Integrated Reporting in South Africa:
From Concept to Practice

Future Leaders Program 2014
Enabling tomorrow’s sustainability business leaders
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Leading companies have been on a journey towards more integrated reporting for around 20 years. The challenges involved in engaging management and investors and in developing all the necessary accounting and reporting ‘architecture’ have been and continue to be significant. However, the experience of companies and investors in South Africa indicates that there is now a growing body of evidence to give more companies the confidence to take up integrated reporting and perhaps, more importantly, integrated management thinking. Indeed we may now be at a tipping point in both the understanding and take up of integrated reporting as just ‘good management practice’ for all businesses.

Geoff Lane, Partner, PWC

Integrated thinking, dealing with the 6 capitals described in this paper and an ongoing relationship with the company’s stakeholders, results in management being more informed in developing strategy and the board having an informed oversight of the organisation developing sustained value creation.

Professor Mervyn King, Chairman IIRC
EXECUTIVE SUMMARY

Corporate reporting is not static, it is constantly evolving. In the past, reporting frameworks were shaped by accountants and focused almost solely on financial statements. Fast forward to today, reporting encompasses financial and non-financial data, involves many inputs from non-financial experts, and a new global reporting standard is emerging: Integrated Reporting (IR). One country stands out as a pioneer in this new reporting global trend: South Africa.

As part of our involvement in the 2014 Future Leaders Program (FLP) of the World Business Council for Sustainable Development (WBCSD), our group project conducted research on how South African companies have put Integrated Reporting into practice.

We interviewed four companies in South Africa, as well as the Chairman of the South African Integrated Reporting Committee (IRC), to understand their motivations and requirements for Integrated Reporting. Our objective was to share their insights on the process, the key lessons they learned, and what were the benefits and impacts.

We also interviewed four South Africa-based institutional investors, who analyse these reports to make some of their investing decisions. We wanted to hear what they expect from these reports, and their advice on how to make them better.

This report is the outcome of these interviews: “Integrated Reporting in South Africa: From Concept to Practice”. It is a collection of findings to serve as a reference guide for companies preparing to start Integrated Reporting.

We end this report with a summary of key steps based on the collective experience of these South African pioneers. We arrived at three main conclusions.

1. Integrated Reporting is a journey for the entire organisation.
2. Integrated thinking is key to successful integrated reporting, but not a prerequisite.
3. Assembling an integrated report promotes integrated thinking, by breaking down silos of business activity and introducing a new way of assessing value.
1. Integrated Reporting – what is it?

Financial reporting has been a fixture of corporate best practice for over a century. Sustainability reporting, while it has surfaced only in the past two decades, is growing rapidly worldwide. However, one of the most significant trends getting global attention is Integrated Reporting (IR).

The International Integrated Reporting Council (IIRC) defines IR as “the process founded on integrated thinking, that results in a periodic integrated report by an organization, about value creation over time, and related communications regarding aspects of value creation”. The end-product of this process is typically a periodic “integrated report” which the IIRC defines as “a concise communication about how an organisation’s strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term”.

As corporate governance practices evolve, one-sided reporting, such as financial reporting, is no longer seen as the sole source of information on corporate performance. The aim of IR is to tell the story of the company, how it creates value, and the strategy, risks and opportunities of its business model. It also gauges performance against strategic objectives. The purpose of IR is to give stakeholders a holistic view of the company – as well as a view of its future. The two essential concepts of IR are the recognition of different types of capital and the value creation process.

1. See below section 3.1.
2. Contrary to classical financial reporting, IR includes future information to allow stakeholders to make a more informed assessment of future value.
2. Integrated Reporting - South Africa

2.1 The journey to Integrated Reporting in South Africa

South Africa’s Integrated Reporting journey dates back to 1994, when the country became a full democracy. At the time, there was a deep distrust in South African institutions and corporations. To help build public confidence in business, the newly-elected President, Nelson Mandela, hired Mervyn King, a former Supreme Court judge, to establish the King Committee on Corporate Governance, with the objective of creating a code on corporate governance and providing periodic updates on guidance.

The first King report came out that same year, in 1994. King I, advocated for corporations to disclose non-financial information and take a balanced approach to business involving all stakeholders. King II went one step further. Published in 2002, the same year as the Earth Summit in Johannesburg, King II urged corporations to adopt an inclusive approach involving relevant stakeholders, and broaden the responsibility of a company beyond financial results to include social and environmental dimensions.

