportunities to “build in” standardization earlier in their processes. As a result, they automate and streamline their report assembly and review processes, leading to cost and time improvements of 25 percent to 50 percent, or more.

In realizing the benefits of the built-in implementation approach, executives are afforded better access, reuse and analysis of the comprehensive information contained within a broad range of internal and external systems. This includes information relevant to strategic objectives, governance, business risks and related executive compensation, KPIs and corporate social and market oriented disclosures.

Similar to how the UPC standardized grocery store products streamlining inventory and sales processes, the XBRL standard applied to a broad range of company systems, reports and information enhances

access, reuse and analysis by financial executives across a broad range of reporting needs.

Southwest Airlines: An Integrated Reporting Case Study

Southwest Airlines Co., a major Dallas-based domestic airline, annually issues the *Southwest Airlines One Report*. This integrated report was born of market discussions of industry issues by the company's reputation management team, and has been developed and enhanced over the last five years. "We needed to tell our story. It's not a new story, we just haven't ever told it," says Marilee McInnis, Southwest's communications manager.

What was initiated in 2007 as separate reports on financial, management and environmental disclosures was integrated into the One Report in 2009.

"Southwest is a company that focuses on a sustainable operation in every aspect of our business. We are a corporate citizen that maintains customer service while still meeting our fiduciary responsibility" says Marcy Brand, the airlines director of Investor Relations. "Our team has made a commitment to communicate our direction to the market and our One Report is a great medium for that."

Focusing on shareholders, employees and customers as the primary audience for Southwest's integrated report, the company initially targeted fuel and water use, issuing the *Southwest Environmental Stewardship Report*.

This separate report focused on use, management, recycling of company resources and the improvements made to company infrastructure, such as planes, operational and maintenance processes and ground equipment that are designed to optimize resource usage.

In 2009, following a continuous improvement process and dialogue with targeted stakeholders, the company integrated various disclosure areas — financial, nonfinancial, environmental, suppliers, social and

Reaping the Benefits of Integrated Reporting Ask yourself...

External Reporting

Are key components of what makes my business successful missing from our reporting?

Would I invest in my company based on what is presented externally?

Is the market value of my company a fair reflection of the business?

Does the quality of our reporting make us more vulnerable than peers to a hostile takeover bid?

Does my company's reporting show clear alignment between strategy, remuneration and KPIs?

Internal Reporting

Is too much time spent producing the numbers, rather than gaining real insight?

Is reporting flexible enough to respond to change?

Do we have the market insight and nonfinancial information needed to stay ahead or are we too dependent on historical, financial information?

Do we have transparent performance measures with clear accountability for them?

Do we have a complete, timely picture of what's going on in the business financially and operationally?

Today, every management team needs to be able to put themselves in the shoes of a skeptical outsider, such as an investor, a new recruit, a customer or a supplier. If done well, integrated reporting can secure capital and credit, help win the war for talent and build strong business relationships.

Source: PwC: Integratedreporting.com

community, among others — into its One Report, while also expanding and refining the areas to meet stakeholder needs.

To address some of the incremental shareholder information needs, it became clear to company management that they were not going to be able gather all of the relevant data or implement the additional human and financial resources overnight. Company senior management support was critical in addressing the resource requirements and process changes necessary to collect, analyze and manage the incremental information needed for the Southwest integrated report.

In some cases, due to the opacity of existing processes and systems, temporary manual work-arounds were required to collect and analyze data from the underlying systems. However, in planning for additional data, management found that it could incrementally manage and report on important areas, including

employee training outcomes and volunteerism.

