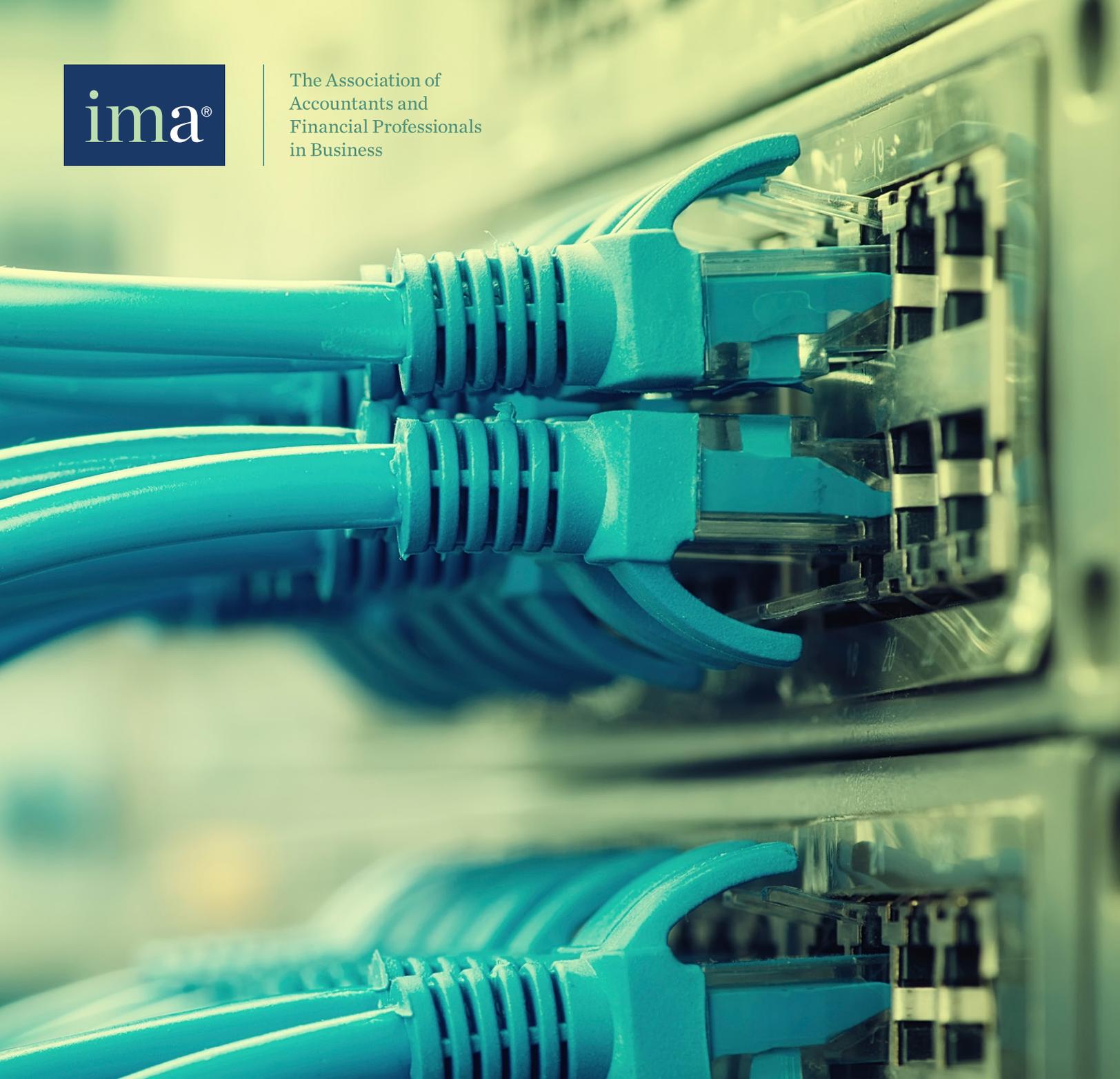




The Association of
Accountants and
Financial Professionals
in Business



Integrated Reporting

Statement on Management Accounting

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Integrated Reporting

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Introduction

The International Integrated Reporting Council defines integrated reporting as “a 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.”¹ An integrated report is “a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.”²

Integrated reporting is being adopted by companies around the world but is still considered to be a practice in its early stages. Therefore, it is important to recognize how it has evolved, costs vs. benefits, obstacles hindering a widespread adoption and how they can be overcome, and ways that momentum can be built around integrated reporting implementation.

Because integrated reporting is still a new management practice, this Statement on Management Accounting outlines both the guiding principles of integrated reporting and the content elements of an integrated report. Specific examples are provided throughout to illustrate how leading companies are putting the guiding principles into practice and to provide information on the various content elements. Different types of capitals are discussed, and specific examples are provided to illustrate how metrics for these different types of capitals can be constructed. The statement concludes with a discussion of how integrated reporting can be optimized through online technologies and communication practices in conference calls as well as what the future holds.

Inadequacies of Corporate Reporting

The aim of corporate reporting is to disclose information on financial issues of the corporation and thereby bring greater accountability and transparency which, in turn would facilitate future business ventures. Credible and complete information builds confidence in investors and other stakeholders and makes them more likely to transact with a company on a repeated basis, thereby lowering the transaction costs for all parties. Research has found that providing credible information is associated with better access to financing, lower cost of capital, better business relations with customers and suppliers, and greater trust from employees.³ Therefore, a major function of corporate reporting is to provide all stakeholders with the information they require to conduct business transactions—defined as the “information function” of corporate reporting.

Yet corporate reporting has a second function that goes a step further in the process of information disclosure. While the information function can be seen as a one-way form of

¹ Accessed from the International Integrated Reporting Council’s website on November 20, 2015, at <http://integratedreporting.org>.

² *Ibid.*

³ Robert G. Eccles and George Serafeim, “Corporate and Integrated Reporting: A Functional Perspective,” *Harvard Business School*, May 8, 2014, <http://hbswk.hbs.edu/item/7502.html>.



communication (in other words, corporations reporting to stakeholders), the transformation function enables stakeholders to use the provided information to establish an idiosyncratic feedback mechanism.⁴ Through the transformation function, stakeholders are able to receive and evaluate the information to try to actively bring change where they see opportunities to influence corporate behavior potentially to the corporation's benefit.⁵

Corporate reporting has undergone various transformations to adapt to a changing landscape of economic, technological, social, and political drivers and to the information needs of different stakeholders. Over time, dramatic changes to the corporate environment led to the need for additional information beyond the basic financial statements, such as management commentary, governance disclosures, and footnotes to the financial statement, so that stakeholders could have a better understanding of the value-creation process. Independent verification by external auditors was also added to help build trust among external stakeholders. Interest in governance disclosures came as a result of managerial problems inside companies and an increasing number of governance-related scandals (options backdating, insider trading, and excessive pay).⁶

Although financial statements were accompanied by these other types of information, users of corporate reporting still find the information to be incomplete and inadequate in explaining the value-creation process of an organization and material nonfinancial risks. In order to better understand how we can construct a more meaningful reporting framework that addresses the inadequacies of the corporate reporting system, we need to understand the value-creation process of 21st Century companies.

Companies use resources to produce and provide their products and services. These resources can be classified as *natural capital*, such as water, forest, and minerals; human capital, such as skills, capabilities, and experiences of people; and *financial capital*, such as funds raised from investors or from the reinvestment of funds obtained from operations. Companies use these resources to develop additional resources, which can be classified as physical capital, such as factory equipment; *intellectual capital*, resulting from employee efforts generating intangible assets; and *social capital*, deriving from the relationship between a company and the society from which it secures its license to operate. Leveraging these additional resources, companies are able to sell products and services in exchange for financial compensation.

