Tomorrow's Corporate Reporting

A critical system at risk

CIMA
Chartered Institute of Management Accountants

pwc

tomorrow's company

Contents

A critical system at risk

Executive summary

Corporate reporting matters. It plays an essential role in the effective functioning of the market economy. It should make an important contribution to our understanding of, and respect for, business and the financial sector as creators of value by explaining what drives that value now and in the future.

External crises – from investment bubbles and crashes, to fraud and market upheaval – have always been a force for major changes to the regulatory system and corporate reporting. We are now emerging from one such crisis: the credit crunch and its related global economic slowdown. In many sectors and jurisdictions, regulators, standard setters and others have started to consider what further change is required to cater for apparent failings in the system – and whether companies should present additional detail on their activities, comply with new rules and conform to new conventions.

Company reports are already more complex and heavily regulated than ever before. Yet despite all the attention reporting has received, the fundamental concepts underpinning corporate reports have actually changed very little over time. Various parts of the system have changed, of course – but despite all this momentum, the corporate reporting system itself remains rooted in the past.

It's not just short-term pressures that require us to review the relevance of the reporting model. The world also faces a series of longer-term challenges. These include a growing population – placing increasing demands on already scarce resources; increasing pressure on natural capital which has been seen as a free resource; the globalisation of business – and the consequent intensification of competition for investment and markets; and the impact of new technology on every aspect of corporate life – including stakeholder communications.

But there is an impetus for change. At the time of writing, there are numerous initiatives and consultations underway around the world – all seeking to effect further change in the corporate reporting system. (These are summarised on page 5). But these all focus on specific issues around the content of reports, rather than the dynamics of the system as a whole and its structural weaknesses which are likely to become more problematic as the century unfolds.

That is why this research, undertaken by the Chartered Institute of Management Accountants (CIMA), PwC and Tomorrow's Company, is different. We have not looked at the content of an 'ideal' report. Our focus is on the overall architecture, culture and behaviours of those engaged in the corporate reporting system – and how they might play a role in changing it to meet the demands of the modern market ecosystem and the changing needs of society.

"If you're running the company from a long-term basis, the company has to be responsible to its shareholders but responsive to those with whom it comes into contact through its operations."

"Corporate reporting… has got too big, too cumbersome and is incomprehensible…"

"[Complex reporting] is a reflection of the inherent difficulties in understanding [complex] businesses, not a failure of the reporting system."

"Given the complexity of the economy, the focus of our corporate reporting is too narrow. It is too financially focused."

"If the purpose of corporate reporting is to give a complete picture of the health and prospects of a company to the financial markets, then I think it is broken."

Our findings

The following key challenges must be understood and addressed to create a reporting system that is responsive to a changing business environment and adequately accounts for long-term value creation.

We define the corporate reporting system (CRS) as all the individuals, organisations, institutions, rules and processes through which companies communicate their performance and activities.

- **A 'jigsaw in pieces'.** No single participant is fully active in, controls, or even sees the entire corporate reporting system. Participants in our research would often revert to a familiar focus on content of reports, for example; others do not believe that a 'system' exists at all.

  (The various 'pieces of the jigsaw' are described in more detail in pages 8 to 25).

- **Data, not people.** The corporate reporting system is a system of people, institutions and professions with disparate mindsets, agendas, languages, cultures and behaviours. Yet it is often simply treated as an information system for processing data. Debate about changing it often defaults to a discussion about content or measurement.
- **Few on the same page.** There are different views about the purpose of corporate reporting. Is it for shareholders and investors? Or for the "public interest" (however that is defined)? The views espoused by different institutions and professions tend to reflect their positions and agendas within the current system. An active minority sees a need for change.
- **Systems within a system.** A number of parallel reporting systems are in operation – such as those supporting internal management information, regulated financial reporting, investor relations or voluntary sustainability reports. Sometimes they are aligned and coherent. But frequently they are not. Some of them – such as many investor relations activities – are effectively 'workarounds' to deal with perceived shortcomings in the scope and timeliness of information provided by the core reporting model.
- **Quantity, not quality.** Numerous elements have been bolted on to the financial reporting model, creating a web of detailed rules and standards. Although helpful in some areas, increasingly this obscures rather than illuminates information that is material to the present and future success of a company. There are often vast disclosures on immaterial issues, yet the corporate reporting system fails to cater for many factors that are material to the survival of many businesses.
- **Competence and lack of concern.** Complexity is stretching the capabilities of market participants. There is little incentive for many of them to support change or innovation that might diminish the value of their existing competencies or risk exposing them to new liabilities.
- **Looking back, not forward.** Companies operate at the intersection of global economic, social and environmental systems – all of which are evolving and demand new ways of assessing appropriate corporate behaviour. These issues are often viewed as external to a company's operations – but this is unlikely to be the case in the future. The corporate reporting system needs to be able to anticipate and adapt to this change.

So there are diverse views and opinions about the construction and the effectiveness of the corporate reporting system, resulting in varied behaviour, language and practices. There is a mixed appetite for, and engagement in, change – especially among key players such as companies, investors, auditors and standard setters. Some participants feel disenfranchised from the system thanks to the reaction to their past involvement.

As a result, there are feelings of mistrust in pockets of the reporting community and a general unwillingness to seek collaborative action. But the biggest challenge facing the system is its inability to change due to structural friction. Simply put, reporting is central to the workings of capitalism and people are nervous about changing it in case that role is undermined. But is this a sustainable or desirable position for those who are responsible for maintaining and enhancing economic and social stability in the face of significant internal and external forces for change?

Significant challenges then. And, inevitably, further change will be imposed piecemeal onto the existing system – particularly through increased regulation – without the benefit of a unified context.

But there is also an opportunity to build on the current momentum for change. We believe the time is right to debate the role of reporting and how it might evolve over the next 25 years. This is an opportunity to consider whether action is needed to achieve better clarity and cohesion around the aims and structure of the whole system – and to develop a new platform for its future development.

This report provides a framework for a global conversation, enabling all the key actors and institutions in the system to better understand each other's perspective and move towards a common view of the system.

The 'agenda for debate' we set out includes some principles for an effective corporate reporting system along with a roadmap for change.

It also poses questions whose answers will define the debate on how change can be implemented. These focus, in particular, on who owns the reporting system and what role key participants might play in a change agenda.

The goal, ultimately, is simple: agreement on the action required to ensure that the corporate reporting system is fit for purpose in the 21st century.

An agenda for debate

The purpose of corporate reporting is to assist in the effective functioning of the market economy by enabling shareholders, investors and other stakeholders to assess the overall performance of a business and establish its present and future value. In addition, the dynamic of the corporate reporting system in part determines the ability of regulators, auditors and other parties to provide the necessary checks and balances over the business ecosystem needed to ensure its health and sustainability.

Key principles

In order to design a corporate reporting system fit for the future, we need an approach that is systemic and collaborative, one that sees the system as a whole and recognises and builds on the strengths of each part of the current system.

It should:

Encourage innovation and change through collaboration so that trust in the system, and between participants, is maintained. The system should be organised and structured so that it can anticipate and accommodate change in response to shifts in the business environment.

Balance judgement and compliance by creating a system that encourages companies and professions to lift their sights beyond merely complying with externally laid-down requirements. It should give them the flexibility to exercise and then explain their judgement without compromising accountability.

Support company decision-making through a focus on the key drivers of long-term value – and their associated risks. There should be better alignment between management reporting and external reporting.

Make reporting accessible, timely and relevant, encouraging companies to communicate what is material to their present and future success through a clear, factual, narrative picture of their performance, principles and strategy. All appropriate means of communication should be at their disposal.

Support shareholder and investor decision-making by enabling them to compare the prospects and performance of companies; assess their long-term sustainability and value-creating capabilities; and by doing so, focus the financial system as a whole on long-term value creation.

Recognise the importance of those who have responsibility for the oversight of the system and who are also tasked with providing the checks and balances over its effective operation.

A roadmap for change

To realise these principles, we suggest the following key five steps:

Create a global consensus on a programme of change that recognises the differing interests of national governments and key stakeholder groups.

What is the objective of the corporate reporting system and how do we ensure it remains relevant?

Is global convergence around some or all elements of corporate reporting a worthwhile goal? If so, what are the right elements and what are the best mechanisms for building a collaborative agenda?

Is the current structure of the corporate reporting system a barrier to change? If so, what are the implications for economic development, understanding business dependences and systemic risk?

How well can it adapt to how value will be determined and how success will be defined and measured in the future?

Ensure oversight is given to the whole reporting system (both regulated and non-regulated) as a means of delivering greater relevance, accessibility and cost effectiveness.

What degree of oversight is necessary and who should be responsible for it?

Should this general oversight be part of the future regulatory model?

Create a clear blueprint for the future of the corporate reporting system with a particular focus on the structural, institutional and behavioural issues which are critical to its effective development.

What information used in parallel reporting systems should be part of the regulatory reporting model and vice-versa? What are the implications for auditing?

What actions could be taken today to simplify the regulatory burden on companies and enhance user access to and understanding of information?

In what ways could the optimal reporting model (and the associated behavioural response) be achieved through a framework based on a mix of hard law, soft law and market mechanisms?

Which parts of the reporting system should standard setters be responsible for?

How might the information needs of shareholders and the role of the auditor become better aligned?

Consider mechanisms and approaches that will encourage an evolution in reporting that will be embraced and enacted by those involved in the system.

How do we build trust in the system? How will we create the conditions that enable it to meet different stakeholder needs and to evolve efficiently and appropriately?

How can a culture be created in which meaningful experimentation to enhance the reporting model can be encouraged without penalty?

How can participants be encouraged to contribute more fully to changing the system?

Consider how best to deliver agreement on system issues and risks which demand prompt global action. For example, how to develop global standards for the measurement and reporting of carbon, water and scarce resources – and to reduce the presence of divergent actions.

If the scope of the model needs to be broadened, what are the implications for established institutions and their governance, skills, resources and funding?

Corporate reporting is not what it used to be

from Professor Mervyn E. King

From the time of the Industrial Revolution up to the middle of the 20th Century companies adopted a take, make and waste approach to the carrying-on of business. Waste was freely discharged into rivers and dumped into landfills. Matter, of course, does not disappear – it merely translates into another form. With the degradation of the waste dumped into landfills, the toxification of planet earth's land and water became a reality.

Economies were based on the false assumptions that the planet had limitless resources when in fact they were and are finite, and that nature had an infinite capacity to absorb waste. This is how business has been carried on, for the last 150 years – business as usual!

If one adds the issue of population growth and the United Nations extrapolation that by 2050 we will have another 2 billion people on the planet, that is approximately 9 billion people, then it is clear that business cannot be carried on as usual and we all have to learn to make more with less.

In consequence Governance, Strategy and Sustainability have become inseparable. Many countries have developed responsible investment codes which provide guidance to the trustees of pension funds and financial institutions generally on how they can make an informed assessment about the sustainability of a business in the new economy in which we find ourselves. This new economy has been created by three crises: the Global Financial crisis, Climate Change crisis and Ecological Overshoot which means that we have used the natural assets of planet earth faster than nature can regenerate them. Companies are now asking for the traceability of their input products because of the impact this could have on one of their most valuable but intangible assets, their reputation! Supply chain codes of conduct are having a huge impact on companies which are not listed including small and medium sized enterprises. Wal-Mart, the biggest purchaser of product in the world has a very stringent supply chain code of conduct.

