

# Communicating value through Integrated Reporting

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*Audit Training of Trainers*



**CFRR** >>

**Centre for Financial  
Reporting Reform**



Road to Europe: Program of Accounting  
Reform and Institutional Strengthening



EU-REPARIS is funded by the  
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# Session outline

Why and what is Integrated Reporting

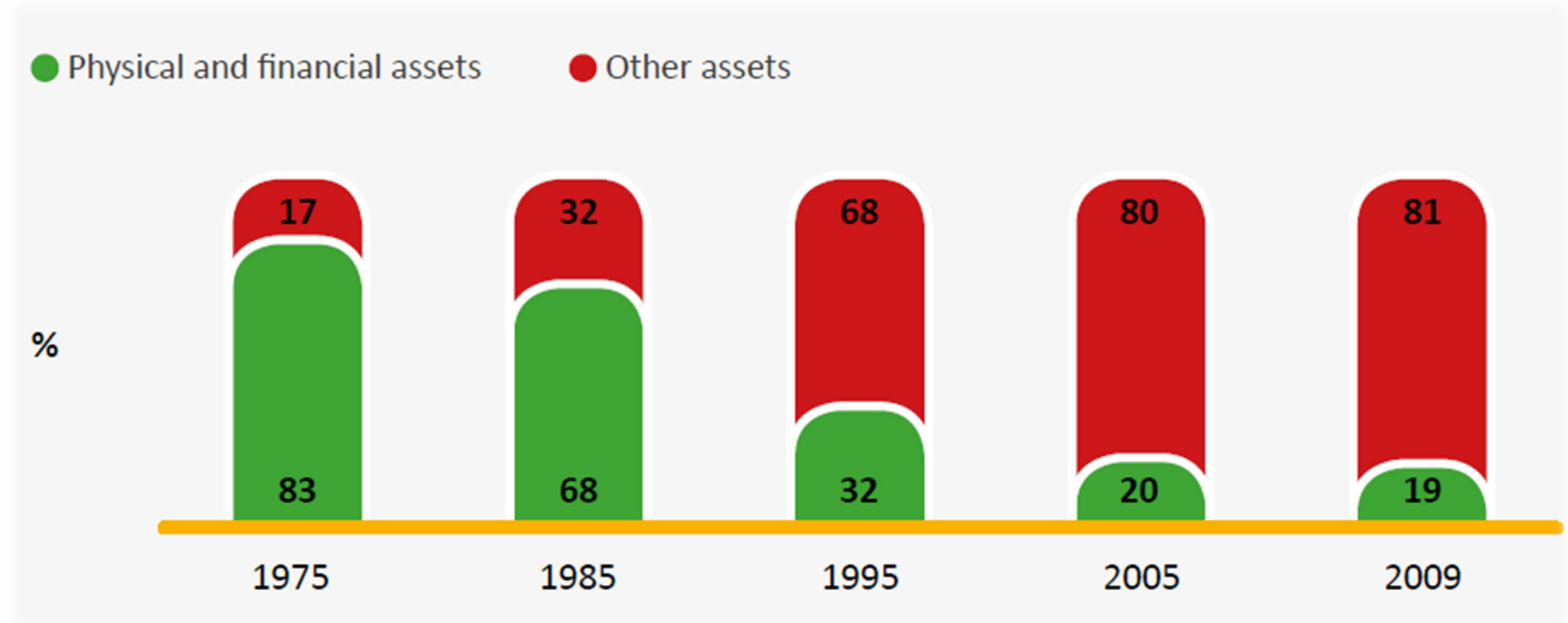
Integrated Reporting Framework

Implementations.....early wins

Integrated Reporting in South Africa



# Components of S&P 500 market value



Source: SAICA Integrated Thinking Landscape



# Shift to other forms of reporting – no understandable framework

Non- financial reporting

**Financial  
Reporting**

**Sustainability  
reporting**

**GRI**

1. Environmental impact Reports
2. Employees reports
3. Corporate Social Responsibility Reports
4. Corporate Governance reports



