integrated reporting

issues and implications for reporters

Prepared by

Solstice Sustainability Works Inc.

Sponsored by

Vancity

August 2005

table of contents

integrated reporting:
issues and implications for reporters

Executive summary

Vancity and Citizens Bank commissioned this research to better understand the issues involved in integrated reporting and their implications for reporting organizations. The organizations are sharing this research to contribute to the dialogue about the evolution of sustainability reporting. Susan Todd of Solstice Sustainability Works Inc. performed the research by interviewing a total of fourteen reporters and other experts and by reviewing twelve current examples of integrated reports. As integrated reporting is a fairly new development and the sample sizes are small, this research should be considered exploratory.

What is integrated reporting?

The working definition of integrated reporting for this research was reporting that meets the needs of both statutory financial reporting and sustainability reporting. In practical terms, this will usually mean one annual report containing sustainability performance information and financial statements. However, combining the sustainability and traditional annual report in one document is generally seen as just the beginning of integration. There are several ways to enhance the integration of reports that range from discussing sustainability in the message from the CEO to thematic treatment of sustainability and business strategies in the text.

The vision of truly integrated reporting requires an articulation of the links between financial and sustainability performance and outcomes. Integrated reporting can also be described as "holistic" reporting when it reflects values of sustainability that are core to the reporting organization and its stakeholders.

What are the benefits?

Reporters should not count on significant tangible benefits of integrated reporting. Direct cost savings tend to be minor, but some efficiencies in staff time result if the annual reporting team and sustainability reporting team are merged. The main benefits are intangible and internal – challenge for staff, improved understanding of the links between sustainability and business strategy, consistent messaging, and improved decision making. For some it is simply a natural or logical expression of the way they see their business.

What are the challenges?

While there are challenges to integrated reporting, they appear surmountable. As with any significant change, senior management support is necessary. The biggest challenge cited was the sheer volume of information to manage within tight timelines, especially for reporters who had not previously produced a sustainability report. A staged approach to integrated reporting can relieve this pressure.

Other challenges relate to the content of the report. Simply combining the annual and sustainability reports can result in an overly large report. If some information is left out, there is a risk that material sustainability information will be sacrificed because financial content is regulated and tends to take precedence. There is a complex conceptual challenge to merge the financial and sustainability stories in a meaningful and yet rigorous way. Internet reporting overcomes some of the space limitations of printed reports, but can still overwhelm readers if not done well.

Who or what is driving integration?

There does not appear to be a significant external demand for integrated reporting, yet. The main drivers are likely to be internal. Integrated reporting can be helpful in building internal understanding of and support for sustainability.

Regulation is a weak driver, although financial disclosure requirements are evolving to take account of a broader range of risks which could include sustainability.

Accounting standards for integrated reports are a long ways off. An assurance standard for non-financial reports (ISAE 3000) came into effect in 2005. Both will require clear and auditable criteria for sustainability reports to become widely used. AccountAbility's AA1000 Assurance Standard provides overarching principles and could be used as a companion standard.

The assurance market is not driving integration and could actually be a barrier. Fear of becoming associated with non-financial information could affect accountants' willingness to audit integrated reports or even the financial statements within them. The market for integrated assurance is still small. To require one opinion on the whole report would exclude all but financial auditors and lead to more concise but possibly bland assurance reports. For now, expect to see separate assurance reports in integrated reports.

New technologies are more likely to drive integrated reporting, than integrated reports. There is a gradual move away from printed reports and the same technological drivers at work on financial reporting will affect sustainability reporting.

1. Introduction

For many years, integrated reporting has been something of a holy grail for advocates of accountability, something that has not been achieved through most efforts at triple bottom line reporting. While sustainability reports are becoming better at capturing economic impacts and linking sustainability performance with business goals, separate sustainability reports still tend to be seen as secondary to the "real" performance report – the Annual Report. Some believe that effectively integrating the information from annual reports and sustainability reports would give non-financial information more weight and improve decision making by a wide range of actors.

Vancity is Canada's largest member owned and directed credit union. Vancity owns Citizens Bank of Canada, serving members across the country by telephone, ATM, and the Internet. Vancity and Citizens Bank commissioned Solstice Sustainability Works Inc. (Solstice) to conduct this research as part of the evolution of its own sustainability reporting. Vancity published its first independently audited Social Report in 1998.

