

The Integrated Report and Integrated Thinking in the reign of King IV

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IRC of SA - CEO

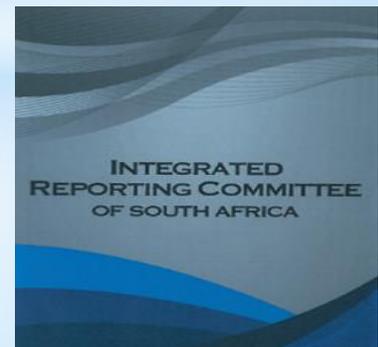
July 2016
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Integrated Report

Is 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** in the **short, medium and long term**

Source: *International <IR> Framework*



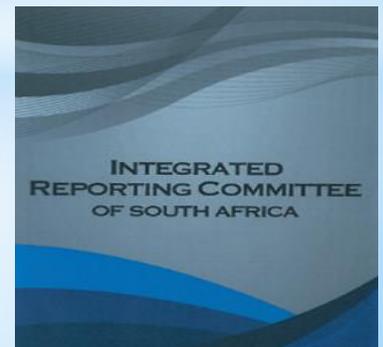
Who's who

**International Integrated Reporting Council
(IIRC)**

**Integrated Reporting Committee (IRC) of
South Africa**

King III

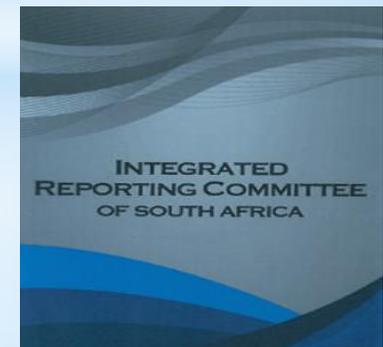
(Draft) King IV - 1 November 2016



International Integrated Reporting Council (IIRC)



Chair: Prof Mervyn King
CEO: Paul Druckman

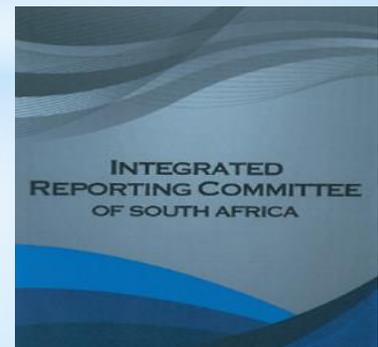


Mission

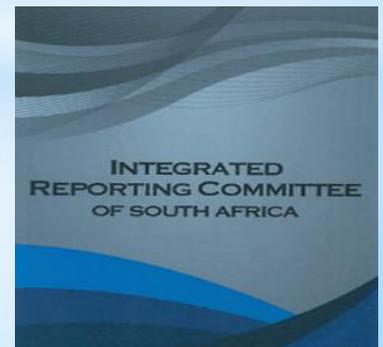
The IIRC's mission is to establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors.

Vision

The IIRC's vision is to align capital allocation and corporate behaviour to wider goals of financial stability and sustainable development through the cycle of integrated thinking and reporting.



- IR around the world

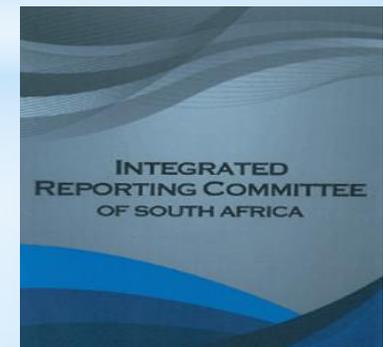


Integrated Reporting Committee (IRC) of South Africa



Chairman: Mervyn King
CEO: Leigh Roberts

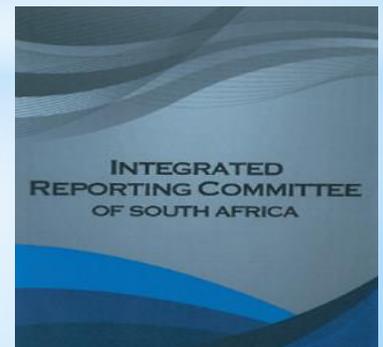
- Our objectives
 - Establish and procure the recognition and acceptance of **good practice** in integrated reporting
 - Design, disseminate and promote **integrated thinking** and encourage organisations to produce **integrated reports**
 - Promote the **international harmonisation** of integrated reporting
- ... **consider recommendations of the King Codes**