The financial crisis that plunged the world into a deep recession in 2008 clearly showed that traditional annual reports, despite their length and complexity, no longer adequately addressed risks. In this context, in 2009, King III, reflecting extensively on the mistrust among investors, business and society, defined integrated reporting as “a holistic and integrated representation of the company’s performance in terms of both its finance and its sustainability”. A year later, the Integrated Reporting Committee (IRC) of South Africa was created to develop best practice on integrated reporting.

The King Code of Governance Principles for South Africa spelled out in King III is the main impetus for IR in the country. Chapter nine consists of the three principles of Integrated Reporting (Table 1). It is important to note that companies follow the principles and practices of King III on an “apply or explain” basis. The Code provides guidance on corporate governance issues, some of which are legislated separately (through the South African Companies Act).

Following King II, the Johannesburg Stock Exchange (JSE) required listed companies to include in their annual report a narrative statement of how they complied with the principles in the Code. But following King III, as of 1 March 2010, JSE listed companies are required to either adopt IR as defined in King III or explain why they are not doing so.

It is remarkable that South African non-listed companies, mainly the largest state-owned companies but also privately held, are also starting to publish integrated reports that comply with the spirit of King III and guidance provided by the IIRC.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Integrated Reporting and Disclosure principles of King III (Chapter 9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 9.1</td>
<td>The board should ensure the integrity of the company’s integrated report</td>
</tr>
<tr>
<td>Principle 9.2</td>
<td>Sustainability reporting and disclosure should be integrated with the company’s financial reporting</td>
</tr>
<tr>
<td>Principle 9.3</td>
<td>Sustainability reporting and disclosure should be independently assured</td>
</tr>
</tbody>
</table>

3. See below section 2.2
4. See below section 3.1
2.2 Integrated Reporting Committee in South Africa

The Integrated Reporting Committee (IRC) of South Africa was set up to develop a guidance document on how to prepare an integrated report which was based on the principles outlined by King III. Mervyn King, who also serves as Chairman of the IIRC, was elected the first IRC chairman.

Under the IRC, a working group (IRCWG) including academics and experts on sustainability reporting and financial reporting was formed to develop integrated reporting guidelines.

In January 2011, the IRC of South Africa released its first discussion paper, “Framework for Integrated Reporting and the Integrated Report” which served as the basis for international development of the framework.

Due to the efforts and guidance of the IRC, many of South Africa’s largest companies have been producing integrated reports for several years. At the same time, public sector and smaller companies are starting to embark on integrated reporting.

Striking the balance between regulation and market-led integrated reporting is something that I believe has supported South Africa’s uptake of integrated reporting. In South Africa listed companies are required to submit an integrated report on an apply or explain basis. However, what is encouraging is that there are also non-listed companies that are seeing the benefit of publishing an integrated report to engage with their providers of capital.

I must add that I personally believe that for integrated reporting to be truly successful, it must be a market-led initiative. In so doing, the ability to create and sustain value will be self-perpetuating.

Paul Druckman,
CEO IIRC (IIRC Blog)
3. Integrated Reporting Globally

3.1 IIRC and the International Integrated Reporting Framework

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, accountants, and NGOs, created in July 2010 to embed Integrated Reporting into mainstream business practices in the public and private sectors.

In December 2013, the IIRC released The International Integrated Reporting Framework, after three years of development. The framework focuses on “value creation” by organizations, and “capitals” (Table 2) used to create value overtime.

Since 2011, the Framework has been road tested in a pilot programme by 140 businesses and investors from 26 countries. Eight businesses and investors from South Africa participated, including state energy giant Eskom, freight logistics firm Transnet and GEPF, the country’s largest pension fund.

The Framework defines the guiding principles and content to be included in an integrated report (Table 3).

“Given that South Africa played a significant role in applying integrated thinking and reporting to business, through the King Code, and that integrated thinking was already core to our mandate, we felt that we had something to share.”

We also felt there was more that could be learned from international companies and hearing what best practices exist.

Sue Lund, General Manager of Public Policy and Sustainability at Transnet describing their experience in the Pilot Programme
Table 2  Six capitals described in IIRC Framework

