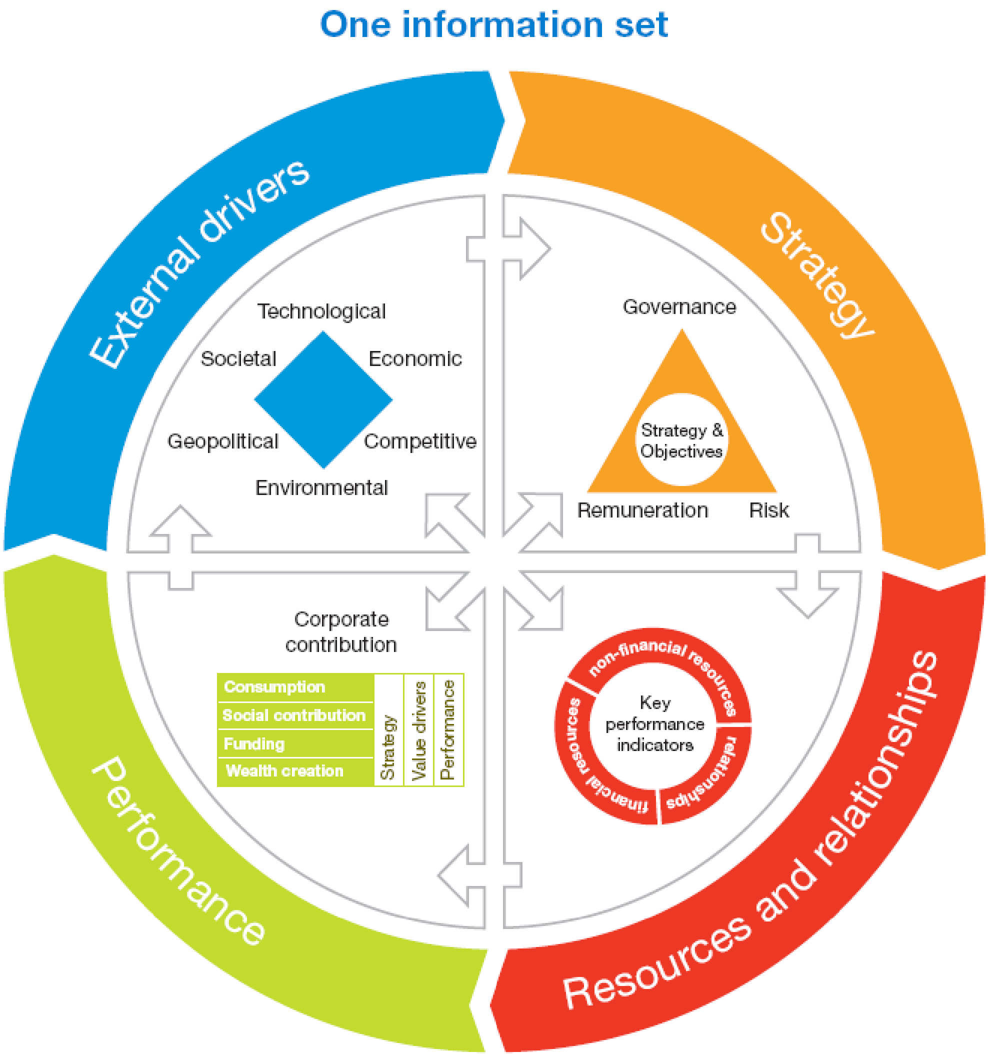
Our integrated reporting framework

In the context of changing market conditions, stakeholder expectations, and reduced confidence and certainty, internal and external decision making requires a more complete and connected information set to underpin both internal and external reporting.

Shown here in its generic form, PwC's Integrated Reporting Framework is based on over a decade of research and work with investors and corporates. The framework identifies four broad, yet critical, categories of information common to all industries and companies that we believe companies need to have at their disposal if they are to be on top of the dynamics of modern business and in a position to cement trust. A more detailed discussion of these categories is shown opposite.

The framework provides a logical and connected structure to determine and present the information needs of a business and the critical links and interdependencies that exist between the categories. None of the information that flows within/from each category is new or unusual. However, the real insight and value comes from understanding the points of intersection. For example, when governance interfaces with remuneration and risk, when a strategy is determined to exploit a changing market environment and when strategic priorities, business performance and KPIs align. It is this joined-up thinking which is so critical.



The framework explained

External Drivers

- Management's capability to understand and explain external market drivers is fundamental to effective decision-making and reporting.
- The credit crunch and subsequent economic downturn have exposed the need for companies to understand, monitor, manage and explain emerging risks and opportunities.
- Processes must capture macro, competitive, regulatory and political factors shaping the market place, as well as changing societal expectations.
- Whilst investors spend the majority of their time understanding market context, they still want to hear the views of management as this can provide the context to understand their strategic decision-making.

Strategy

- A clear strategy is fundamental to business success and consequently should underpin the communication of the quality and sustainability of corporate performance.
- Effective strategies are developed in the context of market drivers and are aligned with the business model. This should be communicated externally.
- An understanding of the culture/values, governance practices and remuneration policies in place is increasingly important in determining how the strategy is embedded into the organisation and the company's risk appetite to pursue strategic success.
- Communication of corporate strategy should be accompanied by an explanation of the risks assumed and how they are mitigated.

Performance

- The previous three categories capture the dynamics of business activity that need to be made more transparent both within the business and externally. To complete the picture, the outputs of corporate activity need to be added.
- Currently these outputs are dominated by financial performance – the model for which is well developed and understood.
- Whilst financial performance will remain critical, changing societal expectations will mean that business success will require a more balanced assessment of corporate contribution, including resource consumption and wealth creation/distribution, which can provide real insight into long-term sustainability.

Resources and Relationships

- Greater collaboration between businesses within the value chain means an understanding of the scope of the business model is increasingly important.
- The relative importance of resources (financial, human and natural capital) and relationships (customers, employees, suppliers, etc) will flex, depending on changing market dynamics and strategies.
- Information on the relative strength of resources and how they are being managed, developed and protected, is critical.
- This information should go beyond qualitative statements to a clear set of KPIs – financial and non-financial – that help management monitor and report progress.