

WICI Concept Paper

1. WICI sees the business or a company as a value creation mechanism which converts financial and non-financial input to certain outputs including financial performance. The main objective of business reporting is to connect stakeholders and companies by providing information which describes the very substance or reality of the company. Therefore, WICI believes that the business reporting could be more accurate, when it explains the value creation mechanism of the company which is different from that of any other company.
2. Nevertheless, the current reporting tends to focus only on financial performance which is merely just a part of the result of the past corporate activities, resulting in making it difficult for those who read it to understand the value creation mechanism of the company. Usually, most stakeholders are interested in the corporate performance in the future, which can hardly be logically predicted from the present financial performance which is the outcome of the activities in the past. In order to provide information which might be a clue for stakeholders to foresee the future performance of the company, each company needs to make clear 1) the value creation mechanism which is unique to the company and can last to a certain extent in the future, 2) the specific assets, including non-financial ones, for the company as the origin of the value creation mechanism, 3) the company's own perspective concerning risks and opportunities in the future, and 4) the strategy for the future business, including how it will utilize those assets based on its perspective.
3. In addition, disclosing company specific way of value creation would make possible diversified evaluation of a company. That is because, what a company puts a priority on or what kind of activities it carries out, cannot be grasped following a simple criteria of financial performance, but the evaluation depends on the degree of compatibility between the priorities of a company and the sense of value of each evaluator or each stakeholder. This also means that a broader number of businesses may be able to win the capital and reputations that they need to execute their strategies based upon their unique value propositions. That is, the 'toolkit' available to companies to win capital and

reputation will be improved from the current profit-focused reporting framework, which may be seen to favor companies with significant short term profits.

4. Based on this background idea, WICI proposes a framework of enhanced business reporting as a tool to encourage a company to pursue its specific way of value creation, taking advantage of its own unique characteristics. By using this framework, both a company and its stakeholders can look into the company from various points of views, and can interact with each other in a more dynamic way. Since business reporting is an important connecting tool between a company and its stakeholders, WICI hopes the reform in the business reporting system will have a positive impact on behavioral change in both.
5. In this context, WICI sees the latest financial crisis, which can be said to be a result of corporate and investor activities focusing only on short-term performance, without paying attention to non-financial, long-lasting assets including intellectual assets, and various ways of value creation, in other words, the more material part of corporate management. Therefore, WICI stresses that the business reporting should not specialize in financial information, nor only focus on past performance, but should also cover mid and long term aspects of value creation.
6. Recently, many kinds of reports concerning non-financial information have been published by companies. It is true that non-financial elements, long-lasting elements and those other than financial performance based on activities in the past, have received more attention. However, contents of most reports fall in such categories as CO2 emission, human rights, compliance and environmental conservation. In other words, companies disclose non-financial information in specific fields, pressed by a certain group with a strong interest in those areas. Therefore, such a disclosure focuses on just one part of corporate activities, which is often far away from the total picture of the company's own value creation mechanism and the core part of the corporate management strategy. Moreover, a company summarizes such a report under the heading of 'obligation' regardless if it comes from legal requirement or peer pressure from the society, this resulting in the fact that the report is passive or defensive and only explains the regulatory compliance.
Consequently, this type of disclosure of non-financial information creates additional cost or burden on companies, with limited appreciation or even recognition by investors and other stakeholders.

To move away from this situation, we need to depart from a report focusing only on a specific social value. Rather, we need to put more emphasis on a company's specific origin of value creation, such as business network, team work, technological or technical capabilities, human power, loyalty to the organization, leadership capabilities or positive attitude of workers, with the description of the corporate strategy to utilize those intellectual assets. Such a report directly addressing those aspects would very likely be recognized and appreciated as a mainstream corporate communication by various kinds of stakeholders.

7. In order to change the current situation, WICI proposes a reform in business reporting toward a model embracing the following functions, which might trigger behavioral change in companies and stakeholders;
 - identifying sources of differentiation of a company from others
 - making clear the value creation mechanism unique to the company which can last longer
 - presenting an integrated picture of the company's activities including financial data, financial performance and non-financial elements
 - providing clues for stakeholders to predict future performance of the company
 - allowing companies to freely choose the substance without requiring 'tick the box' type disclosure
 - explaining material issues for the company with a certain reliability and comparability of the disclosed information for users
 - reducing the total cost of reporting for companies.

8. The basic approach WICI takes in proposing an enhanced business reporting framework to realize the above mentioned function is as follows;
 - WICI presents the skeleton of a narrative story to explain the value creation and corporate strategy of the company as illustrated in Annex 1. This approach is taken to avoid regulating the substance of disclosure by each company, while making the story understandable to as many people as possible.
 - WICI asks companies to include measurable key performance indicators (KPIs) to support the narrative story. At the same time, WICI presents a paper on the concept and principles of KPIs in order to avoid the risk that referring to KPI might make a company feel to be obliged to disclose a certain set of KPIs. WICI believes that such a one-size-fits-all approach might have a negative effect on the materiality of the disclosure. Rather, WICI prefers to provide a

framework to allow a company to choose the most material KPIs by itself., This approach of asking for inclusion of KPIs is taken to raise the reliability and verifiability of the report, avoiding the risk that a report only with narrative story might be complacent or self-sufficient.

- WICI recommends companies to use XBRL format. This approach is taken to improve the comparability and analysis of reports through empowering readers of reports by using the flag information which can be easily and conveniently used for searching.

WICI suggests an enhanced type of business reporting as shown in Annex 2, hopefully under the XBRL format.

9. The origin of value creation or added value on which WICI focuses in the new business reporting framework may include the ESG elements, but not be limited to them. Of course, it is not denied that ESG elements may be related to the core of the business, regardless of the intimacy of the relationship according to the business model of companies.

However, WICI puts more emphasis on the long term sustainability of a company in which most investors and companies are interested, including -but going beyond- environmental and social sustainability.

10. WICI predicts that this new framework, focusing on selected core elements of the business, will make it possible for a company to create a comprehensive and integrated report based on its strength and interests. This means that the additional cost to collect information for disclosure is limited and that the possible streamlining of current non-financial reports might decrease the total cost of reporting.

Conclusion;

WICI proposes an enhanced business reporting framework which focuses on the core part of the company's unique value creation mechanism. Under this framework, WICI hopes more and more companies will be able to easily present an integrated and comprehensive report on material financial and non-financial elements of the company's performance, resulting in a better communication with its key stakeholders, which in return benefit the company itself.