Global interest in integrated reporting continues to grow and many countries are watching with great interest the lessons to be learned from South Africa on becoming the first country to mandate integrated reporting on an ‘Apply or Explain why not’ basis. In the case of South Africa, the requirement of King III¹ is that the company’s annual report becomes an integrated report. King III does not preclude a company from issuing a separate sustainability report that provides more detailed information of interest to particular stakeholders.

This raises the question of whether the goal of integrated reporting is to have a single report and eliminate all other reports or whether the integrated report is intended to exist alongside one or more other reports. Consistent with the view of Eccles and Krzus (2010), the authors of this paper do not believe that the overarching goal of integrated reporting is to put all information relevant to shareholders and other stakeholders in a single document or ‘One Report’.² Rather, it is to report in one document information on the key dimensions of financial and non-financial (e.g. environmental, social, and governance - ESG) performance and the relationships between them. In some cases, such as


occurred at United Technologies, the company converts its annual report into an integrated report. In others, such as Southwest Airlines, the company converts its sustainability report into an integrated report. The primary audience of the integrated report is shareholders and other stakeholders who want to have a holistic view of the company’s past performance and future prospects. Shareholders who care only about financial performance can simply look at the company’s financial statements. Stakeholders who are only interested in a particular issue can focus on whatever the company reports on that (which is often not much), whether in a separate sustainability report or an integrated report, or both.

The term ‘report’ connotes a paper document and ignores the growing importance of the company’s website as a source of both reporting and engagement. Thus, it is useful to make a distinction between a ‘report’ and ‘reporting.’ A report is a static document – whether a hard copy that is sent in the mail or picked up off a shelf in the company’s headquarters or a PDF posted on the company’s website – that is produced on a fixed-interval basis, such as every year or every quarter. Reporting, on the other hand, involves providing information as it becomes available and in a more disaggregated form. It can also include tools for analysing this information and gathering feedback from users about the company’s performance and reporting practices and getting suggestions for improvement. This paper will discuss both the issue of ‘one versus multiple reports’, focusing on the United States and South African markets as examples, and the importance of more explicitly recognizing the role of the Internet when debating the merits of one versus multiple reports.

In the United States, all listed companies are required to file a Form 10-K. As explained on the website of the Securities and Exchange Commission (SEC), this is separate from the company’s annual report, which is also required:

The annual report on Form 10-K provides a comprehensive overview of the company’s business and financial condition and includes audited financial statements. Although similarly named, the annual report on Form 10-K is distinct from the “annual report to shareholders,” which a company must send to its shareholders when it holds an annual meeting to elect directors. Form 10-K is the ‘official’ regulatory filing and must follow a fairly prescribed format. In contrast, companies have much more flexibility in terms of the content and format of their annual report to shareholders. This report typically contains a letter from the Chief Executive Officer (CEO), and sometimes from the chairperson as well, when these are separate roles; the ‘Management

---


6 Available at www.sec.gov/answers/form10k.htm
Discussion and Analysis (MD&A)’, which explains the company’s financial results in the context of the company’s industry and general economic conditions; descriptions of the company’s major business lines and products; and the audited financial statements and accompanying footnotes. For large companies, the annual report is often a fairly glossy document (although usually printed on recycled paper) that contains pictures (including those of employees, customers, and vendors) and diagrams and figures of various kinds. The services of a professional corporate reporting or public relations firm are often obtained in order to make this document an appealing marketing tool to a broad range of stakeholders. In contrast, the Form 10-K is a rather long, legalistic, and, for the lay reader, boring document. It may contain, by reference, sections in the annual report, such as the MD&A. Small and medium-sized enterprises, with fewer resources, often create their annual report to shareholders by simply enclosing their Form 10-K with a ‘wrap-around’ letter from the chairperson or CEO and perhaps a picture or two.