# What's missing from corporate reports?



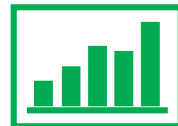
Strategy

**44%** do not look beyond short-term initiatives



Business model

Only **58%** identify knowledge and expertise as a key element



Performance

Only **17%** tell you whether the business is winning or retaining customers

Source: KPMG Survey of Business Reporting  
Analysis of larger listed companies



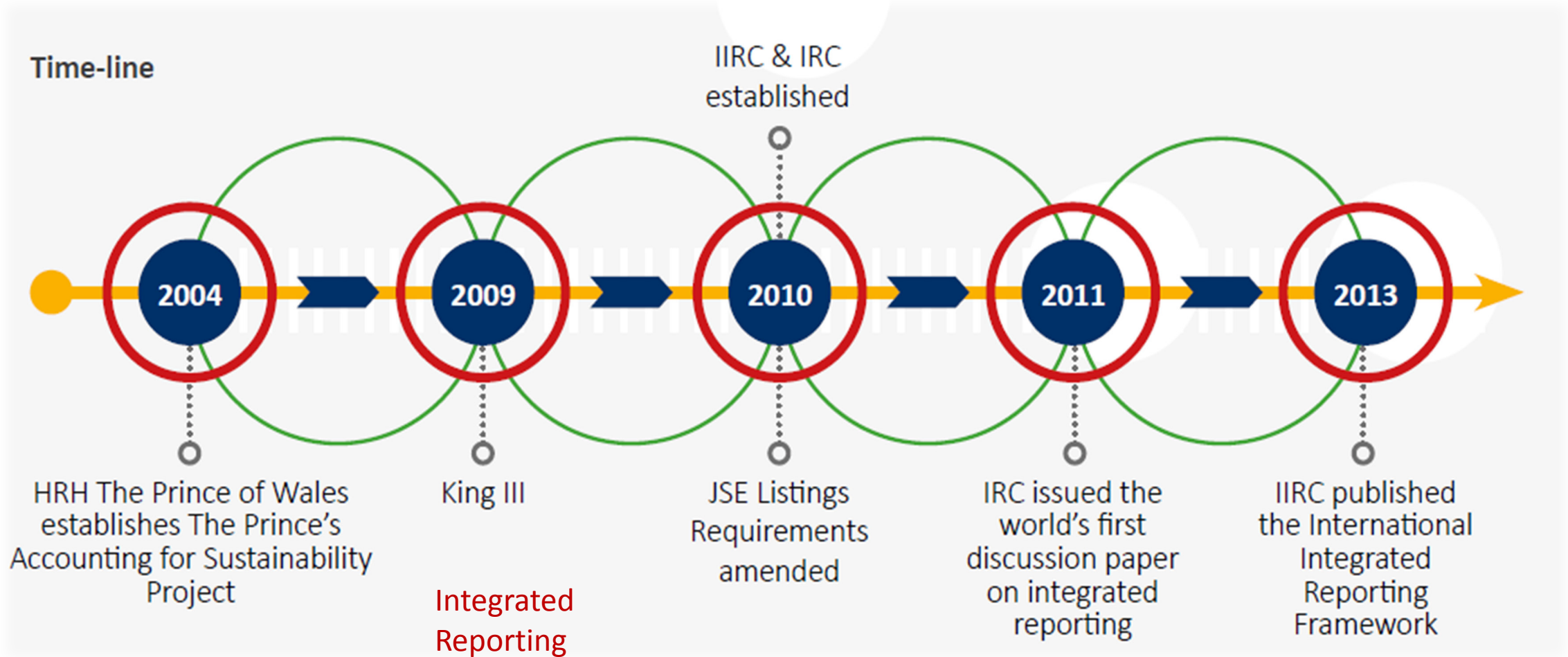


## Summary of issues called for Integrated Reporting [ The 'why' of IR]

The development of <IR> is based on key insights:

- » Not just financial but wider matters
- » Increasing value in business is driven by a range of capitals
- » Reporting is fragmented – the story is lost in detail
- » Users want to read about value creation over time
- » Better reporting can help to unlock long-term investment