The world has accepted that people, planet and profit are inextricably intertwined, and nowhere was this better illustrated than in July last year in London, when the International Integrated Reporting Committee was formed. The disparate bodies sitting around the table, such as A4S, GRI, the FASB of America, IASB, IFAC, IOSCO, WWF, Big Four etc., established within one hour an identity of purpose, namely that financial reporting was not sufficient to make an informed assessment about the sustainability of a business in the new economy. It was accepted that the annual report had to be an integrated one, that is one where there is a holistic representation of the financial and non-financial performance of the company. In short how the financial impacted on the non-financial and vice-versa.

Traditional accounting which follows the international financial reporting standards emphasizes discrete assets. These are presented as additive. In the new economy, human resource, financial, capital, information technology, natural capital and society are all critically interdependent and create value. No company in developing its strategy can overlook financial, human, natural, social, manufactured and technological capital aspects.

In order to develop an Integrated Report, an interactive strategic communication is needed with a company's important stakeholders. The board adopts today an inclusive approach to governance, namely it identifies the legitimate needs, interests and expectations of its major stakeholders. This information assists management to act on a more informed basis and the board being able to develop a long-term strategic direction which actually meets the needs, interests and expectations of the company's stakeholders. Further, such reporting enables the providers of capital to measure risk on a better basis. It has now been established that a company which takes into account how its operations impact on society, environment and financially, not only attracts a better class of employee, but retains a better class of employee. In addition it can raise capital more easily and more cheaply. All of these are good hard-nosed business reasons to do an integrated report in which the company can tell its stakeholders how it has made its money.

Integrated Reporting, however, is different from the outcome which is the report itself. Integrated Reporting needs the cooperation of the various areas of knowledge and skills in the company as well as that which management has learned about the needs, interests and expectations of stakeholders. In short, from the interactive strategic communication with stakeholders, a pathway of knowledge is built throughout the year. The information is then analyzed to enable the Integrated Report to be published.

Most modern Companies Acts today provide that a company need only report the highlights of the financial information and the total report can be found on the web. Similarly, the material and relevant ESG matter will be contained in the Integrated Report, but the detail again can be found on the web.

On a reading of the Integrated Report, which should be the primary report in clear and understandable language, the user should be able to ascertain the material, financial and ESG issues and how the sustainability issues have been built into the long-term strategic planning of the company. The user must be able to make an informed assessment of the sustainability of the business of the company.

The European Commission has now called for submissions in regard to why investors should not take account of ESG factors before making their investment decisions.

Consequently the market forces of responsible investment, the traceability of input products, and interactive strategic communication with stakeholders are changing the system of reporting forever. In short, the system of reporting and the report itself are not what they used to be.

From the corporate report, the reader should be able to tell that the company has not profited at the expense of the environment, human rights, a lack of integrity or society; that there are adequate controls in place to monitor and manage material risks and opportunities; that remuneration is linked to overall performance which includes social, environmental and financial, that there is an interactive communication with the stakeholders who are strategic to the company's business and that the company is conducting a sustainable business.

It is in this context that I warmly welcome *Tomorrow's Corporate Reporting – A critical system at risk*. To achieve the changes now needed and to do this with the urgency required, demands that all those involved in corporate reporting recognise 'the elephant in the room': that the behaviour and incentives of institutions and actors within the corporate reporting system are all too often not shaped by an understanding of the system as a whole but rather by the 'piece' of which they are a part.

The system must evolve. This report challenges many of the key questions which will determine whether we succeed: the objective of corporate reporting, global convergence and whether the current corporate reporting system is itself a barrier to change. This report provides an important contribution for all of us involved in corporate reporting and who want to ensure that it does indeed remain relevant and valued to business, the capital markets and society at large.

Mervyn King

Deputy chairman of the International Integrated Reporting Committee (IIRC)

Part 1:
Context

Background

At the start of the second decade of the 21st century, suffering from the fallout of possibly the worst global financial crisis since the Great Depression, we are facing calls for significant changes to corporate reporting.

The post-mortem that followed the crisis apportioned blame to many different actors and institutions. From bankers to regulators, short-term investors to imprudent consumers, few escaped uncriticised from the gaze of the microscope.

In the face of so many past and present calls for action, why has so little changed?

One of the factors subject to particular scrutiny has been the corporate reporting system (CRS). Why did so many investors and other stakeholders not spot the build-up of troubled loans? And if they did, why did they choose to ignore them?

And yet this is not the first time that we have heard calls for greater transparency. In recent years, the shock of Enron, the collapse of Parmalat, WorldCom's demise and the dot-com crash all generated similar responses from politicians, investors and regulators alike.

In the face of so many past and present calls for action, why has so little changed? Are knee-jerk reactions to address highly specific problems an appropriate way of changing what is an essential part of a healthy functioning economy? And is corporate reporting keeping up with the changing environment in which companies operate?

> *"Traditional financial theory argues that having a single objective function (shareholder value) actually permits the balancing role that they concede is part of the social purpose of the firm. The premise is that since markets efficiently price the contributions of both natural and human capital, managers who are tempted to undervalue these factors in order to favor narrowly financial outcomes will eventually be penalized and forced to recalibrate. This optimistic view is seriously flawed. To begin, even the most ardent theorists recognize that market failures crop up with alarming frequency. Moreover, innovations in economic theory have identified important anomalies in which non-rational behaviors and sticky transitions prevent the smooth rebalancing of factor inputs.[1] And finally, we know that large scale collective action problems, incentive misalignments, and principles of game theory press managers to pursue narrow or short-term objectives even when such actions may damage the firm over the long-run."*
> Dr. Robert Kinloch Massie, Harvard Kennedy School of Government

Changes to the business environment

There are many challenges to the long-term success of companies, their ability to create value and meet the broader expectations of society.

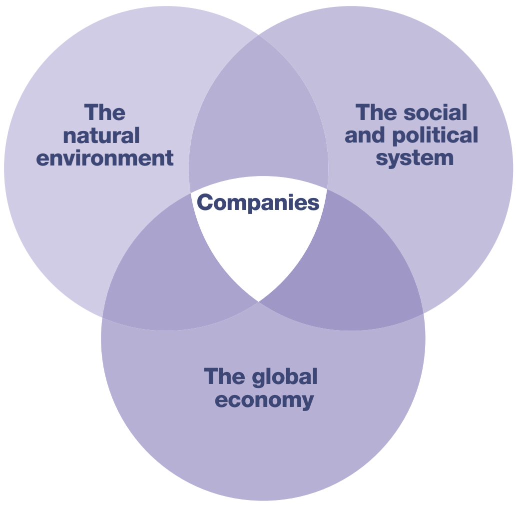
At the same time, companies are central to the solutions that will address many of the problems society faces. Companies open up new opportunities for value creation and employment, manage resources and spread wealth, to benefit investors. But companies also face new challenges related to the information on, and measurement of, a host of these new factors.

In this environment:

- Non-financial and intangible assets are significant drivers of corporate performance;
- Many companies create value through collaborative global networks, reshaping traditional boundaries of power, control and influence;
- Value creation will increasingly depend on social and environmental issues as much as economic ones – what Tomorrow's Company calls the 'triple context';
- Global companies and their supply chains have economic, social and environmental impacts on the societies in which they operate – while key issues such as climate change and financial stability are not limited by national or physical boundaries; and
- Much more information about the activities of companies is available instantly to global audiences who are taking more interest in how they do business. Social media are revolutionising communications on a global scale. This has been mirrored in the rise of the corporate social responsibility and sustainability movements, closer scrutiny and a growing lack of trust in businesses.

Value creation will increasingly depend on social and environmental issues as much as economic ones.

The triple context



Underlying shifts in the business environment

Since 1990, 33 new countries have been created.[2]

In 1990, 30 countries had financial assets exceeding their GDP; by 2006, that number had risen to 72, according to McKinsey Global Institute research. In this same 16-year period, global financial assets rose from $43trn to $167trn.[3]

In 2010, up to November, 140 US banks failed. In 2009, 148 failed.[4]

According to research by Ocean Tomo LLC, 83% of the market capitalisation of the constituent companies in the S&P500 in 1975 was accountable from tangible assets. By 1985 this had fallen to 68%. Ten years later – 32%. And by 2009, the figure was 19%.[5]

In 2009, 11 countries had public debt in excess of 100% of GDP, including Japan, Italy, Iceland, Greece, Singapore and Belgium.[6]

It has been calculated that in 2007 humankind used the equivalent of 1.5 planets to support their activities. Unless patterns of behaviour change, we will be using resources and land at the rate of two planets each year by 2030, and just over 2.8 planets each year by 2050.[7]

The World Bank says that 1.4 billion people live in poverty, on less than $1.25 per day. This is substantially more than its 2004 estimate of 985 million people and suggests that poverty is both more persistent, and has fallen less sharply, than previously thought.

A 2010 OECD survey said 400 of the Global 500 companies measure and report their greenhouse gas emissions. Nearly all of the companies taking part said energy conservation was an obvious first step to reducing emissions.[8]

The world's population is around 6.8 billion. It is projected to rise to over 9 billion by 2050.[9]

The proportion of the world's population that is over the age of 65 is likely to double by the middle of the 21st century. In Italy, Japan and Spain, one in three people is expected to be 65 or older in 2050.

In 2010 there were 5.3 billion mobile phones in use. Access to mobile networks was available to 90 per cent of the world's population and to 80 per cent of those in rural areas.[10]

The Global Reporting Initiative's 2010 report 'The Transparent Economy', based on a survey of its members, identified six trends that will shape transparency and accountability over the next decade. They are Traceability; Integrated Reporting; Government Leadership; Environmental Boundaries; Rating and Ranking; and Shadow Economies – so-called TIGERS.[11]

Changes to reporting

An agenda of change has started to emerge…

Reporting continues to evolve, too, as it attempts to keep pace with shifts in the business landscape and new regulations, as well as emerging investor and other stakeholder needs.

- With global companies and global capital markets come demands for international comparability in elements of corporate reporting. A process of convergence is underway among the key players in the standard setting community.
- At the same time, new regulations are emerging – often piecemeal, in different jurisdictions and with industry peculiarities – in response to external and non-financial pressures. For example, compliance with carbon emission control schemes requires new forms of reporting that do not yet have global standards.
- Certain territories are reviewing the adequacy and nature of reported information around climate change, resource usage and population growth. For example, in February 2010 South African listings requirements were amended to force compliance (or explain why not) with the King III Integrated Report Disclosure Checklist.[12] In Denmark, the Danish Financial Statements Act (2008) required the 1,100 biggest companies in Denmark to account for their work on CSR in their annual reports from 1 January 2009.[13]
- Sustainability reporting is now commonplace among larger companies, despite a lack of standards against which these reports can be evaluated and limited experience in auditing their assertions.
- Technology is transforming how information is reported:
  - Online systems enable updated information to be provided on demand and in flexible formats. XBRL is a language increasingly being used to supply financial information in standard formats to help both preparers and users of accounts.
  - In some parts of the world the obligation to send a printed annual report to shareholders has been removed.
- Many companies are pioneering change to reporting independent of new regulations. For example Novo Nordisk, Philips, Rabobank Group, BASF, American Electric Power, Natura Cosméticos, Veolia Environnement and Man Group are all experimenting with new forms of report.

Companies – and other institutions – that do not keep up with these trends will, at best, find themselves burdened with additional costs as they attempt to catch up with the new reporting norms of their peers. At worst, their access to capital, talent and key business partners will be compromised.

An agenda of change has also started to emerge as regulators reassess the adequacy of the current regulatory model (see opposite). In large part, this is a response to the financial crisis which raised serious questions about the reporting of governance, risk and business models.

A growing momentum for change

Integrated Reporting Framework Development
Global, IIRC (International Integrated Reporting Committee – a multi stakeholder committee established by the Accounting for Sustainability project (A4S) and the Global Reporting Initiative (GRI)
Late May 2011 – 31 July 2011
Discussion paper on an integrated reporting framework for public consultation.

