A template for integrated reporting

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Integrated reporting, intellectual capital, vision, values

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Keywords: corporate governance; human capital; narrative; resource dependence theory; Sri Lanka

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Structured Abstract

Purpose – This paper sets out to outline the concept of integrated reporting and to propose a template for integrated reporting in organisations.

Design/methodology/approach – The approach to the conceptual model is founded on concepts proposed on integrated reporting by the King Report on Governance for South Africa (King III), and the International Integrated Reporting Council in the U.K.

Findings – The integrated report should explain the story of reaching the organisation's vision, underpinned by its values, enacted by management, monitored by governance, and using facets of resources relating to financial capital, intellectual capital, social capital, and environmental capital.

Practical implications – The paper proposes an integrated reporting framework, and provides an example of a template to be used in organisations.

Originality/value – To the best of our knowledge, this is the first academic paper that provides a coherent framework on integrated reporting, with a template.

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Article classification:

Conceptual paper

1. Introduction

In an era in which news spreads as it happens through the Internet and social media networks, investors, society, and governments are increasingly demanding that organisations be accountable to stakeholders, not merely shareholders, and be transparent about their activities. Sizeable investments are made by superannuation funds and investment funds, and the ultimate investors in these funds are doing so with a long-term objective such as savings for retirement. These investors are individuals who are concerned not only about the financial and non-financial performance of the fund, but also about how the investments impact on the environment and on society. The change in investor landscape from a typical investor whose only focus was financial return to investors with a broad focus on sustainable responsible performance, has not only demanded that organisations re-think their use of resources but also how the information should be reported to those concerned. These ultimate investors are aware that action falling short of taking care of society and the environment can cost them via taxes to repair damage caused by organisations that reap short-term benefits. They have witnessed financial crises at a global scale, corporate failures and bank failures at a national scale, and the impact on individuals through loss of paid work, taxpayer-funded welfare, and schemes to repair damage to the environment and society—and sometimes to bail out organisations responsible for such damage under the rationale that liquidating them would result in loss of employment.

Although the broadening of accountability and reporting aspects has already begun among organisations, such initiatives are reported with no coherence to organisations' long-term objectives, and are often presented as unconnected activities undertaken by organisations, in separate reports such as annual reports and sustainability reports. Integrated reporting attempts to combine the reporting of different facets of organisational activities on a common platform with a unified objective. KPMG (2011, p. 8) views it as a way of demonstrating how corporate strategy ‘fits’ with the financial aspects so that capital market participants can fully understand how corporate strategy affects corporate performance and corporate value.

The purpose of this paper is to introduce integrated reporting and its implications, and propose a template for such reporting. To that end, section 2 of this paper discusses relevant literature, proposes a conceptual framework, and outlines how the content should be reported in a given context. Section 3 outlines a template for integrated reporting, and Section 4 presents concluding remarks.

2. Concepts of integrated reporting

2.1 Relevant literature

Power imbalances in disclosure

Nearly three decades ago, Brudney (1985) pointed out that analysing shareholder-management relationship (shareholder-principal, or agent-manager) as a contract where both parties are equally powerful is rhetorical. Often shareholders have little or no ability to negotiate with management, contributing to imbalanced power in the contractual relationship between the two parties. The notion that the market corrects such misalignment is not convincing, as for instance, shareholders as they exit the relationship by selling shares do so with less than optimal knowledge about the organisation. Shareholders cannot direct management activities, and in fact they are explicitly denied power to interfere in such activities. Hence, neither the shareholders nor the market corrects the power imbalance in the shareholder-management relationship. To correct this imbalanced power relation, the Corporations Act and accounting standards prescribe disclosures. Although the Corporations Act and accounting standards largely attempt to take care of shareholders and investors with a direct monetary interest in organisations, virtually all organisations have stakeholders who although not active participants have a direct or indirect equitable interest in the organisation. The management in organisations uses discretion to make voluntary disclosures to meet the needs of those stakeholders (Gaa, 2010), but these voluntary disclosures are a trade-off between a legitimate need for disclosing information to act fairly with stakeholders and an equally legitimating need for withholding information to maintain secrecy for organisational survival and growth.

Voluntary disclosures can become a strategic decision where the board of directors formulates policies and monitors organisational activities and their disclosure, while the senior management carry out formulated policies that generate organisational activities. As organisational activities are shaped by the organisational content (e.g., products, services, markets, and ideals) and organisational context (e.g., organisational characteristics and the environment in which the organisation conducts its affairs), the appropriateness of voluntary disclosure becomes a matter of inquiry adjudicated by the intentions of the board of directors (Abeysekera, 2008), strategically deciding which disclosures are appropriate to stakeholders and faithfully represent organisational activities, rather than making disclosures neutrally based on a set of rules (Westley and Mintzberg, 1989). The strategic thinking of the board, organisational intent, and the operational activities undertaken by the senior management, disclosing activities to faithfully represent the organisation to stakeholders, are cornerstones in combining accountability and reporting transparency of activities which are of monetary and non-monetary nature.

Conceptual origins

The concept of integrated reporting has been undertaken by two separate bodies, the King Report on Governance for South Africa (King III) (IRCSA, 2011), and the International Integrated Reporting Council in the U.K. (IIRC, 2011). Preparing an integrated report became mandatory starting 1 March 2010 for organisations listed on the Johannesburg Stock Exchange. Elsewhere in the world, several organisations are trialling preparations of an integrated report with the concept, process, and reporting still evolving, and with no unified description of this concept.

King III describes integrated reporting as “a holistic and integrated representation of the company’s performance in terms of both its finance and its sustainability” (IRCSA, 2011, p. 3). According to the King III report, the overall objective of integrated reporting is to help stakeholders assess whether an organisation can create and sustain its value over the short, medium, and long term. King III states that integrated reporting is an approach by which organisations demonstrate their responsibility towards the global economy and the three major stakeholders: shareholders, society, and the environment (IRCSA, 2011, p. 1).

The International Integrated Reporting Council in the U.K. states that integrated reporting “brings together the material information about an organization’s strategy, governance, performance and prospects, reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates value, now and in the future. Integrated reporting combines the most material elements of information currently reported in separate reporting strands (financial, management commentary, governance and remuneration, and sustainability) in a coherent whole, and importantly: shows the connectivity between them; and explains how they affect the ability of an organization to create and sustain value in the short, medium and long term" (IIRC, 2011, p. 6).

The two institutions have not, however, articulated what is meant by coherent whole and how the connectivity between different reporting strands should be unified. A conceptually and practically robust premise to unify the connectivity between different reporting strands for the coherent whole of the organisation is *vision*—an image of a desired future organisational state (Bass, 1987, p. 51). I therefore note that integrated reporting makes the organisation accountable about its performance to stakeholders in reaching its vision (long-term) through the use of multi-dimensional (financial, non-financial, social, and environmental) resources.