In 2000 Vancity adopted a Statement of Values and Commitments after extensive consultation with the credit union's members, employees and community groups. This became the framework for subsequent Accountability Reports. Vancity was an early adopter of the Global Reporting Initiative's Guidelines for Sustainability Reporting and has been reporting "in accordance" with them since 2003.

Citizens Bank published its first Accountability Report in 2003. From 1999 to 2003, Citizens measured itself against its Ethical Policy through bi-annual Ethical Policy Compliance Reports. In 2005, Globe and Mail Report on Business Magazine named Citizens Bank the top-ranked bank for corporate social responsibility, based on research carried out by Jantzi Research Inc.

This report represents a summary of the research results. For further details, readers are invited to contact Joanne Westwood, Social Audit Manager, Vancity at (joanne_westwood@vancity.com).

2. Methods

Solstice Principal Susan Todd conducted this research in May and June 2005. The research included two primary activities – reviewing reports and interviewing experts.

Solstice selected twelve reports for review that were suggested by a network of Corporate Social Responsibility (CSR) professionals and/or appeared in a GRI database as instances of integrated reporting. Nine of these met the definition of having the statutory financial statements and the sustainability report in one document.

Current reports of the following organizations were included:

1.	BAA
2.	BC Hydro
3.	Boehringer Ingelheim
4.	CIBC
5.	CPFL Energia
6.	Dofasco
7.	Norsk Hydro
8.	Novartis
9.	Novo Nordisk
10.	PepsiCo
11.	Renault
12.	Sydney Water

The purpose of reviewing reports was to identify the features that contribute to integration. The reports were not evaluated or rated in any way.

Fourteen individuals participated in interviews (Appendix 1). While there is some overlap, interviewees could be categorized as follows:

- Reporting organizations: 6
- Accountants, auditors or consultants: 4
- Standard setters: 3
- Report user: 1

This research should be considered exploratory. The research methods do not permit statistical analysis or definitive conclusions. Samples, both of reports and interviewees, were necessarily small and judgementally selected, so they may not be representative. Report users in particular, especially non-financial report users, are under represented.

3. What is integrated reporting?

For this research project, the starting point for defining integrated reporting was reporting that meets the needs of both statutory financial reporting and CSR/ sustainability reporting, with an emphasis on hardcopy reports. In practical terms this usually means one document serving as both the Annual Report to Shareholders and the Sustainability or CSR Report, but the use of the Internet to supplement either or both reports blurs the distinction considerably.

This research produced no single defining characteristic of integrated reporting. There is rather a continuum of reporting styles that are, to a greater or lesser degree, an integration of the company's financial and sustainability stories.

Some of the ways companies demonstrate integration in their reports (Appendix 2) are:
- Including social, economic and environmental performance in the performance highlights of the report;
- Explaining the company's sustainability vision in the message from the Chair/Chief Executive;
- Identifying material risks associated with social or environmental factors in management's discussion and analysis;
- Describing the social and environmental accounting policies with as much detail as the financial policies;
- Explaining how CSR/sustainability policies and performance are relevant to business success; and
- Providing a detailed and interactive GRI index.

Three ways of characterizing integrated reporting that arose from this research are: combined reports, financial integration, and holistic reporting.

Combined reports – an uneasy marriage
At its most basic, integrated reporting is a single document combining the annual (financial) report and the sustainability report. When it's done well, combining the reports in one document makes a statement that there is one holistic story about the business. It demonstrates that sustainability performance and financial performance are seen by the company to be equally important and interdependent aspects of overall business performance.

In practice, combined reports sometimes look like different stories inexplicably bound in the same volume. Symptoms of this forced co-habitation include messages from the Chair or Chief Executive that make only passing reference to employees and the environment, performance highlights that show only financial data, and the compartmentalized presentation of social and environmental data. Considering the practical challenges of bringing all the data and stories together in one place, the combined report could be seen as a useful first step in integrated reporting.

Reporting that articulates the links between financial performance and sustainability
At the far end of the spectrum is a vision of reporting that in effect turns each company report into a case study for the business value of sustainability. Some interviewees look forward to reports where the financial consequences of company actions in relation to sustainability issues are clearly visible, where financial statements include narrative explanations in plain language, or where the links between business strategy and sustainability performance are made apparent. While no one was able to identify an example of this degree of integration, efforts to disclose financially material social and environmental issues are on the right track.