GRI G4 Reporting Guidelines
Global, GRI (Global Reporting Initiative)
October 2010 – end of 2012
The GRI Board of Directors has decided that GRI will start working on a new version of the GRI Guidelines. A key aim of the G4 Guidelines is to harmonise Environmental, Social and Governance (ESG) and sustainability reporting practices around the world. Another key aim for G4 is to be a stepping stone for companies preparing an integrated report based on the framework currently in development by the International Integrated Reporting Committee (IIRC).

Consultation on Financial Reporting on a Country-by-Country Basis by Multinational Companies
European Commission, Directorate General for Internal Market & Services
26 October 2010 – 9 January 2011
Objectives: In order to gather stakeholders' views on financial reporting on a country-by-country basis by multinational companies.

Public consultation on disclosure of non-financial information by companies
European Commission, Directorate General for Internal Market & Services
22 November 2010 – 28 January 2011
Objectives: To gather stakeholders' views on ways to improve the disclosure by enterprises of non-financial information (e.g. social and environmental).

A Public Interest Framework for the Accountancy Profession
USA, IFAC (International Federation of Accountants)
4 November 2010 – 25 March 2011
Objectives: This Policy Position Paper enables IFAC, professional accountancy organisations and others the means to better evaluate whether the public interest is being served through the actions of the profession and its institutions. It is designed to provide policymakers, regulators, and business leaders with the means to more consistently assess many of the issues currently debated at the national and international levels.

The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications
USA, IAASB (International Auditing and Assurance Standards Board)
21 January 2011 – 1 June 2011
Objectives: The Discussion Paper is designed to help the IAASB gain a robust understanding of views and perspectives on issues relevant to auditing disclosures in a financial statement audit.

Public Consultation on "Application of International Financial Reporting Standards (IFRS) in Japan"
Japan, Financial Services Agency (FSA)
4 February 2009 – 6 April 2009
Objectives: The Planning and Coordination Committee of the Business Accounting Council invited public comments on the Draft Interim Report (main points: use of IFRS on a voluntary basis and decision regarding the mandatory use of IFRS could be made around 2012).

Framework for Integrated Reporting and the Integrated Report – Discussion Paper
South Africa, Integrated Reporting Committee (IRC)
25 January 2011 – 25 April 2011
Objectives: The Discussion paper is an integrated reporting guidance that seeks to offer practical direction on the integrated report. It is open to public comments. Public consultation sessions are taking place in three major cities in South Africa.

The Future of Narrative Reporting – a Consultation
UK, BIS (Department for Business, Innovation and Skills)
2 August 2010 – 19 October 2010
Objectives: To look at ways to drive the quality of company reporting to the level of the best and thereby enable stronger and more effective shareholder engagement.

Effective Company Stewardship: Enhancing Corporate Reporting and Audit
UK, FRC (Financial Reporting Council)
7 January 2011 – 31 March 2011
Objectives: Improving the dialogue between company boards and their shareholders. In doing so, they are organising a consultation on any specific proposals, resulting from this publication, and in particular, are seeking the views of investors, company directors and auditors.

Systems and behaviours

The central questions we set out to answer with our research are:

> *What aspects of the system are preventing or supporting the effective development of corporate reporting? And what changes are needed to make the system fit for purpose in the future?*

Our focus is on system architecture and the behaviour and values of its stakeholders, not on the content of the 'ideal corporate report'. For the purposes of this report, we define the CRS as all the individuals, organisations, institutions, rules and processes through which companies communicate their performance and activities.

We have consulted 118 organisations and 145 individuals across all the key stakeholder groups, through round table discussions, a global 'call for evidence', resulting in detailed interviews with and submissions from key CRS participants. *(Further information is provided in the appendix).*

Some fundamental pieces are missing from the reporting debate today…

We have found it easier to engage with some constituents than others. There is a significant majority – such as in the mainstream investment community, but also within other stakeholder groups – that have been harder to bring into this initial dialogue. And there is a more active minority of participants that has engaged with us at length. For this reason, there is a degree of selection bias in our research – although this difference in levels of engagement is an important finding in its own right.

Notwithstanding that fact, the spectrum of opinion expressed both on the state of the reporting system today, and the prescription for changes to that system, was enlightening. Clearly some fundamental pieces are missing from the reporting debate today – pieces that need to be considered if we are to create a corporate reporting system that is fit for purpose.

Not every aspect of the system has failed to meet the challenges posed by the changing environment, of course. But our report shows that many participants are simply not exposed to other parts of the CRS that their actions affect. And so our central proposition – that future change needs to be made looking at the entire system and the behaviour of the people within it – is compelling.

"We occupy a world that is connected on multiple dimensions, and at a deep level – a global system of systems. That means, among other things, that it is subject to systems-level failures, which require systems-level thinking about the effectiveness of its physical and digital infrastructures."

Samuel J. Palmisano chairman, president and chief executive officer, IBM.[14]

"…each individual human being has been fragmented into a large number of separate and conflicting compartments… the notion that all these fragments are separately existent is evidently an illusion, and this illusion cannot do other than lead to endless conflict and confusion. Indeed the attempt to live according to the notion that the fragments are really separate is, in essence, what has led to the growing series of extremely urgent crises that is confronting us today…"

David Bohm in Wholeness and the Implicate Order.[15]

Part 2: The corporate reporting system

A ‘jigsaw in pieces’

When various agencies have addressed corporate reporting, they usually miss many of the subtler effects each part of the system has on the others.

Is there really a ‘corporate reporting system’?

A system is an integrated set of elements that accomplish a defined objective. It’s a structure of separate components, each of which has a relationship with and influence on the others – sometimes obviously, often in less clear ways. Various inputs go through processes to produce outputs that achieve the overarching goal of the system.

The corporate reporting system (CRS) exists in compartments. This means that when various agencies have addressed corporate reporting, they usually miss many of the subtler effects each part of the system has on the others. They have also largely ignored the individuals at the heart of the system – and the way that their deep-seated attitudes and beliefs affect outcomes. In other words, they have tended to use an analytical approach, as opposed to taking a systems approach.

The analytic approach seeks to reduce a system to its elements in order to understand each of them more fully. The systemic approach looks at a system in its totality, acknowledging its complexity and its own dynamics – thinking with an integrated perspective about the whole.

The differences between approaches can be summarised as follows:

A comparison of analytic and systemic approaches

Analytic approach	Systemic approach
• Concern with definition of parts • Focus on elements rather than their interaction • Focus on the internal structure of the system • Produces a static model • Tries to disguise complexity	• Concern with comprehending the whole • Focus more on interaction of elements • Equal focus on the internal structure of the system and its interaction with the system’s environment • Generates a dynamic model • Embraces complexity

During our research, several people have asserted that there is no such thing as a ‘corporate reporting system’. But we believe it does meet the definition of ‘a system’ – and more importantly, that it is critical to take this view as we consider its future.

By taking a systems view, as Senge et al put it:

> *“People see formerly ‘undiscussable’ problems rising to the surface. They realize that their old beloved ways of thinking have produced their current problems. Their new awareness reinforces their sense of hope about leading an effective change.”* [16]

It is vital that we start discussing the ‘undiscussable’ issues…

Given the critical role that corporate reporting plays, it is vital that we start discussing the ‘undiscussable’ issues – and see things in a more holistic and integrated way than ever before. Because, at the moment, each constituency tends only to see its own piece of the jigsaw – and that makes it increasingly difficult to arrive at solutions for any part of the system.

“The parable of the blind men and the elephant”

A number of disciples went to the Buddha and said, “Sir, there are living here in Savatthi many wandering hermits and scholars who indulge in constant dispute, some saying that the world is infinite and eternal and others that it is finite and not eternal, some saying that the soul dies with the body and others that it lives on forever, and so forth. What, Sir, would you say concerning them?”

The Buddha answered:

“Once upon a time there was a certain raja who called to his servant and said, Come, good fellow, go and gather together in one place all the men of Savatthi who were born blind… and show them an elephant.” “Very good, sire” replied the servant, and he did as he was told. He said to the blind men assembled there, “Here is an elephant”, and to one man he presented the head of the elephant, to another its ears, to another a tusk, to another the trunk, the foot, back, tail, and tuft of the tail, saying to each one that that was the elephant.

When the blind men had felt the elephant, the raja went to each of them and said to each, “Well, blind man, have you seen the elephant? Tell me, what sort of thing is an elephant?”

Thereupon the men who were presented with the head answered, “Sire, an elephant is like a pot”. And the men who had observed the ear replied, “An elephant is like a winnowing basket”. Those who had been presented with a tusk said it was a ploughshare. Those who knew only the trunk said it was a plough; others said the body was a grainery; the foot, a pillar; the back, a mortar; the tail, a pestle, the tuft of the tail, a brush.

Then they began to quarrel, shouting, ‘Yes it is!’ ‘No, it is not!’ ‘An elephant is not that!’ ‘Yes, it’s like that!’ and so on, till they came to blows over the matter.

Brethren, the raja, was delighted with the scene.

“Just so are these preachers and scholars holding various views blind and unseeing… In their ignorance they are by nature quarrelsome, wrangling, and disputatious, each maintaining reality is thus and thus.”

Then the Exalted One rendered this meaning by uttering this verse of uplift,

> O how they cling and wrangle, some who claim.
>
> For preacher and monk the honored name!
>
> For, quarreling, each to his view they cling.
>
> Such folk see only one side of a thing.

Jainism and Buddhism. Udana 68-69: Parable of the Blind Men and the Elephant

The companies' piece

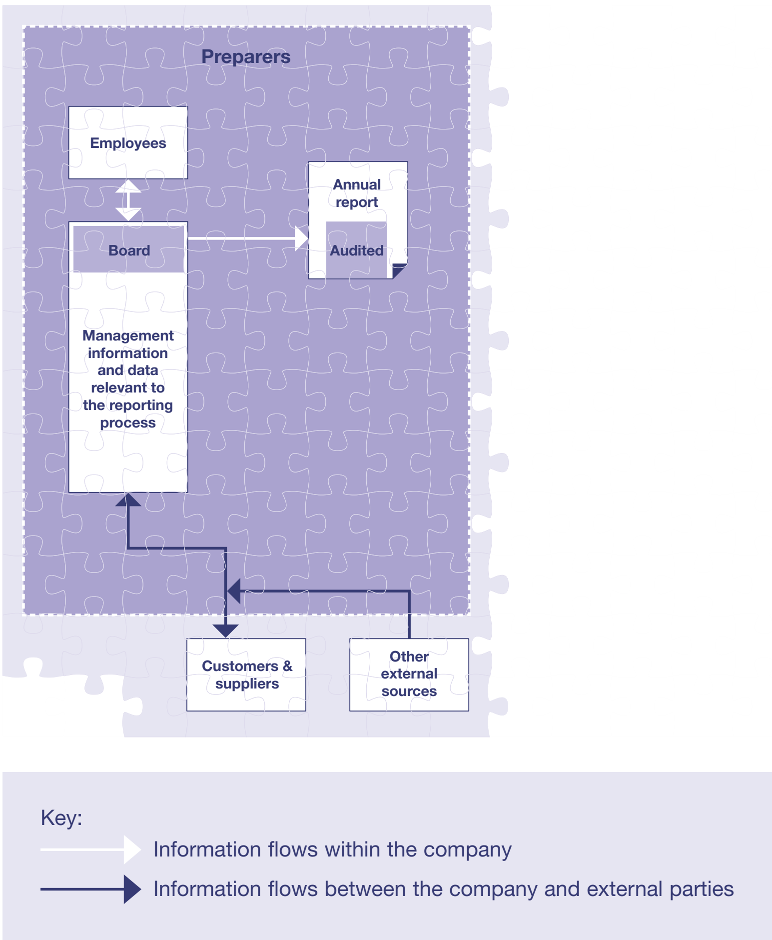
Good reporting starts with good management information. In a well-managed company, information flows from employees, customers, suppliers and other external sources through a variety of systems. These all help management and the board make sound decisions in the interests of shareholders and other stakeholders. Information about a company is important to a range of audiences, although the main flow is often between companies (preparers) and investors (primary users).