Products and services are not the only output generated by a company. Externalities are another outcome of a company's activities. Positive externalities arise when a company's actions generate benefit to a third party. For example, employee training benefits the company but it also creates benefits for other companies that these employees might join in the future.

⁴ *Ibid.*

⁵ *Ibid.*

⁶ Corporate governance is defined here as the mechanism through which an organization is governed. Through corporate governance, there is a clear distinction of the rights, responsibilities, and activities of various members of the organization, including the board, managers, shareholders, and others. The most important function of corporate governance is namely that it establishes the ground rules for decision making. For further information see <http://stats.oecd.org/glossary/detail.asp?ID=6778>.



Negative externalities, in turn, arise when a company's actions generate costs to a third party. Negative externalities such as pollution, climate change, and excessive risk taking have significantly impaired many corporations' social capital, putting at risk their license to operate. The nonfinancial performance of companies increasingly becomes a factor in the job search of skilled employees, the overseeing of regulators, the capital allocation decisions of investors, and society as a whole.

Investors currently deem external corporate disclosure as insufficient for providing comprehensive information. Financial data does not offer an encompassing account of the interplay between strategy, risk management, and financial performance.⁷ According to one study, tangible assets comprise only 20% of a company's overall value, which points to the concern that intangible assets—that form the majority of a company's true value—remain unaccounted for.⁸ An increasing number of investors have come to realize that sustainability represented by nonfinancial aspects is an important factor in business performance and long-term value creation.⁹

Nonfinancial reports and annual financial reports have typically been issued separately because companies have not customarily integrated the concepts of nonfinancial and financial performance. Sustainability reports have varied widely in terms of structure and content because of the lack of consistent reporting frameworks/standards/guidelines or regulatory mandates on how to report this information. Early adopters of sustainability reporting predominantly released a single-issue report, usually disclosing environmental or workplace safety information. This report developed into multiple-issue reports when companies began disclosing information relative to the organization's "triple bottom line," which holistically represented its economic, social, and environmental activities.¹⁰ This disclosure practice was commonly referred to as corporate social responsibility (CSR) reporting or sustainability reporting.¹¹

⁷ Ernst & Young (E&Y), "Integrated Reporting: Tips for Organizations on Elevating Value," 2014, [www.ey.com/Publication/vwLUAssets/EY-Integrated-reporting-summary/\\$FILE/EY-Integrated-reporting-summary.pdf](http://www.ey.com/Publication/vwLUAssets/EY-Integrated-reporting-summary/$FILE/EY-Integrated-reporting-summary.pdf).

⁸ Ocean Tomo, "Ocean Tomo's Intangible Asset Market Value Study," December 2013, www.oceantomo.com/2013/12/09/Intangible-Asset-Market-Value-Study-Release.

⁹ Ioannis Ioannou and George Serafeim, "The Impact of Corporate Social Responsibility on Investment Recommendations: Analysts' Perceptions and Shifting Institutional Logics," *Strategic Management Journal*, May 2014, <http://onlinelibrary.wiley.com/doi/10.1002/smj.2268/abstract>.

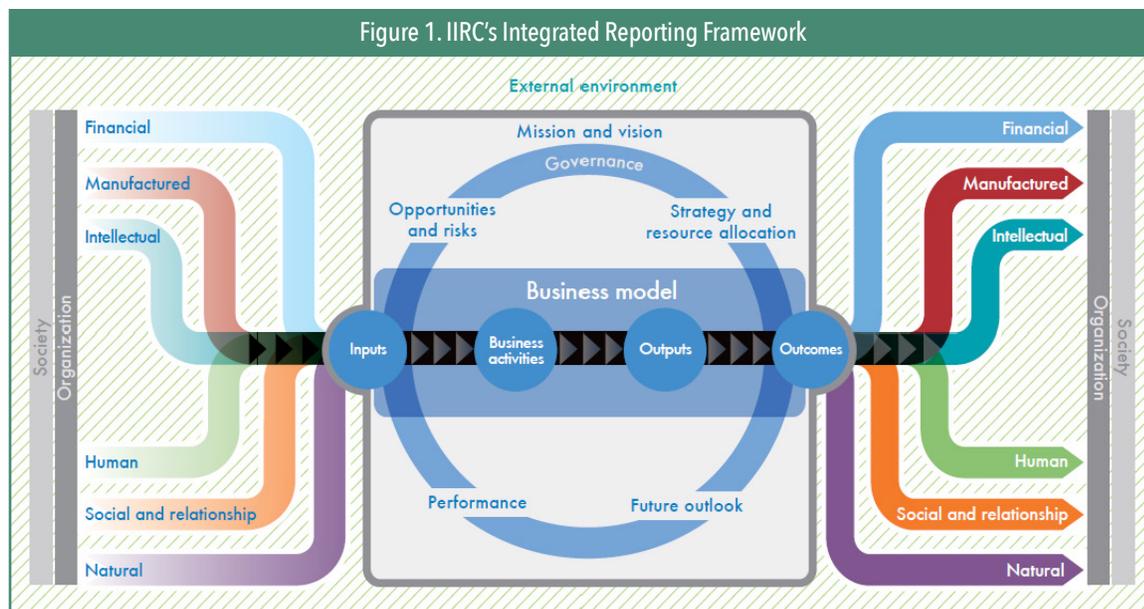
¹⁰ The phrase "triple bottom line" was first coined in 1994 by John Elkington, the founder of consulting firm SustainAbility in the United Kingdom. He argued that companies should be recognizing three different and separate bottom lines, known as the three Ps: (1) "profit" as the traditional measure of the organization's profit and loss, (2) "people" as a measure of how socially responsible an organization was in its operations, and (3) "planet" as a measure of how environmentally responsible the organization was. This approach aimed to measure an organization's full cost of doing business over a period of time. For more, see Tim Hindle, "Triple Bottom Line: It consists of three Ps: profit, people, and planet," *The Economist*, November 2009, www.economist.com/node/14301663.

¹¹ "CSR reporting" and "sustainability reporting," took on a somewhat synonymous meaning and could mean the same thing or different things to different stakeholders. The terms were often used interchangeably in reference to multi-issue reporting. Other terms also were used to describe these reports such as, "corporate responsibility reporting," "environmental sustainability reporting," "social accounting," and "environmental, social, and governance reporting."

Integrated Reporting

Unlike a sustainability report that is issued separately from the annual financial report, an integrated report is a single document that presents and explains both financial and nonfinancial information in a holistic manner.¹² An integrated report is developed in response to stakeholder groups' and investors' need for enhanced reporting that connects strategy, risks, key performance indicators (KPIs), and financial performance.¹³ Providing an integrated report is an effective "way of communicating to all stakeholders that the company is taking a holistic view of their interests."¹⁴

As expressed by the International Integrated Reporting Council (IIRC), through integrated reporting, a company is able to demonstrate "how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term."¹⁵ Figure 1 illustrates the IIRC's Framework showing how the different forms of capital are placed in the context of the company's business model.



Source: IIRS, International <IR> Framework, December 2013, <http://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf>.

¹² Robert G. Eccles, Michael P. Krzus, and Don Tapscott, Chapter 5, "Sustainable Strategies for a Sustainable Society," *One Report: Integrated Reporting for a Sustainable Strategy*, John Wiley & Sons, Inc., New York, N.Y., 2010.