Reporting that springs from a holistic perspective of the business and its stakeholders
Several interviewees said that they began to integrate their reporting because it was the natural expression of the company's values and its approach to business. Companies that take an integrated approach to managing their business found that it "just made sense" to integrate their performance reporting.

4. What are the benefits or presumed benefits and are they realized?

Reduced cost – not much
None of the interviewees pointed to cost savings as the main reason for moving to integrated reporting. Printing is a small part of the total cost, with staff time a much more important factor. In some cases direct costs rise because annual reports typically have a larger print run and distribution than sustainability reports. One reporter found that any savings they gained through combining the reports were spent on upgrading the Internet format to HTML from a PDF format.

Efficiencies in report preparation – mixed
While the direct cost savings may not be significant, some reporters have gained efficiencies by integrating their reporting processes. Streamlining the process can ease the burden on internal departments by avoiding some duplication in data requests. This was especially true for companies that were already covering some sustainability issues in their annual report.

Reporters in the early stages of combining their reports may find that the workload does not change much, if the same people are gathering the same data.

Recognition for leadership – maybe
Reporters may hope that integrated reporting will benefit their reputation, by communicating their sustainability performance to a wider audience or by demonstrating innovation in reporting. It is too early to tell whether companies will be rewarded in reputational terms for their efforts in integrated reporting. Organizations that rate reporting quality tend to reward detail and transparency, but have a harder time recognizing a conscious decision by a company to leave out irrelevant information. Reporting awards organizations may need to master a new skill - recognizing the appropriate application of the materiality principle.

Challenge for the reporting team – probably
The benefits of integrated reporting may be perceived not only at the company level, but at the individual level too. Done well, integrated reporting represents an interesting conceptual challenge that could stimulate and retain valued staff.

Improve internal understanding of business/sustainability linkages – yes
In some cases, the move to integrated reporting may represent an effort by CSR/sustainability advocates within the company to demonstrate the business/sustainability linkages to internal stakeholders. Interviewees cited examples of improved understanding of the strategic importance of sustainability at the employee, management and board levels.

Improved consistency of messages – yes
Companies that produce one message for investors and another for their other stakeholders expose themselves to public relations risks. For Novo Nordisk, releasing one integrated report allowed them to bring one coherent message to a significant forum – the annual general meeting. The Chief Executive discussed the financial results and the Chair discussed the non-financial results, all in an integrated way.

Forcing or reflecting integrated thinking – in theory, yes
Other experts focused less on the practical benefits and more on theoretical ones that may only be achieved with significant integration. The benefit most consistently cited by other experts could be summed up as integration is good for you. Producing a truly integrated report, the thinking goes, requires integration of underlying systems and a holistic mindset within the company. This leads to better management decisions.

It is interesting that most interviewees from reporting companies did not express the benefits in this way. It may be that most of the reporters interviewed have not achieved the level of integration needed to see an improvement in decision-making. Alternatively, reporters may feel that they are already practising integrated or holistic management and their integrated reporting follows naturally from that. This view was expressed to some degree by all the reporters interviewed.

Does integrated reporting encourage holistic management or does a holistic management approach naturally lead to integrated reporting? Based on the limited research conducted for this project, it is not possible to conclude which way the causality flows or whether it may flow both ways.

Summary of benefits
The message from other reporters can be framed as integration is its own reward. The most likely benefits are the intangible ones. Organizations do this because it makes sense for them and the main benefit they expect and receive is one coherent story about their company and all aspects of its performance.

5. What are the challenges?

Senior management support
Integrated reporting represents a significant change with implications for several business areas – communications, investor relations, finance, sustainability – and external stakeholders. It needs senior management support to succeed. For at least two reporters interviewed the direction for integrated reporting came from the top. Conversely the absence of senior management support has been a barrier to integrated reporting for another reporter.

Practical challenges - time pressures and data gathering
For most of the reporters interviewed, pulling together all the sustainability information in time to meet annual report deadlines was a significant challenge. Reporters have adopted a variety of strategies to cope.

Hewlett Packard and Novo Nordisk overcame this hurdle in stages, by first producing a separate sustainability report that was released at the same time as the annual report. Once the data gathering and drafting processes were on the same timetable, combining the reports was not such a stretch.

CIBC overcame the timing challenge by reporting on existing indicators that were connected to their strategy so that the processes for measuring them were already working.
PepsiCo provided an overview of data in the printed report and put supporting documentation on an interactive website. The website information is updated throughout the year. This allows PepsiCo to spread its measurement and reporting effort rather than concentrating all the resources on one deadline.