The effectiveness of the management information systems within a company, and of the finance teams and other specialists who handle the data, is therefore critical. Acquiring good data is a challenge for companies, one that increases the more complex their operating environment becomes. As Douglas Flint, group chairman of HSBC Holdings plc, told us:

> *"When you think of the amount of engineering you have to do to your systems to actually capture data – and the more you then move to 'value' data which isn't in your system but outside and which is therefore much more subjective – it becomes an enormous task."*

High-quality data, drawn from the management information systems of a company and properly analysed and filtered, should build a foundation for effective external reports.

However, this is often not the case. Regulation determines the information that appears in the annual report. That means this key external communication tool does not always present a cohesive view of the company.



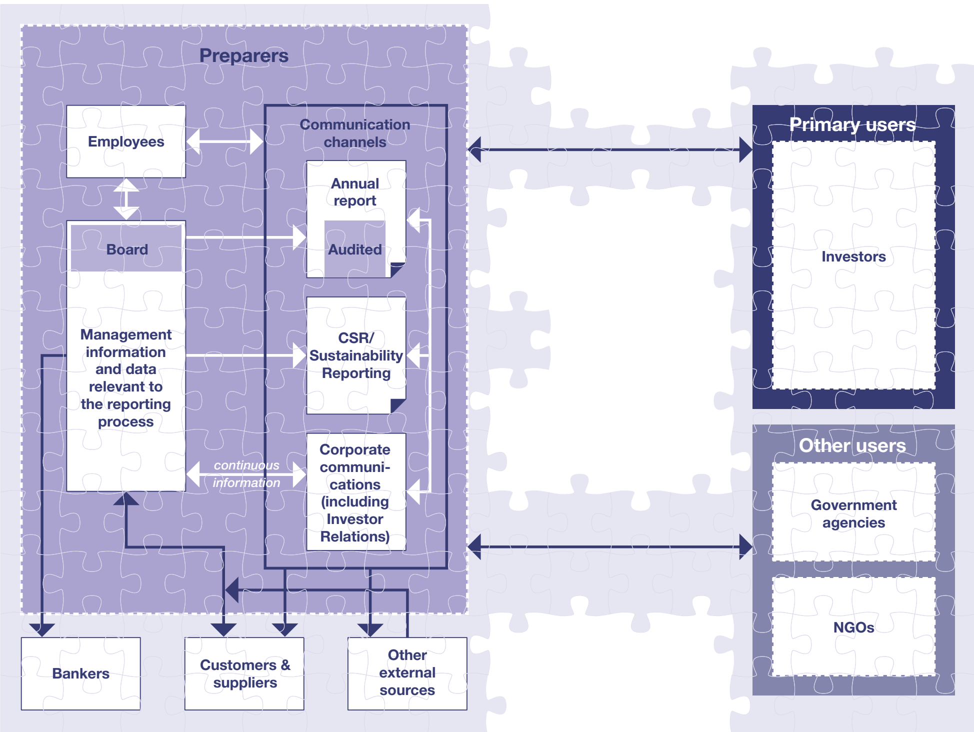
There are many communication channels used by companies…

While the annual report is an important record at a point in time, it is only one of the communication channels used by companies. Analyst presentations, investor briefings, webcasts, a company's website, sustainability reviews and credit rating reports all form part of the corporate reporting mix. Market announcements and analyst presentations, both of which typically precede the publication of the annual report, tend to contain information that has usually been restated to meet investors' demands.

Given this diversity of channels, it is not surprising that investor relations has become an important corporate function:

> *"The investor relations function has moved a long way from its origins in the press office, staffed by communication people. It is now about creating a context for the share price – ensuring investors have a constant flow of information so that they understand the company and there are no surprises. What you want is a fair valuation and to make sure that fluctuations in the price are seen in a longer term perspective. It is a mixture of art and science."*
> Mark Hynes, CEO of Transparency Matters

> *"Investor relations has become a major function because business is a lot more complex and operates at a global level. It is subject to regulation in many countries and to disruptive technological changes. It is only fair that an investor is kept aware of what is happening."*
> Kishor Chaukar, managing director, Tata Industries



Key:

Information flows within the company

Information flows between the company and external parties

David Tyler

Kishor Chaukar

Perspectives

"Reporting is a work in progress, like an old established building that has been modified numerous times and is frankly a mess. It has got too big, too cumbersome and incomprehensible, which has made it more difficult for people to integrate those factors that are not immediately financial."
Sir Mark Moody-Stuart, former chairman of Shell and Anglo American

"People talk about what the board should cover in these reports. The difficulty is that there is an awful lot of material that, for reasons of commercial confidentiality, you do not want to appear in publically available reports."
David Tyler, chairman of J Sainsbury

"Different industries require different types and degrees of skill from the readers of their reporting. For example, the detailed financial instruments disclosures of a major bank would be a challenge to many users of corporate reports, as would the extensive non-financial disclosures typically made by a company developing new pharmaceutical products. This is a reflection of the inherent difficulties in understanding such businesses, not a failure of the reporting system".
Dr. Nigel Sleigh-Johnson, head of the Financial Reporting Faculty, ICAEW

"It is assumed that the shareholder is the only stakeholder to whom information is to be provided. I have a slightly broader view. To my mind, the employees are also an important stakeholder. So are suppliers. So is the market. So are the communities where the company is operating. So are the countries in which it's operating. I think the information flow has got to be towards all the stakeholders, not just to one."
Kishor Chaukar, managing director, Tata Industries

"Reporting is being driven to a significant extent by technicians within the main accounting firms, technical departments and academics. I think the combination has tended to drive ever increasing complexity." (a group finance director)

"Standard setters are in a different world completely. Some of the standards that are being propagated are a mystery to me because what they seek to do is to measure things against what might have happened, not what did happen… Standard setters use the phrase 'public interest' as a surrogate for 'what I want to do'."
Colin Sharman, chairman of Aviva

"There is no comparability of non-financial information, so anyone trying to understand performance needs to learn a new language for every report they read. Investors and analysts are incredibly intelligent and the questions they ask are well-intentioned. But we are not giving them the right kind of skills on top of what they already have to understand non-financial issues."
Hermien Botes, internal and external reporting manager, Anglo American

In 2009, CIMA conducted a straw poll of members, asking simply, 'Do you think corporate reporting is more complex than it needs to be?' Nine out of ten respondents said yes and 94% also agreed that complexity has increased over the past five years. CIMA also worked with the International Federation of Accountants (IFAC) on its investigation into the financial reporting supply chain. According to the report, 'complexity is one of the most mentioned words in the survey responses. It was also concluded that preparers of accounts are struggling to communicate the true drivers of their business through regulated financial reports and many users of those accounts are also finding them inadequate for their needs.[17]

The auditors' piece

The role of the auditor in the corporate reporting system has evolved over many years, although it remains largely focused on the financial accounts. However, in the past few decades it has been extended to cover aspects of other information: risk, governance, remuneration, internal controls and management commentary. The scope of audit responsibility and level of assurance provided on this information is less than that provided on the financial statements and varies significantly depending on jurisdiction.

There remains an expectation gap between the statutory nature of the audit and the comfort provided to many parties.

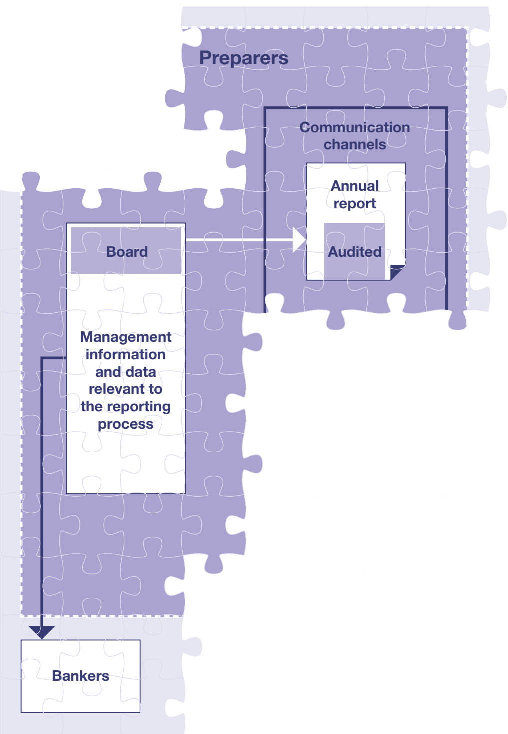
There remains an expectation gap between the statutory nature of the audit and the comfort provided to many parties. Some investors are uncertain about what information in the annual report is audited, for example, believing that all quantified information is audited, whether financial or non-financial.

The work of auditors has also changed over recent years. More time is spent ensuring that audits comply with international auditing standards and that the accounts conform to increasingly technical and complex reporting standards. Some wonder whether auditors could create more value if they reported on the 'economic reality' of the business, rather than on giving a view based on compliance with these standards.

The scope of the annual report has a critical influence on the role of audit.

The scope of the annual report has a critical influence on the role of audit. Today the main sources of communication for many investors are market announcements and analyst presentations. None of these channels are as yet within the scope of statutory audit – although they may be subject to a different set of rules set by local regulators and stock exchanges. Auditors have also begun extending their responsibility in recent years to sustainability or corporate responsibility reports, a growing aspect of the suite of corporate communications. While relatively new as a concept, many companies have sought some assurance on these reports – although the rigour and cost of such audits have been significantly less than for the financial audit, leading some to question whether those assurances are valuable.

Arguably, the market for audit work in this area is beginning to mature as companies better understand the substance of sustainability issues and as their internal systems and controls become more rigorous.



Key:
Information flows within the company
Information flows between the company and external parties

Perspectives

"The nature and value of an audit is inescapably linked to the nature of the corporate reporting model. One of the unfortunate effects of the increased complexity and detail that has been imported into accounting and auditing standards has been to skew auditors' time towards technical compliance. This needs to be redressed so that auditors contribute real value through the insights into a business that their audit work, and their wider experience, brings."
Andrew Ratcliffe, senior audit partner, PwC

Douglas Flint

"Where auditors believe that the misapplication of accounting standards is a significant risk area on an audit – and one for which they could be held accountable – it can result in an excessively compliance and rules based approach. And it can also stimulate the growth of pages and pages of highly detailed guidance notes to standards – because the auditors say "unless there is a rule we can point to, our clients will not do the right thing". That is not the profession that modern business and society needs and the profession could be strengthened if accountants were required to exercise judgement rather than simply tick boxes."
Douglas Flint, group chairman of HSBC Holdings plc

"Audits currently evoke the image of an inspection, perhaps a regulator, going through a checklist to ensure compliance with required items. The process is backward-looking and focused more on financial data or operational procedures than the human behaviors and organizational dynamics associated with items on the checklist. If the goal is to maximize usefulness of audit assurance services in a world becoming more concerned about sustainability and enterprise risk exposures, a physician paradigm might be more appropriate. By viewing goals of the audit examination more holistically, value of the service to directors, investors and other company stakeholders could be greatly enhanced."
Keith L. Johnson, Program Director for the University of Wisconsin Law School's International Corporate Governance Initiative and Head of Institutional Investor Services at Reinhart Boerner Van Deuren, s.c.[18]

"The complexity of business and the changing expectations of society mean that it is no longer good enough for auditors to focus on financial outputs. People want comfort that the substance of the business, and how it creates value, is both fair and sustainable in the long term."
Charles Tilley, chief executive, Chartered Institute of Management Accountants (CIMA)

Richard Sexton

"Trust in business is at an all time low – which is critical to its long-term positioning in society, given that so many of the big issues the world faces demand business solutions. We need to consider how the roles of all those responsible for the system can be enhanced to strengthen the bond of trust – and the role of the audit profession should be central to this analysis."
Richard Sexton, UK Head of Assurance, PwC

"A permanent rule-making body with no other functions is biased towards making rules to justify its existence. That existence encourages accountants to submit requests for 'clarification' instead of advising clients on the basis of their professional judgement and general acceptance. Clients disagreeing with the auditor will ask: 'Can you show me the rule that says I must do this?' A client always has an endless list of such specificities that he can argue, leaving an auditor with a weak hand in dealing with his own paymaster. Since the Code of Ethics was changed in 1979 to promote competition in the audit market, audit firms have rewarded their partners for 'rainmaking', not for the qualities that prevailed in an earlier era – technical mastery, professional judgement and the respect they commanded from their colleagues inside and outside the firm".
Professor Shyam Sunder, James L. Frank professor of Accounting, Economics and Finance, Yale School of Management

The shareholders' and investors' piece

Investors are not a homogeneous group. They have different investment strategies, time horizons and objectives – and therefore require different information sets about a company.