Intergenerational equity

There is a growing awareness that the globe can offer limited resources for the continued existence of humankind. Some of these resources (such as oil, coal, gas, and uranium) are non-renewable, and cannot be replaced once they are used up. Other resources (such as soil, water, air, wood, and sunlight) are renewable and can be replenished as they are used. While non-renewable resources have a greater economic significance as their usage causes a permanent reduction of the resource base, their usage is often monitored by rules and laws, and their price is often determined by the market system. Although little more can be done with non-renewable resources, steps must be taken to maintain renewable resources for the continued existence of humankind. In short, renewable resources must be sustained over generations, and non-renewable resources must be utilized for sustainable development.

Sustainable development is a term that was introduced by the United Nations in convening the Broadbent report “Our Common Future”; it refers to development that meets the needs of the present without compromising the ability of future generations to meet their own needs (United Nations, 1987). Sustainability, a term closely tied to sustainable development, has so far eluded a common definition. This is partly due to the fact that what must be sustained over time covers more than non-renewable resources and extends to include renewable resources shared in common by humankind. Most sustainability research endeavours have therefore, rather than dichotomizing resources as renewable and non-renewable, themed them as environmental, social, and economic/financial resources.

Since profit-driven organisations must survive to enact sustainability, their economic sphere takes importance, but these organisations may act contrary to the concepts of sustainability due to market signals (e.g., taxation, subsidies, pricing, and state regulations) that make such action logical and profitable (TEEB, 2010). Although there may be mandatory reporting responsibilities for these organisations about financial performance, the statutory rules and regulations have thus far not imposed mandatory rules and regulations to report on the use of resources beyond the financial sphere. Some of these resources are used cost-free by profit-driven organisations, as the market system has not yet imposed prices on them. For instance, the use of air and sunlight incurs no cost to organisations. The impact of water pollution on animals and plants is not fully costed into the water price of organisations. The use of child labour for cheaper production (e.g., cocoa plantations) and consumption is likewise not fully costed into raw materials purchased by organisations.

The absence of rules and regulations imposing mandatory responsibility also has offered responsible organisations opportunities to externalise costs for the benefit of the environment and society. For instance, many hotels have now adopted the practice of changing linen at the discretion of the guest occupying the room thus reducing the cost of water use, chemical effluents, and energy use. Another example is organisations hiring staff from recruitment agencies that pass on decent wages and salaries to contract staff.

Understanding that some commonly shared resources are used free of charge or at a discount to expand organisational financial success requires organisations to demonstrate that they have internalised some of these costs voluntarily, either within or outside the value chain of production and sales. For instance, a coffee retailer can report that it purchases coffee beans from plantations that do not use child labour. This means the cost of production becomes relatively higher due to internalising costs for purchasing coffee beans from responsible producers. Alternatively, an organisation could report about schooling facilities offered to disadvantaged children in countries where raw materials are sourced, demonstrating how it internalises costs outside the value chain of production and sales. Although internalising costs inside (directly) and outside (indirectly) the value chain of production and sales have different implications, the reporting informs stakeholders how organisations have assumed the use of available resources.

Alternative frameworks

Financial reporting of organisations relating to financial performance is mandated by accounting standards and is a legal requirement in many countries to inform and safeguard investors, shareholders, and creditors. Most countries now use international financial reporting standards (IFRS) in entirety or partially, combining them with nationally generated accounting standards.

Voluntary reporting of organisations relating to non-financial (intellectual capital) performance, social performance, and environmental performance is often reported in an ad-hoc fashion. Such ad-hoc reporting diminishes the fundamental reporting qualities of relevance to users and faithful representation that can be verified and understood by stakeholders. There are several frameworks organisations can use to report on their intellectual capital performance. A widely used framework is reporting performance under three capital categories: internal capital (non-financial capital created and nurtured within the organisation), external capital (non-financial capital created and nurtured with outside relations to the organisation), and human capital (non-financial capital created within the organisation or human resources rented from outside the organisation). An organisation can represent each intellectual capital category by several resources relevant to its activities; some resources can be more important than others in the context of the organisation. For instance, internal capital can be represented by intellectual property resources (which are not recognised on the statement of financial position), organisational culture, and management processes. External capital can be represented by brands, corporate image, product or service quality, and partnering with other organisations to advance financial performance. Human capital can be represented by staff know-how, staff formal qualifications or aptitude, union relationships with management, and staff relations (Abeysekera and Guthrie, 2005).

Frameworks that help organisations in reporting social and environmental activities are often proposed in a combined framework that captures both types of activities. Three such frameworks are the United Nations (UN) Global Compact, the Global Reporting Initiatives (GRI version 3.1), and The Economics of Ecosystems & Biodiversity (TEEB). The UN Global Compact attempts to align organisations' strategies and operations with ten universally accepted principles. The CEO agrees in writing with the UN to integrate these principles into the organisational strategies and operations. The principles cover four aspects—human rights, labour, environment, and anti-corruption—and include: 1. Support and respect internationally proclaimed human rights; 2. Not be complicit with human rights abuses; 3. Uphold and recognise the right to collective bargaining; 4. Eliminate forced and compulsory labour; 5. Abolish child labour; 6. Eliminate discrimination in employment and occupation; 7. Support precautionary action to meet environmental challenges; 8. Initiate and promote greater environmental responsibility; 9. Develop and diffuse environmentally friendly technologies; and 10. Work against all forms of corruption (including bribery and extortion) (UN Global Compact, 2011). The GRI version 3.1 is an initiative to measure organisation's sustainable performance regardless of the organisation's size, sector, or location. Its focus is stakeholders within and outside the organisation. Stakeholders can be individuals, or groups of individuals, who have an interest in the organisation because they either influence the organisation or are influenced by it (Freeman, 1984, p. 46). The GRI version 3.1 captures sustainable performance in six dimensions: economic, environmental, labour practices and decent work, human rights, society, and product responsibility. Each dimension is magnified by several performance indicators which can become the basis for social and environmental reporting (GRI, 2006).TEEB offers an economic approach to environmental issues to determine the best use of ecological resources at all levels of decision-making (global, national, regional, local, public, community, and private) using discount rates to measure costs and benefits to reflect our responsibility to future generations (TEEB, 2010).

2.2 Framework

Although intellectual capital frameworks, the UN Global Impact, the GRI version 3.1, and TEEB make great contribution to improving reporting information quality of organisational activities outside the mandatory financial reporting framework, these frameworks focus on one or two aspect of organisational reporting only. For instance, the focus of the intellectual capital framework facilitates reporting organisation's non-financial performance, and the focus of the UN Global Impact, the GRI version 3.1, and TEEB is on reporting organisational environmental and social performance. Reporting about organisational governance is often addressed using different reporting frameworks, such as the OECD principles on corporate governance (Organisation for Economic Co-operation and Development) and the Sarbanes-Oxley Act, which have a strong focus on financial performance and financial controls, and indicate little about governance activities outside these aspects (InConsult, 2012; OECD, 2004). Using frameworks in isolation for reporting does little to highlight how performance in one aspect (e.g., intellectual capital) influences another (e.g., social capital). Further, it increases the reporting quantity of information with no impact or adverse impact on the stakeholder-relevant information.