<table>
<thead>
<tr>
<th>Capital Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Capital</td>
<td>The pool of funds that is a) available to an organization for use in the production of goods or the provision of services and b) obtained through financing.</td>
</tr>
<tr>
<td>Manufactured Capital</td>
<td>Manufactured physical objects that are used in the production of goods or the provision of services, including buildings, equipment and infrastructure.</td>
</tr>
<tr>
<td>Intellectual Capital</td>
<td>Organizational knowledge-based intangibles, including intellectual property and “organizational capital” such as tacit knowledge.</td>
</tr>
<tr>
<td>Human Capital</td>
<td>People’s competencies, capabilities and experience, and their motivations to innovate, including their ability to implement strategy, loyalties and motivations.</td>
</tr>
<tr>
<td>Social and Relationship Capital</td>
<td>The institutions and the relationships within and between communities and groups of stakeholders, including shared norms, trust and reputation.</td>
</tr>
<tr>
<td>Natural Capital</td>
<td>All renewable and non-renewable environmental resources and processes that provides goods or services including air, water, land, and eco-system health.</td>
</tr>
</tbody>
</table>

Table 3  Guiding principles and subject matter in an Integrated Report (IIRC Framework)

<table>
<thead>
<tr>
<th>Guiding Principles</th>
<th>Content Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Strategic focus and future orientation</td>
<td>A. Organizational overview and external environment</td>
</tr>
<tr>
<td>B. Connectivity of information</td>
<td>B. Governance</td>
</tr>
<tr>
<td>C. Stakeholder relationships</td>
<td>C. Business model</td>
</tr>
<tr>
<td>D. Materiality</td>
<td>D. Risks and opportunities</td>
</tr>
<tr>
<td>E. Conciseness</td>
<td>E. Strategy and resource allocation</td>
</tr>
<tr>
<td>F. Reliability and completeness</td>
<td>F. Performance</td>
</tr>
<tr>
<td>G. Consistency and comparability</td>
<td>G. Outlook</td>
</tr>
<tr>
<td>H. Basis of preparation and presentation</td>
<td>H. Basis of preparation and presentation</td>
</tr>
<tr>
<td>I. General reporting guidance</td>
<td>I. General reporting guidance</td>
</tr>
</tbody>
</table>

In March 2014, the IRC of South Africa endorsed the International Integrated Reporting Framework. Leigh Roberts, Chairman of the IRC South Africa and a working group member of IIRC, was interviewed as part of this research project and she says the International Framework is useful for South African companies, as it gives unified and clear guidance on what to include in the integrated report. Although no formal relationship exists with the IIRC, IRC South Africa has promoted the IIRC Framework by holding events, including a launch of the Framework and IR networking events.
3.2 Integrated Reporting gains attention worldwide

In addition to the IIRC, other initiatives in recent years are encouraging the disclosure of non-financial information and Integrated Reporting. For example, in Brazil and Australia, where non-financial information disclosure is supported by the securities exchanges as in South Africa, Integrated Reporting is gaining traction.

1. The Brazilian Stock Exchange, BM & FBOVESPA launched a “Report or Explain” initiative in December 2011, requiring listed companies to publish a sustainability or integrated report. In parallel, the Brazil Integrated Reporting network, facilitated by the Brazilian Development Bank, now has 175 members that promote the International Integrated Reporting Framework.

2. The Australian Securities Exchange (ASX) recommends listed companies disclose corporate governance information as defined by ASX corporate governance principles and recommendations. In addition, the 200 members of the Australian Business Reporting Leaders Forum (BRLF) from various stakeholder groups focus on the design and implementation of integrated reporting in the country.

In 2010, according to GRI (Global Reporting Initiative), 14% of reports registered in the GRI database were self-declared Integrated Reports, and the number rose to 20% in 2011. In 2012, Europe accounted for 58% of self-declared, integrated reports worldwide, followed by Africa (13%, mostly in South Africa) and Asia (10%) (Figure 1).

At the same time, the WBCSD’s “Reporting Matters 2013” study shows one out of five of WBCSD members produce an Integrated Report or combined report.

Figure 1: Regions self-declared integrated reports in 2012 (%)
4. Integrated Reporting in Practice

4.1. The perspective of South African companies

4.1.1. Interviewing South African companies

In August and September 2014, the project team contacted nine South African companies that published integrated reports, to request a phone interview. The team selected state-owned and listed companies from a range of industries: financial services, power, transportation and logistics, telecommunications, mining, and retail. The project team considered those companies that were affiliated with the World Business Council for Sustainable Development (WBCSD) or the National Business Initiative (NBI), participated in the IIRC pilot, or were recognized for best practices in Integrated Reporting. Four companies agreed to participate, detailed in Table 4 below:

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry Sector</th>
<th>Listed or State Owned</th>
<th>Member of WBCSD</th>
<th>Member of NBI</th>
<th>Participant in the IIRC’s Pilot Program</th>
<th>Best Practices for Integrated Reporting Recognized by a 3rd Party Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eskom</td>
<td>Power</td>
<td>State-owned</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Exxaro</td>
<td>Mining and metals</td>
<td>Listed</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Standard Bank</td>
<td>Financial Services</td>
<td>Listed</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transnet</td>
<td>Transportation and logistics</td>
<td>State-owned</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

The interviews followed a standard set of questions on the following topics:

- History of integrated reporting, number of years the company has published an integrated report, and its motivation and target audience for the report.
- Processes for original deployment and annual preparation of an integrated report.
- Challenges faced or lessons learned in the integrated reporting process.
- Benefits of and impacts from integrated reporting.