Size of report
Report size was noted as a challenge by both reporters and other experts. If annual report and sustainability report content are combined with all the data intact, the size of the resulting volume can be a barrier.

There was concern among the other experts that readership of reports could decline if reports become too large. Users who are interested in just one area, such as traditional financial analysts and some labour and environmental groups may find it harder to locate the information they need. Clarity could suffer too if reporters do not apply tests of materiality and relevance. In effect, the carpet bombing syndrome that has already been flagged by SustainAbility and others could become worse.

Other experts were concerned about the potential loss of information if reporting companies get serious about editing their reports for size. As statutory requirements determine much of the annual report content, sustainability information is more at risk of being cut. One solution may be better use of on-line reporting, which will mean interactive formats rather than voluminous PDF downloads. Even with an interactive format there is a danger of drowning readers in data if the website is not well organized.

Integration requires new skills
While combining reports presents practical challenges, integrating them may require a whole new set of skills. All the experts agreed that it is a tough intellectual exercise and no one has a clear picture of what a truly integrated report will look like. One piece that is needed is a consistent way to link the story about sustainability performance and the story about financial performance. If the company is managing its business in a sustainable or holistic way, this should be reflected in the way the report describes systems for decision making.

Integrated reporters wrestle with how to make their reporting compelling and relevant to readers, and provide the data they expect, without overwhelming them. Novo Nordisk chose a magazine format that is arranged thematically rather than along the traditional triple bottom lines. Data on the website and in summary tables can still be accessed by category for those who are interested in specific issues.

There will also be practical coordination issues such as determining "who signs off?" internally on an integrated report, when so many departments have contributed to it.

Primacy of shareholder interests
The annual report has long been primarily a document for shareholders and potential investors and its content is largely determined by regulators, securities administrators and its primary audience – investors. While financial reporting and disclosure requirements do not bar the inclusion of sustainability information they do not do enough to encourage it. Furthermore, the voluntary nature of sustainability reporting may force it into a back seat if there is any competition with financial reporting needs. This competition may manifest itself as competition for space in the report layout, a bias towards numeric indicators or even opposition to the subject matter of sustainability.

Summary of challenges
Even in companies that have been supportive of CSR/sustainability reporting, integrating the Sustainability Report with the Annual Report raises the stakes considerably. It may be seen as unnecessary, as risky, or an infringement on the budgets and responsibilities of other departments. To be done well, it will require a great deal of co-ordination and skill development for team members.

Reporters who decide to proceed will need a clear business case and a thorough implementation plan to convince all the affected people and senior management to pursue integrated reporting. One reporter cautioned that once a company has moved to integrated reporting, it would be hard to go back to separate reports, because the resources associated with the separate reports would have been reallocated.

6. Other issues

Who is integration for?
The sustainability reporting agenda is increasingly driven by the notion that if we could only get financial analysts to take account of sustainability information, they would make better decisions and good performance, in a sustainability sense, would start to get rewarded through the markets. Since financial analysts do not seem to be paying attention to separate sustainability reports, perhaps putting the sustainability information in the annual report will force them to look at it.

There is some danger in this line of thinking. First, it assumes that analysts actually read annual reports and most of the experts interviewed doubted that they did. Second, they may not want information presented in an integrated way, preferring large volumes of data that suit their own models.

If financial analysts are not yet a good candidate to drive integrated reporting, who is? There are some financial interests who do take a long enough view of risks and opportunities, to see value in integrated reporting. These include the risk rating industry, insurance companies, and Socially Responsible Investing (SRI) specialists and indices, but even some of these rely on databases.

Social and environmental non-governmental organizations (NGO's) do not have a strong interest in the current approaches to sustainability reporting and tend to be sceptical of it. They are not demanding integrated reporting. Some NGO's may oppose integrated reporting if it results in less disclosure on the topics of interest to them.

Employees, however, are an important audience for corporate reports. In fact, the picture emerging from this research is that the main beneficiary of integrated reporting may be internal stakeholders who get a better understanding of the business. One reporter noted that it enlightens employees and is important in reinforcing the company's culture and value statement. Reports that appeal to internal audiences may be done in accordance with external standards like the Global Reporting Initiative (GRI) Guidelines, but their organizing framework is more likely to reflect the unique culture of the company. This can be seen in the reports of Dofasco and Novo Nordisk.