Integrated reporting brings governance, financial capital, intellectual capital, social capital, and environmental capital onto a common platform. The diverse dimensions of organisational performance are unified under the organisational vision and organisation's values. A responsible organisation can state its vision (what it wants to become) for a future point in time that pre-empts its directional mission, and can state the values (the underpinning moral consciousness) upon which it formulates mission—the purpose for which the organisation exists. Based on an organisational vision and values, an integrated report combines diverse dimensions of organisational performance, to demonstrate how a organisation's vision and values are internalised within and externalised outside the organisation. The organisational context in which it conducts its operations helps to determine and pre-empt the internal and external risk profile.

As outlined in Figure 1, the four dimensions of organisational capital interact with each other in helping to enact organisational mission, which is translated into strategies (with a long-term action plan, that spans more than a year) and tactics (with a short-term action plan, that spans less than a year). The organisation's mission as the purpose of existence is to reach its vision (ideal future organisational state) through its day-to-day activities. The organisation has a pool of resources to carry out its mission, and these resources are the different dimensions of capital (financial, intellectual, social, and environmental).

An organisation's tactics and strategies can enable the interaction of different dimensions of capital to achieve the organisational vision—a strategic vision. The strategic vision is bi-directional rather than uni-directional, and informs actions and their feedback to improve strategy formulation by the board of directors. The strategists (the board of directors) can assume various visionary styles such as being original on organisational content, being original on future potential of products and services, perfecting the existing organisational content and context, and/or being original on organisational context (Westley and Mintzberg, 1989).

(Insert Figure 1 somewhere here)

For instance strategies perfecting organisational content by asking hotel guests whether bed sheets should be changed daily or not, can have financial and environmental implications. The savings add to the organisation's financial performance and to financial capital. In addition, reducing the use of water and chemical effluents in water sent to the environment (as washing detergents) reduces environmental harm which adds to environmental performance, and also increases environmental capital where the organisation takes credit for responsible action. Such actions by an organisation can be used as accolades to enhance the organisation's image building (non-financial performance) that can increase its intellectual capital. The awareness training of staff on caring for the environment has implications on financial performance and financial capital, environmental performance and environmental capital, and on social performance and social capital where the organisation has taken steps to build an environmentally conscious society through its workforce actions.

The resources embedded in each capital dimension can interact with each other in various permutations and combinations to generate financial performance, non-financial performance, environmental performance, and social performance. These capital interactions when enacted through an organisation's tactics and strategies on a day-to-day basis can translate into various performance dimensions. An action can require the use of more than one capital dimension, and the implication of that action can result in more than one performance dimension. The choice of permutations and combinations to generate various dimensions of organisational performance is determined by the choice of organisational tactics and strategies. Hence, the senior management has an important role in determining the choice of tactics and strategies, ensuring that they underpin the organisational values and work towards reaching the organisational vision.

An organisation's capability to create and sustain financial value is led by its governance mechanism that formulates and approves strategies. The governance mechanism includes the directors and how decisions are made and implemented within an organisation. Transparency, accountability, and ethical leadership are three attributes of a good governance mechanism. While the directors require a reporting framework through which they can communicate organisational performance, a governance mechanism comprising the three attributes helps organisations to enhance the credibility of such disclosure.

Individual countries have recommended practices to organisations about their wider reporting responsibilities. For instance, the *Danish Financial Statement Act* requires larger organisations to account for social responsibility (Danish Government Centre for CSR, 2008). The *UK Companies Act* requires directors to consider the impact of the organisation's operations on the environment and the community (UK Companies Act, 2006). Although the individual country recommendations are helpful in determining a reporting framework, the differences between such frameworks, and the coherent objective with which such partite reporting connects, can reduce relevant information to stakeholders.

The role of organisational governance is twofold: to demonstrate accountability for the organisation's actions enacted through senior management, and to enhance organisational performance (Short et al., 1999). Integrated reporting unifies these two aspects by reviewing them through organisational vision and organisational values: Does managerial action account for the organisation's vision? Is managerial action founded on the organisation's values? Integrated reporting has brought an additional aspect to governance in that it inquires into the organisation's vision and values. Has the governance provided sufficient independent oversight towards reaching organisational vision to become accountable for action and facilitating performance, and are actions are founded on the organisation's values?

2.3 Content reporting

Narrative: cross + nails = given

This narrative equation makes no sense for the reason that narratives are not meant to add up. However, narrative tells us something on its own, or in combination. We understand the meaning of each text, but interpreting texts together can give rise to multiple meanings. For instance, one way to interpret this "equation" is that cross and nails somehow were given. Although this does not make great sense, it is logical. Narrative reporting requires a threshold of words to convey the logic with context to create meaning. Rather than abstracting words in an equation, if they are narrated (for instance, a cross and three nails were given to Michael) it makes more sense. Meaning becomes clearer if we use adjectives—an iron cross and three wooden nails were given to our neighbour Michael yesterday afternoon—because adjectives help to provide the context. Narrative allows us to provide meaning with the context in which we report.

Numerical: 1 + 3 = 4

On the other hand, numbers follow logic, and their abstract form can convey meaning. We can understand that one added to three is four, since numbers follow addition, division, subtraction, and multiplication rules. We can add symbols to numbers to increase precision and specificity, such as the $ prefix which means the numbers are about money. Numbers are useful in that we can revisit and check their accuracy as they are designed for precision. However, a drawback is that the numbers and their embodiment (e.g., equation) do not provide us a context. We have a little idea why they were stated, where they were stated, to whom they were stated, when they were stated, and why—and answering those questions provides the context.

Pictures:

An advantage of pictures is that a substantial part of the human brain is designed to read visual perceptions. Let us say that we see a picture of a half-naked person on a wooden board. If we do not know much, we may interpret the picture in several ways, for instance that an artist has been creative in expressing sorrow. On the other hand, if we have some background information and identify the person and the board, we can then guess that this picture must be about Jesus on the Cross. However, in itself the picture does not tell us very much detail about the context (e.g., why Jesus was on the cross, what took place); while it helps us to visualize the event, it can lead to various interpretations.

Putting them together: 1 cross + 3 nails = 4 given 

We can combine narrative, numbers, and visuals together to make a greater impact in integrated reporting. The previous individual meanings can then become obsolete as the integrated whole provides a different meaning than the individual parts. We can understand it was the cross and three nails that crucified Jesus Christ, which we have seen in the picture, and that Jesus dedicated his life to forgiveness. The narrative alone "cross plus nails equals given" has little meaning and neither does the numerical phrase alone "one plus three equals four." Combining the narrative, visual, and numerical allows the picture of the person on the wooden board to be glorified with a deeper meaning as the crucifixion of Jesus Christ with a core message of forgiveness.

The resounding effect of combining narrative, numerical, and visuals for reporting is established in the accounting research literature (Mouritsen et al., 2001). This is important for integrated reporting as reporting performance relating to intellectual capital, social capital, environmental capital, and corporate governance, requires more narrative and visual information than numerical. The actions implemented using these forms of capital have an influence on financial capital, but this is often indirect.