# Global timeline for IR



Source: SAICA Integrated Thinking Landscape



## **Integrated thinking:**

**“The active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects”.**



# Integrated Reporting:

**“A concise communication about how an organisation’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.”**

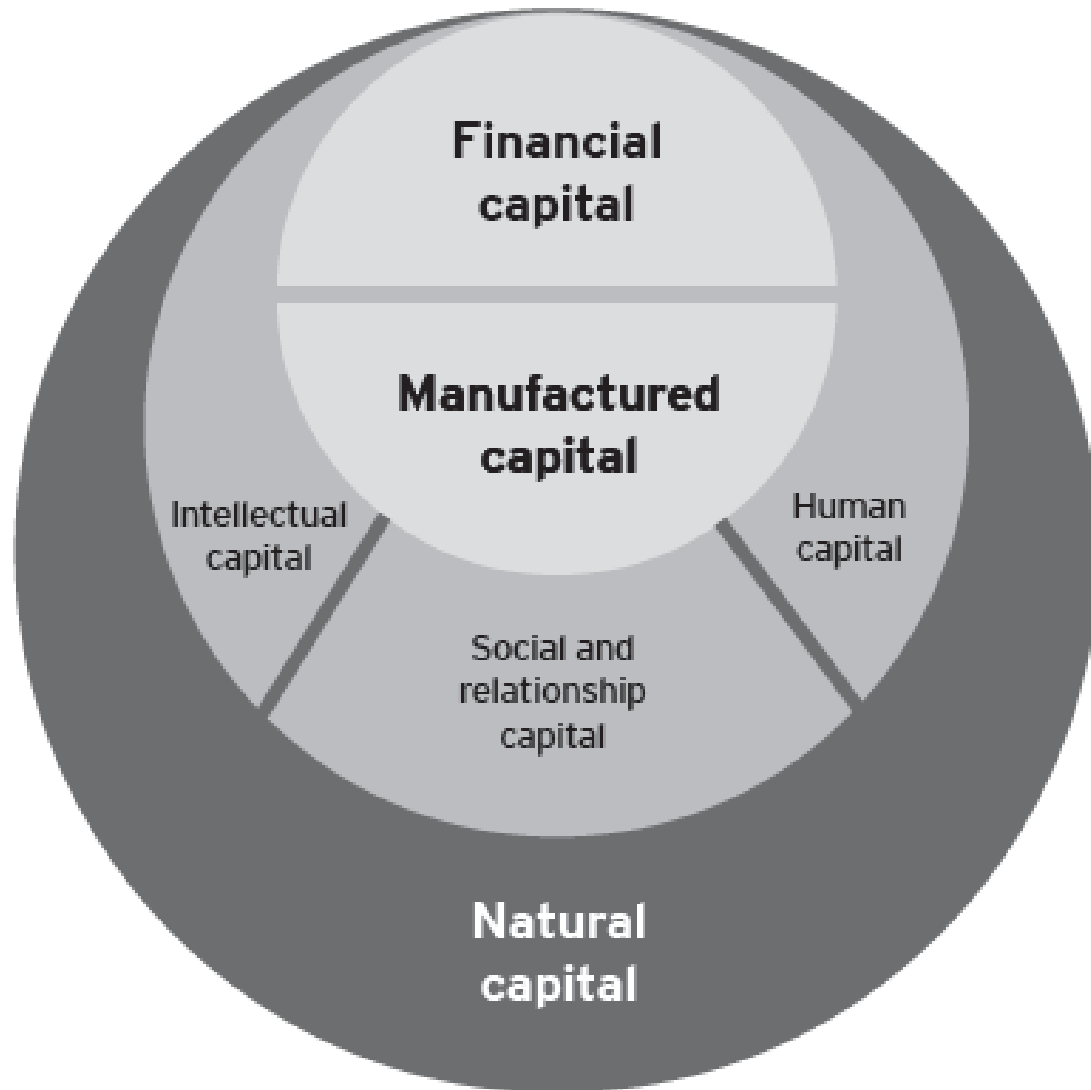


## Note.....

“An integrated report is not simply an amalgamation of the financial statements and the sustainability report [...] An integrated report should provide stakeholders with a concise overview of an organisation, integrating and connecting important information about strategy, risks and opportunities and relating them to social, environmental, economic and financial issues (Integrated Reporting Committee of South Africa [IRCSA])”



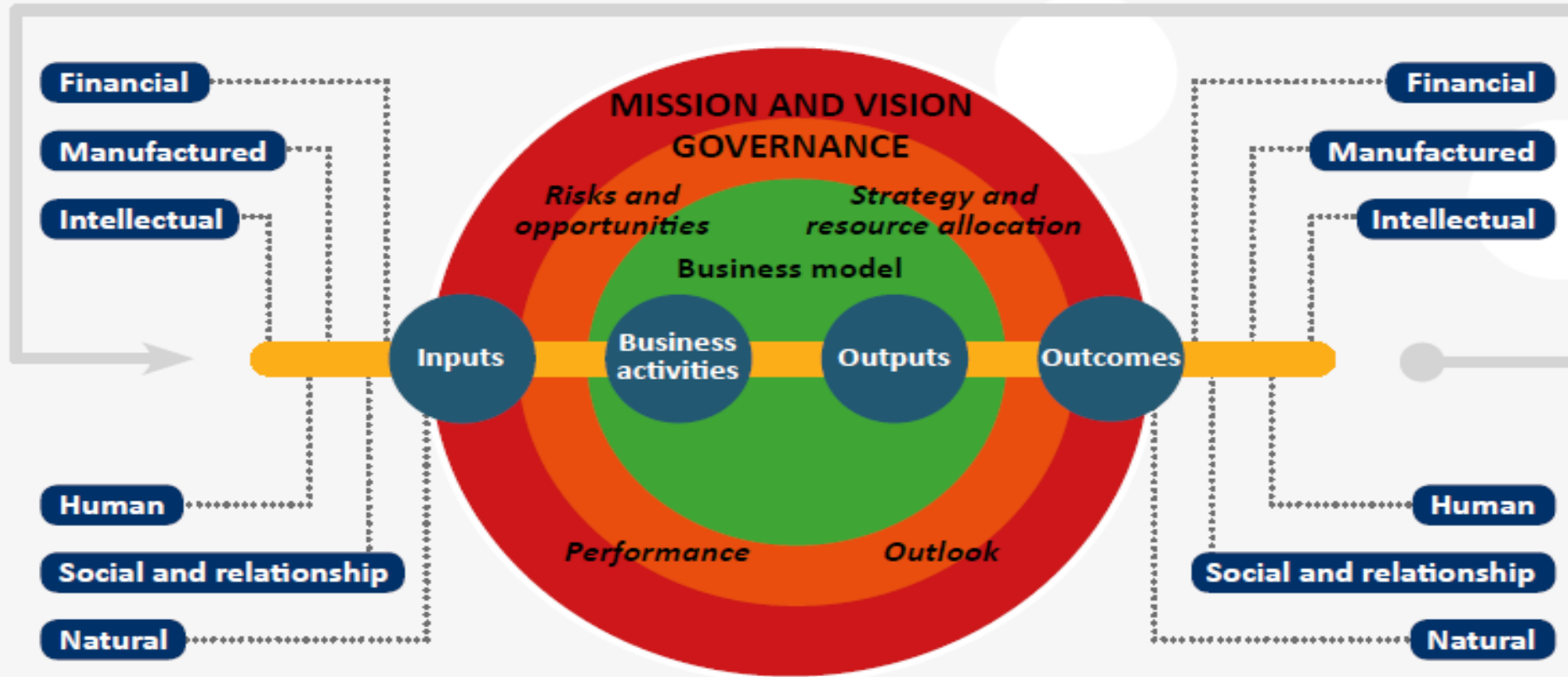
# The capitals



- » Capitals are interrelated and tradeoffs are likely to occur
- » Some types of capitals are more important than others
- » Reporting on performance through narrative or quantified KPI's
- » Ownership of the capitals