Unless the SEC mandated integrated reporting, in whatever language, companies in the United States would still be producing at least two reports – even if every single company converted its annual report into an integrated report on a voluntary basis. And this would be the case, unless the SEC explicitly stated that the Form 10-K could be used as the annual report for shareholders. If a company refashioned its sustainability report into an integrated report, it would still be left with having to produce three reports. If a company changed its annual report into an integrated report, it still might choose to produce a sustainability report, again leaving it with three reports. In countries where there is only one required report, regulation can specify this report to be an integrated report, but unless precluded by regulation (unlikely in most countries), the company could still produce a supplemental sustainability report.

In South Africa, with the recommendations of the third King Code of Governance Principles (King III) now applicable to all organizations, all companies are in theory expected to produce integrated reports. The Johannesburg Stock Exchange (JSE) has continued to promote good corporate governance by incorporating the principles as a listing requirement and, consequently, the over 400 companies listed on the JSE are expected to produce integrated reports on an ‘Apply or Explain’ basis. For many listed companies, these integrated reports represent in one report what were previously both an annual report and a separate, voluntary sustainability report. The new South African Companies Act allows companies to distribute only abridged financial statements as long as they are in line with the accompanying regulations. Vodacom’s 2011 Integrated Report provides an example of a listed company that has produced an integrated report with abridged financial statements included in the same report.

Most companies operating in high-impact industries, such as energy and

---

5 Available at vodacom.investoreports.com/vodacom_ir_2011/
mining, continue to produce separate sustainability reports which contain more detail than their integrated reports. Harmony Gold Mining Company, Imperial Group Holdings and AngloGold Ashanti are examples of listed South African companies producing both consolidated integrated reports and additional sustainability reports containing further detailed information. Those looking to keep in place their Global Reporting Initiative (GRI) application levels (and assurance where applicable) that were previously reported through their sustainability reports are now reporting on key material issues in their integrated reports and leaving the rest to be reported through the company’s website. Many South African companies producing integrated reports are achieving varying levels of interactive web-based representation of their integrated reports, such as the interactive online integrated report of Bidvest Group Limited.

In the case of non-listed companies, it is easier for many to explain their way out of an integrated report by claiming to have fewer stakeholders to whom they need to report. Some non-listed companies with high public interest scores (PISs), however, are under greater pressure to produce integrated reports. Public interest scoring has been introduced under the new Companies Act and is used primarily to determine whether or not private companies will require an audit, and if an ethics committee need be established. A company’s PIS is calculated annually through the number of employees, third-party liability, turnover and number of shareholders (for profit companies) or members (for non-profit companies). Rand Refinery (Pty) Ltd is an example of a private company that has produced an integrated report in line with what it believes to be best practice in corporate reporting.

This analysis shows that producing ‘one report’ is heavily dependent on the regulatory environment of a company’s home country, but in general something that is difficult to achieve. The virtue of having one report is that all information of interest to shareholders and stakeholders is contained in a single document. However, unless the report somehow highlights the truly material non-financial information and discusses its relevance in the context of financial information, this one report is an integrated report in name only, and in practice is no different from having financial and non-financial information reported in separate reports. The real issue isn’t whether there is one report or multiple reports, but whether the company provides a concise presentation of the critical dimensions of financial and non-financial performance and discusses the relationships between them. How are

8 Available at www.harmony.co.za/sd/s_i.asp


10 Available at www.aga-reports.com/11/integrated-report

11 Available at bidvest.com/ar/bidvest_ar2011/index.php

improvements in non-financial performance contributing to improvements in financial performance? Or, is the company consciously making sacrifices in terms of its financial performance, at least in the short term, in order to improve on some dimension of environmental, social and governance (ESG) performance for reasons that it clearly explains? Conversely, strong financial performance may enable the company to make the necessary investments to improve some dimension(s) of non-financial performance that will contribute to further future improvements in financial performance.

The right question therefore isn’t whether the company is producing one or multiple reports, but rather whether the company is providing an integrated presentation and analysis of financial and non-financial performance in some report. Regulatory constraints, desired economies from reducing the number of reports (where possible), and wanting to target different constituencies with different reports are all factors that determine whether the company is producing one or multiple reports.