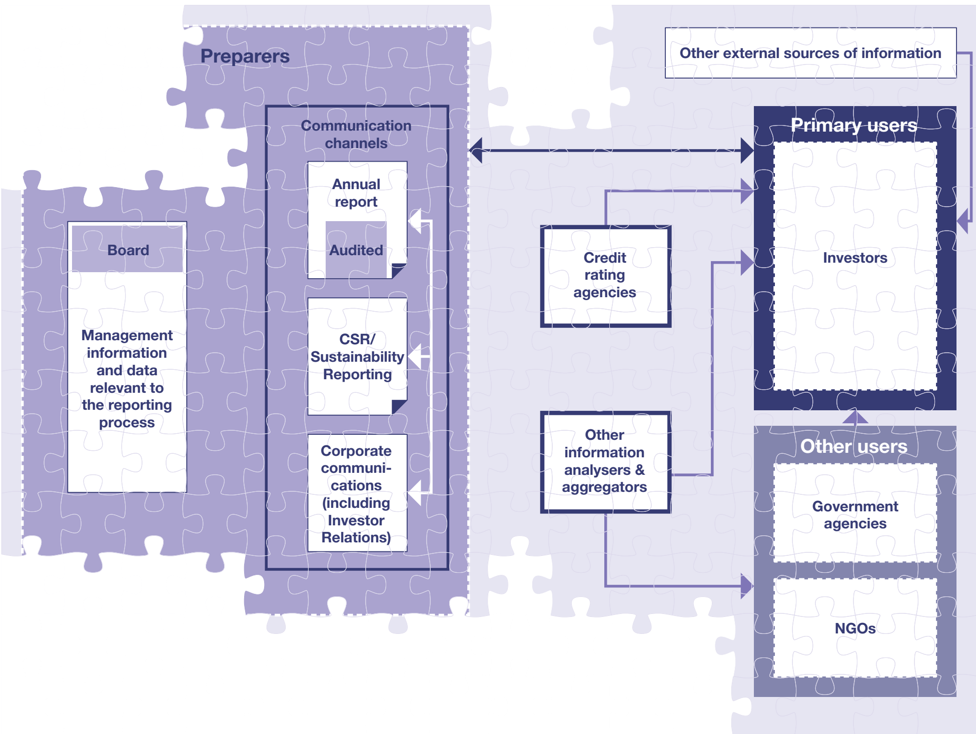
Some are only interested in technical trading; others are more concerned with the long-term financial performance of a company.

Most investors seek data from a variety of external sources – for example, from analysts, information aggregators, credit rating agencies, market research firms, other industry experts and, in some cases, the sustainability reports prepared by companies.

In short, not all the information that exists about a company originates inside it; and not all the information demanded by shareholders comes from the firms in which they invest.

Once information leaves a company, it is used by a number of information analysers and aggregators to add to the flow of information available to users.

Not all the information that exists about a company originates inside it…



Key:

Information flows within the company

Information flows between the company and external parties

Information flows between external parties

Perspectives

"A large number of companies don't really think about the objective of reporting. They just think about what they have to adhere to; they don't think about the story that they're conveying. So ultimately they don't really think about how they affect the kind of stakeholders they're attracting."
Elmer Huh, director, Duff & Phelps Securities, LLC

Seb Beloe

"If the purpose of corporate reporting is to give a complete picture of the health and prospects of a company to the financial markets, then I think it is broken. A big barrier is the time horizon of the investment community. The system incentivises short-term holdings in companies, which means that a lot of analysts and investors aren't interested in the long-term health and sustainability of an individual company. They are incentivised around volatility and trading."
Seb Beloe, head of SRI research, Henderson Global Investors

"Because of the evolution of business, we have so much more information than we used to. But does that mean that we can make better, more informed decisions? It's probably about the same. We're always going to ask for more information. The question is whether the marginal value is that much greater… If you don't like a company, and you think that they're either fudging the accounting or not being totally truthful, you just sell their shares. You don't spend the time saying 'how can we make this process better?"
Terri Campbell, senior investment officer, Liberty Mutual Group

"The elaborate infrastructure of regulation and self-regulation failed to warn of problems early enough, or failed to take the drastic and politically costly steps to slow or reverse the toxic confluence of events brewing… Now, a tsunami of proposals is pending. Will policy makers take the best ideas in those proposals and push them over the goal line? Or, has the world had enough with changes in financial reporting for now, slamming shut what has been an open window of opportunity? Will policy makers progress on the many strategic issues important to our progress, or will we wander in the desert for much of the coming decade in a policy stalemate?"
Gregory Jonas, managing director, Morgan Stanley

John Havranek

""There are many sources of publicly available information – the annual report, company announcements, company presentations, press comment, competitor information, industry studies, and so on – to give the layers of understanding required. Together these give the means to gain a good picture of a company's prospects even if the reporting may not be as good as it could be. The key, and this is what gives the competitive advantage, is having the ability to piece together the various pieces of the jigsaw from this information – this requires the right level of expertise which is in short supply and can be very time consuming."
John Havranek, former joint CEO, Hermes Focus Funds

"In the US, our best prospect for change is through consumer action, that is the only way in which you could actually get a company to understand that it is incumbent that they do something – that it is going to cost them something not to do something. We cannot count on either government or business to do something because it's the right thing. We have to be very clear that it is not in their interest to continue in the way they are going. The only reason why litigation is desirable, as it is in the United States, is because it is the only thing that gets the attention of people. That's a pretty rotten situation because, as the philosophers say, it's the worst thing except for everything else."
Bob Monks, attorney, Lens Governance Advisors, P.A.

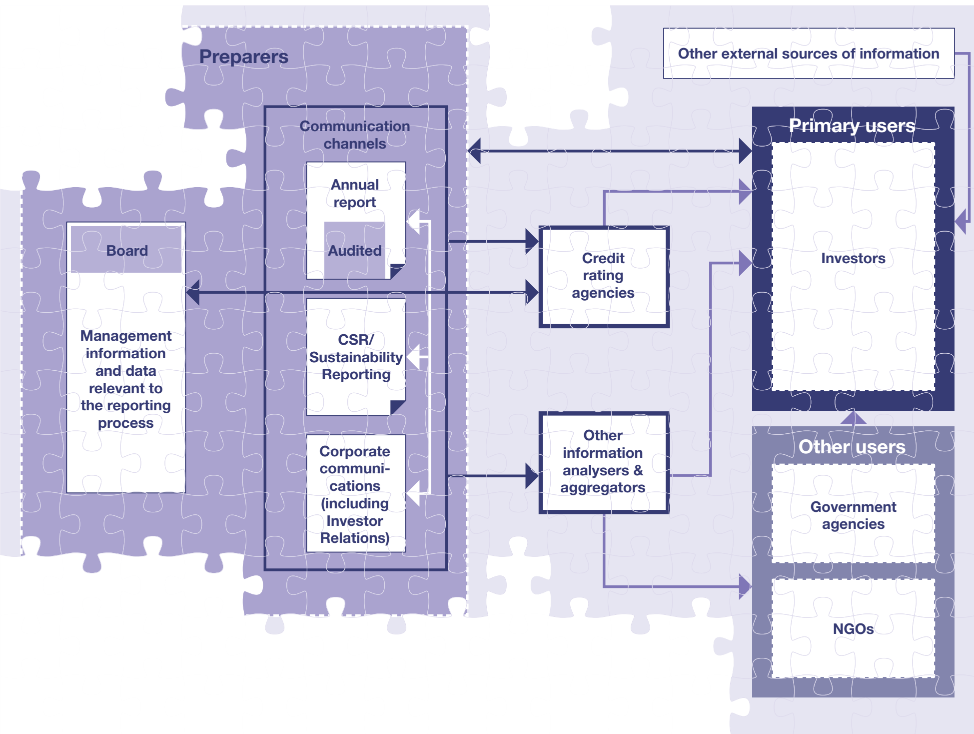
The pieces seen by other users

Investors are not the only users of information about companies. Primary debt holders, such as banks, require information, although some of this is privately provided and directly relevant to their contractual relationships.

Government agencies are incredibly important users of corporate information – usually provided in a form subtly different from statutory reports – whether in tax returns or submissions to a host of agencies and regulators.

Credit rating agencies are both users and suppliers of information about companies. They often have access to privileged information about a company's activities.

An increasingly important constituency of corporate report users is NGOs, particularly those aiming to track the impact that companies have on the communities in which they operate. This has led to the development of voluntary standards that companies can use to measure and report their economic, environmental, social and governance performance. The most widely used are those being advocated by the Global Reporting Initiative (GRI).