- IRC Working Group

Individuals with skills and experience who give their time to the IRC's technical projects:

- **Mohamed Adam, Adrian Bertrand, Stephen Bullock, Trevor Chandler, Derick de Jongh, Bob Garnett, Jonathon Hanks, Mark Hoffman, Claire Hoy, Wasfie Ismail, Karin Ireton, Cathie Lewis, Corli le Roux, Sven Lunsche, Jayne Mammatt, Thuto Masasa, Mzila Mthenjane, Leigh Roberts (chairman), Lelanie Sherman, Graham Terry, Sandy van Esch, Stiaan Wandrag**



- Our technical projects

2016

- **Comments on Draft King IV and Sector Supplements**
- **Investor Engagement Programme**
- **Information Paper: Disclosure of Performance against Strategic Objectives**

2015

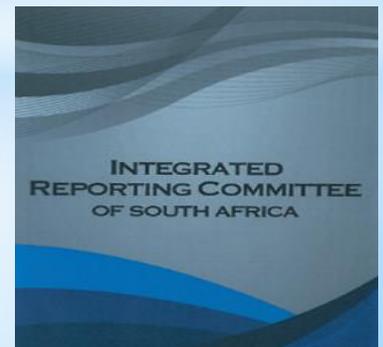
- **Information Paper: Reporting on Outcomes**

2014

- **Information Paper: Preparing an Integrated Report – A Starter's Guide**

2011

- **Discussion Paper: Framework for Integrated Reporting and the Integrated Report**



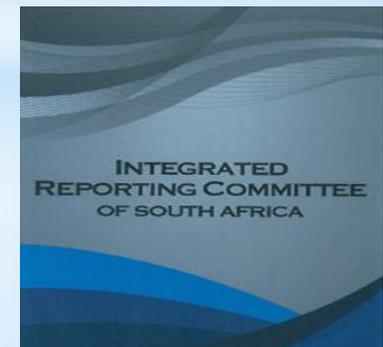
- The links . . .

IIRC

- Professor Mervyn King
- IIRC's technical director is observer on IRC Working Group
- IRC Discussion Paper in 2011 used as a base to start discussions on the *International <IR> Framework*
- IRC made a significant contribution to development of the *International <IR> Framework*, sharing the SA experience

King III

- IRC is a 'child' of King III born in 2010
- King III thinking fed into the IRC Discussion Paper
- IRC worked with IoDSA in crafting the King II Practice Note



- Who's doing IR in SA?

Listed companies

- As part of the King III principles on an apply or explain basis

Non-listed companies

- Strate, Waco International ...

SOCs

- Transnet, Eskom, DBSA, ACSA ...

Public sector

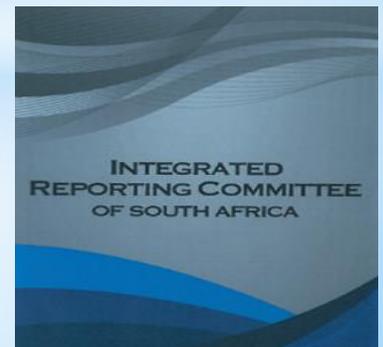
- Fasset, Legal Aid, Competition Tribunal ...

NPO/ NGO

- SAICA, IRBA, IoDSA, Cotlands, NSRI ...

Municipalities

- Cape Town, Johannesburg ...