I suggest that an integrated report should be concise and inclusive of all stakeholders. I identify three broad stakeholders: economic (customers, suppliers, investors, and shareholders), social (staff and community), and political (regulators and government). Lengthy annual reports are a concern to stakeholders, in that they can submerge vital information amongst trivial information (FRC, 2010). I also support a concise report that informs significant performance implications on the organisational vision during the reporting period. I do not define significance as it is an outcome of inquiry into reporting rather than a rule, and instead leave it up to preparers to use their professional judgment with the organisational content (e.g., credit risks, market risks, and political risks) and context (e.g., industry sector, and size). The integrated report is ideally placed on the organisation's website with a further web-link provided for those interested in detailed information on the integrated report.

Financial reporting requirements are expounded in the Corporations Act or Companies Act, in and by the accounting standards boards in respective countries. For instance, in Australia, the financial report must contain the mandatory financial statements, notes to financial statements, and directors' declaration to meet statutory obligations (Part 2M.3) of the Corporations Act (Corporations Act, 2001). As an additional general requirement, the directors' report of a disclosing entity must contain information about organisation's future strategies and its prospects for future years (section 299A). As suggested by the Practice Note on management commentary issued by the International Accounting Standards Board, organisations may provide a commentary that supports the financial report (IASB, 2010). However, tailoring the financial report reduces both unnecessary measurement and disclosure requirements. It should provide relevant information even if such information is more subjective and less reliable (IAASB, 2011). Information in each year must be revisited, asking the questions (FRC, 2009) should this financial information be mandatorily measured and/or reported, and should this financial information be voluntarily measured and/or reported? If the information should be voluntarily measured and/or reported, does it have a significant influence on the organisational vision? If it does, I suggest it be included. Due to mandatory compliance requirements, it is appropriate to separate the financial report from the integrated report. This separation segregates financial performance from integrated performance, and segregates mandatory reporting from voluntary reporting. The financial report is intended for financial capital providers, but the integrated report is intended for multiple aspects of capital providers (i.e., stakeholders).

Stakeholders are equally important to organisations although each having a different level of influence. The integrated report is intended to demonstrate the integration of financial performance with other aspects of organisational performance towards reaching organisation's vision. In this respect financial capital that is included in the integrated report is intended to outline how it enables reaching the organisational vision.

3. Template

Following is an illustration of reporting intellectual capital, social capital, and environmental capital of a hypothetical organisation. However, I suggest that commentary should be oriented towards the organisational vision, and this is a re-orientation of reporting for many organisations that engage in voluntary reporting.

The suggested format begins with the organisation's vision statement. It then presents resources that had a significant influence on the vision during the reporting period. This section outlines the mission undertaken with the given resources and its implications towards reaching the vision. The visual presentation is followed by a brief explanation. Although I do not put a ceiling on the maximum number of pages, I suggest the report should not exceed ten pages or 2,500 words. This is because interested parties can read details elsewhere.

Sample report:

Our vision:

Our journey is towards ‘ZERO THE HERO’ – with zero harm to our people, environment and community, we strive to become the most reputable retail supermarket chain in Australia by 2020.

Our values:

Our actions are guided by integrity and fairness, which are core values of our organisation.

Our context in action in 2012:

Our marketplace continues to be predominantly Australia with 80% of revenue generated here, along with 10% generated from New Zealand, 5% from India, and 5% from elsewhere.

According to OECD forecasts these economies are likely to continue to grow, and we do not foresee adverse market risks in the countries in which we operate, and neither do we foresee adverse credit risks with the customer base due to increasing disposable income. The introduction of carbon market in Australia is a welcome sign for us as it is consistent with our organisational values and vision. We see it as an opportunity to affirm our responsibilities with a greater focus.

Our financial capital in action in 2012:

We increased our investments in socially responsible shares by $20 million (Figure 2).

(Insert Figure 2 somewhere here)

Intangibles

We increased our investments in international shares in the Asian emerging nations during the reporting period. In choosing our investments, we instructed the stockbroking organisation to ensure that they are economically efficient as well as socially and environmentally responsible organisations so that they mirror the values of our organisation. Our investments in shares of socially responsible organisations increased by $20 million based on market value estimates at the reporting date. Based on the OECD forecast of economic growth over the next three years, there is less likelihood that our investments will depreciate in financial value.

Non-current assets

Every three years we replace the motor vehicles provided to some staff members. This year we replaced 300 vehicles with hybrid vehicles to reduce emissions. The total cost of replacement vehicles was $10 million. We incurred an additional cost of $1.2 million in switching from gasoline vehicles to hybrid vehicles, but this is a necessary and responsible cost consistent with our values and vision.

Short-term loans

Our $40 million long-term loan obtained from Swissonbank has been refinanced in the past. However, the effect of the global financial crisis is still being felt in Europe. Although Switzerland is not adversely affected, we have considered the possibility of the loan not being refinanced, with the long-term loan then becoming a short-term loan payable. If that happens, we are confident that we can service the loan without an adverse impact on continuing operations.

Our intellectual capital in action in 2012:

We now have a three-ring policy to increase customer satisfaction and organisational reputation (Figure 3).

(Insert Figure 3 somewhere here)

Intellectual property

We undertook research into developing a patent to semi-automate re-shelving using machines, in partnership with a university. Our total commitment to this three-year research is $400,000. The research is at the early stage, and if successful, we estimate it would reduce work-related injuries arising from shelving by twenty percent. This would save the organisation $400,000 a year in work-related compensation as well as increasing staff well-being and productivity in the three years following the project completion. We base our assumption on the current sales level. We believe these sales levels will not be reduced in the next five years, based on the projections released by the Federal Open Market Committee of the Federal Reserve which forecasts continued economic growth in Australia and low unemployment until 2014.

Processes

A criticism often levied on internal auditing is its level of perceived independence of judgment. We decided to bring in an external audit firm that was selected by the audit committee and sanctioned by the independent directors in the audit committee, to review decisions made by internal auditors. This external audit firm is not a related party to the external auditor of our financial reports. The review audit cost us $200,000, but our board of governance is convinced the review will improve the overall quality of our organisational decisions.

Culture

The journey towards our vision requires staff understanding, engagement, and support, as these are keys to its realisation. We conducted a one-day workshop explaining the organisational vision, and the behaviours we wish to conform to in reaching the vision. For instance, we developed a three-ring policy on incoming telephone calls as an outcome of this workshop—that is, someone must answer the phone before the fourth ring. Although we are unable to quantify the monetary impact, we believe the new policy will lead to greater customer satisfaction and enhanced corporate reputation as a caring, efficient corporate citizen.

Brand building

We have changed our advertising campaign to demonstrate how our brands can help the community to increase their happiness and well-being. We inform and educate our customers about the products we sell, and how these products help them to lead a happy and productive life. We encourage them to engage in physical exercise by introducing athletes as role models in our advertising. During the year, product sales during the advertising campaign increased by 30%, contributing $50 million to earnings after tax.

Customers

We have internally analysed our existing customer base, and based on the customer profile we launched a project to pursue new customers, offering them attractive discounts on their first two purchases with us. Customers are offered a loyalty card and/or convenient password which they use to record their purchases so that we can offer discounts at every 20th transaction. Our analysis revealed that our new customers have contributed 20 percent to our total sales.

Our environmental capital in action in 2012:

We reduced washing pathways and gardening water consumption by 1,000 litres a month (Figure 4).