Will regulation and standards drive integration?
In response to the persistent critique that annual reports, and financial statements especially, are backward looking and provide little information about business risks and opportunities, several jurisdictions are enhancing their disclosure requirements for listed companies, e.g. Management Discussion and Analysis (MD&A) in Canada and the United States and the Operating and Financial Review (OFR) in the United Kingdom. The present research focussed on Canadian jurisdictions. Other countries, notably France and South Africa require certain social disclosures, but an exploration of these was beyond the scope of this project.

[1] Update: On 15 December 2005, the UK government announced the repeal of the regulations providing for an operating and financial review to be prepared by all listed companies for financial years beginning on or after 1 April 2005. http://corporate.practicallaw.com/9-201-9041 Dan Mace and John Davidson, "The OFR: dead or reincarnated?"

Experts were not overly hopeful that statutory disclosure requirements would, by themselves, lead to more integrated reporting. Enhanced disclosure requirements only apply to listed companies because they are driven by securities laws. Discussion of governance issues or social and environmental risks are required in some regulatory submissions but not in others. Furthermore, MD&A is not subject to audit, so the completeness and transparency with which social and environmental issues are covered, is up to management.

Regulatory standards are likely to get only the most material social and environmental disclosures into company reports, but if they do this they could be the leading edge of integration.

While regulatory disclosure standards do not require much sustainability information, best practice typically is running ahead of legal requirements. The Canadian Institute of Chartered Accountants (CICA) has issued voluntary guidelines for Management Discussion and Analysis that are similar to the introductory sections of the GRI.

Excerpt from the CICA's Guidance on Preparation and Disclosure for MD&A
"The analysis of past results and discussion of future prospects should be framed within the context of the five key elements of the disclosure framework. These are:

1. the company's vision, core businesses and strategy;
2. key performance drivers;
3. capabilities (capital and other resources) to deliver desired results;
4. results — historical and prospective analysis; and
5. the risks that may shape and/or affect the achievement of results.

It is not a big stretch to see how information on social and environmental drivers, resources, results and risks would fit within this framework, while the company's sustainability values would be important to the first element.

The Public Accountability Statements (PAS) required of large financial institutions in Canada include information on community support, customers, employment and taxation, but there is no guidance in the legislation on how to relate this information to financial performance. CIBC's move to combine its PAS with its annual report should be regarded as a useful first step towards integration. If other financial institutions take up the challenge and develop it further, the PAS requirement may prove to be a driver of integration in the financial services industry.

As the leading international standard for sustainability report content, the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines are well positioned to influence integration, but it is not clear yet how they will. The GRI guidelines were developed to improve the comparability of sustainability reports through standardization of indicators. In the current G3 revision process, auditability is a key concern. The International Federation of Accountants has created a Sustainability Experts Advisory Panel, and one of its activities is to assist the GRI in its efforts to have the G3 version of the guidelines constitute "suitable criteria" for sustainability reporting. The GRI faces the challenge of ensuring that the revised Guidelines meet the test of "suitable criteria" to be auditable, while not stripping out the contextual and systems based information that has great potential to provide integration.

How will integration affect assurance?

Integration could affect the ability and willingness of some assurance providers to audit the combined report.

Implications for the financial auditors

When audited financial statements are included in a public document, including an annual report, the auditor can be associated with other information, both financial and non-financial, in the document. If the auditors are associated with the sustainability information in an annual report, they would then need to perform certain limited procedures to assure themselves that the other information in the annual report is not inconsistent with the financial statements. There is a still a risk to auditors that readers not familiar with auditing rules may assume that the auditor's work extends to the non-financial information. Fear of court cases has made some professional accountants reluctant to be associated with any information that is subjective or ill-defined.

In Canada, section 7500 of the CICA Handbook suggests that if matters are considered "remote from financial reporting" the auditor may not need to read them in detail. Social and environmental information was probably at one time considered very remote from financial reporting. The more it is integrated, however, the greater will become the auditor's responsibilities in relation to it. If the legal environment is perceived as threatening, this could potentially reduce the number of audit firms willing to conduct the financial statement audit. At the very least the financial auditors will need to be sufficiently knowledgeable about the subject matter of the sustainability information to recognize any inconsistencies with the financial statements.

