

TRENDS, STRENGTHS AND WEAKNESSES

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#IRCSAConf19

#integratedreporting

IRC Annual Conference 2019

The background is a dark blue gradient. In the corners, there are white, stylized circuit-like lines with small circles at the ends, resembling a network or data flow diagram. The main text is centered and overlaid on a horizontal, wavy, light blue band.

INTEGRATED REPORTING COMMITTEE OF SOUTH AFRICA

Integrated Reports – Trends, Strengths and Weaknesses

IRC ANNUAL CONFERENCE 2019

KEY OBSERVATIONS

- Limited improvements in 2018
- Investors starting to demand more sustainability related disclosures
- Significant erosion in trust in reported information

INTEGRATED REPORT TRENDS

- Improvements in structure, cross-referencing and use of diagrams
- Increased integration and annotation of financial information
- Increased amount of comparative information BUT
- Some progress in making corporate governance disclosures less generic and less compliance driven BUT....
- Increased differentiation between outputs and outcomes BUT.....

TRENDS CONTINUED

- Risk disclosures are less generic, and include more opportunities
- More connectivity between different parts of the report BUT.....
- Some improvement in Business model description and links to capitals
- Board endorsement more specific
- Significant increase in references to SDGs

WEAKNESS

- Purpose of business, and how purpose drives decision making throughout organisation not clear
- Limited evidence of how board applies integrated thinking
- Confusion over audience and focus of integrated **report**
 - <IR> Framework “The primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time”
 - Integrated thinking = active consideration relationships, capitals in decision making
 - Integrated reporting = process founded on integrated thinking, leads to integrated report

AUDIENCE & FOCUS ON REPORT

- Sustainability report caters to broad stakeholder base and communicates **IMPACTS ON economy, environment and society**
- **Integrated reports explains to financial capital providers how value is created.**
- **IR should focus on future availability of resources, not only current impact on resources**

SUGGESTION:

- **More emphasis on resources required for future value creation and risks relating to future availability**

WEAKNESS CONTINUED

- Need more evidence that performance measures in IR relevant and reliable
 - What is link to future value creation?
 - What systems in place to ensure KPI reliably measured? (internal reliance)
 - Is basis of reporting clearly understood and consistent? (external communication)
 - Clarity on measurement basis – e.g. ref to e.g. GRI standard

COMPARATIVE INFORMATION

- Comparative information within and without entity
 - Trends over time
 - Comparison with peers
- Need more context
 - Disclosure relative to activity level – e.g output/wastage per ton/unit produced?
 - What is scope for improvements – and what will it cost (future focus)
 - Has practice changed (historic focus) - & at what cost (trade-offs with other capitals?)
- Include information on what differentiates entity

GOVERNANCE DISCLOSURES

- An IR should answer the question “How does the organization’s governance structure support its ability to create value in the short, medium and long term”
 - <IR> 4.9 has suggested content elements

SUGGESTION

- reconsider suggested disclosures in <IR> 4.9
- Focus on future value creation not compliance

OUTPUTS /OUTCOMES

Terms confused, and info on outcomes superficial

- Outputs – goods and services, by-products and waste
- Outcomes – internal (employee morale, reputation) & external (customer satisfaction, social & environmental effects)

CHALLENGES

- Resistance to disclosure of negative outcomes – trade-offs
- Determining boundary for identifying outcomes

CONNECTIVITY

- Connectivity much more than cross referencing
- How are factors that influence ability to create value interrelated and interdependent?

POSSIBLE DISCLOSURE CONSIDERATIONS:

- Connect current outcomes to future availability of resources
- Connect ability to change strategy to changes/potential changes in circumstances i.e. demonstrate agility

PURPOSE & PROFIT – AICPA, BLACK SUN & <IR>

10 questions to help develop value creation stories

1. Have you explained state of play? – external market
2. Who are you? – what is purpose, who your stakeholders
3. Does your business explain how you create value?
4. What makes your business unique?
5. Where is your business going?

10 Q FOR EXECUTIVES TO HELP DEVELOP VALUE CREATION STORIES

6. How will you get there ?
7. Do you measure what gets managed?
8. What are your challenges?
9. Is action linked to reward?
10. Have you provided a complete picture of value?