(Insert Figure 4 somewhere here)

Material

Our concern for environmental pollution was enacted by our mission to reduce plastic bag consumption. We offer customers a twenty cent reduction for not requiring a plastic bag at the sales counter. Although this is more than the cost of a plastic bag for us, we believe it is our responsibility to reduce pollution from plastics to make the world a better place for us and future generations. We also sell bio-degradable bags at ten cents a bag. Our sales show a 20 percent increase in customers not requiring a plastic bag, and a 30 percent increase in bio-degradable bag sales.

Energy

The solar panels that we installed at stores and warehouses as a source of alternative energy two years ago are being used successfully. They helped us to reduce energy costs by 30 percent at those premises compared with electricity we would have used during this reporting period. These savings are contributing to recovering our capital costs incurred in installing solar panels, which we hope to recover in full in three years' time.

Water

We commenced a project that saves water used for washing shelves, fruits, and vegetables, which is then filtered and treated for re-use through a water storage tank. This water treatment has reduced by 1,000 litres for a month the amount of water used for washing pathways and gardening. Although it is not a significant cost saving, we believe it is part of our environmental consciousness and contribution towards the 2020 vision.

Gas

To achieve carbon neutrality for our Australian operations, the remaining greenhouse gas emissions have been offset. It is important to note purchases like this will become an ongoing commitment for the organisation to maintain carbon neutrality. Clearly the less we have to offset the better—and that's why the focus will remain on continuing to minimise greenhouse gas emissions from our operations.

Our social capital in action in 2012:

We associate with socially responsible labour recruiters to hire casual staff for filling shelves (Figure 5).

(Insert Figure 5 somewhere here)

Equitable opportunity

We hire casual staff for filling shelves in our stores through recruitment agencies. Although they earn relatively low wages, their contributions to our organisational activities are vital for reaching our vision. We want to ensure that they receive a fair wage which is determined by the recruitment agencies who supply their labour to us. Starting this year we are reviewing how much wages and benefits are passed on by the recruiters to these shelf-filling staff. We terminated services of two recruitment agencies and replaced them with two other agencies, on the basis that the new agencies pass on 80 percent of the wages they charge us, and also have a casual staff leave policy above the statutory requirement. This policy had zero impact on the re-shelving wage paid by our organisation, while improving fairness to these staff.

Training and development

Having a diverse and inclusive culture is a priority not only for our organisation but we believe for the society we live in, as with trends in globalisation the world is being merged into a unified society in many respects. At the domestic level, we took steps to increase awareness of the traditional owners - Aboriginal and Torres Strait islander communities in Australia and their issues, among our staff, to bring forth a respectful inclusive society. We conducted cross-cultural awareness workshops that every staff member was required to participate in. The workshop comprised role plays and presentations for one half day.

Health and safety

'Health is wealth' is a concept that our organisation believes in and supports. We offered one half of the gymnasium membership fee in collaboration with the gymnasiums closest to our workplaces. Thirty percent of our workforce has already taken our offer, with the condition that they utilise the gymnasium at least twice a week. Our reviews show that absence rates among staff who acquired membership during the past six months are only one quarter of the rates of absence among those who did not acquire membership. We believe their active lifestyle contributes to health and happiness. The reduced absences have saved us $100,000 for the past six months in what we otherwise would have had to pay casual staff.

Our governance in action in 2012:

Our independent directors serve in no more than three boards of listed organisations (Figure 6).

(Insert Figure 6 somewhere here)

N.B. Please refer to the supplementary report on Integrated Reporting found on our website for further detailed description of the use of our resources towards reaching the organisation's vision. The report can be found at http:// www....

Independent directors

Our independent directors are pivotal to due diligence and independent oversight. Their social reputation is a great asset to us for our daily mission and future vision. However, to obtain the best outcomes for independent directors and for our organisation, the Chairman of the board proposed that we hire and retain independent directors who serve in no more than three boards of large listed organisations, starting next year. This proposal was accepted by the board of directors this year. It ensures that independent directors bring sufficient time for due diligence and independent oversight into our board.

Audit committee

One half of our audit committee members are independent directors and this proportion is well above the guidelines proposed by the Code of Corporate Governance. External auditors are appointed by the audit committee, and the committee believes that the service period of an external auditor is pivotal to auditor independence. A too-short period can reduce auditor productivity and contribution, as an auditor requires time to become acquainted with the organisation, and a too-long period can undermine independence for a variety of reasons such as complacency and build-up of inter-personal relationships between external auditor and staff members. The audit committee therefore decided that the maximum continuous tenure of an external auditor will be limited to four years.

4. Conclusion and future steps

An integrated report attempts to tell a story about an organisation's journey towards reaching its vision, reporting about its historical and intended performance. The intended performance is presented with assumptions and the judgements underlying them. These assumptions and judgements can serve as a hedge against litigation. Most importantly an organisation should demonstrate that its focused tactics and strategies underlie its values and are enacted towards reaching the vision during the reporting period. Integrated reporting should make accountability and performance in an organisation transparent, but depends on the ethical qualities (such as honesty, fairness) embedded in the organisation's values being upheld. Accountability and performance are bounded by content and context factors in which the organisation operates, such as competitive secrecy, but withholding such information should only protect the organisation's position and practices from untoward malpractice by others, and not mislead the stakeholders.

Integrating financial performance with the social and environmental performance of an organisation requires modification to the business model. A business model is the process whereby an organisation creates and sustains value, and changes to the business model alter the sources of risks and uncertainty, and how these risks and uncertainties are managed. Integrated performance can thus require alterations to the business model which assigns importance to multiple dimensions of organisational performance relating to the past, present, and future. Reporting about multi-dimensional performance brings new challenges to auditors. Organisations must now provide detailed information in an integrated report about assumptions behind disclosures, measurement bases, and sources of uncertainty estimates of disclosure, to help auditors develop an informed opinion about information outside financial reports.

Auditors must then form an opinion on whether such disclosure is relevant to users of reports, and faithfully (i.e., in a manner that is complete, neutral, and free from error) represents the phenomenon disclosed. These two qualities (stakeholder relevance, and faithful representation of the phenomenon) relating to disclosures are fundamental, as more emphasis is placed on reporting about the future (vision) that includes uncertainty. Faithful representation means the information is described clearly and accurately as being an estimate, explaining the nature and limitations in the estimation process assumptions; neutral means that information is presented as is, and is not slanted or manipulated to present disclosure favourably or unfavourably; finally, free from error means there are no misstatements or omissions in describing the phenomenon, but should not be taken to mean it is perfectly accurate in all respects. It can be verified whether different knowledgeable and independent observers reach consensus that the information is faithfully represented, although they need not completely agree on all details (IAASB, 2011).

The financial auditor should be able to offer limited assurance (e.g., ASAE 3000) through engaging an audit that assures no obvious errors were detected, rather than testing for the systems and processes that led to the reported information (AAuSB, 2007), or reasonable assurance on some or all aspects of an integrated report that it represents a true and fair view by testing of the systems and processes that led to the reported information. Additionally, various aspects of integrated performance and reporting can be certified for assurance (e.g., ISO 14000 and ISO 26000) by various quality accrediting bodies such as the International

Standards Organisation (ISO, 2007) and National Carbon Offset Standard (NCOS, 2010). AccountAbility (AA) 1000 standard is designed to provide high or moderate assurance on an organisation's sustainability principles. It can also provide assurance on specific sustainability-related performance activities with financial reporting and assurance (AccountAbility, 2008).