Responses from each company were analysed to identify trends and best practices, detailed in the sections below. Perspectives gathered during the interview with Leigh Roberts, Chairman of the IRC South Africa and a working group member of IIRC, were also considered.
4.1.2. Reasons for publishing Integrated Reports

As detailed in section 2.2, as of March 2010 the Johannesburg Stock Exchange (JSE) requires listed companies to adopt IR as set out in King III, or explain why they are not doing so. Meanwhile, some companies not listed on the JSE and not required to publish an integrated report, have done so.

The reasons companies gave for developing an integrated report include:

- Adopting and demonstrating best practices among peers
- Leveraging IR as a tool to meet both business and development mandates focused on sustainability
- Raising capital by communicating the integrated report to investors

4.1.3. The Integrated Reporting process: How companies put pen to paper

Largely driven by the Global Reporting Initiative Framework, some companies began publishing an integrated report well before the King III Code was released in 2009.

All the companies interviewed described a key purpose of the integrated report was to have a communications tool to deliver a consistent message to stakeholders on company business, vision, and strategy.

The companies all say they have a broad spectrum of stakeholders including government, investors and capital providers, customers, community members, activists, media, regulators, and employees. To make sure the content of the integrated report meets the expectations and concerns of stakeholders, the companies use a stakeholder engagement process to gather input on material issues and feedback on the report. The companies use the feedback when developing the content of the next year’s report.

<table>
<thead>
<tr>
<th>Aspects</th>
<th>Trends and best practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team and resources</td>
<td>All companies interviewed had a reporting team in place to produce the Integrated Report (IR). In most companies, the reporting team is led by the group finance function, in others by the sustainability team. The reporting team has representatives from relevant line functions to adopt an integrated approach and gather the right information, including: - Finance - Sustainability/HES - Risk management - Strategy - Investor Relations - Stakeholder engagement - Governance - Operations - Human Resources - Information Technology Procurement</td>
</tr>
</tbody>
</table>

One of the companies interviewed has a formal steering committee overseeing the reporting team, providing direction to the process. The chairman of the committee, being the finance director, reports back to the executive committee, the audit committee and the board on matters discussed and decisions taken.

One company says it plans to appoint a full-time staff member to oversee Integrated Reporting over the entire year, so as not to lose momentum on the reporting cycle from one year to the next.
INTEGRATED REPORTING IN SOUTH AFRICA

Aspects | Trends and best practices
---|---
Report format and user experience | All companies published a suite of reports for their most recent reporting cycle; the Integrated Report is supported by a sustainability report or a supplemental report and annual financial statements. All reports are produced and released at the same time. All companies published a limited number of printed copies of the Integrated Report, but also make the suite of reports available on their websites. Some of the companies acknowledged that technology will play an important role in the future so the Integrated Report can be presented in a more accessible, understandable, user friendly and interactive manner.

Time to produce | For the most recent reporting cycle, companies spent from eight months to one year to produce the report. The process for state owned entities, because they are required to report quarterly to the government process, went on the entire year.

Frameworks | The frameworks all companies use included:
- IIRC IR Framework (December 2013)
- IFRS
- GRI
- Regulations specific to an organization or industry
- Shareholder compacts for state-owned entities

Content development, review process and combined assurance | Although content development spans many subjects, interviews focused on how material issues are identified for the integrated reporting process. In addition, the interviews probed how companies gather and collate information for the IR, what review process they use during the reporting process, and how they test information for credibility, or the assurance process they use.

