INTEGRATED REPORTING COMMITTEE (IRC) OF SOUTH AFRICA

INTEGRATED THINKING: AN INFORMATION PAPER

INTEGRATED REPORTING COMMITTEE OF SOUTH AFRICA

www.integratedreportingsa.org

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FOREWORD

We often talk about the tone at the top set by the governing body and how it trickles down and throughout the organisation. This is never more important than in integrated thinking.

The governing body applies integrated thinking in setting the organisation's holistic strategic objectives; in considering significant risks and opportunities over the short, medium and long term; in strategic decision-making and mindful trade-offs; in monitoring holistic performance; and aligning remuneration incentives with the strategic objectives.

The governing body does this because its role is to look after the organisation's interests for the long term, within an overall system where the economy, society and the environment influence and depend on each other.

Integrated thinking is a necessary way of doing business and, for the governing body, it can be seen as carrying out its duty of care in the stewardship of the company over the long term.

The role of management is to implement integrated thinking throughout the organisation. It takes the tone from the top and sets up systems, processes and communications to embed integrated thinking into the organisation's everyday practices and way of working. This Information Paper sets out useful, practical points in this regard.

The relevance of integrated thinking today is evident in its prominence in The King V Report on Corporate Governance™ for South Africa[1] (King V). The King V Code sets integrated thinking as a thematic strand across all its principles and recommended practices. It calls for intentional consideration by organisations of their use of and reliance on resources and relationships, represented by the six capitals, as well as the resulting impacts and outcomes from their operations, products, services and waste over the short, medium and long term.

It is indeed true that – as referred to in King V, the *Integrated Reporting Framework* and sustainability standards – an organisation's ability to create value for itself over the long term is interrelated with the value it creates, preserves or erodes for its stakeholders and the economic, social and environmental systems within which it operates.

Knowing this, and acting and reporting accordingly, is at the heart of integrated thinking and building resilient organisations that create sustainable value for themselves, their stakeholders and society, while avoiding or minimising the erosion of value for the environment.

Professor Mervyn E. King SC

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PURPOSE OF THIS INFORMATION PAPER

This Information Paper (Paper) explains what integrated thinking is and why it matters. It shows how organisations can move integrated thinking from a concept to an embedded everyday practice. This Paper explores how integrated thinking can be applied across governance, purpose, culture, strategy, risks and opportunities and internal processes, supporting better decision-making, strengthening organisational resilience and enhancing long-term value creation.

The case studies and practices included in this Paper are mostly from South African listed companies that are well placed to share insights, with over 15 years of experience in preparing integrated reports and embedding integrated thinking practices and processes.

Integrated thinking is not confined to large organisations. King V and its predecessor, King IV, position integrated thinking as a universal governance discipline that can be applied to any organisation with appropriate adaptation, including state-owned entities, private and non-profit companies, and small and medium enterprises.

Although smaller and unlisted organisations may not have dedicated resources or multiple board committees, the underlying tenets are just as relevant, including clarity of purpose, connectivity of information, consideration of trade-offs across the six capitals[2] (resources and relationships) in strategy and decision-making, and a long-term value creation perspective for business resilience. In this Paper, references to "the governing body" and specific reporting functions should be understood as roles and responsibilities that can be fulfilled through structures appropriate to the size and nature of the organisation.

This Paper is aimed at governing bodies, executives, management and others involved in embedding integrated thinking within an organisation. It is useful for understanding how integrated thinking can support better decision-making and long-term value creation.

Since 2011, the IRC of South Africa has been a leading source of practical guidance for organisations in preparing integrated reports and applying the *Integrated Reporting Framework* (Framework).[3] Integrated thinking is a fundamental concept of the Framework. It underpins and anchors integrated reporting by promoting awareness of the connectivity and interdependencies across the six capitals. This approach enables a holistic understanding of how an organisation creates, preserves or erodes value over the short, medium and long term.

In a world of constant change, with economic, societal and environmental interdependencies clear, integrated thinking is critical to enable better decision-making and long-term value creation.

[2] The six capitals are financial, human, manufactured, intellectual, natural, and social and relationship as set out in the *Integrated Reporting Framework*. The resources and relationships used and affected by an organisation can be categorised according to these six capitals. An organisation does not have to use the six-capitals categorisation, but it serves as a useful completeness check

[3] The *International <IR> Framework* was first issued in 2013 by the International Integrated Reporting Council (IIRC). The Framework was updated in 2021, and the IIRC was absorbed into the IFRS Foundation in 2022. The Framework is also known by its shortened name *Integrated Reporting Framework*. Available at www.integratedreportingsa.org

WHAT IS INTEGRATED THINKING?

Integrated thinking is defined as "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. It leads to integrated decision-making and actions that consider the creation, preservation and erosion of value over the short, medium and long term".[4]

Integrated thinking brings all perspectives together into a coherent approach centred on long-term value creation.

It means thinking and acting in a manner that considers broader organisational, economic, societal and environmental value creation and effects in the short, medium and long term.

Integrated thinking is not a compliance exercise, a reporting tool or a standalone sustainability initiative. It should be embedded throughout the organisation, forming the foundation for how strategy is governed, directed and executed to create sustainable value for the organisation and for others, over time.

Integrated thinking is good practice

In many respects, integrated thinking describes what well-managed organisations already do. An organisation seeking to protect its long-term resilience naturally considers the interdependencies between its activities and the resources and relationships (represented by the six capitals) upon which it depends. Decisions in one area can affect other areas, while actions intended to optimise one outcome may have unintended consequences elsewhere and may involve trade-offs.

Integrated thinking brings these interdependencies, consequences and trade-offs into decision-making. For example, a decision that maximises short-term financial performance at the expense of employee well-being, customer trust or environmental stewardship may undermine long-term value creation.