The integrated reporting framework is an opportunity for reporting formats that focus on single aspects of reporting to work together to achieve a more holistic reporting format that reports about the simultaneous web of interactions and implications of financial, social, environmental, and governance-related organisational activities for stakeholders. For instance, the GRI version 3.1 and UN Global Compact attempt to report on non-financial, environmental, and social transactions and events of organisations while leaving the financial information to be reported using frameworks such as International Accounting Standards. *Sarbanes-Oxley Act* of 2002 imposes governance requirements on senior management, requiring CEOs and CFOs of public organisations to personally certify that financial statements fairly present all material aspects of the organisation's operations and financial conditions. Section 404 of the Act requires each organisation's annual report to include an internal control report that contains an assessment of internal control structure and procedures for financial reporting (InConsult, 2012). The effectiveness of internal controls can be voluntarily extended into organisational non-financial, environmental, and social transactions and events under an integrated reporting platform. Enterprise reporting and performance (ERP) are potential platforms that can be modified and expanded towards developing technologically enabled integrated reporting platforms.

The template proposed here can be used as a springboard for future research. First, the transformative power of integration of various aspects of organisational capital on the deliverance of organisational performance is a proposition that can be addressed in the future, given that organisational content and contexts can shape the strategic decisions made. Second, the relative importance of various aspects of organisational performance and capital, vision, and values, can be different between profit-making private sector and service-oriented public sector organisations. A comparative study can provide valuable insights as to the details (why and how) of each factor playing a role in the organisation in integrating various aspects of capital, performance, and reporting. Third, integrating various aspects of organisational capital and their reporting, poses a challenge to the existing capital and reporting boundaries, which leads to challenging organisational accountability and transparency. Future research can use this template to examine those capital and reporting boundaries of organisations.