¹³ The Prince's Accounting for Sustainability Project, "Reporting Earnings Needs to Change," August 2010, www.accountingforsustainability.org/reporting.

¹⁴ Eccles, Krzus, and Tapscott, 2010.

¹⁵ Accessed on November 20, 2015 from: <http://integratedreporting.org/what-the-tool-for-better-reporting>.



The Benefits of IR

One of the most frequent criticisms of sustainability reporting is that it fails to link the reported information to the process of value creation inside an organization. Integrated reporting can serve as a form of discipline for a company. It helps ensure that the company concisely reports material information in a way that shows how well it is performing in nonfinancial dimensions that affect the quality of the company's formulated strategy and its execution.

Another benefit of integrated reporting is to gain a better understanding of the relation between financial and nonfinancial performance. Because companies need to communicate their nonfinancial performance in the context of strategy and how they create value, managers are forced to think about when and under what conditions trade-offs and interdependencies between financial and nonfinancial performance arise.

Another benefit of integrated reporting is improved internal measurement and control systems for producing reliable and timely nonfinancial information. By adopting integrated reporting, companies are forced to increase the quality of information systems as well as the internal controls and monitoring systems [such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Internal Control—Integrated Framework*] for nonfinancial information.¹⁶ This is necessary so that the integrated report can meet standards for independent assurance by external auditors.

Lower reputational risk is another benefit of integrated reporting. First, it can reduce the expectation-reality gap between the company and external parties by communicating in a holistic and transparent way the performance, position, philosophy, vision, and mission of an organization in both financial and sustainability terms. Second, it can be used as a platform for improved dialogue, engagement, and relationships with all stakeholders. For example, customers who care about sustainability will be more committed. Third, it can promote higher employee engagement through internal coordination and collaboration (i.e., elimination of silos) because it requires different units of an organization to come together to produce an integrated report.

Finally, attracting long-term investors is another potential benefit. Integrated reporting is a mechanism to communicate a company's vision about the future and how it addresses nonfinancial challenges and opportunities, thereby enhancing the confidence of long-term investors in the leadership of the company and its ability to build sustainable value.¹⁷

¹⁶ The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has produced an *Internal Control—Integrated Framework* that provides guidance on the systems of internal control, including their structure, implementation, and evaluation. For further information see www.coso.org/ic.htm.

¹⁷ United Nations Global Compact, "Global Compact LEAD, PRI Introduce Strategies for Managing Impacts of Investor Short-Termism," May 2014, www.unglobalcompact.org/news/1001-05-20-2014.



The Costs of IR

As previously discussed, integrated reporting is much more than merely producing a report. It is the integration of environmental, social, and governance issues in the organizational processes of a company and, as such, costs are associated with adopting the practice. The preparation of an integrated report involves collecting and analyzing both structured and unstructured data, infrastructure investments in new information systems and data sets, establishing new processes and control systems, dedicating resources, and obtaining assurance from third parties.¹⁸

Evidence and field data have shown that costs of new information systems take the highest share of all costs related to integrated reporting. The reason for this is: organizations that embark on the integrated reporting journey need to invest in the development of information systems for sustainability data. Companies also need capital for skilled experts to actually make sense of this data and incorporate it in financial reporting.¹⁹

Finally, it is quite possible that integrated reporting will lead to *propriety disclosure* costs, which stem from communicating competitive information. Further research is required to investigate whether this is the case or if there are other considerations to be taken into account when discussing the costs of integrated reporting.

Figure 2 provides a summary of the costs and benefits for integrated reporting.

Figure 2. Costs and Benefits of Integrated Reporting	
BENEFITS	COSTS
<ul style="list-style-type: none">• Greater clarity about the relationship between financial and nonfinancial performance and how this affects value creation• Better internal decision making for a sustainable strategy• Deeper engagement and improved relationships with shareholders and stakeholders• Lower reputation risk• Improved measurement and control systems for nonfinancial information• Greater employee engagement• More committed customers who care about sustainability	<ul style="list-style-type: none">• Preparation costs related to the collection and analysis of new data• Infrastructure investments in new information systems and data sets• New processes and control systems• People with analytics skills• Assurance from third parties• Potential proprietary disclosure costs and revelation of competitive information

¹⁸ George Serafeim, "Integrated Reporting and Investor Clientele," *Harvard Business School*, February 24, 2014, <http://hbswk.hbs.edu/item/7457.html>.

¹⁹ George Serafeim, "Integrated Reporting and Investor Clientele," *Harvard Business School*, February 24, 2014, <http://hbswk.hbs.edu/item/7457.html>.



Initiating the Integrated Reporting Process

The success of integrated reporting depends on the global adoption of the practice by all listed companies. Therefore, it is worthwhile to identify some of the key challenges in the adoption and implementation of integrated reporting and then discuss how momentum can be built. Some of the main challenges of integrated reporting are shown in Figure 3 and will be discussed in further detail below.

Figure 3. Challenges faced by the Adoption and Implementation of Integrated Reporting	
ADOPTION	IMPLEMENTATION
<ul style="list-style-type: none"> • Support from senior leadership • Lack of universally accepted standards to communicate value creation 	<ul style="list-style-type: none"> • Understanding materiality • Comparability across reports • Integrated assurance • Data quality

Adoption

Support from senior leadership

Integrated reporting requires a strong commitment by the CEO who is ultimately responsible for the message the company is delivering to all of its stakeholders. The board of directors has a crucial role to play, since directors are elected by shareholders, and integrated reporting is a mechanism of ensuring long-term value creation and increasing transparency for these shareholders. Therefore, the adoption of integrated reporting would require the support of the board of directors and the CEO.

To overcome the challenges that can be associated with gaining support from the senior management, the benefits of integrated reporting need to be emphasized while building the business case for it. Key benefits that are likely to resonate with senior management are shown in Figure 2.

Lack of universally accepted standards to communicate value creation

For the reporting of financial information there are long-established procedures and processes. Nonfinancial information covers more diverse topics, which vary by sector and involve a mix of quantitative and qualitative information. Quantitative disclosures are usually not measured in monetary units, and internal control systems and data collection processes are not as developed as they are for financial information. Due to the lack of guidance and generally accepted standards for measuring and reporting nonfinancial information, companies are struggling to measure and communicate information that is important in providing a holistic picture of the value creation inside the organization. To overcome this challenge, consider the proposed standards and metrics provided by the Sustainability Accounting Standards Board (SASB), the World Federation of Exchanges (WFE), and the IIRC.²⁰

²⁰ See SASB (<http://www.sasb.org>), WFE (<http://www.world-exchanges.org/home/index.php/news/world-exchange-news/world-exchanges-agree-enhanced-sustainability-guidance>), and IIRC (<http://integratedreporting.org/how-practical-advice-and-tools>).



Implementation

Understanding materiality

Understanding the material issues that should be reported in an integrated report is one of the most challenging aspects of integrated reporting implementation. Management needs to take the responsibility to ascertain what information its “providers of financial capital” would want to know, as the IIRC definition of materiality would imply.²¹ The judgment of which matters are “relevant and important” is firm-specific, and therefore each company needs to develop a carefully planned process on how these matters will be defined, which stakeholders will be addressed, how their input will be obtained, and the relative weights to assign to issues and audience members. Defining what is material will be discussed more specifically in the Materiality section of this SMA.