To optimise effectiveness, integrated thinking should be embedded deliberately, consistently and organisation-wide as a practical approach across governance, strategy and performance management.[5]

By contrast, siloed organisations are characterised by individual functions making decisions with limited or no consideration of broader organisational interdependencies.

An integrated thinking approach connects an organisation's purpose, governance, strategy, business model and performance, and its impacts, risks and opportunities and the trade-offs across the six capitals. As decisions may affect different functions and internal and external stakeholders, this requires cross-functional coordination, information sharing and governance oversight to manage interdependencies and trade-offs consistently. Clear accountability and functional ownership remain essential, complemented by organisational connectivity and coordination.

In the words of a South African executive, integrated thinking is "a valuable business tool".

Integrated thinking reflects three fundamental constructs:

- Every decision has interconnected consequences.
- Those consequences extend across functions, stakeholders and the six capitals over the short, medium and long term.
- The objective is sustainable value creation over the short, medium and long term.

[4] IFRS Foundation, *Integrated Reporting Framework* (2021), Glossary, p53

[5] International Federation of Accountants, *A New Business Philosophy: Introducing the Integrated Thinking Principles*, 15 March 2022, https://www.ifac.org/knowledge-gateway/discussion/new-business-philosophy-introducing-integrated-thinking-principles

Integrated thinking and the integrated report

Integrated thinking is inherently linked to integrated reporting. The Framework notes that the more integrated thinking is embedded in an organisation's activities, the more naturally the connectivity of information flows into management reporting, analysis and decision-making, leading to better integration of information systems that support the integrated report.[6]

A quality integrated report tells a coherent and connected story of the organisation's process of value creation over time. Compiling an integrated report from disconnected, function-by-function inputs alone is not conducive to a quality integrated report.

Integrated thinking is a governance and management practice, and the integrated report is a natural result of these processes. If an organisation is new to integrated reporting, it does not need to wait until integrated thinking is fully embedded. Integrated thinking is an ongoing process. Preparing an integrated report can be a powerful tool to help organisations embed integrated thinking.

Experienced reporters in South Africa state that preparing an integrated report helps break down siloed functions and drives integrated thinking across the organisation. The Framework's Content Elements facilitate connectivity by, for instance, highlighting how key external factors affect the organisation and its outlook, the links between strategy and risks and opportunities, and how stakeholders' needs are addressed and connected to strategy, risks and opportunities and material matters.

Experienced reporters and those who extract the most out of their reporting say there is a cycle of enhancement: the information produced for the integrated report encourages internal discussion, identifies new perspectives and improves decision-making. This process can surface gaps in strategic alignment, expose disconnects between functions, and prompt conversations about what matters and why. In this way, the integrated report usefully reinforces integrated thinking.

[6] IFRS Foundation, *Integrated Reporting Framework* (2021), p3

THE ROLE OF GOVERNANCE

Governance provides the framework for integrated thinking and is central to embedding it throughout the organisation. Good governance establishes the structures, responsibilities, oversight and accountability needed to ensure that strategy, decisions and performance reflect the interdependencies that affect the organisation's ability to create value over time.

The governing body determines the organisation's leadership and oversight. Its fiduciary duty encompasses the stewardship and safeguarding of the organisation's long-term resilience in an ever-changing world.

No organisation exists in a vacuum. Whether intentional or acknowledged or not, it affects and is affected by the economic, social and environmental system within which it operates. Good corporate governance requires the organisation to consider this broader context in defining its purpose, strategy, key performance indicators (KPIs) and targets with a view to creating enduring benefits for the organisation, society and the environment.

Governance, therefore, plays a key role in enabling integrated thinking. It shapes how an organisation makes decisions and manages performance, impacts, risks and opportunities.

Transparency and accountability are fundamental components of good corporate governance. In fulfilling these obligations, the governing body should report on an integrated basis that is balanced, complete and transparent. The Framework positions the governing body as responsible for overseeing the organisation's approach to integrated thinking and ensuring that its integrated report demonstrates the connectivity of information across the six capitals over the short, medium and long term.[7]

Beyond its formal duties, the governing body sets the tone and fosters an environment receptive to integrated thinking. It does so by asking the right questions, championing a long-term and connected view of value creation, and holding management accountable for considering the organisation's impacts, risks and opportunities in strategy and decision-making.

Integrated thinking is strengthened when it is embedded in the governing body's processes, including committee mandates, information flow, agenda setting, and the nature and quality of the information it receives. In this way, integrated thinking becomes an established organisational habit rather than an exception.

The governing body provides tone, direction and oversight. Management operationalises integrated thinking and plays a critical role in embedding it in the organisation's culture. Management translates purpose and long-term strategy into day-to-day activities and ensures that KPIs, incentives and operational decisions are aligned with sustainable performance and long-term value creation.

[7] IFRS Foundation, *Integrated Reporting Framework* (2021), Glossary, p53

The South African context

The King V Report recognises that every organisation exists within a broader system. Good performance is therefore concerned not only with the organisation's results, but also with contribution to the performance of the system as a whole. The ultimate objective is systemic value creation, which extends beyond shareholder or stakeholder value alone.

Consistent with the systems thinking approach, King V presents integrated thinking as a thematic strand running through its 13 principles. It draws on the six capitals (resources and relationships) and the Ubuntu-Botho philosophy of corporate citizenship and stakeholder inclusivity. Together, these recognise the interdependence of people, organisations, society and the environment. It also requires that organisations should understand how their decisions affect multiple stakeholders and capitals over time within the wider system of the economy, society and the environment.

King V principle 3 requires the governing body to ensure that the organisation's purpose, strategy and business model support performance that creates sustainable value.