Key:

Information flows within the company

Information flows between the company and external parties

Information flows between external parties

Perspectives

Sue Harding

"Given the complexity of the economy at this moment, the focus of our corporate reporting is too narrow. It is too financially focussed. It doesn't take in many of the externalities that can be very material to the company for its effective running, but also in terms of its impact on the environment and society."
Björn Stigson, president, World Business Council for Sustainable Development

"We have a problem getting investor and other analyst input into these sorts of discussions. Some have to beg their organisations to be allowed to contribute, and I know some who actually take holidays to attend user focused meetings."
Sue Harding, independent financial reporting analyst

"In Europe companies understand the symbiotic relationship between society and business. In the US, there are companies that think in that way, but they are exceptions to the rule. For most, disclosure and reporting is very much a legal exercise. You get lawyers in the room who determine what can be said and cannot be said. 'What gets disclosed gets litigated' – that's at the forefront of their mind." (NGO)

"Despite a decade of reporting, many reports still do not provide a clear account of non-financial risks and opportunities. I think one of the reasons for this is that non-financial reporting has become overly complicated and overly prescriptive. A lot of the demands from the corporate social reporting community probably still seem very academic to the majority of companies. In the quest for standardised reporting I suspect we may have stifled innovation, and more importantly, impeded the ability of companies to tell us in their own way how they are managing this agenda. We may need to redefine the aims rather than the content of a CR report and to state these aims more succinctly."
Malcolm Guy, founder and managing director, The Reassurance Network

Vipul Arora

"The fact that organisations capture three types of reporting information and manage it differently adds to the confusion. There is one layer of data that is built and handled for regulatory filings. The second level is what is projected to the investors and stock markets. The third level is the real, authentic operational data that the company uses to measure, manage and maintain its operating health. This trichotomy of data creates confusion for companies, their management and all the stakeholders."
Vipul Arora, founder and managing director, Solaron Sustainability Services

"A great deal of information is already available from companies, but the annual reports alone certainly don't give the whole story or position as seen by the board. It is essential that those advising on the company from the outside get the information necessary to build up an accurate picture of what the company is doing and what risks it is running."
Professor Sir Andrew Likierman, dean of the London Business School

Bob Eccles

"Trying to get the investor community to pay enough attention [to corporate reporting reform] is hard because it's not their job. And you've got companies who all want the standards to come out in a way that works best for them – that shows them in the best light. And everybody always claims they are unique. Then there are different groups of non-financial standard setters which are essentially competing with each other."
Bob Eccles, professor of management practice, Harvard Business School

The standard setters' and regulators' pieces

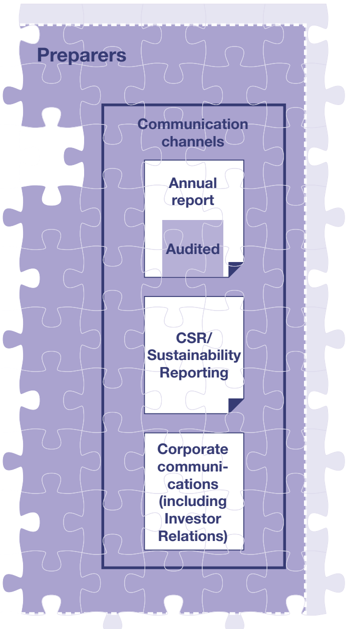
The core of the corporate reporting system remains financial reporting, which is governed by national regulatory frameworks. Comparability of information within each jurisdiction is driven through the work of standard setters and legislators – although the emergence and growing application of International Financial Reporting Standards (IFRS) holds out the promise on global comparability for this part of the model.

Some of the broader aspects of corporate reporting – such as management commentary, governance, remuneration and sustainability information – reflect local regulations and practices. While there is increasing awareness of best practice and sharing of ideas across national boundaries, there are currently few mechanisms for the development of a shared vision or processes that can encourage convergence of thinking.

Debate continues about how well standards are applied and enforced. For example, while many countries now mandate IFRS, local auditing standards and practices vary to the extent that comparability may be illusory, a fact the regulators themselves have acknowledged.[19]

"National sovereignty and the fact that national regulators and standards setters in the end are accountable at a national level, and ultimately the politicians, makes development of international standards both delicate and difficult. National politicians don't get elected by the citizens of the world. There are a lot of coordinating mechanisms that try to accomplish things on an international scale in financial reporting, bank regulation, etc but sometimes they come up against national statutory mandates and interests."
Bob Herz, former chairman of FASB

Standard setters and regulators have oversight and influence over various parts of the system which varies by jurisdiction.



Perspectives

Context: A questionnaire facilitated by the Accounting Standards Board (ASB) was circulated to national accounting standard setters and other relevant constituencies worldwide to obtain their views about annual reports and the corporate reporting model.

A small pool of respondents from North America, Middle East and Africa, Europe and Asia Pacific (two professional bodies, three national standard setters, one accounting firm, one institute of auditors, one academic and one director of a national accounting standards board in a personal capacity) explained their views in several key areas.

All the respondents agreed on the necessity to expand the 'comparable information' section of the annual 'document of record' to include non-financial information.

With regard to the current and future development of the structure of the annual 'document of record'.

- Corporates, investors and accountants are seen as currently having the most influence with only corporates and accountants being seen as the ideal influencers in the future.
- Nearly all respondents felt that local regulators were currently the primary owners of the reporting system – followed by the IASB/FASB.
- Perceptions of who should be its primary owners varied according to the territory of the respondent. Europeans say national standard setters and IASB/FASB; the South African respondent thinks investors are the ideal owner.

Although all respondents agreed on the desirability of comparability across non-financial factors, a note of caution was raised. It was thought important to first consider the 'decision usefulness' of any non-financial information; second, to concentrate on whether principles should be developed to prepare the establishment of such information; and third, which body should be responsible for formulating standards for non-financial information disclosure.

There is a fear investors have become disengaged. As one respondent explained: *"Our impression is that investors have lost interest in the annual report as it is too lengthy and full of 'compliance' rather than information that the entity or the investors consider 'need to know'. Investors may also have given up trying to understand the basis of preparation since this changes each year as a result of amended and new accounting standards. It may even be that investors welcome the interim report as a more interesting and useful document than the annual report, at least so far as financial information is concerned, due to its brevity."*

This respondent also added: *"For investors to regain interest in financial reports, financial reporting requirements (recognition, measurement and presentation) need to be understandable and reflect economic substance. Disclosure requirements specified in standards should be reduced to encourage a focus on key information and there must be a period of stability where the financial information from one period to the next appears familiar to the user."*

Engaging the principal owners of the information is considered important, according to the response from the Singapore Accounting Standards Council: *"We believe that there are merits in encouraging greater involvement from corporates. One way of doing this would be through the use of public consultation before implementing any changes to the structure of today's annual document record."*

Bringing investors and preparers back into prime positions of ownership, then, is the key. *"Government and local regulators should not be owners… they follow other – political, fiscal, regulatory – goals which are not compatible with true and fair information for shareholders,"* explained the submission from Gerhard Prachner, partner assurance, PwC Austria.

Putting the jigsaw together

So how well do all these pieces of the jigsaw fit together to form a coherent picture? And how well will they fit with each other when individual pieces are changed in isolation to meet the demands of one or other constituency, of local legislation, or of the next big crisis?

The truth is that there does remain a single jigsaw on the table and most of the pieces can be made to slot home. The system does function, and although there are periodic failings and many complaints – some about people's own piece of the jigsaw, others about all of it – for most of the time, enough of a coherent picture emerges about any given company that few will declare it a failure.

But one reason for that tolerance of localised grumbles and occasional crises is that at the moment, no single participant in the CRS sees the system a whole. We are living a global, corporate version of "the parable of the blind men and the elephant".

We are living a global, corporate version of "the parable of the blind men and the elephant".

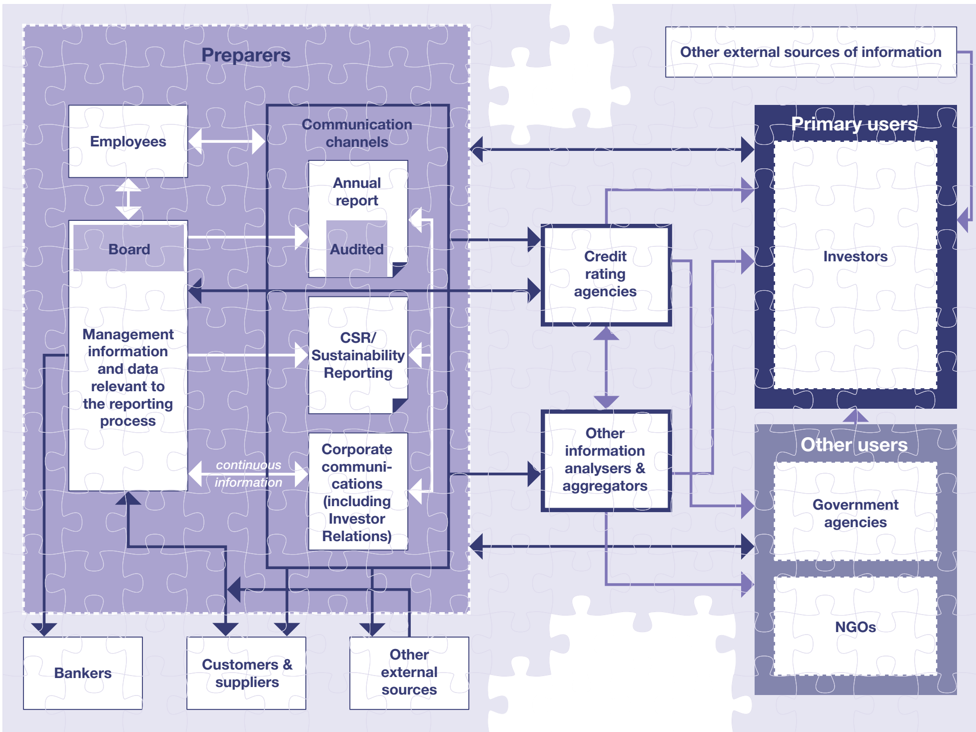
When all the differing perspectives are put together, the picture that emerges is one of a complex system that lacks co-ordination. It's not even that there's no coherent view of the whole system – like the parable, each constituent is actually misunderstanding their own piece because they can't see the others.

Critically, 'forcing home' pieces of the jigsaw is making them ragged around the edges. We might be able to make it work now, but in the face of the new challenges emerging for corporate reporting outlined at the start of this paper, that lack of willingness to ensure everything fits together smoothly increases the chance that the picture will be scrambled.

We are dealing with an interconnecting set of networks… not just data.

We can use the information flows to build a picture of the system (opposite). But the key issue is not about the exact direction of the arrows in the diagram, nor whether it is complete. It is to recognise that we are dealing with an interconnecting set of networks made up of people, institutions and professions with their own values, the cultures of their organisations and their interests and agendas – not just data.

Standard setters and regulators have oversight and influence over various parts of the system which varies by jurisdiction.



Key:

- Information flows within the company
- Information flows between the company and external parties
- Information flows between external parties

Perspectives

Conclusions from a survey of attendees at the multi-stakeholder conference *'Developing an Action Plan for Integrated Reporting'* held at Harvard Business School in October 2010:

27 responses were received.

Mainstream elements of the reporting model

We asked what people believed to be the elements of the mainstream corporate reporting model.

Environmental and social reporting is not considered to be part of the mainstream corporate reporting by close to 45% of the respondents.

Purpose of accounting

There seems to be a strong agreement (74% of respondents) that the corporate reporting model is not up to the job it seeks to do.

> *"It is not designed for ANY purpose."*

> *"Not purposeful beyond the specialists."*

> *"It is fit for purpose – but for the wrong purpose."*

> *"There is too much difference of opinion, particularly among the investment community. Wherever corporate reporting ends up, we need an educational campaign to help explain what the purpose of corporate reporting is."*

> *"There needs to be a shift in focus from the report being an output – to the report being a reflection of internal process, materiality discussions and stakeholder engagement."*

> *"Companies, investors and standard setters appear to be on the same page. They reinforce one another and encourage incremental change to patch up problems as they arise – such as introducing SOX in response to Enron and WorldCom. But if you define the interest groups differently – including long-term institutional investors or non-investor stakeholders, for instance – there is no shared understanding of what the mainstream model is trying to achieve."*

Common goals

Two-thirds of respondents do not think there is a shared understanding among companies, investors and standard setters of what the mainstream model is trying to achieve. Some commented that this was due to the vested interests of different stakeholders, including national interests.

> *"I believe there generally is a shared understanding in the US. However, internationally this is less so with some important differences in view on the basic purpose and coherence of reporting."*

> *"Reporting should be the last mile of a strategy driving profitability oriented on the most significant risks and opportunities faced by a specific company. It is not a one-size-fits all approach."*

The importance of the public interest

85% consider that 'public interest' is important but that this is not well-defined.

> *"Public interest is customers, employees, small investors, and the community at large."*
>
> *"Public interest should inform strategy, not reporting."*

Strengths in the mainstream reporting model as defined by each respondent

These included strong beliefs, principles, comparability, transparency, standardisation, independence of standard-setting processes… and blind allegiance!

Weakness in the corporate reporting model

Notable mentions were inadequate disclosures; lack of trustworthiness; no integration of essential information; lack of leading indicators of future performance; no alignment to core strategy; environment, social, governance (ESG) issues at infancy stage; incentivises the financial aspects; backward looking; and irrelevance of information and a compliance mindset.