Comparability across reports / Integrated Assurance

The full value of integrated reports will be realized when these are as reliable and comparable as financial reports. Both reliability and comparability in financial reporting come from the associated audit. Reliability originates from the objectivity brought by a third party that has reviewed the report to ensure that it has been prepared according to the relevant accounting standards (e.g., the IFRS or U.S. GAAP). Comparability of information originates from the fact that the same accounting standards and audit procedures have been used.²²

Therefore, in order to establish the reliability and comparability of integrated reports, an assurance opinion is deemed necessary. Currently, the assurance opinions provided are mostly in the form of “negative assurance” (there is nothing significantly wrong with the report) but ideally the required assurance will be in the form of “positive assurance,” such as, “the company has fairly presented the necessary information” (U.S. language) or “the necessary information presents a true and fair view” (international wording).²³

Data Quality

Internal controls over nonfinancial data are not as effective as controls over financial data. Data quality may inhibit reporting of some nonfinancial information. Also, data quality is a challenge to the independent auditors’ ability to provide positive assurance on nonfinancial information.

Building Momentum

Currently it is difficult to assess the number of companies that have embraced integrated reporting or the rate at which this is happening. This is due to limitations regarding the lack of clear criteria for what qualifies as an integrated report and a difficulty in determining how many

²¹ International Integrated Reporting Council. “Materiality in Integrated Reporting,” <http://integratedreporting.org/resource/materiality-in-integrated-reporting>.

²² Eccles, R. G., Krzus, M.P. and Watson, L.A., “Integrated Reporting Requires Integrated Assurance.” In *Effective Auditing for Corporates: Key Developments in Practice and Procedures*, 2012.

²³ *Ibid*



annual or other types of reports fit these criteria.²⁴ The number of “self-declared” integrated reports can be used as an indicator number to estimate the momentum building around integrated reporting and the rise of sustainability reporting. Sustainability reporting is a first step to integrated reporting and most of the companies that issue an integrated report today, did so after publishing a sustainability report for a number of years. The number of organizations declaring the publication of an integrated report grew from 287 in 2010 to 596 in 2012.²⁵

Regulatory forces can influence the momentum around integrated reporting. Currently, only South Africa has mandated integrated reporting, but an increasing number of regulations that support sustainability reporting are developing around the world. A recent report found that from 180 policies about sustainability reporting in 45 countries, 72% were mandatory.²⁶ The European Commission has followed this trend and adopted a directive that requires large companies (approximately 6,000 companies with more than 500 employees) to disclose in their management report the following items: information on policies, risks and outcomes regarding environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues, and diversity in their board of directors.²⁷ The directive entered into force on December 6, 2014, and EU Member States have two years to transpose it into national legislation.

Applying the Guiding Principles

A set of guiding principles, as outlined in the IIRC Framework, underpin the preparation of an integrated report, informing the content of the report and how information is presented. Next, we review these principles and provide examples of how organizations apply them in their integrated reports.

Connectivity of Information

Connectivity of information refers to all those factors that impact the organization and its value creation process. It presupposes great cohesion and interconnectedness between these factors. Another variable having an effect on the connectivity of information is the extent to which *integrated thinking*²⁸ is part of the organization and its proceedings. With higher incorporation of integrated thinking, the connectivity of information is to encompass a greater scope of the organization’s activities such as reporting practices and the way decisions are made.

The connectivity of information is accomplished through increased interconnection across different types of information. These types include:

²⁴ Robert G. Eccles and Michael P. Krzus, “The Integrated Reporting Movement: Meaning, Momentum, Motives and Materiality,” 2015.

²⁵ *Ibid*

²⁶ KPMG, Centre for Corporate Governance in Africa, Global Reporting Initiative, and UNEP (United Nations Environment Programme), “Carrots and Sticks: Sustainability reporting policies worldwide—today’s best practice, tomorrow’s trends,” 2013.

²⁷ http://ec.europa.eu/finance/accounting/non-financial_reporting/index_en.htm

²⁸ “Integrated thinking” means more extensive consideration about how capitals, resources, outcomes, and impacts that are an integral part of the business model, which is to be formed in ways most suitable to value creation.



- *Content Elements* of an integrated report that provide a holistic view of the proceedings in an organization,
- Comprehensive accounts of the activities of an organization across time, i.e., past, present and future,
- *The Capitals*²⁹ in an integrated report and their role in the value creation process,
- Financial information together with both quantitative and qualitative data (usually achieved through the inclusion of KPIs to better link quantitative and qualitative information), and
- Information regarding the management body of the organization together with board information and outward directed information.

Materiality

Materiality is perhaps the cornerstone of the guiding principles of integrated reporting. It presupposes that the information included in an integrated report presents material information regarding the operations of the organization and the value creation process across time. Materiality as a principle is not static, it is a process. Thus, for the purpose of preparing an integrated report, organizations need to carefully distinguish material issues. It should also be pointed out that the material information presented in the integrated report need not be only positive. There should be disclosure on both risks, opportunities, positive and negative trends in the future outlook of the organization. The integrated report should consist of both financial and nonfinancial information so as to comply fully with the materiality principle. Finally, regarding the process of identifying material matters, it is imperative that all issues having to do with materiality are incorporated into the management of the organization.

Material matters are issues with particular relevance to the value creation process of an organization. Such material matters are usually deliberated about with stakeholders and the managerial body so as to establish their relevance to the organization. These material matters are often difficult or not convenient to address. However, this is not a reason to exclude them from the materiality determination process. The principle of materiality is complied with only when all pertinent actors are engaged in the process of defining materiality and at the same time material matters are identified on the basis of their utmost relevance to the value creation process of the organization.

Material matters need to be industry- and entity-specific, tailored as much as possible to the specificities of each industry and organization. There are several definitions of materiality for nonfinancial reporting from organizations like the IIRC, Carbon Disclosure Project (CDP), Global Reporting Initiative (GRI G4), and Sustainability Accounting Standards Board (SASB). As of 2015, none of these organizations have official support from the state in any country but they contribute greatly in helping companies to identify their material issues across all industries.³⁰

²⁹ "Capitals" are stocks of value that are increased, decreased or transformed through the activities and outputs of the organization. In the context of the IIRC framework, the capitals are classified as: financial, manufactured, intellectual, human, social and relationship and natural capital. These will be discussed more fully in the Developing Metrics section of this SMA.

³⁰ Eccles and. Krzus, 2015.

Case Study: Eskom

Organization type: Publicly listed company
Region: Africa
Industry: Utilities

Eskom, in its integrated report, provides a description of the process followed to determine materiality. Extensive consultation with the company's stakeholders is used to determine what is "material," while taking into consideration Eskom's strategic objectives and the way its value chain operates. A summary of the resources used during this process is presented (reports submitted to the board and Executive management committee for discussion, shareholder's compact, Eskom's corporate plan, Eskom's key risks, parliamentary questions received, formal and informal stakeholder feedback including media coverage, and so on).

The materiality matrix is presented as quadrants that map the issues based on their significance to stakeholders and impact to the organization. The matrix includes some navigation icons, which serve to connect related themes throughout the integrated report.



Source: Eskom Holdings SOC Limited Integrated Report 2011, p. 9.

Strategic Focus

Strategic focus implies consideration about the relationship between strategy and value creation, i.e., the organization's capacity to harness its strategy in value creation over time. The attention to strategy also brings greater clarity on important risks, opportunities and factors related to the organization's operations and business model. Still, the most vital point to be taken from this guiding principle is namely that the integrated report needs to address the capitals and the role they play in the organization's strategic decision making. We discuss the different forms of capital in detail in the Developing Metrics section of this SMA.