King V recommended practice 20 requires the governing body to approve a strategy that reflects integrated thinking. This includes considering alignment with the organisation's purpose, the availability and quality of its resources and relationships, and the positive and negative impacts that can reasonably be expected from implementing the strategy.

The Johannesburg Stock Exchange (JSE) has incorporated the King Codes since 2009. For King V, the JSE Listings Requirements require that Main Board and AltX primary-listed issuers adopt and apply the King Code in accordance with its application and disclosure approach. Integrated reporting has been the expected reporting approach for JSE-listed companies since 2010.

Purpose, strategy and culture bring integrated thinking to life. Purpose defines the organisation's reason for existing, strategy determines how the purpose will be achieved, and culture shapes organisational behaviour. Together, they reflect the organisation's role within its broader economic, social and environmental system, as well as its responsibilities to the resources and relationships on which long-term value creation depends.

Purpose

A clear purpose is fundamental to integrated thinking. Purpose defines why the organisation exists and the value it seeks to create. Value encompasses financial returns as well as the organisation's contribution to stakeholders, society and the environment. Integrated thinking translates the purpose from an abstract statement into a practical foundation for decision-making. Purpose is a strategic anchor that guides choices about resource allocation, risk appetite, trade-offs, innovation, stakeholder relationships and performance management. A narrow focus on short-term financial results can neglect the interests of multiple stakeholders and multiple capitals that underpin the organisation's long-term value creation.

By embedding purpose in strategy and aligning culture, the governing body and management clarify the organisation's role in society, strengthen strategic coherence and build resilience.

A clearly articulated purpose helps prevent a disconnect between stated values and operational behaviour. When an organisation's purpose is consistently reflected in its decisions, incentives and performance measures, it can move beyond a predominantly financial scorecard towards a holistic view of value creation over time. This supports its ability to remain profitable, sustainable and socially legitimate.

Strategy

Strategy translates purpose into direction, priorities and action. Integrated thinking strengthens this process by prompting leadership to consider the interdependencies between the organisation's functions, resources and relationships, stakeholders, and value chain. It encourages leadership to assess how external economic, social and environmental trends may affect the organisation and how the organisation's strategic choices may affect the broader system. This includes weighing the full range of risks and opportunities, trade-offs and potential positive and negative impacts over the short, medium and long term.

This connected approach enables a coherent strategic framework and aligns financial, sustainability and operational objectives and performance. Organisational functions become interconnected enablers of strategy, working towards shared outcomes rather than pursuing isolated objectives.

For a strategy to reflect integrated thinking, the strategic objectives, resource allocation decisions and performance measures should align with the organisation's purpose and its approach to long-term value creation.

Culture

Culture is the system of values, beliefs and behaviours through which strategy is put into practice. Integrated thinking should flow into the organisation's daily culture so that employees understand how their roles and actions contribute to strategic objectives and affect outcomes across the six capitals.

Leadership plays a decisive role in shaping culture. The conduct it demonstrates, the questions it asks, the information it prioritises, and the behaviours it rewards signal what the organisation values.

Incentives are especially important in demonstrating culture. If performance systems reward only short-term profit, organisational behaviour is likely to follow, regardless of the purpose and values the organisation has articulated. When performance is evaluated against strategic objectives that cover financial, sustainability and operational measures over time, behaviour is more likely to align with the organisation's purpose and long-term ambitions.

IDENTIFYING IMPACTS, RISKS AND OPPORTUNITIES

Integrated thinking can provide the basis for identifying, assessing and managing the sustainability impacts, risks and opportunities that inform external reporting.

Understanding and considering how the organisation uses, depends on and affects the six capitals over time provide insights that can assist in identifying:

- The sustainability-related risks and opportunities that could affect its financial prospects (inward effects).
- The organisation's significant impacts on the economy, society and the environment (outward effects).

Managing an organisation's risks and opportunities through integrated thinking establishes a comprehensive view. Rather than treating risk management as a function concerned only with financial or operational exposures, integrated thinking considers how inputs drawn from the six capitals and the organisation's outputs (its products, services and waste), impacts and outcomes, may pose threats or create opportunities over the short, medium and long term.

This broader perspective of risk can reveal how factors such as environmental change, social dynamics, stakeholder needs and relationships, regulatory shifts and technological disruption interact with the organisation's purpose, business model, strategy and performance.[8]

An organisation's significant impacts and outcomes may create or intensify sustainability-related risks and opportunities over time. Conversely, its financial and strategic decisions may materially impact the economy, society and the environment. Understanding these connections provides a foundation for integrated governance, strategy, decision-making and reporting.

Integrated thinking connects different information sets and can support greater consistency between internal decision-making and external reporting.

Leading global sustainability reporting standards encourage a connected perspective. Although they differ in purpose, audience and materiality, they call for links between sustainability matters, financial and organisational processes and decision-making. These standards seek reporting that links governance, strategy, risk management and performance, as well as to other reporting information.

Organisation-wide integrated thinking can provide a comprehensive perspective for considering materiality for external reporting. Considering the organisation's inputs, dependencies, impacts and outcomes across the six capitals, and how these may give rise to risks and opportunities over time, supports a connected understanding of financial and impact materiality for reporting.

By contrast, limiting integrated thinking in the organisation's internal processes and systems to only matters that are financially material, or to only matters that are impact material, can produce an incomplete and potentially misleading picture.

Impacts can affect an organisation's ability to create value over time. Negative impacts and outcomes that affect communities, the environment or employees are not only matters of corporate responsibility, but can also give rise to strategic risks, regulatory exposure, reputational damage and value erosion over time. Conversely, positive social and environmental impacts and outcomes can strengthen business resilience, stakeholder trust, licence to operate and competitive differentiation.