- Current Guidance in SA

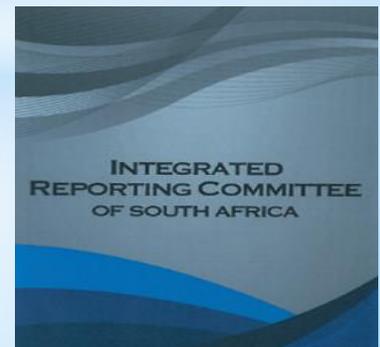


Released by the IIRC in 2013

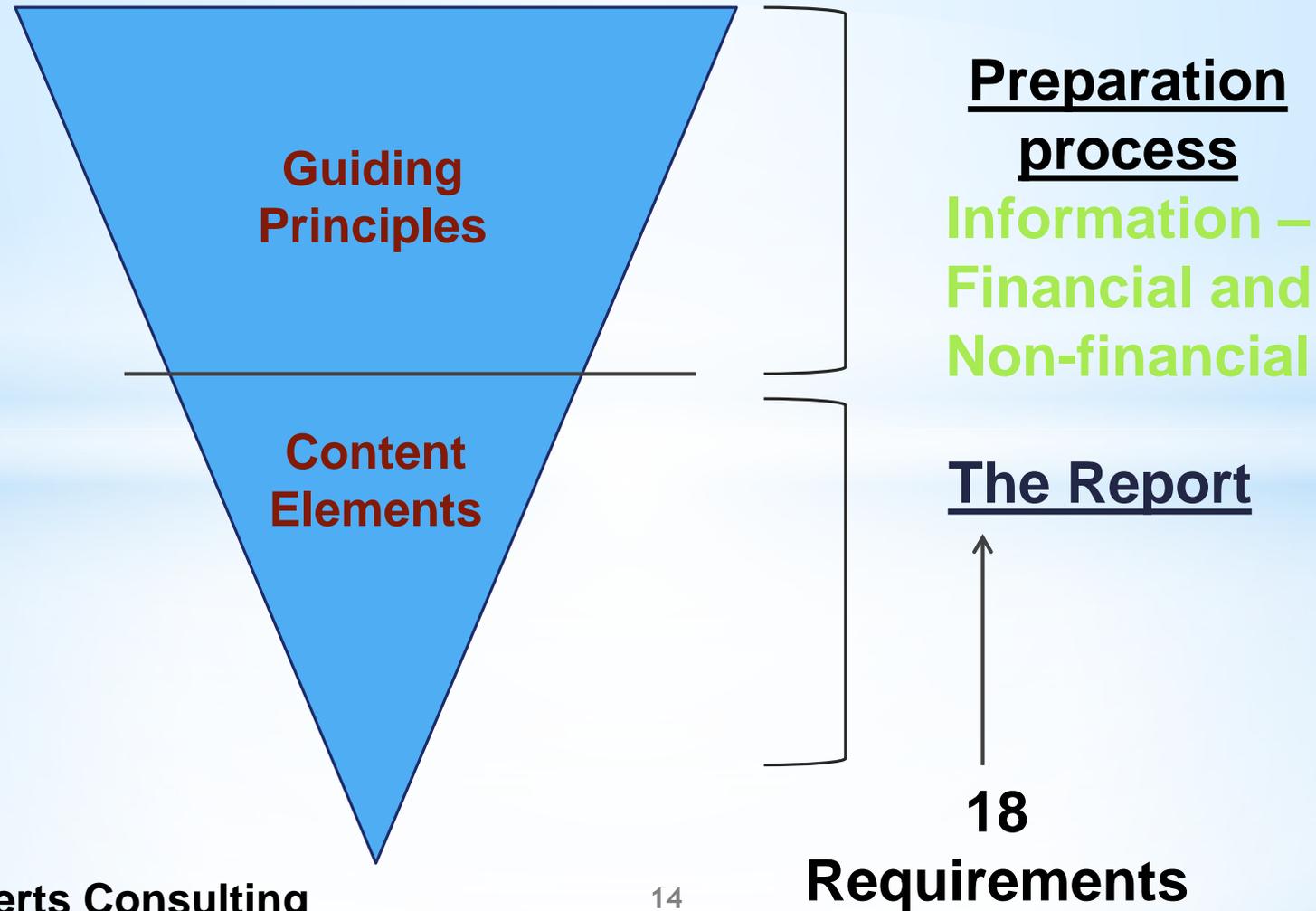
Endorsed by the IRC of SA as good practice on preparing an integrated report