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Figure 1

Flow chart of integrated reporting

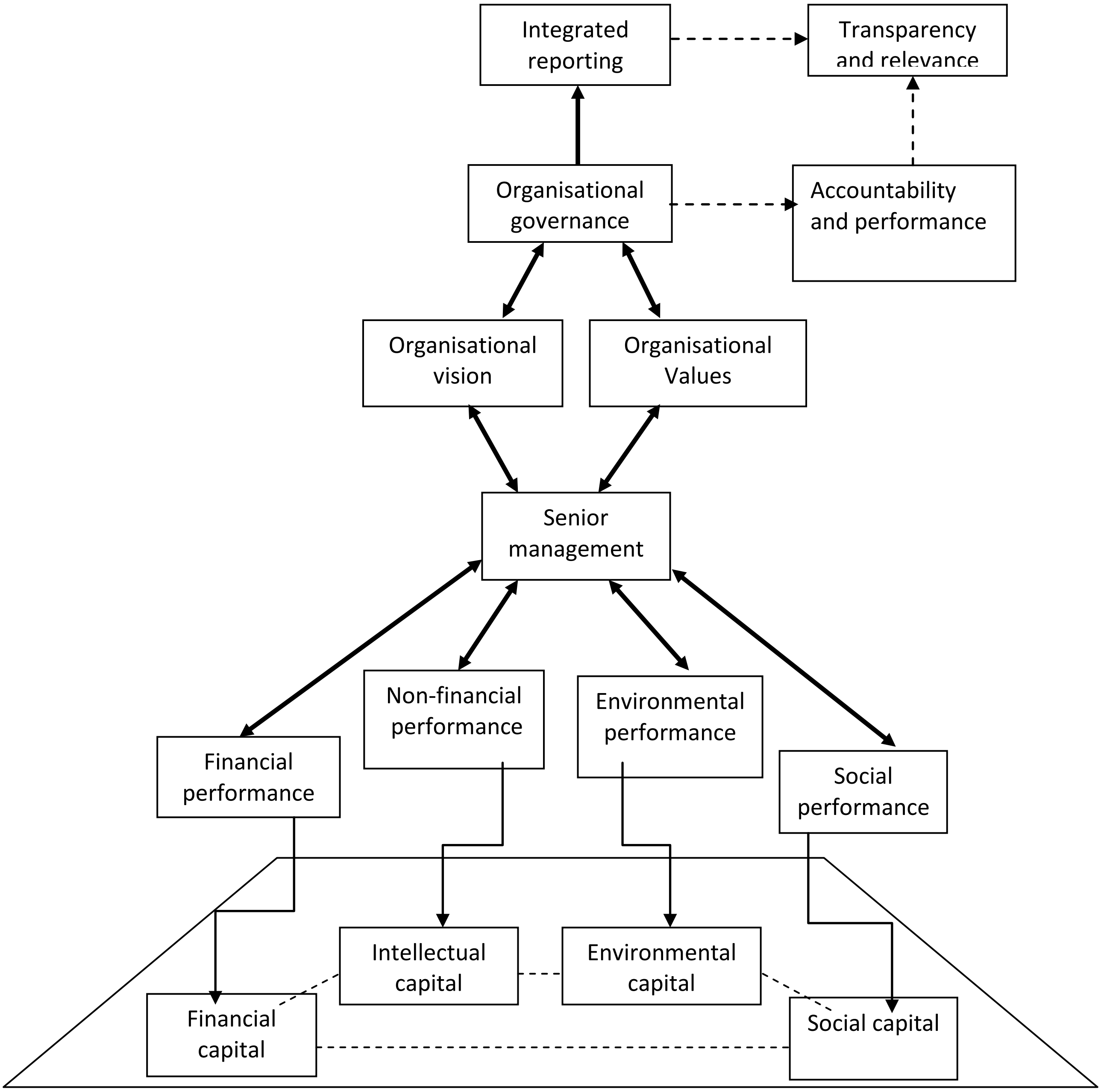

Figure 2

Our financial capital in action in 2012

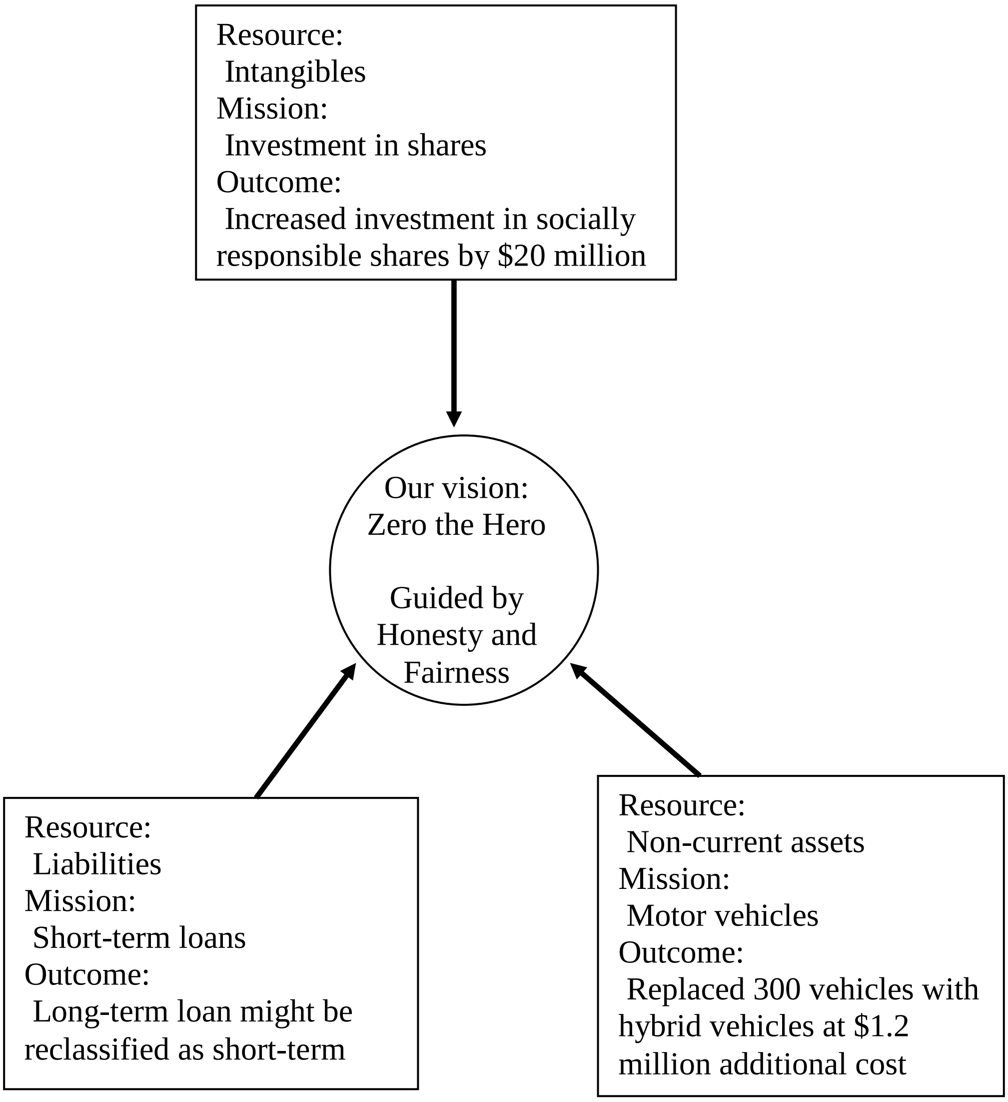

Figure 3

Our intellectual capital in action