[8] IFRS Foundation, *Integrated Reporting Framework* (2021), Section 2B, The capitals, and Guiding Principle 4, Connectivity of information: the principle encourages organisations to explain how material risks and opportunities identified across the six capitals are reflected in strategy and resource allocation, and performance management

IDENTIFYING IMPACTS, RISKS AND OPPORTUNITIES
continued

The GRI Standards apply impact materiality and require organisations to identify their significant impacts on the economy, environment and people, including impacts on human rights, across the value chain and over time. The International Sustainability Standards Board (ISSB) International Financial Reporting Standards Sustainability Disclosure Standards, IFRS S1 and S2, require organisations to disclose the sustainability-related risks and opportunities that could reasonably be expected to affect their financial prospects over the short, medium and long term and the decision-making of investors. The ISSB Standards have a financial materiality/investor materiality approach.

The European Sustainability Reporting Standards (ESRS) require organisations to identify material sustainability impacts, risks and opportunities across their operations and value chain through a structured double materiality process. ESRS 1 defines double materiality as comprising the two dimensions of impact materiality and financial materiality. This approach reflects the connections between an organisation's impacts on society and the environment and the sustainability-related risks and opportunities that may affect its financial position, performance, cash flows, access to finance or cost of capital. Integrated thinking encompasses both perspectives, recognising the organisation's impacts on the world around it and how sustainability matters may affect the organisation and its ability to create value over time.

Enhances organisational resilience, strategic coherence and sustainable value creation

Integrated thinking prioritises what needs managing in the short, medium and long term by surfacing impacts, risks and opportunities, interdependencies and trade-offs. Organisations operate in a complex, evolving environment shaped by economic, social, environmental, political, technological, regulatory and governance factors. Managing these ever-changing factors proactively means adapting strategies and risk processes to identify opportunities for positive impact and avoid, reduce or eliminate negative impacts.

Integrated thinking aligns different functional strategies around one value creation model, while addressing the organisation's material matters and resilience. This can contribute to:

- Informed trade-offs across the six capitals and over the short, medium and long term.
- Consistent resource prioritisation and allocation and efficient decisions.
- A balanced perspective that supports resilience and long-term growth.
- Greater internal and external transparency as strategic interdependencies become clear.

Applying integrated thinking helps ensure impacts and trade-offs are identified and understood before final decisions are made, reducing the risk of unintended consequences. Holistic decision-making begins with understanding the matter, how it affects the organisation, and how the organisation affects the economy, environment and society over time. This approach supports informed decisions aligned with the organisation's purpose and strategy without compromising the environment or society. The more deeply and broadly integrated thinking is embedded, the more naturally insights flow into daily decision-making.

Strengthens stakeholder considerations and relationships

Integrated thinking reinforces active stakeholder engagement, which helps identify the organisation's impacts, risks and opportunities and informs decision-making and trade-offs. Effective engagement improves the organisation's understanding of stakeholders' needs and interests and how they perceive value. It helps identify emerging trends, develop strategy and manage risks and opportunities.

Integrated thinking contributes to better external reporting, which can improve investor confidence and capital market outcomes. Integrated thinking underpins integrated reporting and can ensure balanced, connected and credible reporting, rather than compliance-driven, siloed reporting. Research shows that the integrated report (the primary tool for communicating an organisation's integrated thinking externally) improves information symmetry between management and key stakeholders, primarily investors, lowers bid-ask spreads and analyst forecast errors (proxies for information quality) and strengthens links between strategy, risk and financial performance.[9]

Strengthens governance and reporting

Integrated thinking provides the foundation for credible, coherent and forward-looking governance. Significant trade-offs in the organisation's business model and strategy require the governing body's judgement and are enabled by the depth and breadth of its integrated thinking. Integrated thinking helps the governing body balance risks and opportunities and positive and negative impacts in its strategy and decision-making.

Integrated thinking strengthens the governance, quality, connectivity and reliability of financial, sustainability and operational information, creating a stronger foundation for integrated or combined assurance (including management review and internal and external assurance) in sustainability and integrated reporting disclosures.

[9] Barth, M. E., Cahan, S. F., Chen, L., & Venter, E. R. (2017), 'The economic consequences associated with integrated report quality: Capital market and real effects', *Accounting, Organizations and Society*, 62, 43–64. https://doi.org/10.1016/j.aos.2017.08.005. (Note: Findings are concentrated in South Africa, where integrated reporting has been quasi-mandatory for JSE-listed companies since 2010.) Also refer to the IRC website SA research page for more academic literature on integrated reporting in South Africa

THE CHALLENGES IN EMBEDDING INTEGRATED THINKING

Limited leadership commitment

Embedding integrated thinking requires visible commitment. The governing body and management need to set the overall tone by encouraging collaboration, considering trade-offs and ensuring decisions reflect purpose and long-term objectives.

Insufficient understanding

Integrated thinking may not be fully understood. Building a shared understanding of integrated thinking across the organisation helps employees recognise interdependencies, understand trade-offs and apply integrated thinking consistently in their roles.

Misalignment on what is material

Integrated thinking cannot flourish if there is no shared view on which matters significantly affect the organisation's ability to create value over time. When material matters are not clearly identified, agreed upon and internally communicated, strategy, risk management, resource allocation and reporting can become misaligned, and trade-offs across the capitals cannot be weighed on a common basis. A robust, board-approved materiality determination process, informed by stakeholder input and regularly revisited, provides a common point for decision-making across the organisation.

Silo culture and fragmented information flow

Integrated thinking requires cross-functional collaboration and organisational silos can impede information sharing and coordinated decision-making. When institutional knowledge is retained by individuals, rather than shared and embedded within systems and functions, it can limit organisational learning.