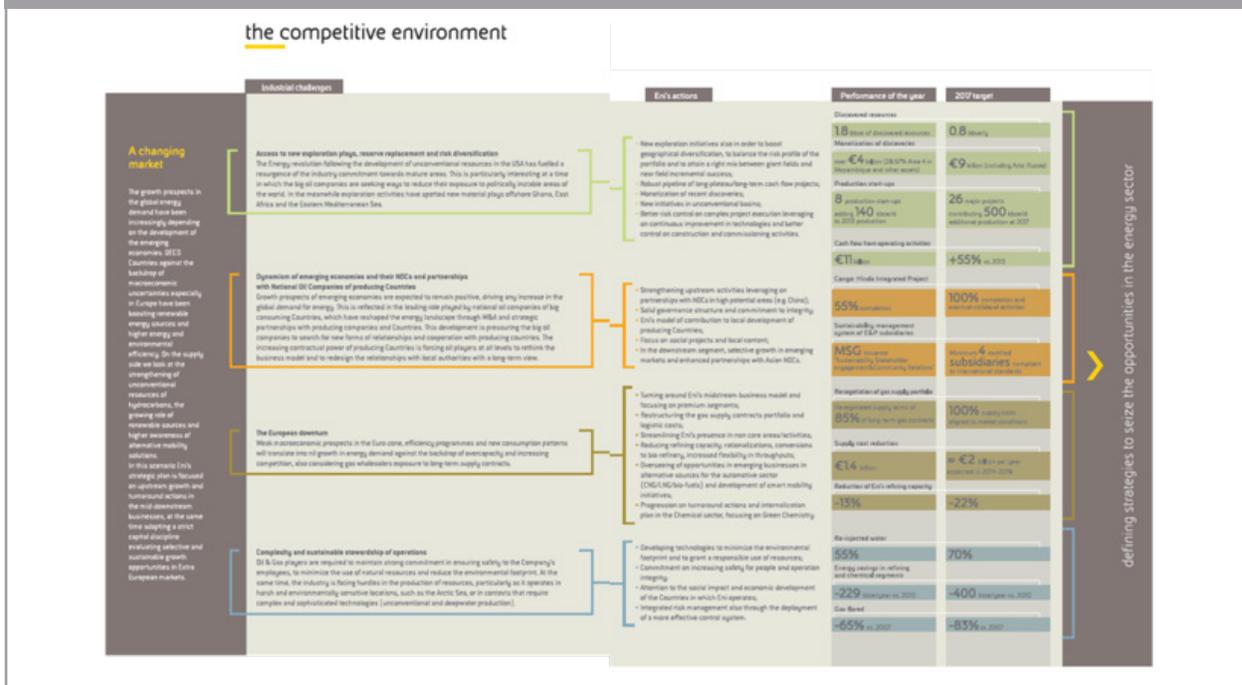
Case Study: Eni

Organization type: Publicly listed company

Region: Europe

Industry: Oil and gas

The Eni Annual Report 2013, with regards to the principles of strategic focus and future orientation, offers a review of the major developments and challenges in the energy industry and at the same time expands on Eni's strategic moves to guarantee that the company is well prepared for all future challenges. The report provides an evidence-based, quantified view for the future. The performance of the company and all relevant targets can be very easily spotted, because they are quantified, and in this way clearly making a claim about the future of the company. Eni presents with quantitative metrics the performance of the year and the 2017 targets.



Source: Eni Annual Report 2013, pp. 16-17.

Future Orientation

Future orientation as a guiding principle includes both the importance of forward-looking information as well as considerations about the time horizon over which the organization's strategic priorities are based. Apart from focus on the future and the value creation process in the short, medium and long term, it is important to demonstrate linkages between past actions and future prospects of the organization. Even more significant is the evidence shown in the integrated report that the organization has taken into account oversights in the past, and has adjusted its operations and strategic decisions accordingly so that future proceedings are better informed and strategically aligned.



Conciseness

Conciseness as one of the guiding principles means that the integrated report should be succinct and to the point. There should be enough information for the reader to comprehend the particulars of the organization's strategy, business model, goals etc. At the same time there should be only relevant information without unrelated details. It is important that the organization takes a balanced approach to its integrated report since achieving conciseness should not be at the expense of other guiding principles and presentation. Thus, a concise integrated report should:

- Carefully present the procedures regarding materiality determination,
- Have clear structure that does not disturb the overall flow of the report and avoids repetition,
- Explain important concepts with clarity and eschew technical or overcomplicated terms, and
- Disclose information that is specific to the organization and avoid generic phrases.

Reliability

The reliability guiding principle in an integrated report means information that does not contain errors (in other words, it is trustworthy). A variety of control mechanisms, the presence of external and internal inspections, and other practices can help guarantee the reliability of information. The governance structure in an organization is accountable for its functioning, strategy, and the overall process of producing the integrated report. It is important to have close supervision and careful evaluation by the senior management regarding the reliability of the information in the integrated report. Organizations might even include further disclosure behind the preparation of the report to assure the reliability of forward-looking information in the report.

Case study TNT Express

Organization type: Publicly listed company

Region: Europe

Industry: Courier Services

In order for integrated reports to realize their full value, they need to be as reliable as financial reports. Reliability in financial reporting comes from the associated audit and the objectivity brought by a third party that has reviewed the report to ensure that it has been prepared according to the relevant accounting standards. The TNT Express 2014 annual report has been prepared in accordance with the reporting criteria and guidelines of GRI G4. TNT has engaged PricewaterhouseCoopers (PwC) to provide reasonable assurance on the entire report (in contrast to several organizations that invite assurance to only specified sections of their reports). The assurance work was performed in accordance with the Assurance Standard 3810N "Assurance Engagements Relating to Sustainability Reports." In their independent assurance report opinion, PwC expressed that the data and tables presented in the annual report were in all material respects presented reliably and adequately.

Case Study: Eskom

Organization type: Publicly listed company

Region: Africa

Industry: Utilities

Eskom Integrated Report 2011 presents a good case to examine compliance with conciseness as a guiding principle. First, in relation to the organizational overview and external environment, Eskom's report showcases the presentation of material information in a well-structured and succinct manner. The report benefits from the use of visual icons corresponding to certain issues to guide the reader throughout the report; consequently, the principle of conciseness is observed. Second, with regards to risk and opportunities, the integrated report provides a comprehensive picture of both KPIs and risks, however the report has easily distinguishable navigation that is also highlighted where the reader could receive additional information. Consequently, the integrated report does not suffer from an overload of information while, at the same time, the user can easily get additional information if interested. Finally, when it comes to the outlook of the organization, Eskom's report presents its future priorities in the most concise and well-structured manner possible – with a very visual diagram – and thus helps the user to clearly identify the organization's priorities. Still, the user is able to get more detailed information elsewhere in the report, but the conciseness principle is fulfilled, which makes the integrated report very easy to navigate.

The integrated reporting pilot programme

Eskom is a member of the International Integrated Reporting Council's pilot programme (<http://www.theiirc.org/>). All annual reports published by the more than 60 programme members worldwide in the period October 2011 to September 2012 (including this report) will be reviewed and analysed for their strengths and weaknesses. Lessons learnt during this cycle will contribute to a global standard for integrated reporting.