How to identify the material issues:

Stakeholder engagement process outcomes / Shareholder reporting
Internal reports eg. Board / Exco dashboards
Key Material Issues
Confirmed at Governance (Board) Committees
Debated and approved by the Integrated Reporting Steering Committee
Integrated Report Content
Risk management information

5. A shareholder compact is an agreement between the company and the government documenting mandated key performance measures and indicators the company must achieve.
Aspects | Trends and best practices
--- | ---
**Content development, review process and combined assurance**

Collating and reviewing data and information:

- **Instructions with templates and timelines**
- **Members of the Reporting Team**
- **Group / Divisional Executive Sign Off**
- **Reviewed by Management, Auditors and Editors**
- **Integrated Report (and other supporting Reports)**
- **Central Report Writing Team**
- **Central Report Writing Team Process Changes**
- **Committee Reviews (including Board and Committees)**
- **Final Approved Integrated Report other Reports**

Notes:
- Instructions include timelines, information requirements and formats
- Reporting team comprises representatives from business and divisional units
- Assigning information owners ensures accountability
- A clear process that is documented and well understood is key to ensuring accurate information – both qualitative and quantitative
- Systems for data collection and storage are standalone for non-financial information, or, as for one company, integrated into the financial system

**Combined assurance model:**

While the “jury is still out” on the best way to establish the credibility and veracity of the Integrated Report, companies most often use the combined assurance approach as outlined below.

**Management Review**
- Robust management review and sign offs at various levels, including the work performed by the Integrated Reporting Steercom (if one exists)

**Audit (Internal and External)**
- Internal audit: review and sign off all data in the Integrated Report
- External audit: provide independent assurance on selected performance indicators (as approved by IR Steercom or Audit Committee, as applicable)

**Governance Process**
- Board Committee (eg. Social and Ethics Committee, Disclosure Committee) review
- Executive Management Committee review
- Audit Committee review (and recommend to Board for approval)
- Board review and ultimate approval
- Stakeholder panel review
4.1.4. Benefits from and impacts of Integrated Reporting

Benefits and impacts from integrated reporting

- The process of developing an integrated report promotes or even “propels” integrated thinking in a company, by building and strengthening relationships across company segments and functions, and by improving decision making. At the same time, IR reporting fosters better understanding of material issues; creates links between strategy, risks and business models; highlights the capitals on which a business relies; and focuses company thinking on its long-term perspective.
- Its disciplined approach encourages a company’s reporting to be more concise and strategically-focused. In some cases, integrated external reporting improves the quality of internal reporting and creates greater consistency between the two.
- Its focus on six kinds of capital promotes strategic focus on the range of resources a business has, and promotes greater accountability of the impacts on each kind of capital. For example, it promotes a greater awareness of a company’s reliance on fresh water and an understanding of that reliance in terms of capital.
- One company noted that integrated reporting elevates the importance of stakeholder engagement. It requires companies to give attention to and collate material issues to stakeholders and to integrate these into its strategic planning.

Sue Lund, General Manager of Public Policy and Sustainability at Transnet described the story that is told through Integrated Reporting as one that focuses on value creation and highlights how developmental outcomes are integral to sustainable decision making. The integrated report not only gives shareholders and investors access to financial information but it also provides insights into company strategy, the context within which the company operates, its risks and opportunities and the longer-term perspectives which may affect a company’s prospects in the future.

Benefits and impacts from publishing an integrated report

- It has become a common reference document for diverse segments and functions in the company. It promotes consistent understanding among employees of a company’s story and general awareness of a company’s business activities. It has been used in employee training and is commonly referred to in meetings.
- It is used to communicate with external stakeholders more efficiently, more effectively and with clear and consistent messaging.
- It helps external stakeholders understand the company better because its format is transparent and user friendly, a quick and easy way to understand a company’s strategy and risks in a single document. But some investors say these reports may not offer a balanced view because they emphasize positive stories. (refer to section 4.2 on investor perspectives for more information)
- It draws public recognition. All companies interviewed were publicly lauded for their achievements in integrated reporting. One company noted this outside recognition caught the attention of senior level management and encouraged more participation by company leaders and managers in the IR process.

Hanno Olinger, Manager of Sustainability at Exxaro described integrated reporting as the tail wagging the dog. The report in this metaphor is the tail, and the dog represents a company’s internal processes which allow the company to do business. The process of developing a report focusing on six kinds of capitals leads a company to truly understand how its business model adds value rather than a company fully realizing its value before it begins integrated reporting.
4.1.5. Takeaways

Interviewees shared their insights into what is needed for a successful integrated reporting process, from how to prepare to the practicalities of publication.