Data unavailability and disconnected systems

Challenges to integrated thinking include lack of data availability and systems interoperability, as different functions may have different systems, definitions, reporting cycles, data owners and measures. As a result, organisations can have large amounts of information without having genuinely connected the information required for decision-making.

Seeing integrated thinking as a reporting exercise

Integrated thinking loses its purpose when treated primarily as a reporting exercise rather than a way of working. Integrated thinking is sometimes viewed as a component of integrated reporting. Thus, responsibility may be confined to reporting teams instead of being embedded in strategy, governance, risk management and decision-making across the organisation.

Misalignment in remuneration and incentives

Incentives focused on short-term financial performance can undermine integrated thinking by leading to decisions based on immediate results rather than sustainable value creation. Remuneration and incentives should encourage decisions that consider long-term value creation, preservation or erosion across the capitals.

Perceived complexity in making it real

Integrated thinking can be perceived as complex or abstract, particularly when introduced to operational teams through reporting terminology. Positioning integrated thinking as a practical approach to align and improve daily decision-making practice makes it more accessible across the organisation.

Lack of sustained effort

Integrated thinking cannot be embedded without sustained effort over time. Integrated thinking is not a once-off initiative. It must be seen as a cycle of continuous improvement and an ongoing process of learning, application and improvement in the organisation's systems, processes and culture.

KEY CONSIDERATIONS

The following key considerations may assist organisations to effectively and consistently embed integrated thinking. They draw on the experience and insights of South African organisations. This list is not exhaustive, but highlights enablers that have proven to be effective.

1. Establish integrated governance processes

Organisations with experience in integrated thinking embedded it into their existing governance and decision-making processes rather than creating parallel structures.

Strategic reviews, capital allocation decisions, risk assessment, performance evaluation and sustainability considerations are approached through an integrated lens, with deliberate attention given to the interdependencies and trade-offs among the six capitals. In this way, integrated thinking is embedded in the governing body's standard decision-making process.

The governing body plays a central role in recognising that effective governance relies on creating and preserving value and avoiding or minimising value erosion over the short, medium and long term. This perspective should be reflected in the board charter, committee mandates and decision-making criteria. Strategy discussions should address value creation, preservation or erosion; impacts, risks and opportunities; and material trade-offs.

Board papers and management's investment proposals should explain anticipated effects across the relevant capitals, including significant trade-offs and stakeholder relationships. The governing body should regularly test whether purpose, strategy, resource allocation, performance, incentives and disclosures present a coherent account of how the organisation creates, preserves and erodes value over time.

Clear accountability is essential. Responsibility for overseeing and managing impacts, risks and opportunities and material matters needs to be assigned at governing body, committee and executive levels. Mandates should specify who is responsible for which process and how relevant information informs strategy and decision-making.

2. Anchor integrated thinking in purpose and strategy

Embedding integrated thinking in purpose and strategy helps the organisation clarify the value it seeks to create for itself and others and what matters over time.

An organisation's strategy is a set of choices informed by the factors that influence value creation, preservation and erosion, organisational resilience and performance. A holistic strategy gives effect to the organisation's purpose and encompasses strategic objectives that combine financial, sustainability and operational goals rather than treating them as separate agendas.

A clear link between purpose, strategic objectives and material matters across the organisation defines what success looks like over the short, medium and long term. Translating strategic objectives into performance targets and strategic plans ensures that integrated thinking extends beyond the boardroom.

CASE STUDY

Redefine Properties Ltd
How we embedded integrated thinking

Redefine Properties Ltd is a JSE-listed real estate investment trust with property assets in South Africa and Poland. Redefine has consistently received top honours in integrated reporting awards for over a decade.

Where we started

The initial understanding: Integrated thinking was initially understood as something that sat with the integrated report rather than as a way of making everyday decisions. This created a risk that integrated thinking would be seen as compliance-driven or theoretical instead of a practical management tool.

A related difficulty was functional silos: Integrated thinking asks decision-makers to weigh trade-offs across financial, operational, social, environmental and human dimensions, but organisations are built around specialised functions with their own priorities, metrics and timelines. Encouraging teams to consistently look beyond their immediate mandate, and to consider broader system impacts, takes time and deliberate effort. It could also feel abstract. Without a clear translation of what integrated thinking means to a person in their own role, it risks remaining superficial. It is not a once-off initiative and must be sustained through leadership changes, shifting market conditions and evolving stakeholder expectations.

How we navigated it

The critical first step: Was anchoring integrated thinking firmly in purpose, strategy and value creation, rather than in reporting outputs, which is important in a long-term asset class like real estate. From there, the emphasis was on embedding integrated thinking into existing governance and decision-making processes.

Leadership tone and consistency were essential: Visible commitment from the board and the executive team, coupled with integration into performance objectives and incentives, established integrated thinking as a strategic priority rather than being optional.

To address siloed thinking: Strong emphasis was placed on cross-functional engagement and shared accountability, with regular collaboration between the strategy, finance, sustainability, operations and stakeholder teams.

What changed

Two shifts followed: Integrated thinking was normalised as part of how decisions are made rather than as an additional process. Over time, mindsets shifted from optimising individual functional outcomes towards optimising long-term value for the whole organisation.

What we would tell others

Integrated thinking is a journey rather than a destination: Expect it to evolve as understanding deepens and operating context changes, and allow space for learning, iteration and refinement.

Start with real decisions rather than abstract frameworks: Using live strategic or operational decisions as examples demonstrates the practical value of integrated thinking and builds confidence across the organisation.

Culture and values matter: Integrated thinking is significantly strengthened when organisational values already emphasise long-term impact, accountability and stakeholder relationships. Above all, consistency between what is said and what is done matters deeply. Aligning strategy, actions, incentives and disclosures builds credibility and reinforces integrated thinking as a cornerstone of resilient business practice.