Material issues navigation

Eskom's material issues discussed



Leading and partnering to keep the lights on



Reducing our carbon footprint and pursuing low-carbon growth opportunities



Securing future resource requirements, mandate and the required enabling environment



Implementing coal haulage and the road-to-rail migration plan



Pursuing private sector participation



1st building block: Setting ourselves up for success



2nd building block: Ensuring our financial sustainability



3rd building block: Become a high-performance utility

Eskom has applied Global Reporting Initiative (GRI) principles in compiling this report. These principles ensure that the company incorporates the views of its stakeholders, as well as internal planning reporting and risk-management processes.

Eskom has declared a B+ application level in terms of the GRI. Refer to the assurance provider's report on page 157 which confirms this declaration. The list of relevant GRI indicators is available online at: www.eskom.co.za/IR2012/002.html.

KPMG has provided assurance on selected sustainability information in this report (see page 157). Eskom follows a combined assurance approach (refer to page 33 for more details).

Eskom's reports are also prepared with due consideration of the King Report on Corporate Governance (King III). Refer to www.eskom.co.za/IR2012/003.html for more information on King III.

Structure of the report

This new global reporting platform takes cognisance of the need to present information succinctly. Consequently, this report is structured in a concise and accessible manner:

I. **Leadership overview** sets out Eskom's view of the environment in which it operates, the central achievements of the reporting period, priorities for the year ahead, strategic objectives and long-term challenges for the business.

Source: Eskom Holdings SOC Limited Integrated Report 2011, p. 21.



The Content Elements of an Integrated Report

The content elements govern the overall content of an integrated report. Although the IIRC framework does not prescribe exactly what should be reported, it provides guidance through the content elements, in the form of questions to the company.

Organizational Overview and External Environment

What does the organization do and what are the circumstances under which it operates? The integrated report provides a platform for the organization to communicate its mission and vision. It provides context about the organization's culture, ethics, values, ownership and operating structure, principal activities and markets, competitive landscape and market positioning, and other relevant information. The external environment, including economic and regulatory conditions, technological changes, societal issues and environmental challenges, sets the context within which the organization operates. All these factors can affect directly or indirectly the organization's ability to create value.

Case Study: Absa

Organization type: Publicly listed company
Region: Africa
Industry: Financial services

Absa, in its integrated report 2011, presents in just a few pages a very clear overview of the organization and the external environment. The purpose, vision, and values of the firm are presented along with basic information about the operating structure supplemented with key quantitative information (market capitalization, customers, number of employees, and so on). The strategy of the company is framed around four pillars. The material issues raised by different stakeholders are also reported together with indicators of performance against these issues.

Regarding the external environment, Absa provides a forward-looking statement from its Chairman that covers the operating environment, competitive environment, regulatory and risk environment and stakeholder engagement. The statement also touches upon some of the key stakeholders and some of the challenges they are facing that could be related to the business. Finally, Absa's position on values and ethics, governance, and remuneration is discussed since these are all important aspects that would ensure that societal concerns will be addressed by the quality of the stewardship in the decisions made by the company.

"We have paid careful attention to underlying principles of how we operate, from strengthening our governance and ethics management, reviewing our remuneration practices, to how we engage and respond to our stakeholders. These are critical foundations for our sustainability and future growth."

Garth Griffin, Group Chairman – Absa



Governance

How does the organization's governance structure support its ability to create value in the short, medium, and long term? The integrated report can provide information on an organization's governance structure: the range of skills and diversity, the alignment of remuneration and incentives, the governing and monitoring of the culture of the organization and the attitude to risk.

Case Study: BHP Billiton

Organization type: Publicly listed company
Region: Europe
Industry: Basic materials

BHP Billiton, in its integrated report, presents a table of important skills and experience to the business that shows how many directors meet these skills across the board and each separate board committee. The company also presents in a diagram how the remuneration policy and structures serve to support and reinforce the six key drivers of their strategy. These drivers fall under three categories: non-financial (drivers: people, sustainability), financial (drivers: world-class assets and financial strength and discipline), growth (drivers: project pipeline and growth options). The elements of the remuneration policy that support these drivers together with specific remuneration structures are presented.

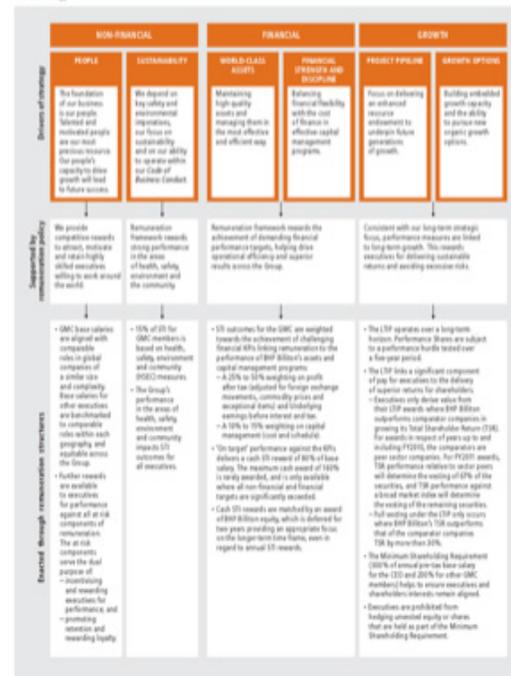
5.3.3 Skills, knowledge, experience and attributes of Directors *continued*

Skills and experience	Board	Risk and Audit	Nominations	Remuneration	Sustainability
Managing and leading Successful record in business of a very senior level in a successful career	11 Directors	3 Directors	3 Directors	3 Directors	3 Directors
Global experience Senior management or equivalent experience in multiple global markets, supported by a range of political, cultural, regulatory and business environments	12 Directors	4 Directors	3 Directors	3 Directors	3 Directors
Governance Commitment to the highest standards of governance, including experience with a major organisation, which is subject to rigorous governance standards and an ability to assess the effectiveness of senior management	12 Directors	4 Directors	3 Directors	3 Directors	3 Directors
Strategy Track record of developing and implementing a successful strategy, including appropriate pricing and managing management on the delivery of top level strategic planning objectives	12 Directors	4 Directors	3 Directors	3 Directors	3 Directors
Financial acumen Senior executive or equivalent experience in financial accounting and reporting, corporate finance and internal financial controls, including an ability to oversee the adequacy of financial and risk controls	12 Directors	4 Directors	3 Directors	3 Directors	3 Directors
Capital projects Experience working in an industry with projects involving large scale capital outlay and long-term investment horizons	10 Directors	3 Directors	3 Directors	2 Directors	3 Directors
Health, safety and environment Experience related to workplace health and safety, environmental and social responsibility, and community	11 Directors	4 Directors	3 Directors	2 Directors	3 Directors
Remuneration Senior remuneration committee membership or management experience in relation to remuneration, including incentive programs and performance/compensation and the negotiation and controls of framework governing remuneration	12 Directors	4 Directors	3 Directors	3 Directors	3 Directors
Mining Senior executive experience in a large mining organisation combined with an understanding of the Group's corporate objectives to create long term value for shareholders through the discovery, development and conversion of natural resources	4 Directors	1 Director	3 Directors	3 Directors	2 Directors
Oil and gas Senior executive experience in the oil and gas industry including in-depth knowledge of the Group's strategy, markets, competitors, operational issues, technology and regulatory concerns	4 Directors	1 Director	2 Directors	2 Directors	1 Director
Marketing Senior executive experience in marketing and a detailed understanding of the Group's corporate objective to create long term value for shareholders through the provision of innovative customer and market focused solutions	10 Directors	3 Directors	3 Directors	3 Directors	3 Directors
Public policy Experience in public and regulatory policy, including how it affects corporations	12 Directors	4 Directors	3 Directors	3 Directors	3 Directors
Total Directors	12 Directors	4 Directors	3 Directors	3 Directors	3 Directors



6.2.2 Our remuneration policy underpins our Group strategy

The Remuneration Committee recognises that the implementation of the Group's strategy and our ongoing performance depends on the quality and motivation of our people. Our purpose is to create long-term shareholder value through the discovery, acquisition, development and marketing of natural resources. Our strategy is to own and operate large, low-cost, expandable, upstream assets diversified by commodity, geography and market. Our focus on the safety and health of our workforce, our fundamental drive for sustainability across all our business operations, our concern for the environment and communities within which we work, and our management of operational risks are reflected through our remuneration policy and structures. The diagram below illustrates how BHP Billiton's remuneration policy and structures serve to support and reinforce the six key drivers of our strategy.



