

# Trends and weaknesses - Integrated Reports in SA

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# Trends

- Improvement in structure
  - Flow improved
  - Less repetition
  - Financial information better integrated
  - More cross referencing, use of icons etc
- Value creation narrative improving, but...
- Description of business models and inputs improving
- Increased use of 6 capitals or similar
- Better understanding of outputs versus outcomes, but...
- More disclosure on stakeholders, but...

# Trends - continued

- Increased disclosure of opportunities as well as risks
- More reference to “residual” risks i.e. after mitigation
- Less compliance information – governance disclosure still a concern
- Remuneration disclosure – more KPIs, less detail but....
- Significant increase in annotated financial statements
- Limited reference to contribution to UN Sustainable Development Goals
  - Mostly superficial

# Value creation - weakness

- “Value creation” not clearly defined
  - What is purpose of business?
  - What is definition of success?
  - What value created/ destroyed for different stakeholders?
- Very limited disclosure of value destruction or meaningful trade-offs
- “Value added statement” – suggests only focus on financial
  - “financial value added statement”

# Outputs/ outcomes - weakness

- *Outputs = “goods and services & waste produced”*
- *Outcomes = “effects (POSITIVE & NEGATIVE) of business activities & outputs on capitals”*
- Very few negative outcomes
- Trade-offs lack substance
- How does value creation definition link to outcomes?
  - Sacrifice jobs to make profit?
- How does business model affect the inputs (capitals) that will be available to create value in the short, medium and long term?

# Sustainability information - weakness

- Sustainability information lacks substance
- Need to make it clearer
  - Why measures relevant for integrated report
    - How it impacts ability to create value in short, medium or long term
  - How items have been measured – e.g. GRI referenced information
  - Context for performance
    - Consistent units e.g. emissions per ton produced
    - Comparison to peers?
    - Potential for improvement – what are trade-offs?

# Stakeholders - weakness

- *“Relationship with stakeholders”* implies
  - Quality of relationship
  - How organization responds to stakeholder concerns
  - NOT how often they meet
- IR reflects importance of relationships with stakeholders
  - Not intended to satisfy information needs of all stakeholders
  - IR through lens of financial capital providers

# Balanced reporting - weakness

- *“Include all material matters, both positive and negative, in a balanced way”*
- “Highlights” is not balanced
- Outcomes – good and bad
- Stakeholder concerns – be frank

# Remuneration - weakness

- Not aimed at compliance
- Are remuneration practices fair and responsible?
  - Relationship between executive and median employee pay
  - Gender pay gaps
- What drives future remuneration practices?
- How does remuneration create value for organization?
  - How is remuneration structured to incentivize productivity?
  - Are remuneration packages contributing to social capital?

# Information reliability - concerns

- Assurance?
  - Selected KPIs?
  - Stakeholder engagement process?
  - Process of assessment of material items?
- Comparisons
  - Comparison of current year experience against targets disclosed last year
  - Relationship future targets and current performance
  - Consistent selection of items or explanation of why inconsistent