3. Embed integrated thinking in culture and values

Processes alone do not embed integrated thinking – culture determines how consistently it is practised.

When the organisation's leadership emphasises long-term value, impacts, risks and opportunities, stakeholder relationships and shared accountability, employees are more likely to consider how these factors impact their day-to-day decisions. Functions and departments that understand these interdependencies are also more likely to co-design solutions across finance, operations, risk and sustainability, rather than focusing solely on narrow functional or departmental performance.

Culture shifts when leadership signals are consistent. Leaders should model collaborative decision-making and make trade-offs explicit. Performance monitoring and reporting should address progress and setbacks honestly and transparently, so that others in the organisation can learn and adapt.

When strategy, behaviour, incentives and reporting all reinforce one another, integrated thinking throughout the organisation becomes a practical way of making more informed decisions, rather than a separate discipline to be maintained.

4. Align operations and functions

Intentionally enabling cross-functional interaction facilitates the understanding that value creation, preservation and erosion are collective and interconnected. Ongoing capacity building should establish a shared understanding of strategic objectives, key concepts, roles and expectations.

In practice, alignment can often be weakest in the operational middle, where functions may use different language, timelines and reference points for the same issues. A practical way to enhance coordination is to align planning cycles so that strategy, risk, finance, operations and sustainability teams contribute to the same planning conversation at the same time, rather than adding sequential, siloed inputs into a plan assembled elsewhere.

Cross-functional working groups or short-term secondments focused on specific material matters can build interconnected relationships and shared understanding. Organisations should also establish a clear and timely mechanism for resolving disagreements between functions.

5. Align performance and remuneration with strategic objectives

Performance management and variable remuneration should reflect the organisation's holistic strategic objectives and the outcomes it seeks to achieve or avoid. This connects organisational intent with the decisions and actions of executives and employees.

The governing body reviews and approves the strategic objectives and the KPIs, targets and time frames for achieving them. These form an integral part of internal reporting and decision-making throughout the year and feed into staff performance reviews and remuneration.[10]

KPIs that reflect performance drivers across all six capitals, as appropriate for each function, allow management to monitor short-term delivery while assessing long-term resilience and stakeholder outcomes. Embedding KPIs in functional performance management can encourage cross-functional collaboration and reduce the risk that one function improves its results at the expense of the organisation's purpose.

Regular performance dialogues should examine variances, emerging impacts, risks and opportunities, any unintended consequences, and the trade-offs between competing priorities and capitals. These discussions turn performance management from a scorekeeping exercise into an organisational learning and decision support system. Insights should inform targets, resource allocation and strategy.

Variable remuneration should reflect what was achieved, how it was achieved and the consequences, with safeguards against rewarding conduct that creates unacceptable harm or future value erosion.

[10] King V frames this as a continuous governance discipline, requiring that strategy, risk, performance and sustainability be treated as inseparable. Institute of Directors in South Africa (IoDSA), *King V Report on Corporate Governance for South Africa*, 2024, principle 3 and associated recommended practices

6. Strengthen data, information and decision support systems

Integrated thinking depends on decision-useful information that connects strategy, performance, impacts, risks and opportunities, and outcomes.

Weak, fragmented or incomplete data can lead decision-makers to rely on partial information or untested assumptions. Systems can be a significant barrier to integrated thinking. The data must be available, and interoperability between systems is essential for connected information.

Credible, comprehensive and decision-relevant information can help management understand interdependencies, assess trade-offs, track material matters and evaluate consequences over time. Dashboards and other tools can support continuous monitoring of performance across the capitals.

The processes, systems and controls underpinning data collection and evaluation should be sufficiently robust to withstand assurance scrutiny. Clear data ownership, consistent definitions and methodologies and appropriate validation controls help ensure that information is complete, accurate, comparable and fit for internal and external use.

Digital and AI tools can help connect information across functions, support scenario analysis, identify patterns and trends, and enable more timely monitoring. For example, they can help explore relationships between emissions reductions, energy costs and financial performance, or analyse large volumes of stakeholder input to identify emerging themes, risks and opportunities. Used effectively, these tools can provide a more connected view of the factors affecting the organisation and its stakeholders.

Digital and AI tools do not replace human judgement or accountability. Their use should be governed through appropriate controls over data quality, privacy, security, bias, explainability and human oversight. Correlations should be tested before they are treated as causal relationships or used to support material decisions.

CASE STUDY

Vodacom Group Ltd
Integrated thinking in capital allocation

Vodacom Group Ltd is a JSE-listed telecommunications group. Vodacom's reports have consistently been ranked among the top reports in integrated reporting awards.

At Vodacom, integrated thinking is particularly evident in decisions that commit significant capital, because these are the decisions in which different forms of value pull in different directions and the consequences are locked in for years.

Network expansion is the Group's largest and most frequently repeated category of capital expenditure. Each site is a long-lived asset: the capital committed today determines what the network can reach, what it will cost to operate and what it will emit for as long as the site remains in service. The Group's purpose is connecting people for a better future, and it has committed to achieving net zero by 2035.

When Vodacom builds a network site in a market where the electricity grid does not reach, the site must run on diesel via generators, at least initially. The decision to build a network site extends connectivity to people without it, thus advancing the Group's purpose. It also increases emissions, creating tension with the Group's net zero commitment and it ties the site to a fuel supply chain with exposure to price, logistics and future carbon regulation.

For Vodacom, tough conversations about trade-offs and capital allocation are a fundamental part of integrated thinking – seeking to balance competing needs and conflicts in a way that adds overall value. Firstly, the conflict is named, and the trade-off conversation takes courage. Avoiding such a conversation does not remove the trade-off. Avoidance would only mean capital is committed without its consequences having been fully considered and in capital expenditure, those consequences are not easily reversed. Secondly, it is considered over time rather than at a single point in time. In capital terms, this is the difference between a site built to run on diesel and a site built so that it can be migrated to alternative power later. The forward view shapes the specification of the asset, not merely the justification for it. Thirdly, it is answered against purpose. Because purpose sits underneath the decision rather than alongside it, the conversation about what the site means for the Group's commitments happens as part of the decision.