The relative unimportance of the question of one versus multiple reports is seen even more clearly in recognizing that static documents are of decreasing importance in how a company provides information on its financial and non-financial performance. The Internet makes it possible to provide a wide range of information in many formats at virtually no distribution cost, since users simply access the company’s website. A good example is Philips, the Dutch healthcare and lighting company, whose annual report website contains the 2011 integrated annual report and annual reports dating back to 1998. The full 228-page annual report is in English and there are shorter versions in Dutch (44 pages) and Mandarin (79 pages).

The page for the 2011 annual report contains videos in English from the CEO, providing overview information on the company, and the Chief Financial Officer (CFO), providing a review of the 2011 financial results. Both videos have subtitles in English in order to make them accessible to the hearing impaired. Underneath each video are separate pages providing specific information – such as ‘Our company’ and ‘Our strategic focus’ as from the CEO – and ‘Group performance’ and ‘Sector performance’ as from the CFO. There is also a section, but no video, on sustainability, covering such topics as ‘Green manufacturing 2015’ and ‘Social performance’. There is also a Mandarin version of the website, where the video subtitles are in Mandarin.

Philips provides three different reports, called ‘Analyst selection’, ‘Sustainability selection’, and ‘Employee highlights’, that contain information of particular interest to different users. In addition, the user can create a completely customized report (in either a regular or eco-version with smaller pages and pictures), based on whichever of the 19 sections in the full annual report are of interest. The report is e-mailed and the user is asked to take a short survey to help Philips understand what information they are interested in and how they use it.

The survey concludes with a request as to whether or not Philips may contact the user with questions.

13 Available at www.annualreport2011.philips.com/
In addition to a wide variety of PDF reports which can be accessed and created, the website includes Excel spreadsheets which can be downloaded (financial statements, five-year overview, and performance highlights) and interactive charts (balance sheet, statement of income, profitability, cash flow, key figures per share, employees and sustainability). Each chart, which may be viewed as a bar or line graph and downloaded into an Excel spreadsheet, provides data for 2007-2011 and may be viewed by year (each data item in the category for each year) or by data item (all years for each data item). Since the information in these charts may be downloaded into a spreadsheet, the user is able to perform his or her own analysis, looking for relationships between different performance metrics – such as Green Product Sales, Green Innovation, and Lost Workday Injuries as a function of sales growth and profitability – and combine the information provided by Philips with other information, such as comparing the performance of Philips to that of its competitors. Showing the growing importance of social media, the annual report website contains videos of Philips on YouTube, pictures on Flickr, and tweets on Twitter, where the user can also tweet Philips back. The company also has a page on LinkedIn.

So, one report or multiple reports? This is the wrong question. The right one is: “Is the company providing an integrated presentation and discussion of its financial and non-financial performance in at least one document, and has it, in addition to this, designed its website to be as useful and integrated as possible?”

Robert E. Eccles is Professor in Management Practice at Harvard Business School in Boston, United States. He currently specializes in corporate reporting and has written three books on the subject, The Value Reporting Revolution: Moving Beyond the Earnings Game (2001; with Robert H. Herz, E. Mary Keegan and David M. H. Phillips), Building Public Trust: The Future of Corporate Reporting (2002; with Samuel A. DiPiazza Jnr.), and One Report: Integrated Reporting for a Sustainable Strategy (2010; with Michael P. Kruz). The latter was the winner of the 2010 PROSE award in the category of Business, Finance and Management. He is a member of the Steering Committee of the International Integrated Reporting Council and Chairperson of the Sustainability Accounting Standards Board.

Jess Schulschenk is a Senior Researcher with the Albert Luthuli Centre for Responsible Leadership at the University of Pretoria in South Africa, a centre supported by Ernst & Young South Africa. She specializes in corporate governance and sustainability, and has worked in the private and public sector on a range of sustainability and innovation programmes.

George Serafeim is an Assistant Professor of Business Administration at Harvard Business School. He teaches courses on Innovating for Sustainability and a doctoral seminar on The Role of the Corporation in Society. His research has been published in prestigious academic and practitioner journals such as the Review of Accounting Studies, Journal of Accounting Research, Journal of Finance and Journal of Applied Corporate Finance.