King III

King IV



The *International <IR> Framework*



The Framework's 18 Requirements

Fundamental Concepts

Value creation
6 capitals (aka resources & relationships)

2 Statements

- Reference <IR> Framework
- Board responsibility for integrity of report (2)

Form of the report

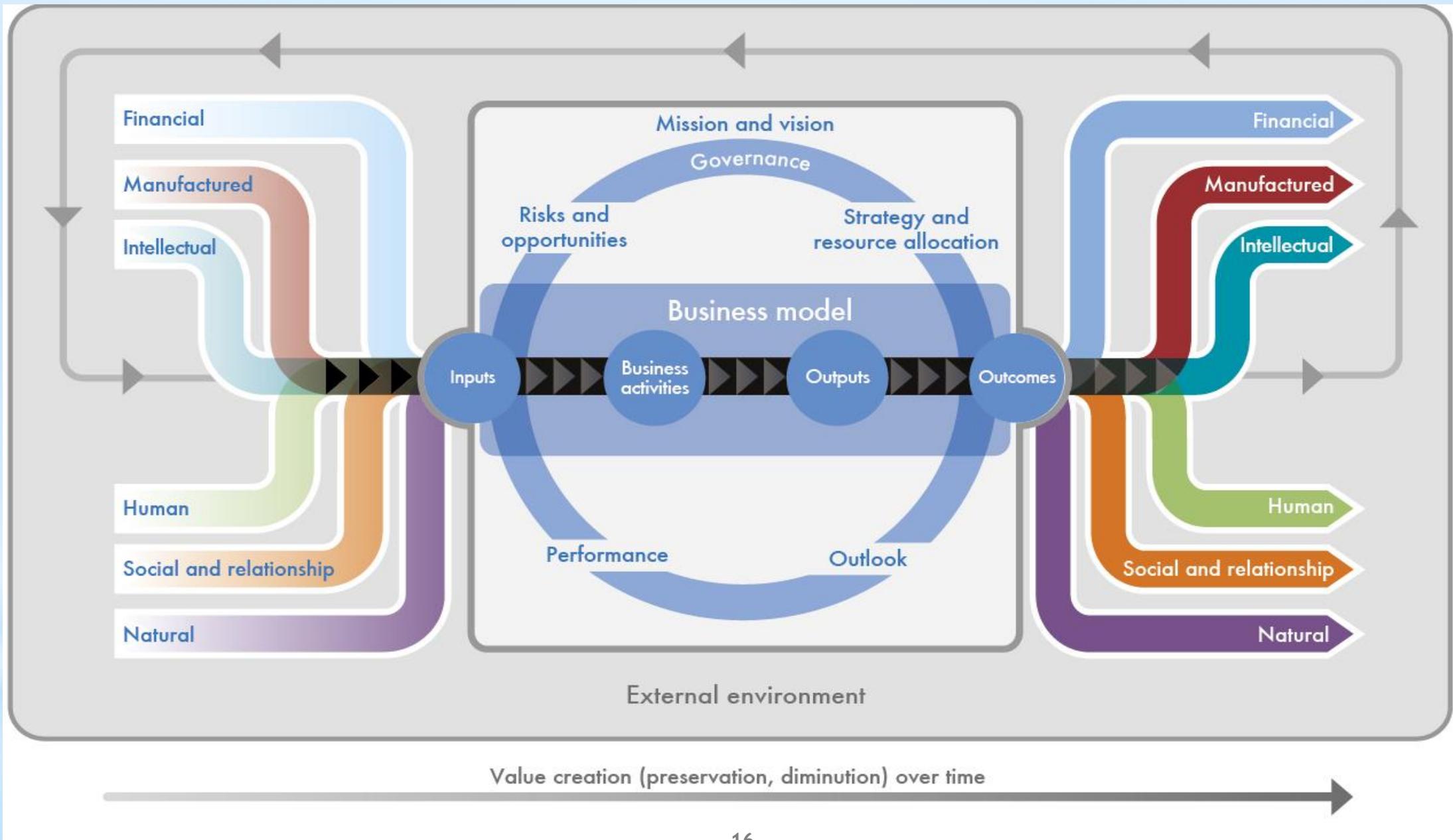
- Designated, identifiable communication
(Comply with all Requirements)