# Business model - value creation process



# Integrated Reporting Framework – principle based approach

## - Guiding principles

1. Strategic focus and future orientation
2. Connectivity of information (telling the story)
3. Stakeholder relationships
4. Materiality (significant)
5. Conciseness (accessibility vs No pages)
6. Reliability and completeness
7. Consistency and comparability



# Integrated Reporting Framework – principle based approach

- Content elements: fundamentally linked to each other, not mutually exclusive

1. Organisational overview and external environment
2. Governance
3. Business model
4. Risks and opportunities
5. Strategy and resource allocation
6. Performance
7. Outlook
8. Basis of presentation





# IR for SME, Public sector

CREATING VALUE FOR SMEs  
THROUGH INTEGRATED THINKING



THE BENEFITS OF INTEGRATED REPORTING <IR>



INTEGRATED REPORTING <IR>

International  
Federation  
of Accountants

INTEGRATED REPORTING <IR>

CIPFA | The Chartered Institute of  
Public Finance & Accountancy

Integrated thinking  
and reporting

**Focusing on  
value creation in  
the public sector**

An introduction for leaders

WORLD BANK GROUP

*“ Public sector organizations are increasingly challenged with maintaining or improving outcomes within the same or reducing resources. Communicating how, and how well prepared they are, to achieve this is critical to public accountability”.*  
*Professor Mervyn King,  
Chairman, IIRC*

# Implementation globally

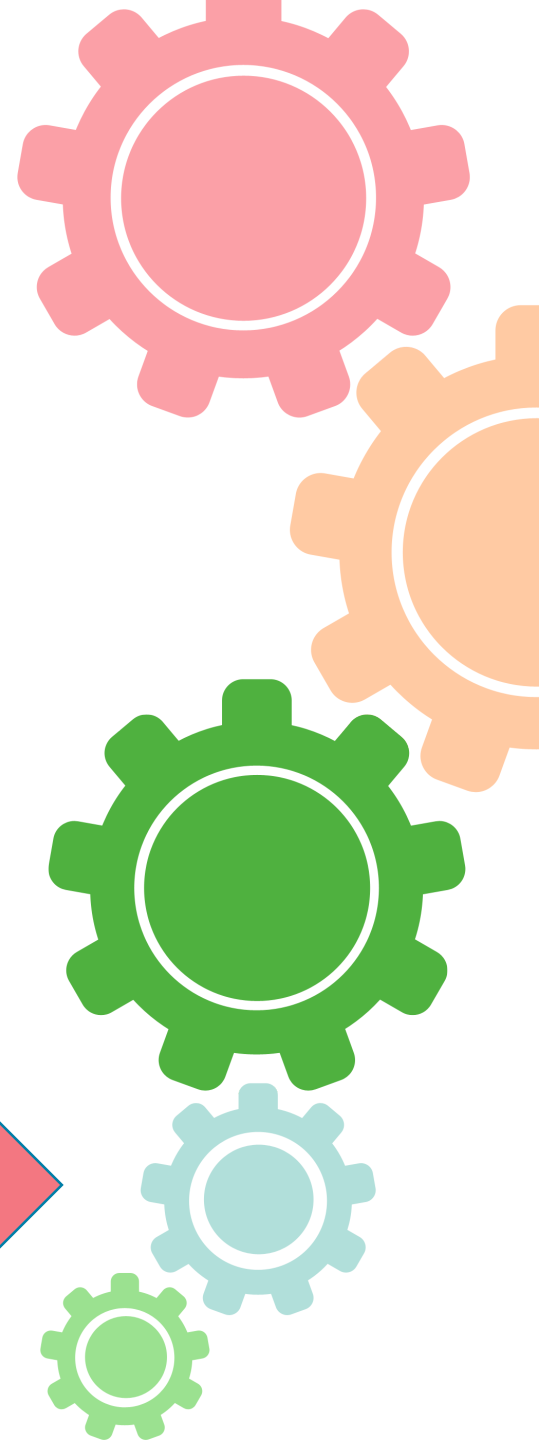
- » Findings of global <IR> implementation review to be shared at IIRC Convention on 12 and 13 October, 2017 in Amsterdam
- » South Africa, Malaysia, Australia, Japan (300 Com), Sri Lanka,
  - » A significant number of the UK's FTSE listed companies have adopted IR including United Utilities, Unilever, Diageo, HSBC and Marks & Spencer.
  - » 55% increase of listed companies adopting Integrated Reporting in the Netherlands in 2017 (28 listed Companies)
- » Africa Integrated Reporting Committee – PAFA and World Bank





## Noted wins to date....

*“IR is the future of reporting and future of accounting profession”*  
Prof Mervyn King, Chairman, IIRC





# Notable benefits

A report by the IIRC and Black Sun<sup>2</sup> that surveyed 66 organizations (mostly companies) found that <IR> helps to build stronger relationships and a better understanding with providers of financial capital:

**56%**

report a positive benefit in relations with institutional investors

**52%**

report a positive benefit in relations with analysts

**87%**

believe providers of financial capital better understand the organization's strategy

