Towards Integrated Reporting and Interrogated Strategy
Moving beyond the triple bottom line

Jonathon Hanks
Incite Sustainability (www.incite.co.za)

Integrated reporting represents an evolution in reporting practice, but potentially could inspire a revolution in the corporate approach to value creation
Issues to consider

- **What** is integrated reporting and an integrated report?
  - A proposed definition for each

- **Why** the move (nationally and internationally) to integrated reporting?
  - Recognising the institutionalisation of integrated reporting
  - Appreciating the underlying motivations for this shift

- **How** does one produce an effective integrated report?
  - Reviewing the practical implications of the IRC Discussion Paper
  - Four incisive questions to guide your reporting process

- **Where** to from here in South Africa and internationally?
  - South Africa’s role in the international move to integrated reporting
  - Anticipated developments in the South African Integrated Reporting Committee
Issues to consider

- **What** is integrated reporting and an integrated report?
  - A proposed definition for each

- **Why** the move (nationally and internationally) to integrated reporting?
  - Recognising the institutionalisation of integrated reporting
  - Appreciating the underlying motivations for this shift

- **How** does one produce an effective integrated report?
  - Reviewing the practical implications of the IRC Discussion Paper
  - Four incisive questions to guide your reporting process

- **Where** to from here in South Africa and internationally?
  - South Africa’s role in the international move to integrated reporting
  - Anticipated developments in the South African Integrated Reporting Committee
Integrated reporting

“A process that provides an integrated account of an organisation’s operational model that reviews

– how it identifies and responds to its key risks, opportunities and relationships
– how it uses the various forms of capital resources
– and the inter-linkages between financial and other aspects of performance, including economic, environmental and social impacts,

and that is aligned with (and informs) its strategic objectives and related strategies.”

The integrated report

“The organisation’s primary report to its stakeholders on its strategy, performance and activities in a manner that allows its stakeholders to assess the ability of the organisation as a whole to create and sustain value over the short, medium and long term.”
Issues to consider

- **What** is integrated reporting and an integrated report?
  - A proposed definition for each

- **Why** the move (nationally and internationally) to integrated reporting?
  - Recognising the institutionalisation of integrated reporting
  - Appreciating the underlying motivations for this shift

- **How** does one produce an effective integrated report?
  - Reviewing the practical implications of the IRC Discussion Paper
  - Four incisive questions to guide your reporting process

- **Where** to from here in South Africa and internationally?
  - South Africa’s role in the international move to integrated reporting
  - Anticipated developments in the South African Integrated Reporting Committee
Towards institutionalisation of integrated reporting

In South Africa – www.sustainabilitysa.org

- **Integrated Reporting Committee**: established by ASISA, BUSA, IoDSA, JSE Ltd, SAICA – and later joined by BASA and CSSA; chaired by Mervyn King
- Invited members of the IRC Working Group are from business bodies, expert practitioners, academia and standards bodies
- Working Group was tasked with developing a framework for integrated reporting; a Discussion Paper was launched on 25 January 2011
- All JSE listed companies required to issue an IR for financial years starting on or after 1 March 2010, or to explain why they are not doing so

Globally – www.theiirc.org

- **International Integrated Reporting Committee (IIRC)**: a collaboration between the International Accounting Standards Board (IASB), the International Federation of Accountants (IFAC), the Financial Accounting Standards Board (FASB), the Global Reporting Initiative (GRI), The Prince’s Accounting for Sustainability Project, and the World Business Council for Sustainable Development (WBCSD)
  - Developing global integrated reporting standards and guidelines
  - Discussion Paper in July 2011; Exposure Draft in 2012; Framework in 2013
Towards an integrated approach to corporate reporting

Motivations for this shift

1. “Current incremental changes are not sufficient – we need a **fundamental shift** in the way companies and directors act and organise themselves”

We are here

**Breakthrough:**
- Global co-operation
- Radical innovation
- Economy operates increasingly within ecological limits

**Breakdown:**
- Runaway warming?
- Escalating violence?
- Large-scale extinctions?
Towards an integrated approach to corporate reporting