8 Content Elements

- Organisational overview and external environment
- Governance
- Business model
- Risks and opportunities
- Strategy and resource allocation
- Performance
- Outlook
- Basis of preparation and presentation

7 Guiding Principles

- Strategic focus and future orientation
- Connectivity of information
- Stakeholder relationships
- Materiality
- Conciseness
- Reliability and completeness
- Consistency and comparability



The structure of the annual corporate reporting suite

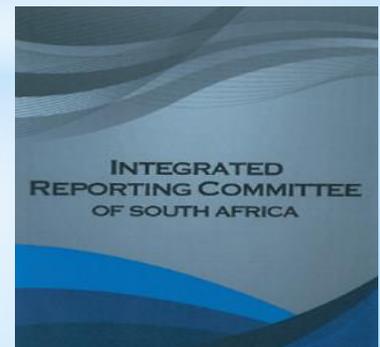


Integrated report is the head

Other reports contain detailed, focused information, e.g. AFS, Sustainability Report/ information, compliance reports

There is cross-referencing

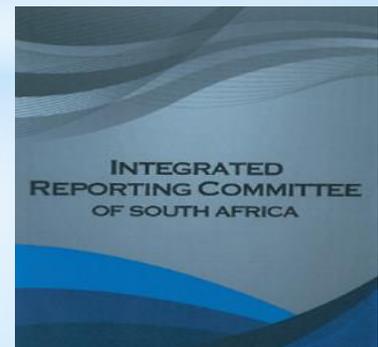
Other reports are often housed on website and not printed



Draft King IV

The links ...

- King III (2009) ---- IRC of SA and Discussion Paper (2011) ----- IIRC and *International <IR> Framework* (2013) . . .
- Draft King IV ‘rests’ on the thinking and concepts of *International <IR> Framework* and frequently references it
 - ❖ Concept of Multi-capitals – Financial, Manufactured, Intellectual, Human, Social & Relationships, Natural
 - ❖ Integrated Thinking
 - ❖ Value Creation
 - ❖ Integrated Report is a Practice Recommendation (and concise)



- But (1) . . .

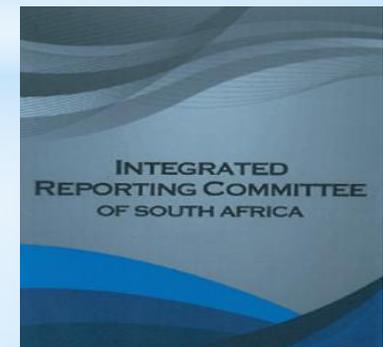
Multi-capitals

- While the definition of sustainable development (the combined economic, social and environmental context) includes the 6 categories of capital, some definitions slightly out of line with the Framework

Integrated Thinking (the same)

Value creation

- Bit confusing – creation of value often phrased as positive, intended consequences only, ignores negative, unintended outcomes



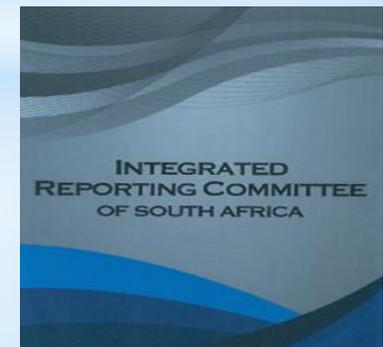
- But (2) . . .

Integrated Report

- “Annual”
- A new (similar) definition of a report
- Sets minimum requirements – similar to the Framework’s requirements but uses different words
- On performance, comes across as stakeholder value – should be against the strategic objectives. Remuneration is aligned to performance and sustainable value creation

Materiality

- Starts off with what's important to the organisation, but later says should consider the audience of the report. The Framework - what's important to the organisation



Integrated Thinking

Essence = Management of the 6 capitals

AND

Cuts through corporate silos to connect people and information to achieve organisation's strategic objectives