**79%**

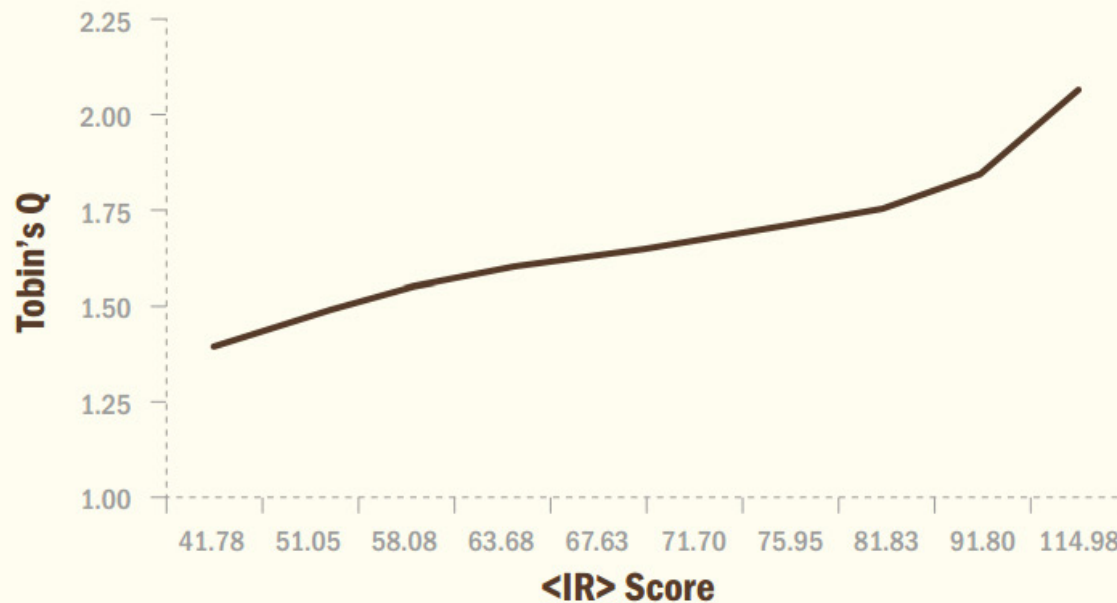
believe providers of financial capital have greater confidence in long-term viability of business models

A Nanyang Business School study looks at the association between <IR> and company valuation.

A score was constructed based on the level of disclosure of and the market valuation of equity by investors was also measured.

Findings show that firms with a higher score have a higher market valuation.

### Relationship between <IR> Score and Market Valuation (Tobin's Q)



Source: Nanyang Business School<sup>4</sup>

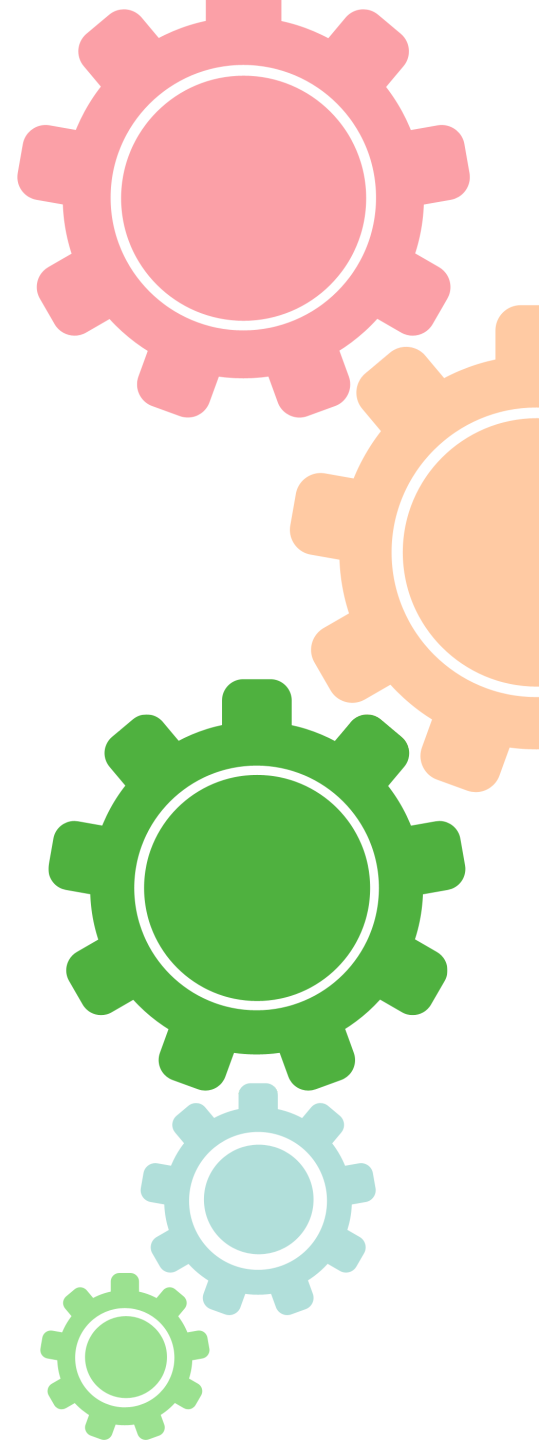
## South Africa – Directors views

- » Integrated Reporting drives integrated thinking (78% executives)
- » Integrated thinking improves decision-making at management level (74% executives)
- » Integrated thinking improves decision making at board level (72% executives)