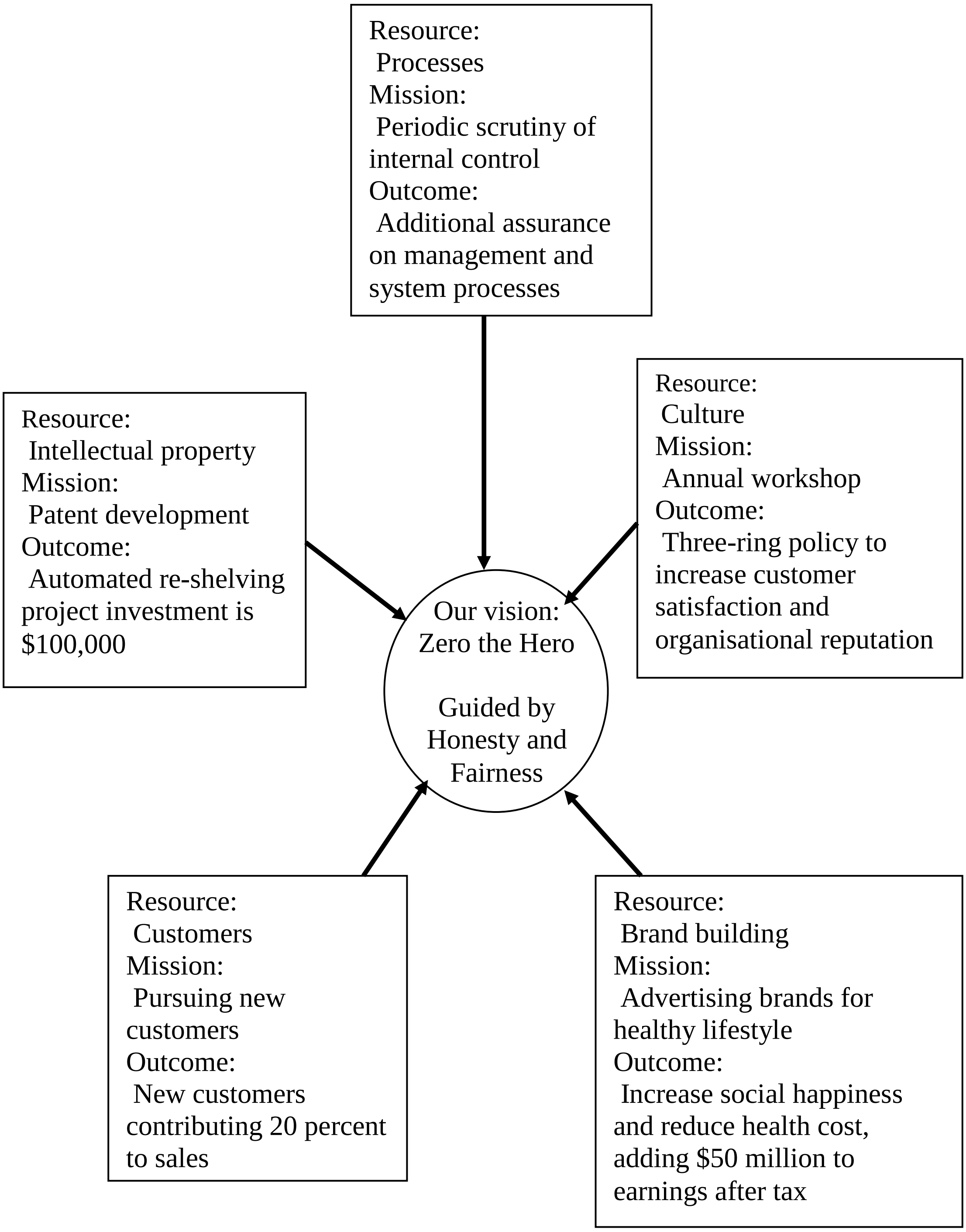

Figure 4

Our environmental capital in action

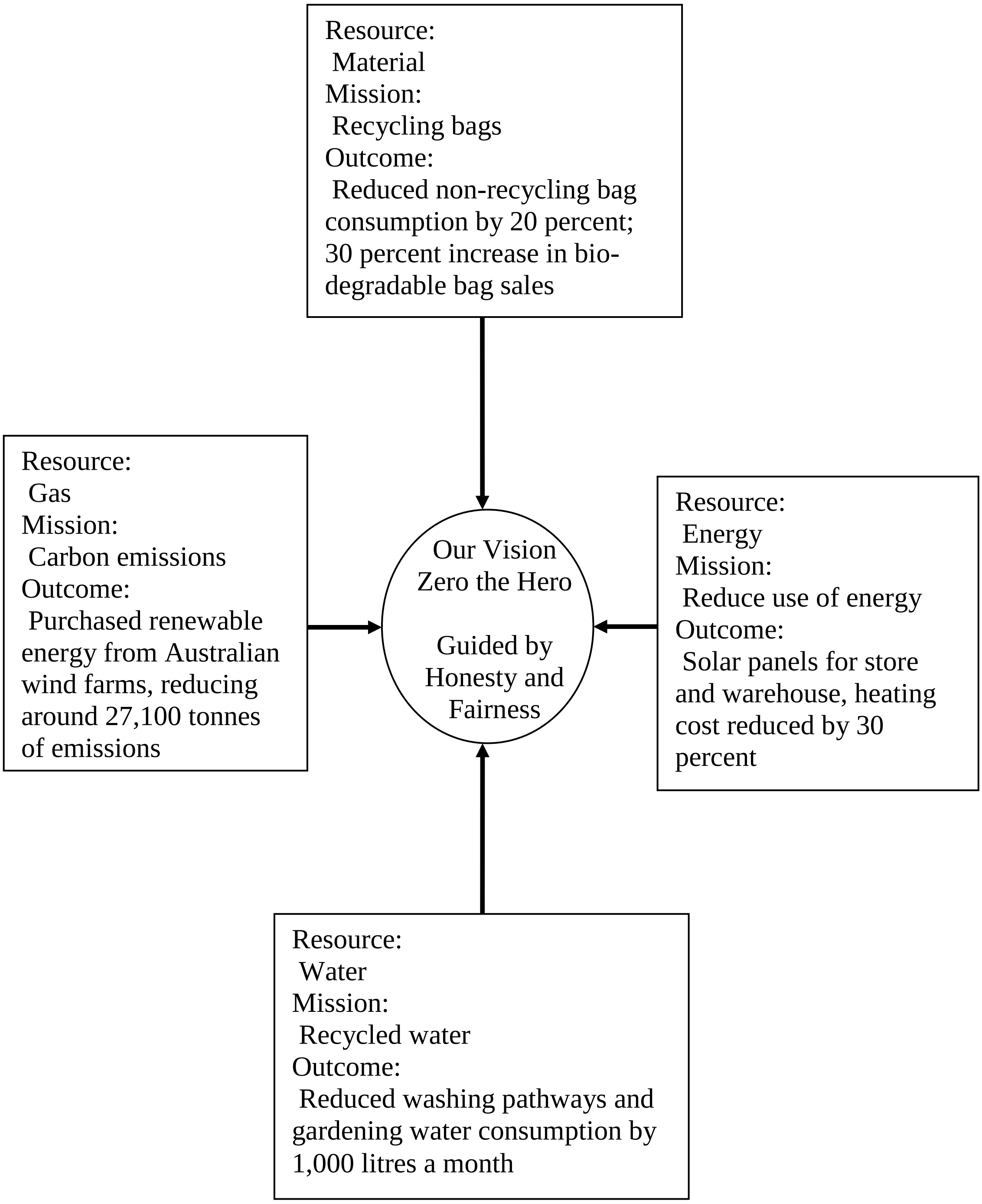

Figure 5

Our social capital in action

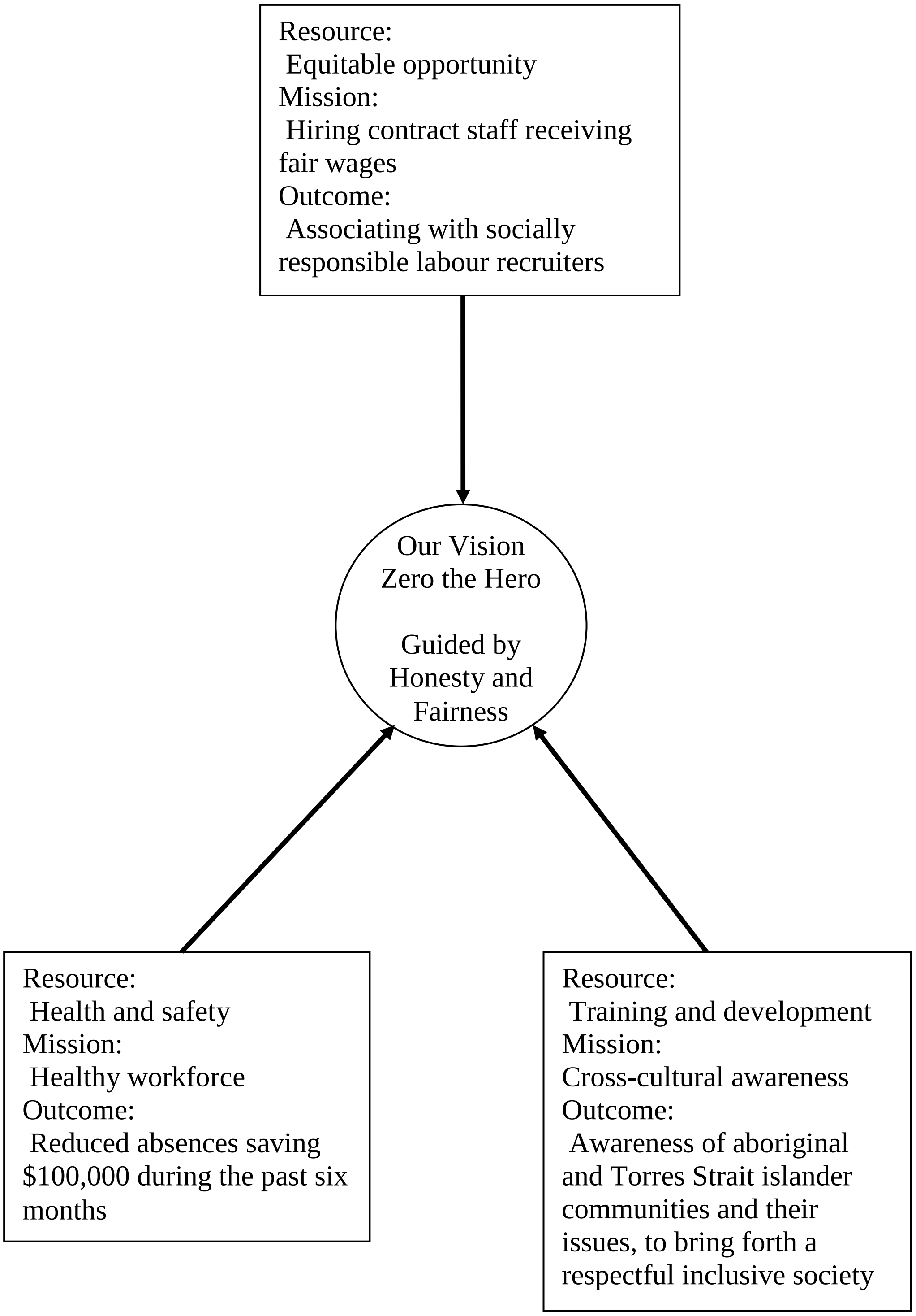

Figure 6

Our governance in action in 2012