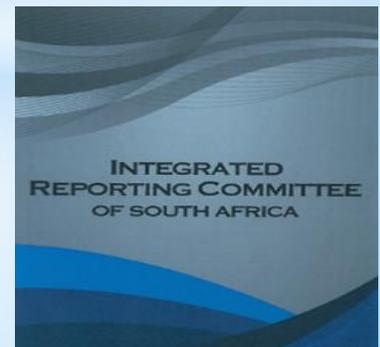
- **Strategy, risks/ Measurement, monitoring and reporting**
- **Decision-making – best possible information; all-round information**

Realising the Connectivity of Things

Thinking about Consequences

Thinking about the Longer term

--- Business viability



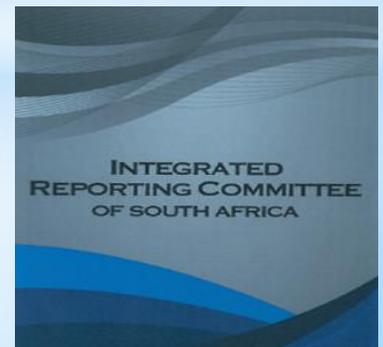
The need

CGMA Global C-suite Survey (2016): Found they're struggling to make the right decisions in world of Volatility, Uncertainty, Complexity, Ambiguity

Problems identified: Slow, bureaucratic decision-making processes; Silo-ed short-term thinking; Lack of trust and collaboration; Turning volume of data into relevant info; Not using the right information

ALSO

C-suite skills shortage: Learn from past outcomes; Listening to employees; Big data; Enabling challenges to traditional thinking



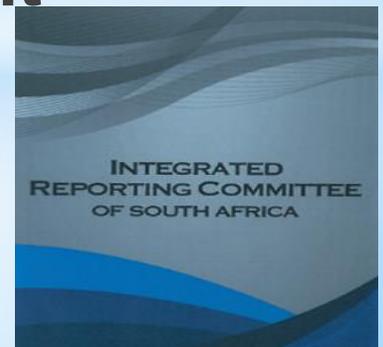
The evidenced advantages

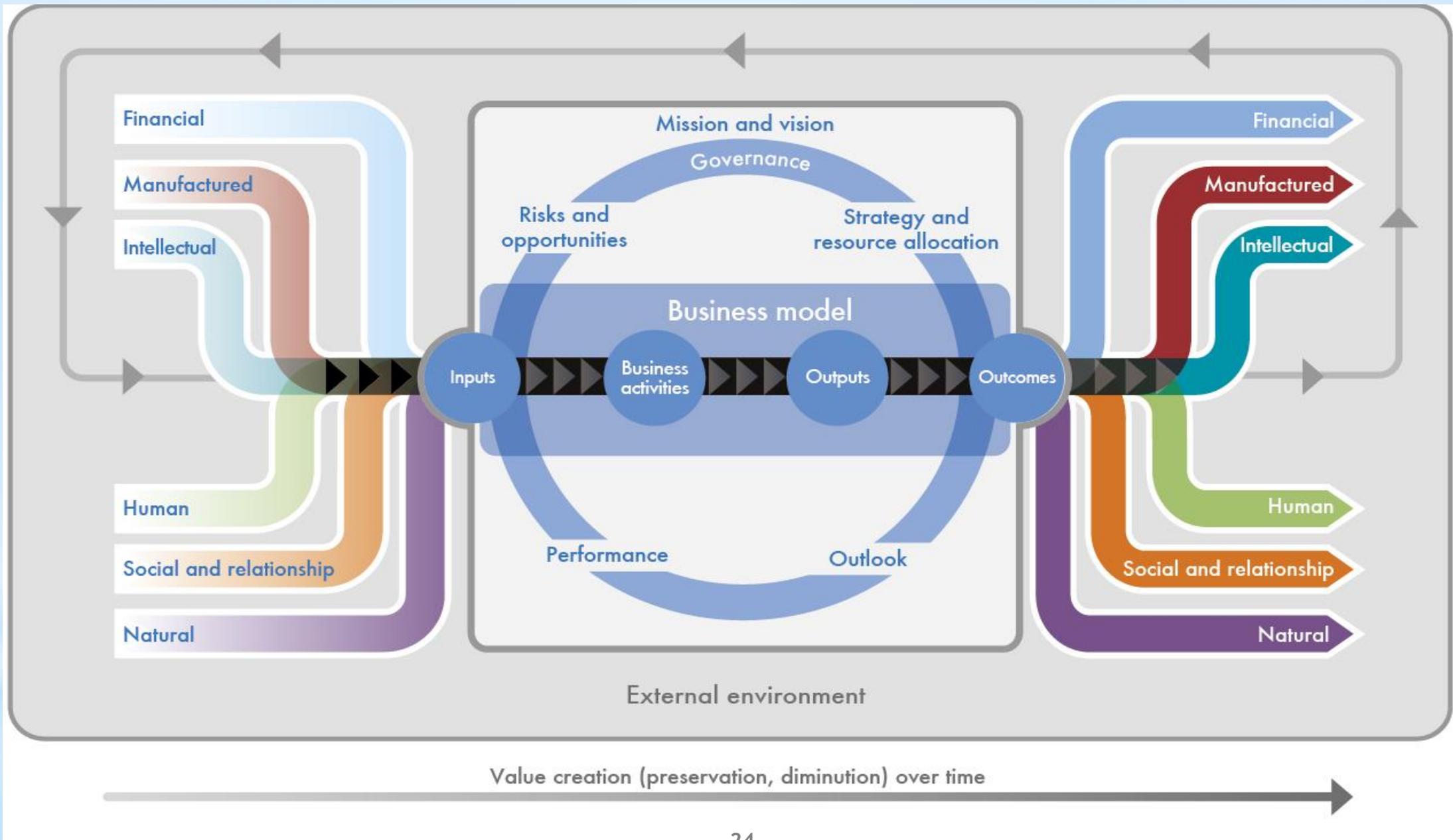
CGMA Survey found those who apply Integrated Thinking in decision-making:

- **Better performance than peers**
- **More effective execution of decisions**
- **Less susceptible to delivering flawed info to decision-makers**

SAICA Survey of execs/ non-exec (2015):

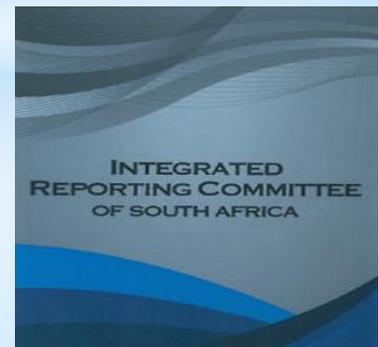
- **Improved decision-making at board and management**
- **More cohesive approach to reporting**
- **Improved understanding of the value drivers**
- **Improved risk management**





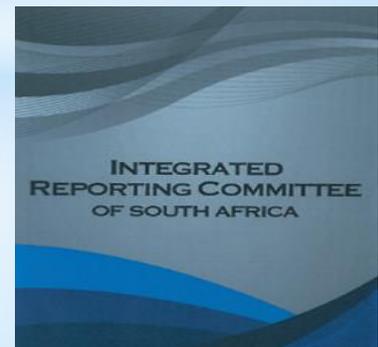
My forecasts

1. **King IV will be aligned with the Framework**
2. **Audience of the report – unlikely to change from stakeholders; most likely scenario is status quo**
3. **Sector Supplements – wider reach**
4. **Retirement Funds**
5. **Rise of the octopus approach**
6. **Rise and rise of Integrated Thinking**
7. **Slimmer reports**
8. **Fiduciary duty to the organisation**
9. **Assurance**



My longer term (and global) forecasts

- 1. Acceptance of 6 capitals and not 1**
- 2. Triple bottom line, triple context will be seen as yesterday's terminology**
- 3. Appreciation by investors of the many uses of the IR and why organisations should do it**
- 4. Integrated Thinking is the way business is run**
- 5. Audience of reports is key stakeholders**
- 6. Rise, rise and rise of Transparency**
- 7. Value**



**If you would like to join the IRC database
for IRC events and Information Papers:**

**Send an email with your name and
organisation to**

leigh31@telkomsa.net

www.integratedreportingsa.org