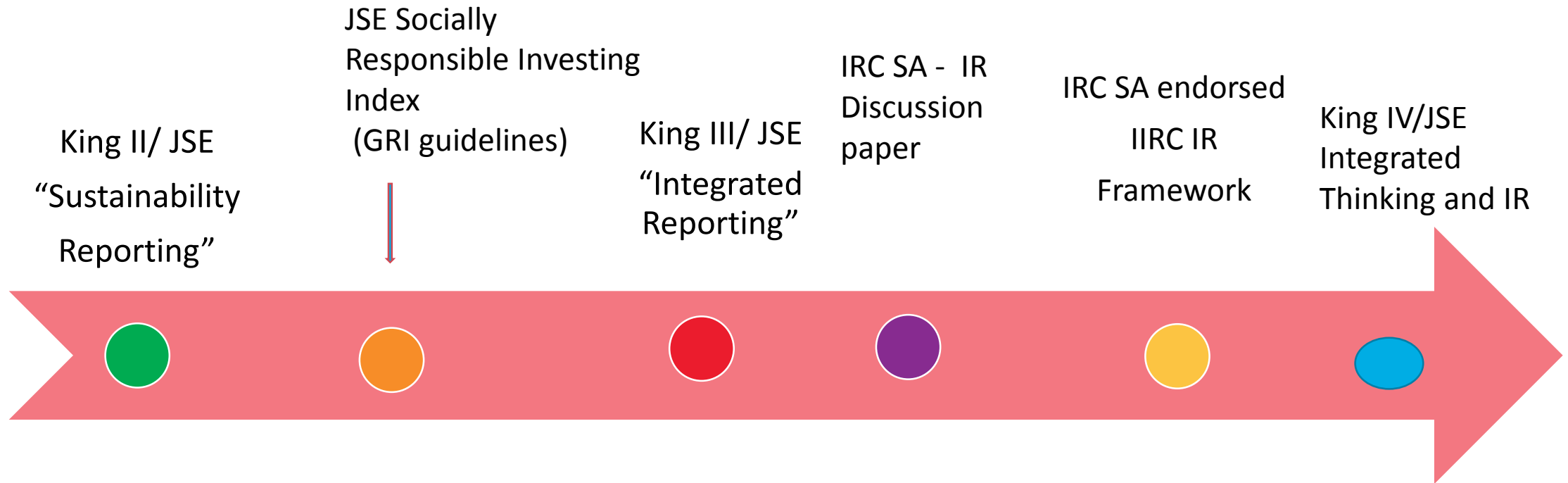




**South Africa**



# South Africa time line



2002

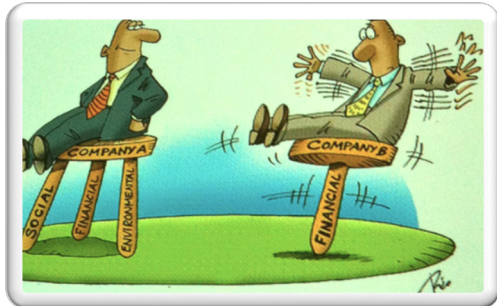
2004

2010

2011

2014

2016

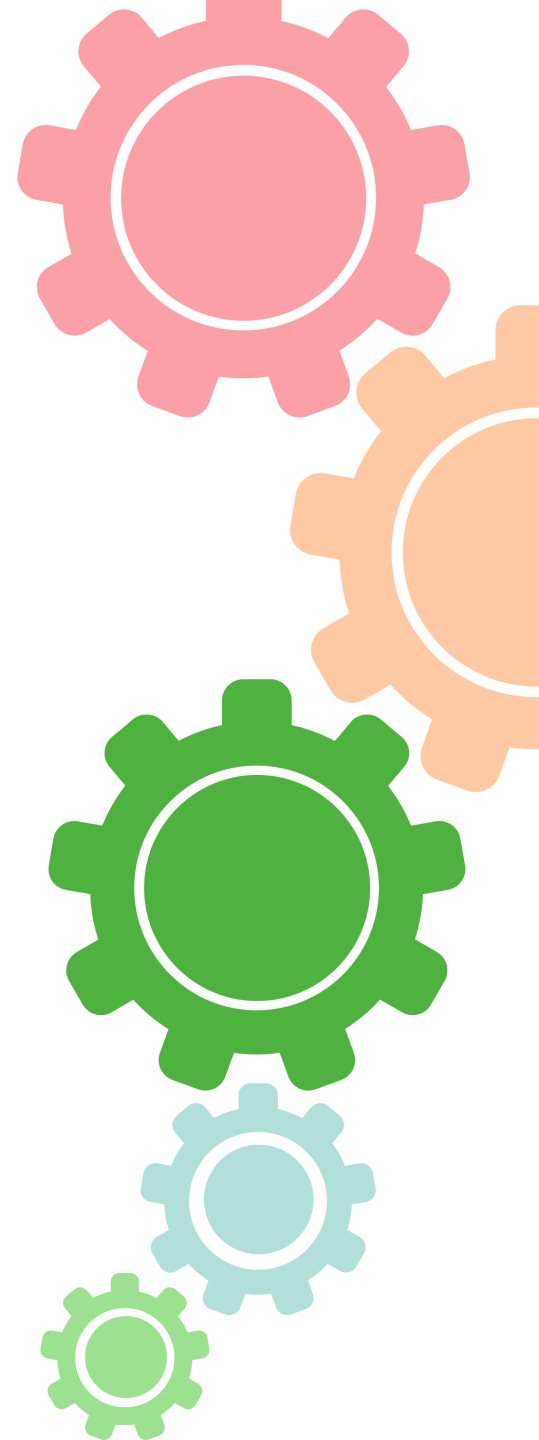


↑  
IRC SA established

↑  
5 Sector supplements



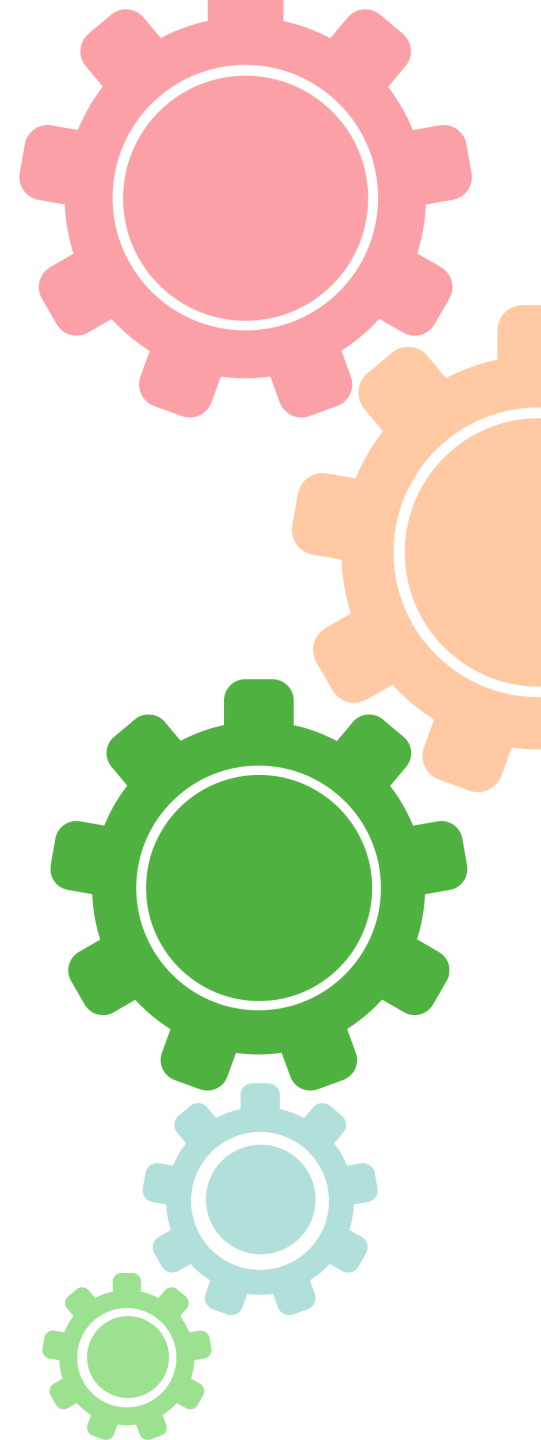
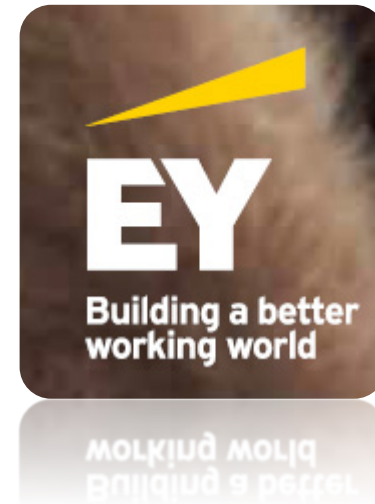
**Prof Mervin King**  
**explains IR in South**  
**Africa**





# Implementation since 2011

(Source: EY Excellence in IR Awards 2016-  
A survey of integrated reports from South Africa's  
top 100 JSE listed companies and top ten state-  
owned companies





# Evolution of IR in South Africa

## 2011:

- ▶ Little guidance on what integrated reports should contain
- ▶ First reports often combined annual financial statements and sustainability report
- ▶ Many companies adopted a "wait and see" approach

## 2013:

- ▶ Clearer international guidelines
- ▶ Reports more focussed and concise
- ▶ Reports with different "look and feel" starting to develop

## 2015:

- ▶ Integrated reports becoming more innovative
- ▶ More reports focussing on strategy and forward looking
- ▶ Better articulation of the way in which business creates value
- ▶ Widening gap between companies who embrace integrated reporters and those who do not

## 2012:

- ▶ Companies starting to experiment with innovative ways in which to communicate their value creation story
- ▶ Companies starting to remove detailed sustainability and corporate governance information from integrated reports
- ▶ Many struggling to find balance between traditional annual report and a forward looking report emphasising strategy

## 2014:

- ▶ <IR> Framework issued
- ▶ Many more local and international examples of excellent reporting
- ▶ Integrated reporting now part of the corporate reporting landscape