The return on that discipline is resilience. Assets specified with the longer term in view are less exposed to fuel costs, supply interruption and tightening carbon regulation, and the connectivity they create deepens the Group's position in markets it expects to serve for decades. Vodacom cannot enter or exit a market quickly, so the durability of what it builds is inseparable from the value it creates.

Integrated thinking is not about eliminating trade-offs. It is about making them visible, considering their consequences over time and bringing them into the investment decision in the context of the Group's purpose and longer-term position. In significant capital expenditure in particular, that discipline is what separates an asset that performs for a reporting period from one that holds its value across its life.

7. Assess the extent of embedding

Integrated thinking is not a standalone target with a fixed endpoint, but an evolving way of governing, thinking and making decisions that becomes embedded in an organisation's normal practices and processes.

Periodic assessment can nevertheless provide a useful checkpoint to identify gaps, monitor progress, and determine where further attention is needed. Embedment can also happen at different depths and breadths across different areas, for instance, in governance structures and organisational behaviour.

Some organisations dedicate a coordinator or team to facilitate implementation during the early stages, with their task being to guide integrated thinking embedment into existing processes rather than to create a separate system.

Integrated thinking cannot be reduced to a single measurement score. The following dimensions, however, can help assess the extent to which it is embedded:

Strategic integration	Organisational integration	Performance integration	Reporting integration
Assess whether the strategy connects the organisation's purpose and long-term value creation, strategic objectives, risks, performance and future priorities, rather than focusing predominantly on short-term financial results.	Assess whether functions and teams – including finance, risk, sustainability and operations – work together to support coordinated decision-making and shared objectives.	Assess whether performance across the six capitals is managed through aligned KPIs and measures, considering dependencies, impacts, risks and opportunities and trade-offs.	Assess whether internal and external reporting provide connected and consistent information about purpose, strategy, governance, performance, impacts, risks and opportunities and prospects, reflecting how the organisation creates, preserves or erodes value over time.

8. Establish robust reporting and feedback flows

Integrated thinking is strengthened when reporting forms part of a continuous management and feedback system rather than a year-end compliance exercise. Roles and accountability across the reporting process should be clear.

Board and committee oversight sets the tone, and the responsibility for integrated performance is embedded across the organisation. Business and function leaders should provide periodic updates on performance, material matters and key initiatives, while functions such as risk, sustainability, compliance and internal audit contribute, challenge, validate and provide assurance as appropriate.

Periodic reporting should map performance to the organisation's purpose, strategic objectives and material matters, using a mix of qualitative and quantitative information. Beyond tracking progress, it should surface operational challenges, emerging opportunities, stakeholder insights, dependencies and significant trade-offs, enabling these to inform decisions and management responses.

Experienced organisations have said their regular internal reporting cycles cover:

- Progress on material matters, enabling emerging issues to be identified and managed proactively, rather than only disclosed at year end.
- Significant trade-offs and the implications for strategy, performance and long-term value.
- Changes in significant impacts, risks and opportunities, including management responses.
- Governance actions and committee deliberations, supporting accountability and effective oversight and alignment.

A disciplined reporting and feedback cycle improves decision-making throughout the year and makes external reporting more efficient, balanced and decision-useful.

CASE STUDY

Nedbank Group Ltd

Integrated thinking in governance and organisational elements

Nedbank Group Ltd is a JSE-listed financial services group. Nedbank has consistently received top honours in integrated reporting awards for over a decade.

Element of organisational management	How it is integrated
Purpose and value creation, preservation or erosion	Nedbank's purpose is framed around using its financial expertise to do good, guiding decisions that create sustainable value for clients, employees, shareholders and society over time. This is used to guide investment and growth decisions, innovation priorities and stakeholder trade-offs, ensuring that strategies strengthen both financial returns and relationships with stakeholders. Capital is allocated to investments that reinforce long-term relevance, trust and resilience, rather than short-term profit maximisation alone.
Material matters	Nedbank frames its material matters as issues that materially affect its ability to create and protect value for the Group and its stakeholders over the short, medium and long term, covering both opportunities and risks. For example, disruptive technologies, regulatory demands and environmental risk in the lending portfolio are assessed not only as compliance topics but also as financial, operational and human capital matters. Considering impacts on funding costs, credit quality, workforce capability and customer trust together allows the bank to prioritise matters that genuinely influence long-term value, rather than managing topics in isolation.
Strategy and resource allocation	Nedbank's purpose of using its financial expertise to do good is embedded in strategy through focused investment in digital leadership, client experience and sustainable development finance. Resource allocation balances investment in resilient technology, AI and data capabilities, cyber resilience, specialist skills and disciplined risk and capital management, enabling the bank to grow and deepen client relationships, protect franchise value and support inclusive, sustainable financial services.
Risk and opportunity management	Cybercrime, fraud, operational resilience and market conduct regulations are managed as threats to operational continuity, regulatory compliance and client relationships. By integrating these considerations into enterprise risk management processes, management identifies opportunities to invest in fraud-detection technologies and simplified, secure product design that reduce losses, strengthen client experiences and protect long-term value. These are overseen at executive and board committee levels.
Performance and incentives	Executive scorecards include targets for capital management and financial outcomes, client trust, employee capability, strategic delivery and societal and environmental outcomes. Short-term and long-term incentives are linked to financial and non-financial performance targets, encouraging and reinforcing management behaviour that balances short-term financial performance with long-term value creation and resilience.
Governance, review and reporting	The board and its committees review developments in the external environment and integrated management information on a regular basis, including financial and non-financial KPIs, risk appetite metrics, strategy execution updates and progress against desired outcomes. This enables more informed decision-making, timely course correction and credible integrated reporting that reflects how the bank is managed, strengthening investor confidence and stakeholder trust.