Assurance of sustainability information

The current market for sustainability assurance includes a diverse mix of competencies, approaches and qualifications. Assurance providers of sustainability reports include financial audit firms, CSR specialist auditors, quality assurance auditors and environmental auditors. There are other forms of assurance that do not involve independent auditing, such as management system certification, endorsements from NGO or CSR leaders, community panels or internal audit, which may co-exist with independent audits. The choice of what kind of assurance is appropriate should be based on what provides assurance to the report's audience.

When the sustainability and financial information is brought together, the company must decide whether to continue with separate assurance engagements or to combine them. Companies may decide to have subject matter experts for each of the social, environmental and economic/ financial sections as Westpac has in its Social Impact Report .

Combinations of assurance approaches and providers are likely to continue for a while. With one exception, none of the reporters interviewed saw themselves engaging their financial auditors to do their sustainability auditing any time soon. One reporter is relying on internal audit and may do some "spot audits", but has no expectation of auditing the whole report. One is satisfied with its community panel approach and another says they are not experiencing any credibility problems and would use a stakeholder panel, if anything. One interviewee sees an evolution of assurance approaches – from increasing use of internal audit, to "Westpac style" assurance, and then maybe their auditors.

For some experts, true integration means one assurance statement covering the whole report. If there is to be one statement, regulatory requirements will ensure that auditors with financial competencies and credentials prevail. Specialty assurance providers may provide support, but their role would be reduced. The downside seen by some experts is that bland or negative assurance will become the norm. For users of audit services, this could mean less choice in assurance type and reduced competition in the market. The upside could be greater consistency in the form of assurance reports, and consolidation of audit costs for companies currently using two "big four" audit firms.

What will be the audit standard?

In January 2005, ISAE 3000, the International Standard for Assurance Engagements other than the Audit of Financial Statements came into effect. Professional accountants will need to adhere to this standard when conducting audits of sustainability reports. ISAE 3000 is a general purpose standard and contains no specific guidance for auditing social, environmental or economic dimensions. The International Federation of Accountants (IFAC) is watching emerging standards for sustainability reporting and auditing, such as the exposure draft released in spring 2005 by the Dutch accounting institute, Royal NIVRA, and may add complementary guidance to ISAE 3000 eventually.

In March 2003, AccountAbility released the AccountAbility 1000 Assurance Standard (AA1000 AS) as the first assurance standard specifically for sustainability reporting. AA1000AS provides broad principles – completeness, materiality and responsiveness – to evaluate the quality of reporting and the systems that underlie it.

AccountAbility is positioning AA1000 AS as a complement to ISAE 3000. While ISAE 3000 provides a rigorous assurance methodology, AA1000AS supplies the forward looking responsiveness concept and alignment with stakeholder interests. In an Assurance Standards Briefing produced in association with KPMG Netherlands, AccountAbility states that "AA1000AS and ISAE 3000 are technically complementary, and therefore can be applied together in an assurance process. There is no methodological conflict between the two standards." Some accountants would debate this claim, especially with respect to the ISAE 3000 need for clear criteria, which may be difficult to meet in evaluating AA1000's responsiveness principle.

How will technology influence integration?

Experts see a lot of promise in Extensible Business Reporting Language (XBRL) but don't expect it to displace current reporting efforts any time soon. XBRL works by attaching tags to information that make it easier to retrieve from host systems. It could conceivably allow centralization of information collection while permitting custom reporting based on users needs. XBRL's tagging mechanism allows information to be linked so that when a user requests information on, for example, certain effluents, it is accompanied by information on sales volume. This permits normalization of data without forcing it on users.

Another development that could affect reporting is the creation of reporting portals that can link producers and users of sustainability and financial information. An example is SRI World Group's One Report system, which allows reporters to specify which standards, indices or awards they want to supply with information.

These developments, more sophisticated websites and other special purpose sustainability reporting software are hastening the shift in focus from the report to reporting. As the same forces are at work for financial reporting, this will encourage integration.

7. Conclusions

The limited scope of this research does not justify definitive conclusions. Further research would be helpful in any of the following areas:

- Developing a conceptual framework for integrated reporting;
- Modelling and measuring the interaction between financial and sustainability indicators;
- Expanding the scope and sample sizes of this research;
- Better understanding the needs of users, including the investment community;
- Exploring the effectiveness of regulatory requirements for social and environmental disclosures, such as those in France and South Africa;
- Understanding the implications of technological developments for integrated reporting; and
- Further development of accounting and auditing standards to support integrated reporting.