## Positive trends

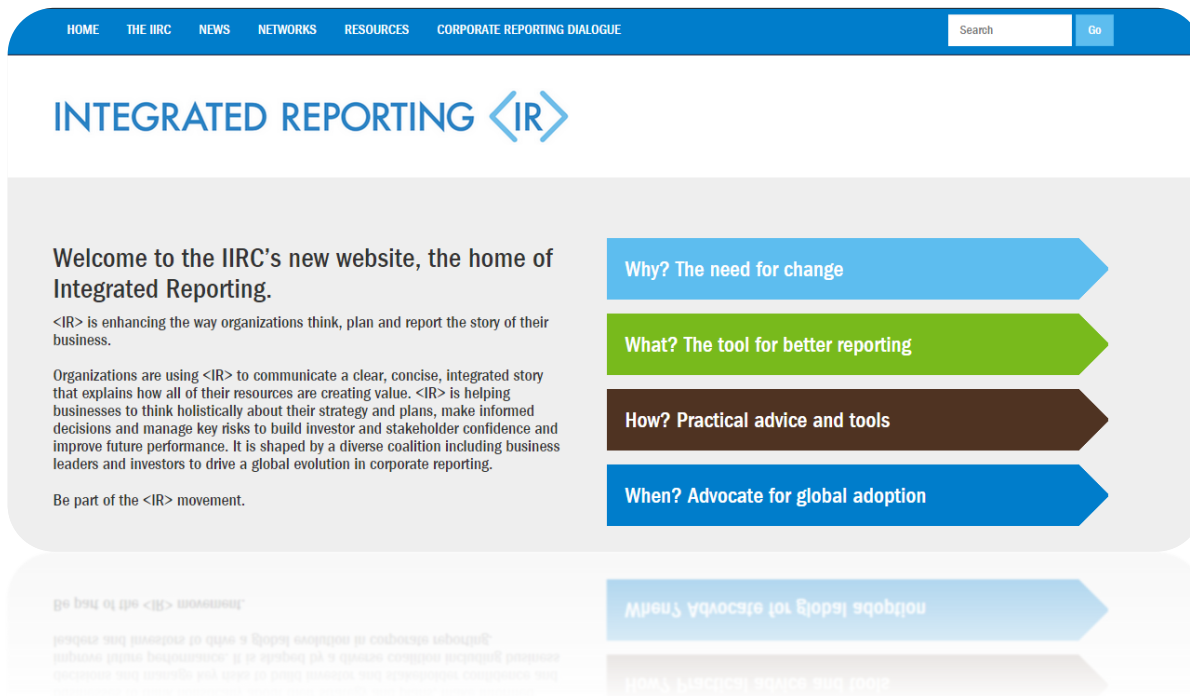
1. Significant **improvement** in quality of integrated reports over last five years
2. Improved **connectedness** of information
3. Evidence of innovation in **layout and structure**
4. Improved articulation of **business models**
5. Greater use of **websites** for detailed and compliance information
6. Focus on how **governance structures** promote value creation
7. Better use of **infographics**, navigation tools and cross reference
8. Use of **"pop-up" narratives** to explain key numbers
9. More companies referring to the **"capitals"**
10. Trend towards **conciseness**

## Negative trends

1. After five years almost 40% of JSE listed companies are still **not** making an effort to **produce an integrated report**
2. Too much emphasis on **financial performance** and not enough on strategy and value creation
3. Still not much evidence of **integrated thinking**
4. **Trade-offs between capitals** not given enough prominence
5. Lack of meaningful **KPIs**
6. No clear distinction between **"outputs"** and **"outcomes"**
7. **Strategies** to achieve strategic objectives are often lacking
8. Tendency to concentrate on **positive issues** rather than more balanced reporting
9. Still too much **compliance** information
10. Executive **directors' emoluments** still poorly handled

# Resources, examples

[www.integratedreporting.org](http://www.integratedreporting.org)



The screenshot shows the homepage of the IIRC website. At the top, there is a navigation bar with links for HOME, THE IIRC, NEWS, NETWORKS, RESOURCES, and CORPORATE REPORTING DIALOGUE. A search bar is also present. Below the navigation bar, the main heading reads "INTEGRATED REPORTING <IR>". The main content area features a welcome message: "Welcome to the IIRC's new website, the home of Integrated Reporting." followed by a sub-heading: "<IR> is enhancing the way organizations think, plan and report the story of their business." Below this, there is a paragraph explaining that organizations are using <IR> to communicate a clear, concise, integrated story that explains how all of their resources are creating value. <IR> is helping businesses to think holistically about their strategy and plans, make informed decisions and manage key risks to build investor and stakeholder confidence and improve future performance. It is shaped by a diverse coalition including business leaders and investors to drive a global evolution in corporate reporting. At the bottom of the main content area, it says "Be part of the <IR> movement." To the right of the main content area, there are four blue arrows pointing right, each containing text: "Why? The need for change", "What? The tool for better reporting", "How? Practical advice and tools", and "When? Advocate for global adoption".

## Other sources

» IFAC [www.ifac.org](http://www.ifac.org)

» IRC SA  
<http://integratedreportingsa.org>

## SA Companies

» Kumba Iron Ore

» Redefine Properties

» Nedbank Group Ltd

» Vodacom

» Transnet (SOE)

# Thank you

Summary: [Deloitte video](#)

World Bank stands ready  
to support

Questions

Comments