| Buy-in and support | • IR needs the support and close involvement of the CEO and the Executive Committee. |
|                    | • Support must come from the top. Integrated thinking and a vision for integrated value creation must come from the board. Strategic insight on how best to drive integrated value should come from the executive level. Management must present a value proposition to the board for adoption of IR. |
|                    | • Wider understanding of integrated reporting must be created among the broader network of managers and staff throughout the organization through training and other initiatives, such as on value creation beyond the balance sheet. |

| Structure | • Form dedicated steering committees and project management teams to further implementation. |
|           | • Consider a dedicated professional for Integrated Reporting to keep up the IR reporting momentum throughout the year. |

| Systems to collate data and information | • Especially in a large organization, put in place a documented process to collate data and information aligned with internal and other existing requirements for greater efficiency. |
|                                        | • Consider putting in place a data system so data collation is accurate and accessible. |
|                                        | • Set up IR data systems and internal process controls to improve the quality of integrated reporting, by making material sustainability issues integral to the Integrated Report. |

| Integrated teams | • The reporting team should have broad representation, from a range of functions. |
|                  | • Involve divisions and functions up front, to ensure timely production of the Report and to secure relevant information inputs. |

| Annual vs ongoing reporting | • Content should not be developed to plug gaps when preparing the IR, but so that underlying issues are addressed and a process is put in place all year. |
|                            | • Ideally, the focus and content of internal reporting should be aligned with external reporting for a smoother annual reporting process at year end. |

<p>| A robust process for developing content | • Get early agreement on themes and content for the IR. |</p>
<table>
<thead>
<tr>
<th>Build on what you have</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Build on existing reporting practices, focusing on areas that need improvement to meet IR requirements.</td>
</tr>
<tr>
<td>• Realise not everything will be achieved in one year; it takes several years to get everything in place.</td>
</tr>
<tr>
<td>• Consider selecting five focus areas for improvement each year, an efficient way to demonstrate continuous progress in the reporting process.</td>
</tr>
<tr>
<td>• Realise when beginning integrated reporting, the company’s strategy and values may not be fully aligned with its actions or connectivity horizontally and vertically may be lacking. Integrated reporting is an opportunity to see and improve upon misalignments. If not obligated to publish an integrated report, a company could develop integrated reporting for internal purposes for a year or two, improving connectivity and alignment, before sharing the report externally.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Verify IR information</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Verify IR data, by tapping internal audit for the task.</td>
</tr>
<tr>
<td>• Verify data quarterly, to identify issues of data credibility in a timely way.</td>
</tr>
<tr>
<td>• Consider using software tools to support practical co-ordination of report writing, and for keeping track of different versions of the information.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>How to produce a great report</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Join networks to learn from others.</td>
</tr>
<tr>
<td>• Write the IR so it is easy to understand. Ask, “will my grandmother understand this?”; include a Q&amp;A section, and use graphics.</td>
</tr>
<tr>
<td>• Consider in-house writers, as internal staff know your business best.</td>
</tr>
</tbody>
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4.2. Perspectives of South African investors

The project team interviewed four South Africa-based investors to get an external view on Integrated Reporting, and gathered their insights in three areas:

• What investors expect from integrated reports.
• Best integrated reports practices by South African companies.
• How integrated reports could better meet investor needs.

Interviews were conducted with four major South African asset management firms. Tables 5 through 7 below summarize the trends and highlights from these discussions.

4.2.1. Expectations of South African Investors

Investors were queried about what their expectations were when they open an integrated report, how they used the report in making investment decisions, and whether they saw a change in report content overtime. Table 5 below summarises their feedback.

<table>
<thead>
<tr>
<th>Question</th>
<th>Response</th>
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<tbody>
<tr>
<td>Q: What weight do you assign to non-financial information in investment decision process?</td>
<td>A: Integrated Reports are one of many information sources used in the investment process.</td>
</tr>
<tr>
<td>Q: How does the report help you make investment decisions?</td>
<td>A: It deepens the dialogue between investors and management.</td>
</tr>
<tr>
<td></td>
<td>A: It helps understand what a company needs to remain in business in the long term.</td>
</tr>
<tr>
<td>Q: Have you noticed a change in the attitude of firms since integrated reporting began in South Africa?</td>
<td>A: There has been a shift in the content of Integrated Reports from green washing and marketing to meaningful insights on strategy and the environmental, social, and governance (ESG) issues a company deals with.</td>
</tr>
<tr>
<td></td>
<td>A: Reports are shorter and more concise.</td>
</tr>
<tr>
<td>Q: What are your views on how often and when these reports should be published?</td>
<td>A: There is no rule, but Integrated Reports should be part of the conversation a company has with financial markets.</td>
</tr>
<tr>
<td></td>
<td>A: The company should decide when it is relevant to update the report.</td>
</tr>
<tr>
<td>Q: What would you ideally like to see in an Integrated Report? What information do you expect to find there you will not find elsewhere?</td>
<td>A: There should be a summary of the material issues a company faces and management’s response to these issues.</td>
</tr>
<tr>
<td></td>
<td>A: The long-term strategic positioning of the company.</td>
</tr>
<tr>
<td></td>
<td>A: How the company makes money. Better understanding of the risks the company faces today and tomorrow.</td>
</tr>
<tr>
<td></td>
<td>A: Explanation of the company’s competitive advantage and how it is sustainable.</td>
</tr>
</tbody>
</table>

Table 5: What Investors expect from integrated reports
4.2.2. Views of South African Investors on Integrated Reporting best practices

Investors shared their opinions on what content can be found in the best Integrated Reports they have recently read. Table 6 summarises their most frequent responses.