Motivations for this shift

1. “Current incremental changes are not sufficient – we need a **fundamental shift** in the way companies and directors act and organise themselves”

2. Many (perhaps most) companies globally and in SA **do not yet fully appreciate the strategic implications** of societal challenges

3. Current **annual reporting is failing** to deliver on its potential
   - Generally **backward-looking**: functioning as rear-view mirror rather than radar
   - Typically **fragmented and lengthy**, covering too many non-material issues
   - Often fail to make the link between **societal issues and core strategy**
   - Seldom talk about the organisation’s capacity to respond to turbulence
   - Generally **fail to build trust** with the company’s stakeholders
   - The associated reporting processes often **fail to meaningfully inform strategy**

“**Sadly too many reports display the dead hands of compliance and the editorial committee. Too few companies have cut through the historic clutter and the short-term financials to create a strategic picture of the business that is informative and convincing.**”

*PWC*
Towards an integrated approach to corporate reporting

Motivations for this shift

1. “Current incremental changes are not sufficient – we need a fundamental shift in the way companies and directors act and organise themselves”

2. Many (perhaps most) companies globally and in SA do not yet fully appreciate the strategic implications of societal challenges

3. Current annual reporting is failing to deliver on its potential

4. “Sustainability” is not driving the innovation we need to make our society sustainable

   - “A big part of the problem lies with companies themselves, which remain trapped in an outdated approach to value creation that has emerged over the past few decades.” Michael Porter and Mark Kramer, Harvard Business Review 2011

   - Another part of the problem lies with the sustainability practitioners who remain trapped in an outdated approach to sustainability

*Integrated reporting has the potential to address both of these concerns*
Integrated reporting
Adopting a value-based approach to societal issues

This shift is reflected in the concept of ‘shared value’: “creating economic value in a way that also creates value for society by addressing its needs and challenges”

---

Integrated reporting
Adopting a value-based approach to societal issues

Sustainability has ceded its innovative power through being:

1. **Marginalised** into Corporate Social Investment (CSI)
2. **Popularised** as Corporate Social Responsibility (CSR)
3. **Standardised** into compliance checklists (*many* TLAs – eg GRI, CDP, SRI)

“Terms like triple bottom line (TBL) and environment, social and governance (ESG) have played their roles as booster rockets and will fall away as new forms of integrated accounting and reporting take over.”

*John Elkington et al (2010).*

*We should acknowledge that there is only one bottom line in business, and that to suggest otherwise results in the issue being marginalised.*
Integrated reporting
Adopting a value-based approach to societal issues

The Integrated Report

“The overarching objective of an integrated report is to enable stakeholders to assess the ability of an organisation to create and sustain value over the short, medium, and long term.”

“I'm too red not to be green”
Mazibuko Jara (formerly SACP)
Issues to consider

- **What** is integrated reporting and an integrated report?
  - A proposed definition for each

- **Why** the move (nationally and internationally) to integrated reporting?
  - Recognising the institutionalisation of integrated reporting
  - Appreciating the underlying motivations for this shift

- **How** does one produce an effective integrated report?
  - Reviewing the practical implications of the IRC Discussion Paper
  - Four incisive questions to guide your reporting process

- **Where** to from here in South Africa and internationally?
  - South Africa’s role in the international move to integrated reporting
  - Anticipated developments in the South African Integrated Reporting Committee
The South African Discussion Paper

1. **Introduction**
   1.1. The context of an integrated report
   1.2. What does the Discussion Paper cover?
   1.3. Who is the Discussion Paper for?
   1.4. Who developed the Discussion Paper?
   1.5. Integrated reporting and the integrated report
   1.6. The objectives of integrated reporting and the integrated report
   1.7. What is an integrated report?

2. **Reporting principles**
   2.1. Principles informing the report scope and boundary
   2.2. Principles informing the selection of the report content
   2.3. Principles informing the quality of the reported information
Principles for integrated reporting

- Informing the *scope and boundary of the report*

- Informing the *report content*
  - Relevance and materiality (including stakeholder inclusiveness)
  - Faithful representation (completeness, neutrality, free from error)

- Informing the *nature and quality of the reported information*
  - Comparability and consistency
  - Verifiability
  - Timeliness
  - Clarity (and context)
Integrated Reporting

Understanding Materiality

The information provided should relate to issues that are of such importance and relevance that they could substantively influence the assessments and decisions of the organisation and its stakeholders.