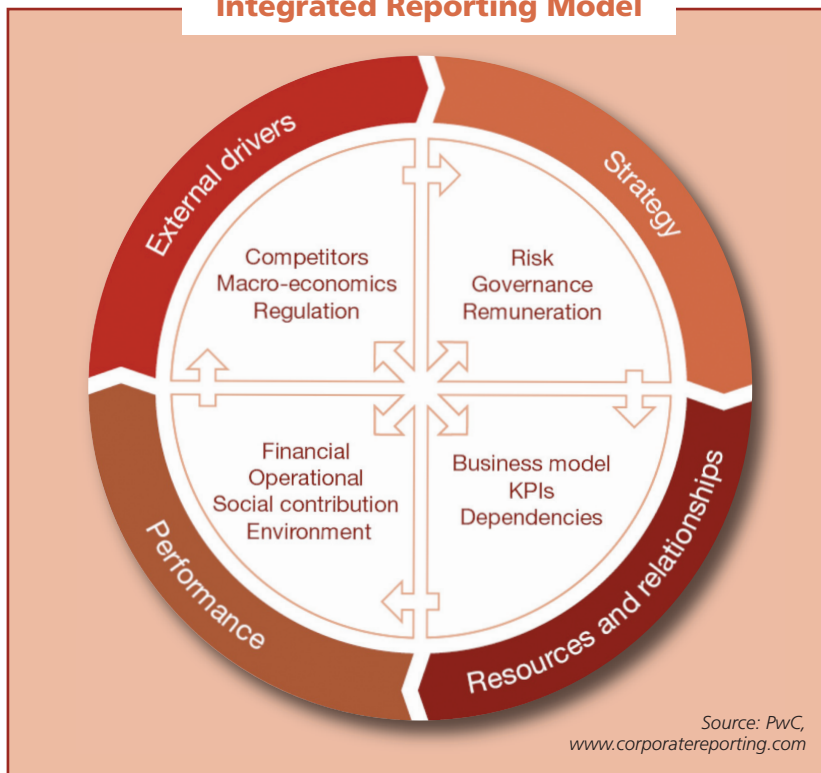
Southwest realized benefits from integrated reporting through more comprehensive and effective information processes.

Roadmap to Benefits

The roadmap to realizing benefits from integrated reporting — while relatively straight forward — is not necessarily a simple one. It requires a comprehensive approach, including coordination across a wide range of business segments, processes, information silos and internal groups.

Understanding the corporate strategy drivers is an initial step; it's easy to say but difficult to do. Management's assessment should incorporate core values and the resources required for delivery. These resources would include critical company processes; customer, employee, vendor and community attributes; supply chain processes; and market, competitor and other external forces.

Integrated Reporting Model



Assessing relevant information from across these comprehensive strategic areas is one of the most difficult tasks for managers. It requires establishing common definitions for critical information and potentially rethinking the association between strategy drivers and the underlying processes and related performance metrics.

This often requires a better, more holistic approach to company key performance indicators — those that are integrated into the company's long-term strategy for value creation across all stakeholders. This assessment moves beyond traditional business intelligence and risk management approaches.

Traditional information management solutions may not provide the agility, scalability and scope to economically permit this more comprehensive information management process. Physically connecting disparate information systems creates a costly and rigid information processing environment that is simply not adequate or agile enough to support both internal and external supply chain information sources.

Information standardization pro-

motes more seamless exchanges across both internal and external supply chain information stores, enabling consumers to pull information they deem relevant to their specific and particular needs. This source standardization offers an Internet-styled environment of interoperable systems, facilitating improved information access, analysis and reporting processes. These process enhancements can lead to:

- >> Easy information access across all relevant systems lowering information reuse and systems maintenance costs;
- >> Consumer-centric reporting and analysis;
- >> Social or collaborative reporting and analysis processes that improve coordination across organizational business segments and information silos; and
- >> Comprehensive assessments of information highly relevant to integrated reporting.

A More Comprehensive Approach

Integrated reporting provides a broad assessment of company value and performance and addresses a compre-

hensive range of financial, value, social, environmental and strategic disclosures over long-term periods. This approach aligns the information important in managing sustainable corporate value creation for all stakeholders. As a result, the integrated report provides a clearer more complete picture of the company.

Standardized information empowers financial executives and other consumers to more effectively access, manage, analyze and report information they deem relevant. This more transparent environment empowers financial executives to more effectively manage information relevant to sustainable value creation for all stakeholders.

Integrated reporting and information standardization offers financial executives and their stakeholders the ability to obtain incremental insights and process enhancements. Realizing these benefits is an opportunity for financial executives to enhance their corporate and personal value propositions.

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