Source: BHP Billiton Annual Report 2011, pp. 112 and 130.



Business Model

What is the organization's business model? The business model is how an organization uses its business activities to transform inputs into outputs and outcomes that aim to fulfill the organization's strategic purposes and create value over the short, medium, and long term.

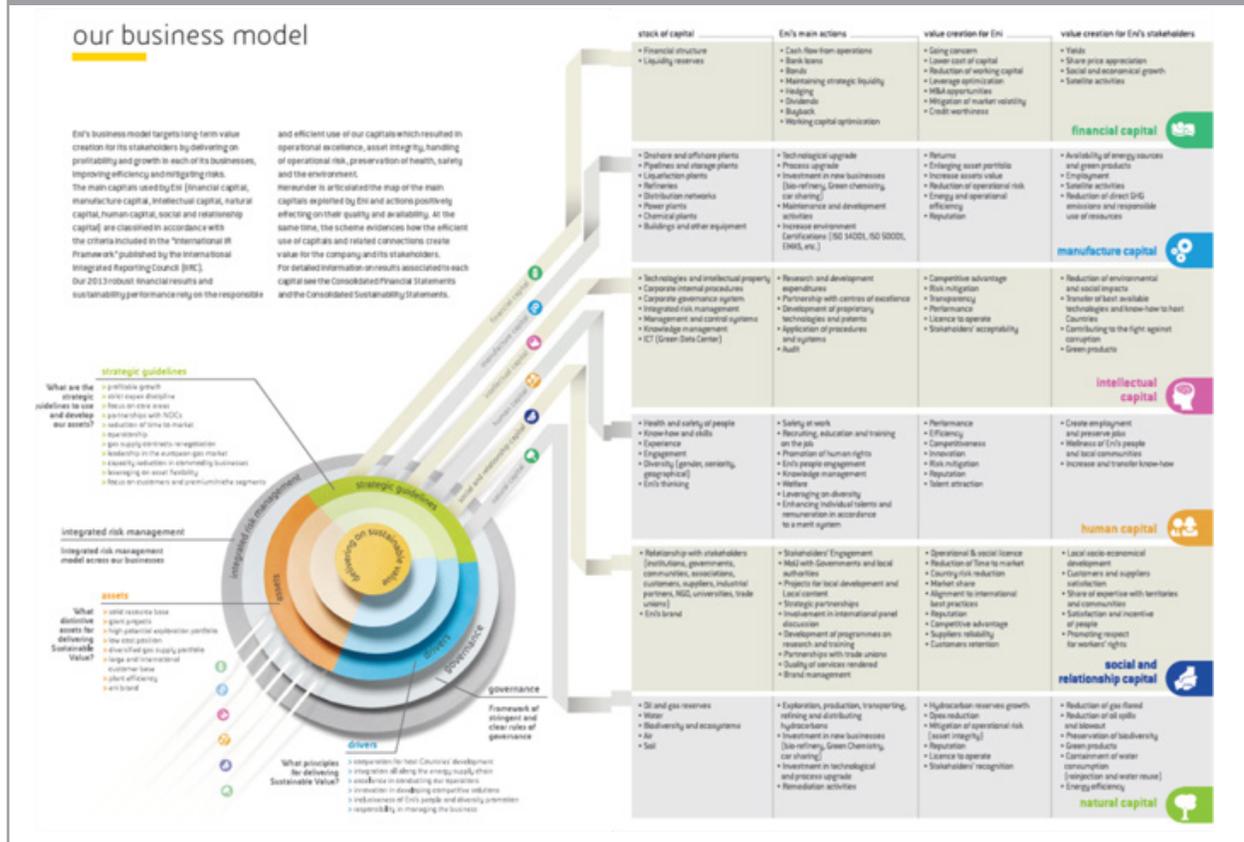
Case Study: Eni

Organization type: Publicly listed company

Region: Europe

Industry: Oil and gas

Eni graphically presents their business model, as a map of the main capitals exploited by Eni and actions positively affecting on their quantity and availability. This representation aims to show how the efficient use of capitals and related connections create value for the company and its stakeholders. Eni makes a clear distinction between 'value created for the organization' and 'value created for the organization's stakeholders'.



Source: Eni Annual Report 2013, p. 4.



Risks and Opportunities

What are the specific risks and opportunities that affect the organization’s ability to create value over the short, medium, and long term and how is the organization dealing with them? Identifying risks and opportunities is not limited to simply recognizing them when they occur, but also to assessing the likelihood that they will materialize and the impact of such an event would be. Actions that aim to mitigate or manage these risks and take advantage of the opportunities respectively should also be present in an integrated report.

Case Study: Marks & Spencer

Organization type: Publicly listed company
Region: Europe
Industry: Consumer goods

M&S (Marks and Spencer) identifies and assesses risks by all business areas half-yearly and measures them against a defined set of criteria, which consider the likelihood of occurrence and the potential impact to the business. The principal risks and the mitigating activities in place to address them are presented in a very visual heat-map. Together with the heat-map, a “risk radar” is presented that maps the principal risks against the categories that are: (1) external to our business, (2) core to the day-to-day operation, (3) related to business change activity, and (4) risks that could emerge in the future. The risk radar helps the reader understand which risks have been the subjects of debate at recent board or audit committee meetings. Because the above-mentioned risk radar has been employed for several years, the reader will be able to learn about the changes the company went through and make useful comparisons across time.

Risk management

We believe that effective risk management is critical to the achievement of our strategic objectives and the long-term sustainable growth of our business.

What is our approach to risk management?
The Board has overall accountability for ensuring that risk is effectively managed across the Group and, on behalf of the Board, the Audit Committee reviews the effectiveness of the Group Risk Process. Each business area is responsible for identifying, assessing and managing the risks in their respective area.

Risks are identified and assessed by all business areas half-yearly and are measured against a defined set of criteria, considering likelihood of occurrence and potential impact to the Group. The Group Risk function facilitates a risk identification and assessment exercise with the Executive Board members. This information is combined with a consolidated view of the business area risks. The top risks (based on likelihood and impact) form our Group Risk Profile, which is reported to the Executive Board for review and challenge, ahead of it being submitted to Group Board for final review and approval.

To ensure our risk process drives continuous improvement across the business, the Executive Board monitors the ongoing status and progress of key action plans against each risk quarterly. Risk remains a key consideration in all strategic decision-making by the Board, incorporating debate on risk appetite.