9. Embrace a cycle of continuous improvement

Experience among South African organisations shows that integrated thinking evolves and matures over time as understanding deepens, practices develop and experience informs better decision-making.

Some reflections are shared below:

- **Start in increments rather than redesigning the whole system:** For example, apply an integrated lens to a capital investment decision or strategic initiative. To do this, consider the potential financial returns and the required inputs (such as workforce capability and supplier dependencies); the potential impacts (such as environmental constraints and community impacts); and the material risks and opportunities. The experience and learnings gained can then be applied more broadly across the organisation.
- **Use performance reviews to build integrated thinking habits:** Reviews should monitor progress against targets and cover integrated thinking areas such as input dependencies, impacts, risks and opportunities, trade-offs and changes in the external environment. This builds awareness of interconnections and the application of integrated thinking at a functional level.
- **Refine the focus on what is material:** Organisations can start with a long list of topics driven by external expectations; however, as strategy evolves, external conditions change and an organisational value creation lens is applied, some matters emerge as more important while others recede, and the relationships between them become clearer. Regular re-assessment ensures that attention remains focused on the matters that significantly affect the organisation's ability to create, preserve or erode value, as well as its material impacts, risks and opportunities.
- **Learn from decisions and outcomes:** Revisit significant decisions in executive discussions to consider whether assumptions proved valid, the anticipated outcomes were achieved, and if any significant impacts or trade-offs were overlooked. Applying the lessons from real decisions to future decisions turns integrated thinking into an organisational capability and a valuable business tool.

10. Use integrated reporting to strengthen integrated thinking

Experienced South African organisations recognise the important role that preparing an integrated report has played in embedding and strengthening integrated thinking. This is because developing the report requires connected information about strategy, risks and opportunities, performance, governance and outlook, considered in the context of the organisation's key external environment factors.

The preparation and review process can reveal gaps or inconsistencies in information and expose connections and interdependencies that may not otherwise be apparent. In this way, reporting can provide a valuable feedback loop in prompting further discussion, better information and integrated decision-making.

The governing body should satisfy itself that the integrated report is balanced, connected and complete, and consistent with its knowledge of the organisation and with the information used in governance and management.

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The members of the IRC Working Group are appointed in their individual capacity and bring their experience and expertise in different industries and functions and as preparers, consultants, investors and academics.

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While every effort was made to ensure the information published in this Paper is accurate at the date of publication, the IRC of South Africa, its members, secretariat and members of its Working Group take no responsibility (jointly or individually) for any loss or damage suffered by any person as a result of reliance on the information contained herein.

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A list of membership benefits is available on our website. For membership enquiries, please contact us at *admin@integratedreportingsa.org*. We hope you find this Paper useful and welcome your comments and feedback addressed to us at *admin@integratedreportingsa.org*.

ABOUT THE IRC OF SOUTH AFRICA

The IRC is a voluntary association, not for gain, in South Africa, founded in May 2010. The IRC's role as a national body is to provide direction on matters relating to integrated reporting and integrated thinking in South Africa through technical information and guidance, conferences and other activities.

The IRC's board, as at October 2026, comprised Professor Mervyn King (Chair), Professor Suresh Kana (Deputy Chair), Leigh Roberts (CEO), Graeme Brookes (JSE Ltd), Milton Segal (South African Institute of Chartered Accountants), Parmi Natesan (Institute of Directors in South Africa), Sunette Mulder (Association for Savings and Investment South Africa), Yvonne Mothibi (Institute of Risk Management South Africa) and Zubair Wadee (University of the Witwatersrand – School of Accountancy).

The IRC CEO is Leigh Roberts, the Head of the IRC Secretariat is Lyn Bunce, the Secretariat of the IRC Working Group is Cornelia Maraschin, and the Events Coordinator is Evelyn Parker. The IRC relies on a team of people who volunteer their services: Ntando Dube (website), Darren Gorton (IT), Sheralee Morland (IR Practitioners Forum), Lesego Diphaha (social media) and Elrida Vos (communications).

The IRC's membership comprises organisation members (professional and industry bodies), corporate members, small and medium enterprise (SME) corporate members and honorary members. The founding organisation members are the Association for Savings and Investment South Africa (ASISA), the Institute of Directors in South Africa (IoDSA), JSE Ltd (JSE) and the South African Institute of Chartered Accountants (SAICA).

Our other organisation members in 2026/27 are the Accounting Standards Board, Association of Chartered Certified Accountants South Africa (ACCA), Chartered Institute for Business Accountants (CIBA), Chartered Governance Institute of Southern Africa (CGISA), The Companies and Intellectual Property Commission (CIPC), Council of Retirement Funds for South Africa (Batseta), Institute of Internal Auditors of South Africa (IIA SA), Institute of Risk Management South Africa (IRMSA), Investor Relations Society of South Africa (IRSSA), Financial Sector Conduct Authority (FSCA), South African Institute of Professional Accountants (SAIPA), University of Johannesburg: Department of Accountancy, Rhodes Business School, Rhodes University and the University of the Witwatersrand: School of Accountancy.

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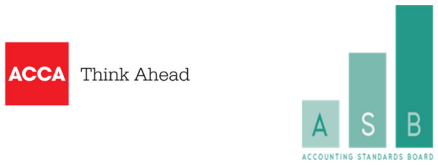
IRC OF SOUTH AFRICA MEMBERS



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