Complexity and change

85% of the respondents feel that the mainstream model is not able to deal with complexity and change. Only some standard setters and government representatives think it can.

Competencies

Auditors and companies are believed to have the highest financial competency levels and NGOs the lowest.

This is in contrast to levels of non-financial competency where NGOs and civil society organisations are thought to have the highest levels and close to half the respondents believe auditors, regulators and investors have the lowest.

Overall 81% of the respondents believe that investors are better equipped in financial rather than non-financial aspects; 59% of respondents consider that investors have low levels of competency when it comes to non-financial factors.

Engagement

NGOs are more engaged.

The lowest levels of engagement are amongst regulators followed by the standard setters, auditors and investors.

NGOs were rated the highest in terms of having an incentive to engage whereas the auditors have the least incentive to engage.

Influencers

More than 90% of the respondents think that the investors have the maximum ability to influence the system followed by regulators.

Part 3: Changing the system

The numerous debates that are currently taking place about corporate reporting demonstrate that there is a desire and a momentum building for change. But what does our research tell us about the context in which this change is taking place?

Our findings

A ‘jigsaw in pieces’

No single participant is fully active in, controls or even sees the entire corporate reporting system (CRS), although the most complete picture is likely to be seen by companies. Our research has shown this fragmented picture makes it hard even to evaluate the real strengths and weaknesses of the system, let alone design changes.

Complexity has led to a lack of overall coherence in the system. There appears to be a lack of common understanding about the purpose of corporate reporting. Over time, focus has been lost as different stakeholder agendas have developed; new specialist professions have come into being; new rules and guidance have been created; and companies have attempted to respond to all of these changes.

Few on the same page

There is little consistency of views or even of language within the system. Some of those we have consulted do not believe that there is a system at all. The quality of corporate reports comes down to the self-interest of the companies that create them. Some companies use it as a marketing tool, some see it as a compliance document – and some use it to create internal alignment, as a window on the quality and decisions of their management.

Investors want information that allows them to forecast future performance. NGOs want to understand how effectively their particular issue is being addressed. Different stakeholders and nationalities come at the issue from varying positions. ‘Public interest’ – the one concept that arguably underpins the system – is not clearly defined.

Some respondents pointed out that large fiduciary institutions, the major investors in corporations, are more naturally aligned to the ‘public interest’ given that the diversification of their holdings gives them a real breadth of concerns.[20]

There are long-standing tensions that exist within the system – such as long-term versus short-term, or the need for comparability of data versus the need to communicate what is unique and material. And around the world there are significant variations in reporting even within the constraints of financial information.

In short, there is no shared vision for the system or what to do next.

Systems within a system

In an attempt to satisfy the needs of different stakeholders, parallel reporting systems have emerged. There is a system that is primarily focused on financial information – and systems such as investor relations and sustainability reporting, which are trying to fulfil different purposes and often appear to be unaligned.

Some of them – such as investor relations – are effectively ‘workarounds’ to deal with perceived shortcomings in the scope and timeliness of information provided by the current core reporting model.

Data, not people

The CRS is a system of people, with disparate mindsets, agendas, languages, cultures and behaviours. Yet it is often simply treated as an information system for processing data.

Growing complexity has created and reinforced new cultural 'silos'. Some have emerged as a result of the increasing need for particular skill sets – what we describe as 'silos of specialisation' – resulting in mindset, language and traditions varying from one stakeholder group to another. Others have been formed on the basis of beliefs about the nature of business. There are those who only focus on the financial aspects of a company's operations and those who advocate a wider purpose for business and stress the importance of non-financial factors.

Quantity, not quality

More and more elements have been bolted on to financial reporting, creating a web of detailed rules and standards that increasingly obscure rather than illuminate information that is material to the present and future success of a company. While there are some people who believe all the information now being provided is both useful and necessary – and will ask for more – there are others who claim the growth in the quantity of what is reported has been to the detriment of its quality.

The sheer complexity of reporting means that a clear picture of a company's activities does not always emerge. This has arguably had a negative impact on the behaviour of those involved in the system, some of whom have come to see reporting as a compliance process rather than one about the communication of performance, strategy and long-term value creation.

Competence and lack of concern

The level of complexity – partly created by standards and regulations, partly by a faster-moving and more sophisticated business environment – also demands new thinking and new abilities. The knowledge and skills of many in the system do not yet extend to some critical areas of non-financial information, such as business models, risk, intellectual capital, people and culture, carbon emissions, resource usage and so on.

As a consequence, while there are mechanisms for information exchange and engagement, much information is ignored. Groups often talk across each other and the impact of their efforts is dissipated. There is little incentive for many stakeholders to support change or innovation that might diminish the value of their existing competencies. A minority sees a need for change – and a significant majority appears happy with the status quo.

Looking back, not forward

Changes to the CRS have often taken place in response to crises. There is a need to look forward and create a system that will meet the challenges of the future rather than seek to address the problems of the past. Companies operate at the intersection of global economic, social and environmental systems – all of which are under stress and all of which demand new ways of assessing appropriate corporate behaviour. These issues are often viewed as external to a company's operations but this is unlikely to be the case in the future. The CRS needs to be able to anticipate and adapt to this change.

Starting the journey

These issues around corporate reporting are critical to business and the overall stability of the economic system over the next 25 years.

The current focus on financial information – set last century when the world faced very different pressures – excludes important externalities. For example, there is little agreement about how we measure and report the consumption of limited resources such as fossil fuels and water or the emission of greenhouse gases.

Information is the life blood of the capital markets, of politics and of society. As we look forward, it is critical to ensure the form, scope and quality of reporting aligns with the changing dynamics of business and value creation. It has a role to play in helping rebuild trust in companies' licence to operate, especially for new generations. And the system has to be able to adapt to the challenges facing society, helping ensure a stable, yet vibrant, economic system.

"If you're running the company from a long-term basis, the company has to be responsible to its shareholders but responsive to those with whom it comes into contact through its operations."
David Jackson, company secretary, BP plc

These are big challenges. But they also create an opportunity to achieve a step-change towards clarity and cohesion. We do not advocate overnight change – but do believe that the evolution of the CRS is too slow. A systemic and collaborative approach that recognises and builds on the strengths of each part of the current CRS will be the foundation for this change.

This will also require a change in mindsets, behaviours and cultures. Positive engagement will depend on a common vision and recognition of the perspectives of others. The participants in the system can be incentivised to look outside their own spheres of influence and play their part in changing the whole system.

Companies that act in a sustainable way – for good business reasons – have shown they understand the diverse pressures of a changing business environment and its impact on their strategic aims. It is therefore in their interests to have a system that helps them explain these pressures and show how they are succeeding in managing them now and in the future.

Investors who take a longer term view also have great expertise to add to the debate. They take into consideration not just their rights, but also, jointly with boards of directors, their obligations as stewards – a role rarely exercised at present.[21]

Policymakers are well placed to break down the vested interests of key participants in the CRS and create a platform for proper incentives towards a more positive and adaptive system of reporting. They can quell the conflicts of interest that are apparent while the system remains fragmented, enabling the system to move beyond simple reaction to events.

In the hope of encouraging broader engagement, we have set out in the executive summary an agenda for debate and some of the key questions that have flowed from our findings. We hope that these can be the starting point for a global discussion about the future of corporate reporting – what it might look like for different jurisdictions at a global level, and what changes to the system architecture and dynamic may be needed in the future.

Steps along the way…

There is work underway which is relevant to the agenda we propose. The concept of an integrated reporting model, advocated by the IIRC, is an attempt to create a blueprint for the content of a corporate report that is a better fit with the scope of the whole reporting system. It would meet the needs of the shareholders that the board reports to – and those of its material stakeholders to whom it must be responsive in order to achieve long-term value and manage long-term risks.

If integrated reporting becomes the agreed way forward from a content perspective, we believe that effective and meaningful change will only occur when the individuals and organisations responsible for their design and operation align their roles, mind-sets and skills with the whole system and build afresh with an eye to the future rather than the past.

Change also demands mechanisms that can support innovation. We support the idea put forward by the UK Financial Reporting Council to develop 'reporting labs' in its recent consultation on effective corporate stewardship.[22]

This type of mechanism encourages meaningful experimentation and the breaking of established thinking and positions. That makes it a powerful force for systemic change. The mechanism could have the multiple benefits:

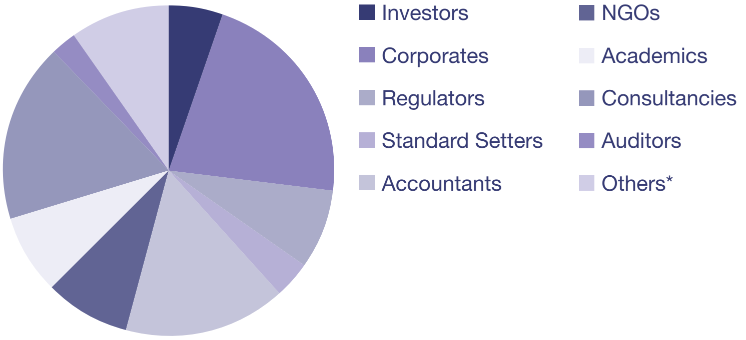
- Clear regulatory oversight and input to the change agenda;
- Real stakeholder engagement;
- Practical solutions considered valuable by companies and investors;
- The Safe Harbour protection needed for innovation activity and a step change in thinking;
- A clearer cost/benefit analysis; and
- Progress towards evidence-based change.

There is probably no single 'eureka' moment; we cannot manage this debate if we slip into apportioning blame or buck-passing. But for many people, we are at a point where the traditional responses to the problems the system faces will make it less, not more, capable of serving our needs for the future. The new mindset we have identified is simply the start of the journey.

Appendix: Overview of the research

145 individuals provided evidence, were interviewed or engaged in dialogue across all the main stakeholder groups; representing 118 organisations from 22 countries across five continents.

Overall breakdown by stakeholder group

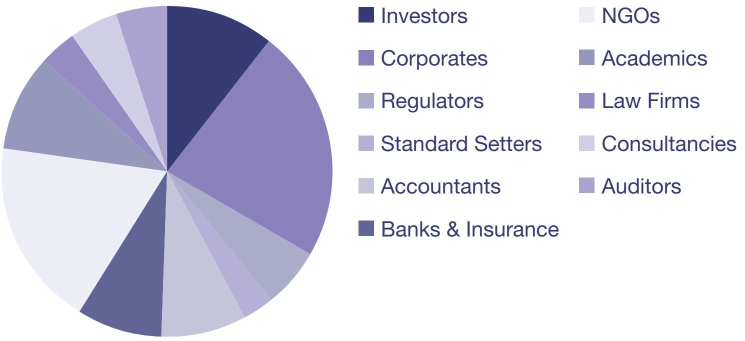


*(includes banks and insurance companies, law firms, rating agencies and individuals.)

In total there were:

- 41 responses to the call for evidence.
- 35 interviews conducted.
- 33 individuals engaged through roundtables/dialogues.
- 27 responses to a questionnaire presented at the *Developing an Action Plan for Integrated Reporting* Conference at Harvard Business School, October 2010.
- 9 respondents (including 3 national standard setters, 2 professional bodies, 1 accounting firm, 1 institute of auditors, 1 academic and an individual) to a survey of facilitated by the Accounting Standards Board.