<table>
<thead>
<tr>
<th>Q</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td>What content do you find in the best Integrated Reports?</td>
<td>• Show there is integrated thinking at board level.</td>
</tr>
<tr>
<td></td>
<td>• Strategic perspectives on sustainability issues.</td>
</tr>
<tr>
<td></td>
<td>• Describe how dealing with the ESG dimensions of a company provides a cost advantage.</td>
</tr>
<tr>
<td></td>
<td>• Draw a list of risks and opportunities from integrated thinking internal process.</td>
</tr>
<tr>
<td></td>
<td>• Clearly stated and defined value drivers.</td>
</tr>
<tr>
<td></td>
<td>• Articulate Management’s understanding of the 6 capitals and how their interactions have an impact on the business.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td>What sectors publish the best Integrated Reports?</td>
<td>• Commodities related (metals and mining sector)</td>
</tr>
<tr>
<td></td>
<td>• Financial sector</td>
</tr>
</tbody>
</table>

Table 6: What investors say are the best practices of South African companies
4.2.3. Do’s and Don’ts from South African Investors

Table 7: Investor advice on preparing integrated reports

<table>
<thead>
<tr>
<th>Tips from investors</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Do’s</strong></td>
<td></td>
</tr>
<tr>
<td>Board and top management involvement.</td>
<td></td>
</tr>
<tr>
<td>Board and top management should view integrated reporting as a tool to improve or reinforce a culture of performance.</td>
<td></td>
</tr>
<tr>
<td>Top management see integrated reporting as a way to break down department silos.</td>
<td></td>
</tr>
<tr>
<td>Show the 6 capitals are aligned with the strategy and the same goals.</td>
<td></td>
</tr>
<tr>
<td><strong>Don’ts</strong></td>
<td></td>
</tr>
<tr>
<td>Treat an Integrated Report as an aggregate of existing reports, which causes more harm to a company’s image than having no Integrated reporting at all.</td>
<td></td>
</tr>
<tr>
<td>Outsource the report to a consulting company, as they tend to produce boiler plate Integrated reporting.</td>
<td></td>
</tr>
<tr>
<td>Report activity in the same way as before; please not cut and paste from annual reports.</td>
<td></td>
</tr>
<tr>
<td>Follow a Framework to the letter, and run the risk of not telling the real company story.</td>
<td></td>
</tr>
</tbody>
</table>

4.2.4. Takeaways from South African Investors on the value of Integrated Reports:

1. Integrated reporting should be a key management tool to improve performance.
2. The quality of Integrated Reporting is a clue to the quality of leadership.
3. Integrated reporting is a strategic means of communication, not a reporting burden.
4. Integrated reporting is part of the ongoing dialogue companies should have with stakeholders.
5. Integrated reporting should be the outcome of an internal integrated thinking process at Board and Management level.
5. Conclusions and Recommendations

The project team outlines here conclusions and recommendations from the research for companies looking to start Integrated Reporting.

5.1. Conclusions

1. The South African experience has had a major influence on global standards of Integrated Reporting
The King codes have been instrumental in promoting Integrated Reporting in South Africa, and have been influential in the setup of an international framework for Integrated Reporting led by the IIRC.

2. Integrated Reporting promotes integrated thinking internally
The process of developing an integrated report promotes or even “propels” integrated thinking in a company, by building and strengthening relationships across company segments and functions, and by improving decision making. At the same time, IR reporting fosters better understanding of material issues; creates links between strategy, risks and business models; highlights the capitals on which a business relies; and focuses company thinking on its long-term perspective.

The Integrated Report has become an important reference document for diverse segments and functions across a company. The report spreads common understanding among employees of a company’s story and creates a general awareness of the components of the company’s business. Companies have used the report in employee training, and have frequently referred to it in meetings.