For the purposes of the integrated report the targeted stakeholders are those who are seeking to evaluate the organisation’s performance and make an assessment about its capacity to create value in a manner that sustains or enhances the systems on which that value depends.

This will require disclosure of the organisation’s impacts on the financial, economic, social and environmental systems that have a bearing on the organisation’s ability to create value over the short-, medium-, and long-term, as well as disclosure on its capacity to respond to the changing context in which it operates.
3. **Suggested elements to be addressed in the integrated report**

3.1. Report profile (*What is the scope and boundary of the report?*)

3.2. Organisational overview, business model, and governance structure (*How do we create value and make decisions?*)

3.3. Understanding the operating context (*What are the circumstances under which we operate?*)

3.4. Strategic objectives, competencies, KPIs and KRs (*Where do we want to go and how do we intend to get there?*)

3.5. Account of the organisation’s performance (*How have we fared over the reporting period?*)

3.6. Future performance objectives (*Informed by our recent performance, what are our future objectives?*)

3.7. Remuneration policies (*What is our approach towards remuneration?*)

3.8. Analytical commentary (*What are the views of the leadership about the organisation?*)
Integrated Reporting

Key considerations

- The Integrated Report (and process) should seek to address the following issues:
  - Outline your **business model and governance structure**
  - Identify the principal **risks and opportunities** material to your business based on:
    - An assessment of **societal issues** that impact on your capacity to create value
    - A review of your most **material impacts**
    - An assessment of the nature of your **relationship** with key stakeholders
  - Outline your **strategic objectives** in light of the above assessments
    - Show how these have been informed by the identified **risks and opportunities**
    - Identify the **organisational competencies** required to realise your objectives
    - Provide a succinct list of key **material issues and KPIs** to track performance
  - Provide an account of your **performance** against your strategic objectives, your most material impacts and your KPIs
  - Provide a statement of your **future anticipated activities** & performance objectives
  - Include a statement on **remuneration principles**
  - **Analytical commentary** from members of your governing structure

“I absolutely love this more strategic focus associated with integrated reporting; this is exactly what I want to hear.”

CFO of major SA company
ANNEX 2 – GUIDANCE ON THE PROCESS FOR DEVELOPING AN INTEGRATED REPORT

The following steps are suggested when developing an integrated report:

- Step 1 – Ensure organisational understanding of the implications of integrated reporting.
- Step 2 – Plan the reporting process and define the report scope and boundary.
- Step 3 – Determine the material risks and opportunities that impact on the organisation’s ability to create and sustain value.
- Step 4 – Implement systems to ensure responsiveness to the organisation’s key stakeholders.
- Step 5 – Establish internal systems to accurately obtain and monitor performance data.
- Step 6 – Develop and implement an appropriate assurance process.
- Step 7 – Compile and structure the integrated report.
- Step 8 – Ensure the organisation’s governing structure approves the report.
- Step 9 – Publicly release the integrated report.
Integrated reporting: fostering integrated strategy

Cutting through the fluff (and the dead hands of compliance) and identifying the strategic opportunities for long-run competitiveness

“The users of the integrated report should be able to determine whether the organisation’s governing structure has **applied its collective mind** in identifying the economic, social, environmental and financial issues that impact on the organisation, and to assess the extent to which these issues have been **incorporated into the organisation’s strategy.**”

An effective reporting process should consider four incisive questions:

1. What are the links between your **value drivers** and social, natural & economic systems?
2. What is the organisation’s **strategic position** in the context of current societal trends?
3. What **organisational competencies** are needed to deliver on this commitment?
4. What are the **key strategic focus areas** and associated performance indicators?