With these limitations in mind, the author ventures the following tentative conclusions. The user demands and external forces that could push companies towards integrated reporting are still weak in most jurisdictions. Companies that decide to integrate their reports face significant conceptual and practical challenges. So why do it? Integrated reporting seems to be driven by its own irresistible logic and the internal benefits it delivers. Companies that have embraced sustainability take on integrated reporting because it makes sense to them and is the best way to reflect their holistic management approach. Through their efforts, both financial and sustainability reporting stand to benefit.

Appendix 1: Interview participants

AccountAbility (group submission in lieu of interview)
Richard Boele, *Banarra Sustainability and Social Assurance*
Cynthia Dyson, *Manager, Communications and Outreach, BC Hydro*
Eugene Ellmen, *Executive Director, Social Investment Organization*
Bill Gair and Charlene Gallagher, *Communications and Public Affairs, Dofasco*
Sean Gilbert, *Associate Director, Technical Development, Global Reporting Initiative*
Kathryn Humber, *Senior Vice President, Investor Relations, CIBC*
Judy Kuszewski, *Associate Director, SustainAbility*
Robert Langford, *Sustainability Consultant, Institute of Chartered Accountants of England and Wales*
Ken Larson, *Director, Corporate Social Responsibility, Hewlett Packard*
Michael Nugent, *Technical Manager, International Auditing and Assurance Standards Board*
Elaine Palmer, *Director External Affairs, PepsiCo Public Relations*
Susanne Stormer, *Manager, Corporate Stakeholder Relations, Novo Nordisk*
Alan Willis, *Alan Willis and Associates*

Appendix 2: Features of integrated reports

Aspects of Integrated Reporting	Examples
Integrated performance highlights	BC Hydro has a "sustainability scorecard" on page 1 which shows measured results in progress towards strategic goals. Novo Nordisk presents financial, environmental and social highlights with 5 years of data.
Sustainability in CEO/ chair's message	Dofasco letter highlights challenge of resource competition and benefit of relations with stakeholders. BAA's interview with the Chief Executive addresses climate change, neighbourhood impacts etc. head on. PepsiCo also has an effective Q&A that gets at health implications. But most letters make passing mention to importance of employees and environmental responsibility.
Sustainability in MD&A	MD&A is only required for listed companies, but this type of disclosure could be considered best practice for any company, especially the CICA's guidance.
GRI index in annual report	CPFL Energia effectively uses the GRI framework for their annual report so the index isn't necessary. Sydney water and BC Hydro have an html version on their website that directs users to specific indicators.
Explains social & environmental measurement & reporting policies	Novo Nordisk sets out its social and environmental accounting policies in a way that conveys that they are as serious about these measures as the financial ones. Renault provides this information for environmental data only.
Assurance of sustainability information	Seven of the 12 reports have some form of independent assurance. In four cases (all European) the financial auditors have done it.
Explains how CSR/ sustainability policies and performance are relevant to business success	Novo's reporting clearly links success on social, ethical and environmental issues to strategic business issues and discusses these in a compelling way. Pepsi tackles the health implications of snack food and links the issue to new products. Renault has made safety a key aspect of its brand. Dofasco's introductory pages provide a clear context (competition for resources, workers) for its intertwined CSR/business strategy.
Explains how business strategies contribute to sustainability	Most reports are not as good at demonstrating how each company's strategies contribute to serious sustainability issues. Novo is an exception, discussing its role in access to drugs, ethics in pricing and promotion, off shoring, and climate change. By using the GRI framework for its whole annual report, CPFL Energia has ensured that all the business information is linked to a sustainability issue.
Social and environmental performance is woven into discussion of strategic issues, not compartmentalized	Some reports are clearly delineated along social, environmental and economic lines. The more integrated ones use a framework that is authentic for the company and bring in the sustainability issues where relevant. Note that this approach requires a good GRI index, preferably interactive.
Financial statements show impact of sustainability policies, risks and performance	Nobody is doing this yet. CIBC has an interesting plain language explanation of financial highlights.

[1] CICA, Management Discussion and Analysis: Guidance on Preparation and Disclosure, 2004.
[2] ibid, Section 7500.03
[3] ibid, Section 7500.21
[4] Westpac's 2004 Social Impact Report was not included in the reports reviewed. Westpac publishes full financial statements separately. It was, however, referenced by some interviewees.
[5] AccountAbility and KPMG, Assurance Standards Briefing: AA1000 Assurance Standard and ISAE 3000, The Netherlands, April 2005.