3. Investors are vested in the success of Integrated Reporting
Investors say the quality of Integrated Reports published by South African companies has improved. The fund managers interviewed say the commitment of boards and management is evident in the best Integrated Reports: a clear articulation of strategy and business model shows how these firms create value for stakeholders. Investors will demand companies continue to upgrade Integrated Reports. As Integrated Reports improve, investors and management stand to make better decisions.
5.2. Recommendations for companies on Integrated Reporting

1. **Integrated Reporting is a journey**
   Companies should start integrated reporting recognizing that it is a journey and gaps will be identified in the early years. But the journey will be valuable, because it encourages companies to think in an integrated way and to develop strategies, new data sets and new initiatives that reflect multi-faceted value creation.

2. **Integrated thinking is key to successful Integrated Reporting**
   The companies interviewed stressed the main benefits of IR. IR is more than a disclosure tool: it improves management decision making, by highlighting questions that can only be answered with integrated thinking.
   IR has had far-reaching consequences. It requires companies not only to report in an integrated way, but to think in an integrated way. It requires companies to revisit their business model, the resources they use and the relationships they depend on.
   IR nurtures integrated thinking in an organization, especially within the management and governance ranks. It helps them understand and base their decisions on the interconnections between the factors – economic, environmental, social and governance – that contribute to success over time. Integrated thinking results in increased knowledge of business reality in society and in the environment, and it ultimately leads to better decisions for the corporation and other stakeholders.

3. **How to begin Integrated Reporting**
   Below are key steps companies should follow when starting an Integrated Reporting journey, keeping in mind that the momentum IR creates is a positive feedback loop that will improve the quality of Integrated Reports through time.

   6. Black Sun report “Integrated Thinking in Reporting”.
INTEGRATED REPORTING IN SOUTH AFRICA

1. Ensure understanding of goals, objectives and implications of integrated reporting

2. Set up appropriate structures, team to govern, drive and manage process

3. Plan process and content

4. Information gathering

5. Compile Integrated Report

6. Review of Integrated Report

7. Release of Integrated Report and seek feedback from stakeholders and other sources

Integrated Reporting = Journey “Practice and Continuous improvement”

- Ensure objectives for integrated reporting are clear.
- Conduct an assessment of the benefits of introducing Integrated Reporting and test components of the Framework.
- Read other company IR reports to understand how they adopt integrated thinking and tell their story of performance and prospects.
- Consider the context and regulatory reporting requirements in the firm’s jurisdiction.

- Empower and train the Report Team in their responsibility for communicating a balanced view. Seek CEO and Board support and appoint an executive to drive the process (e.g., CFO).

- The audience of the report should be agreed upon, this will play an important role in defining report content.
- Define scope and boundary of the IR.
- Determine material issues.
- Set up a timetable (building in sufficient review time).

- Implement / refine systems to accurately obtain and monitor relevant performance data.
- Implement / refine an appropriate assurance process to confirm credibility and reliability of data used in the IR.

- Seek feedback from: Stakeholders and business leaders; reporting team; assurance providers
- Benchmark against: Companies in IIRC’s pilot programme; examples of award winning reports

- Review at relevant levels, but ensuring Board has provided ultimate approval.
- Involve key players up front.

Figure 2: Key steps to starting the Integrated Reporting journey
5.3. End note on Integrated Reporting

An organization that is considering developing an Integrated Report for the first time, may view the integrated reporting process described in this document as complex or resource intensive. But several interviewees say integrated reporting changes people’s behaviours and the benefits of the integrated reporting journey are substantial, even if the first step is only to promote integrated thinking.

The first time a company produces an IR report, the company could produce it in a condensed integrated form for internal or board use only. The company could set up a special team to work on an integrated report for a single business unit in the company, to highlight for management and the board potential lessons from thinking about the six capitals and the potential connections that could be made from assembling a multidisciplinary team to develop and vet the report.

IRC South Africa Chairman Leigh Roberts, suggests companies dealing with how to begin integrated reporting and thinking, would be wise to follow the example of South African companies: start by connecting the basic building blocks strategy, performance and risks, and then build on that foundation over time.

“Advice to companies just starting out IR: if they say they can’t do it without having embedded integrated thinking, they could at least put the strategy and link it with performance and risks, as South African companies did, that’s my recommendation.”

Leigh Roberts, Chairman of IRC in South Africa
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Disclaimer

This paper is the outcome of one of the WBCSD FLP 2014 group projects, as part of their learning journey. It does not represent a policy, a position or a recommendation of the WBCSD. This paper is not promoting nor validating any particular approach or tool. The statements in this paper are solely the opinions of its authors, and do not reflect their respective companies’ views in any way.

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