More detail on this approach to sustainability is available in the Incite handbook *Sustainability 2.0: A Guide to Competing in a Changing World* available free from [www.incite.co.za](http://www.incite.co.za)
# Integrated reporting and the integrated report

**Reflecting a shift in annual reporting process**

<table>
<thead>
<tr>
<th>Historic, financial information</th>
<th>Forward-looking, strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term focus</td>
<td>Short, medium and long term</td>
</tr>
<tr>
<td>Financial capital</td>
<td>All capitals</td>
</tr>
<tr>
<td>Silo-based approach</td>
<td>Reflects integrated thinking</td>
</tr>
<tr>
<td>Impacts</td>
<td>Impacts and competencies</td>
</tr>
<tr>
<td>Compliance-driven / rule-bound</td>
<td>Responsive to circumstances</td>
</tr>
<tr>
<td>Long “carpet-bombing” reports</td>
<td>Concise – focus on material issues</td>
</tr>
<tr>
<td>Paper-based reports</td>
<td>More innovative use of technologies</td>
</tr>
<tr>
<td>Narrow disclosure</td>
<td>Greater transparency and trust</td>
</tr>
</tbody>
</table>
Issues to consider

- **What** is integrated reporting and an integrated report?
  - A proposed definition for each

- **Why** the move (nationally and internationally) to integrated reporting?
  - Recognising the institutionalisation of integrated reporting
  - Appreciating the underlying motivations for this shift

- **How** does one produce an effective integrated report?
  - Reviewing the practical implications of the IRC Discussion Paper
  - Four incisive questions to guide your reporting process

- **Where** to from here in South Africa and internationally?
  - South Africa’s role in the international move to integrated reporting
  - Anticipated developments in the South African Integrated Reporting Committee
Anticipated activities

- Agreed merit in updating the Discussion Paper to address following issues:
  - King III inconsistencies and update for the new Companies Act
  - Alignment with the international discussion document
  - Dealing with the main issues raised in the comment letters and public sessions

- Three project groups have been established in the IRC Working Group to deal with these content areas for the re-issued Discussion Paper
South Africa | Looked at purely from an integrated reporting perspective, South African reports could credibly claim to be leading the way.

South Africa

...purely from an integrated reporting perspective, South African reports could credibly claim to be leading the way.

Brazil

...despite the lack of developed regulations for integrated reporting, Brazilian reports have made great strides.

China

...Chinese reports are almost entirely financially focused making it very difficult for them to effectively integrate financial and non-financial information.

Europe

...well developed guidelines and regulation drives a practical, targeted and measured approach to reporting.

Republic of Korea

...a relatively creative sample group with many companies making efforts to inform readers about their position in the marketplace.

India

...Indian reports look to promise much but then lack in the delivery of these promises.
South Africa | Looked at purely from an integrated reporting perspective, South African reports could credibly claim to be leading the way.

Management statements which define non-financial issues as being integral to business strategy

Top countries:

South Africa 75%
Europe 44%
Republic of Korea 43%

Disclosing the process undertaken to determine material sustainability issues

Top countries:

South Africa 38%
Brazil 36%
Europe 8%

Outlining their long-term business objectives/priorities

Top countries:

South Africa 88%
Europe 80%
Republic of Korea 71%
Key messages

1. Engage the Exco upfront on what Integrated Reporting is (and is not)

2. Sustainability analysis should begin with the business model (how a company creates value) not with the business case (how to reduce costs, inspire employees or improve reputation)

3. An assessment of a company’s sustainability performance should focus not only on impact, but also on the organisation’s ability to compete in the transition zone

4. Sustainability must be integrated into the business strategy; but it must also interrogate the business strategy and ultimately the business model

5. Integrated Reporting is an analytical process that reflects this shift in understanding of sustainability

More detail on this approach to sustainability is available in the Incite handbook Sustainability 2.0: A Guide to Competing in a Changing World available free from www.incite.co.za
Thank you

Jonathon Hanks (jon@incite.co.za)
Incite Sustainability (www.incite.co.za)

More detail on this approach to sustainability is available in the Incite handbook
Sustainability 2.0: A Guide to Competing in a Changing World
available free from www.incite.co.za