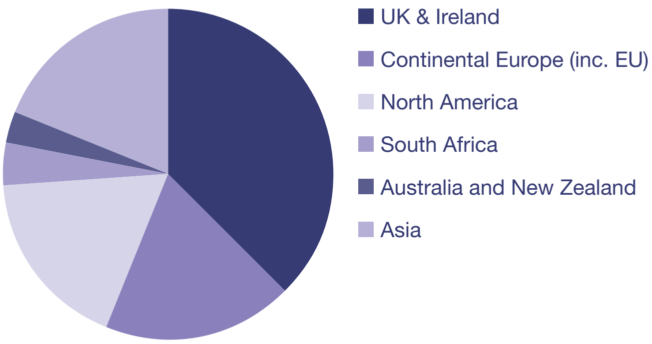
Breakdown of interviews by stakeholder group



Every main stakeholder category has contributed to the research.

- Most interviews were focused on the corporate, NGO and investor stakeholder groups.
- A large number of the call for evidence responses were from corporates and consultancies.
- Regulators, accountants and corporates were well represented in the dialogues while the HBS questionnaire gathered most responses from consultancies and NGOs.

Overall breakdown by geographical region



In terms of geographical coverage:

- 22 countries were engaged providing a strong international picture:
  - 52 respondents from UK and Ireland
  - 27 individuals from 6 Asian countries
  - 24 individuals from USA & Canada
  - 20 individuals from 9 continental European countries
  - 6 participants from South Africa
  - 4 respondents from Australia and New Zealand.
- Additionally, the EU participated through 6 European Parliament and Commission representatives.
- From the 22 countries 10 are G-20 member states, with 7 EU members amongst the remaining 12 countries.

Sources and notes

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South Africa is also proposing to introduce a Code for Responsible Investing by Institutional Investors which is complimentary to the above. It is a voluntary Code, based on the 'apply or explain' approach. There are 4 board principles. The first two principles encourage institutional investors to formulate policies that will guide their approach to being responsible shareholders. And principle three and four require institutional investors, within the realms of the law, to ensure that the principles are implemented, upheld and, most importantly, disclosed. In Principle 1: ESG considerations: Institutional investors should incorporate ESG considerations into their investment analysis and activities. In that discipline, they should also assess the quality of the company's integrated report on the social and environmental impact of the company's operations. If the company does not have intergraded reports, they should ask why. The consultation period closed on 31 October 2010. (http://www.iodsa.co.za/downloads/documents/CRISACode31Augl2010_For_Public_Comment.pdf)

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"The Commission now has the difficult task of building consensus across Europe, taking into account the distinctions that exist between national jurisdictions across the EU. I hope that a clear strategy will emerge around which agreement can be forged that will both enhance audit quality and promote more competition in the marketplace." Stephen Haddrill, Chief Executive of FRC.

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…and the following organisations:

AccountAbility Strategies ActionAid UK AECOM Aitken Spence PLC AMEC plc Anglo American Arup ASB Aviva BASF Black Sun Corporate Reporting BP plc Brammertz Consulting Brandix Lanka Ltd BrandLogic Corporation British-North American Committee Carbon Disclosure Project Cargills Ceylon PLC CIMA Dankotuwa Porcelain PLC Deloitte Research Duff & Phelps Securities, LLC DVFA Ernst & Young European Commission, Enterprise and Industry Directorate-General European Commission, Internal Market and Services Directorate-General European Parliament FEE Fitch Ratings Ltd Forest Footprint Disclosure FRC Futerra Sustainability Communications Future Considerations FUTUREVALUE German Accounting Standards Committee GES Investment Services Global Nestlé Business Services Grant Thornton LLP GRI Grupa LOTOS S.A. Harvard Business School Harvard Kennedy School of Government Hayley's PLC Hemas Holdings PLC Henderson Global Investors Heraymila Securities (Pvt) Ltd. Hermes Equity Ownership Services HSBC Holdings plc IBM Sri Lanka ICAEW I-Capital Advisors IFAC IFC IIRC Infosys Technologies Institute of Chartered Accountants of Pakistan Institute of Directors Intangible Business Limited Jardine Matheson Holdings Ltd J Sainsbury Kiewa Consulting Pty. Limited KPMG Ford Rhodes Thornton & Co. Lens Governance Advisors P.A. Liberty Mutual Group London Business School London South Bank University McCuaigGRC MES Environmental Limited Morgan Stanley NDB Bank Nedbank Private Bank Net Balance OECD Oliver Wyman PwC Radley Yeldar The Reassurance Network Responsible Investor Richard Pieris & Co PLC Royal Philips Electronics NV SAP Securities and Exchange Commission, Sri Lanka Shell Siemens Singapore Accounting Standards Council SNS Asset Management Solaron Sustainability Services Standard Chartered Bank Stantec Tata Industries TCCI (Tata Council for Community Initiatives) The Association for Project Management (APM) The Danish Government Centre for CSR The National Association of Pension Funds The Prince's Accounting for Sustainability Project The Slovenian Institute of Auditors The South African Institute of Chartered Accountants The Sustainable Future Institute Transparency Matters Transparent Consulting Ltd UK Department for Business, Innovation & Skills University of Glasgow Business School University of St Andrews University of Wisconsin Law School Vision Super Pty Ltd Wates Group World Business Council for Sustainable Development XBRL International Yale School of Management York University

Further material is available on www.tomorrowscorporatereporting.com including articles kindly provided by Infosys Technologies, Solaron Sustainability Services, Tata Council for Community Initiatives (TCCI) and others.

Acknowledgements

It is a huge pleasure – not to say also an honour and somewhat humbling – to write this note of thanks to those who have made 'Tomorrow's Corporate Reporting' a reality.

This has truly been a labour of love – which might perhaps be surprising for some reading this, for whom corporate reporting may conjure up an image of double-entry book keeping, facts and figures, and footnotes of caveats and clarifications.

David Phillips and Charles Tilley have played a significant role in leading thinking and practice on the role and future of corporate reporting for much of their careers, over decades. This has been driven by a deep and common sense of purpose – of the role of corporate reporting in delivering continuing business success, in making more effective the relationship between business and investors, and in recognising the wider importance of the many stakeholders who will increasingly shape the corporate reporting agenda.

We have hugely valued David's great generosity of spirit and mind, his intellectual curiosity and restless brilliance. He will be the first to warmly recognise the role of Alison Thomas and his colleagues at PwC, who have consistently supported and sought to challenge business as usual in corporate reporting, whilst striving for excellence in current reporting models.

Charles is passionately driven by creating and delivering value. This has deeply informed the content of our work together, but perhaps even more important, has ensured we have, I hope, remained, 'earthed' – always bringing back our work to seek to ensure that what we do will have practical impacts for businesses as engines of value creation, as well as accounting bodies and others. Charles I know would want to join with me in recognising the outstanding contribution of Nick Topazio and Victor Smart and the communications team at CIMA.

Together, CIMA and PwC have contributed hugely in so many ways – research, insights, practice, knowledge, funding, expertise, communications and other capabilities – and Tomorrow's Company is immensely grateful to both for all they have done; and for the humour, generosity, and special quality of collaboration that together we have built up.

I have described this report as a 'labour of love' but if that is so, it is perhaps a love not yet fulfilled. For many of those involved in this report, it is not only that corporate reporting matters hugely and that there is much to celebrate in what is being done already – but also that there is a significant and lasting frustration that, despite many reviews and initiatives, efforts to reform corporate reporting have all too often proven at best a limited success.

It is now common to reflect that issues of both leadership and culture and systemic risk played a vital role in the financial crisis. What lessons might we then draw from these insights and conclusions for corporate reporting? Shakespeare knew a thing or two about behaviours. He could perhaps have been writing about reading corporate reports when in Love's Labour's Lost he stated:

Painfully to pore upon a book
To seek the light of truth; while truth the while
Doth falsely blind the eyesight of his look. (1.1.73)

Can then corporate reporting shed 'the light of truth' on current business performance and future prospects of success?

As our work on this report gathered momentum, we benefited enormously from the superb input of so many individuals from across the world – companies, investors, regulators, governments, academics and others – who we have sought to fully acknowledge in pages 34 and 35. Our great thanks to Paul Druckman, Executive Board Chairman, and Jessica Fries, Director, The Prince's Accounting for Sustainability Project (A4S) for their warm support.

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We would also like to express our thanks to Richard Howitt MEP – European Parliament Spokesperson on Corporate Social Responsibility – who kindly convened a special meeting of members of the European Commission and other key stakeholders, both to explore the key themes of the report and to discuss how the report might help inform policy decisions in Europe. Carsten Ingerslev, Head of Division of the Danish Government Centre for CSR, also joined this meeting, and we are also very grateful to him for his ongoing support and contribution.

Lastly, my thanks to the team here at Tomorrow's Company. David and Charles I know would want to join with me in recognising the extraordinary efforts of Pat Cleverly, our director of research, strategy and policy. She in turn I know would want to thank Philip Sadler, our senior fellow and Anahide Pilibossian, our researcher along with our volunteers Nazli Basoglu, Alistair Burn, Esther Jardim, Praneeta Kanchinadam, Liyang Li, Anuradha Mallidi, Dana Mayer, Stewart McEwan, Jacob Mohun Himmelweit, Yelena Novikova, Katherine Rusack and Carl Spreadborough. And also Barrie Collins, our chairman and his fellow trustees.

Together we would want to recognise the contribution to Tomorrow's Company's work on corporate reporting of Mark Goyder, our founder director.

I started by describing this report as a labour of love. I have commented that Love's Labour's Lost might be an apt analogy for those involved in advocating reform of corporate reporting. I close with the hope that, thanks to the work of all those I have mentioned, this report might help contribute to Love's Labour Won.

Tony Manwaring

Tony Manwaring
Chief executive, Tomorrow's Company

CIMA

CIMA is the world's largest and leading professional body of management accountants. We have 183,000 members and students in 168 countries. Our members and students work in industry, commerce and not for profit organisations. We recognise that there is a growing momentum for change in corporate reporting and each initiative seems to call for greater alignment between the information reported to users of corporate reports and that used internally by directors and managers for effective decision-making. This broadening of the domain of the management accountant is clearly something that we at CIMA need to be engaged with and we are. One of CIMA's main objectives is to produce 'financially qualified business leaders'. As part of this commitment we believe it is important that we continue to be involved in all aspects of business life including promoting an effective corporate reporting system that produces reports that effectively communicate organisational progress towards long-term business success.

PricewaterhouseCoopers

PwC provides industry-focused assurance, tax and advisory services to build public trust and enhance value for our clients and stakeholders. The firm is founded on a culture of partnership with a strong commercial focus. We value our past but look to invest in our future to leave the firm even stronger than when we inherited it. This is reflected in our vision: 'One firm – a powerhouse of a commercial enterprise that does the right thing for our clients, our people and our communities.' Our goal is to build the iconic professional services firm, always at the forefront of people's minds, because we aim to be the best. For over a decade, we have been promoting the economic benefits of transparency and our concerns regarding the scope and relevance of the reporting model. This has included an extensive programme of research, thought leadership and stakeholder engagement. In particular the ValueReporting work highlighted the need for a more holistic reporting model and the many initiatives under the "Building Public Trust" banner have promoted best practice and the benefits of increased transparency.

Tomorrow's Company

Tomorrow's Company is the agenda setting 'think and do' tank which looks at the role of business and how to achieve enduring business success. We focus on strong relationships, clear purpose and values as the foundation of effective leadership and governance, and argue for a strengthening of stewardship by shareholders in partnership with boards of companies. We promote systemic solutions and have a track record of reframing thinking and informing policy. We believe that business can and must be a 'force for good'. We argue that value creation is rooted in the 'triple context' – the links between the economic, social and environmental sub-systems on which we all depend, and the opportunities this brings. Corporate reporting must be aligned to these value drivers and should cement the relationship between a company and its stakeholders through effective communication of what a company stands for and how it seeks to achieve long-term success.

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