Key areas of focus

We continue to drive improvements to our risk management process and the quality of risk information generated, whilst at the same time maintaining a simple and practical approach.

During the year we have focused on a number of key areas:

1. Evolving risks
Our Group Risk Profile has evolved over the course of the last year, responding to the dynamic environment within which we operate and our strategy to become a truly international, multi-channel retailer. Three new risks have been introduced (M&S.com business resilience, GM margin and information security).

2. Risk appetite
Risk appetite is an expression of the types and amount of risk we are willing to take or accept to achieve our objectives and aims to support consistent, risk informed decision-making across the Group. Our vision for risk management is that all significant risks to the achievement of our strategic objectives are identified, assessed and managed to within acceptable levels.

Next Page

Risk appetite continues to be a key consideration in strategic decision-making by the Board and we recognise the importance of including the concept in risk discussions across all levels of the organisation. It is especially relevant in determining the nature and extent of mitigating actions and their role in addressing risk likelihood or impact.

Risk likelihood and impact grid

Our principal risks and uncertainties
As with any business, we face risks and uncertainties on a daily basis. It is the effective management of these that places us in a better position to be able to achieve our strategic objectives and to embrace opportunities as they arise.

Overleaf are details of our principal risks and the mitigating activities in place to address them. It is recognised that the Group is exposed to a number of risks, wider than those listed. However, a conscious effort has been made to disclose those of most concern to the business at the moment in time and those that have been the subject of debate at recent Board or Audit Committee meetings.

To achieve a holistic view of the risks facing our business, both now and in the future, we consider those that are:

- External to our business;
- Core to our day-to-day operation;
- Related to business change activity; and
- Those that could emerge in the future.

The “risk radar” below maps our principal risks against these categories. This tool is also used to facilitate wider Executive and Board-level discussions on risk.

Risk radar

Source: Marks & Spencer Annual Report 2014, p. 15.

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Strategy and Resource Allocation

Where does the organization want to go and how does it intend to get there? This strategy is one of the most important content elements that aims to not only show where the organization wants to go in the future, but most importantly how it will get there. The strategy and resource allocation includes all the strategic objectives (short, medium, and long term) accompanied with resource allocation plans against these objectives.

Case Study: Novo Nordisk

Organization type: Publicly listed company

Region: Europe

Industry: Healthcare

Novo Nordisk in its report discusses the three core elements that form the basis of its strategy and also the five strategic focus areas that are linked with the company's core capabilities. Novo Nordisk's strategy is underpinned by the Triple Bottom Line business principle, which ensures that financial, social, and environmental impacts are considered when decisions are made. Novo Nordisk identifies that the Triple Bottom Line business principle creates value for the firm in three ways: 1) makes the company more adaptive to changes in its business environment, 2) strengthens competitiveness, and 3) is an engine for innovation in collaboration with partners.

Novo Nordisk's approach to strategy development and its integration into day-to-day operations is clearly outlined in the report, and examples of how the company is implementing this strategy are given in the text, providing more real substance and facts to the conversation.

Business strategy: 'Our focus is our strength'

If Novo Nordisk's business strategy were to be described in one word, it would have to be 'focus'.

The five strategic focus areas

1. Expand leadership in diabetes
2. Expand leadership in obesity
3. Expand leadership in haemophilia
4. Expand leadership in growth disorders
5. Expand leadership in inflammation

Novo Nordisk's strategy

Strategic focus areas

- Expand leadership in DIABETES
- Expand leadership in OBESITY
- Expand leadership in HAEMOPHILIA
- Expand leadership in GROWTH DISORDERS
- Expand leadership in INFLAMMATION

Core capabilities

- Engineering, formulating, developing and delivering precision-based treatments
- Deep disease understanding
- Efficient large-scale production of proteins
- Planning and executing global launches of new products
- Building and maintaining a leading position in emerging markets

Novo Nordisk Way and the Triple Bottom Line business principle

A focused strategy

The three core elements of Novo Nordisk's strategy have remained unchanged for years:

First, Novo Nordisk has a sharp focus on a few diseases and conditions where it can make a significant difference. As a result of this focus, the company has built strong positions within diabetes care, haemophilia and growth disorders, while creating a platform for entering into treatments for obesity and autoimmune inflammatory diseases.

Second, activities are leveraging the company's five core capabilities:

- Engineering, formulating, developing and delivering precision-based treatments
- Deep disease understanding
- Efficient large-scale production of proteins
- Planning and executing global launches of new products
- Building and maintaining a leading position in emerging markets.

Third, Novo Nordisk has a values-based management system formalized in the Novo Nordisk Way. A key element of the Novo Nordisk Way is the Triple Bottom Line business principle, which was written into the company's Articles of Association at the Annual General Meeting in 2004. It states that Novo Nordisk "strives to conduct its activities in a financially, environmentally and socially responsible way".

This is the company that 24.8 million patients rely on for their daily medication, where more than 38,000 employees work and in which more than 130,000 investors have bought shares.

The insulin portfolio

The insulin portfolio includes:

- **Trusopt** (insulin degludec), a long-acting, next-generation basal insulin analogue with an ultra-long duration of action and a flat and stable action profile that reduces the risk of low blood sugar (hypoglycaemia). Read more about Trusopt on pp. 24-25.
- **NovoRapid** (insulin aspart) insulin aspart, a soluble insulin combination of Trusopt and NovoRapid (insulin aspart) providing both basal and mealtime glucose control.
- **NovoRapid** (insulin aspart) insulin aspart, a soluble insulin combination of Trusopt and NovoRapid (insulin aspart) providing both basal and mealtime glucose control.
- **NovoRapid** (insulin aspart) insulin aspart, a soluble insulin combination of Trusopt and NovoRapid (insulin aspart) providing both basal and mealtime glucose control.
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Diabetes care accounts for close to 70% of Novo Nordisk's total sales, most of which comes from insulin and GIP-1 products. In both areas Novo Nordisk is the global market leader in terms of volume. Novo Nordisk is well positioned to address the unmet medical needs in diabetes.

Novo Nordisk is also developing a new long-acting formulation of insulin aspart to be taken at mealtimes and recently initiated an extensive phase III programme. In addition to new and improved injectable insulin, Novo Nordisk is also developing formulations of insulin that can be taken as inhalers.

GIP-1 (Eliquis-Like Peptide-1)

With the launch of Victoza in 2010, Novo Nordisk entered the GIP-1 therapy segment. Victoza is a human GIP-1 analogue with 97% similarity to the natural gut hormone. Victoza is taken once daily and, the natural GIP-1, works by stimulating the beta cells in the pancreas to release insulin only when blood sugar levels are high.

GIP-1 therapy is a significant advance in the treatment of type 2 diabetes because it lowers glucose with only a very low risk of triggering low blood sugar.

Victoza is approved for adults with type 2 diabetes who are unable to achieve blood glucose goals with lifestyle changes and tablet-based insulin treatment, the most widely used option for type 2 diabetes. In less than two years, Victoza became the leading GIP-1 treatment globally and has steadily expanded the market for GIP-1 treatment. The market is currently valued at around \$1.8 billion, of which Victoza accounts for approximately 70%. Available in more than 80 markets, Victoza is now used by approximately 800,000 people worldwide according to company estimates.

Based on the superior Novo Nordisk has gained through the development of Victoza, the company is now building a GIP-1 portfolio with the addition of providing an even broader range

Source: Novo Nordisk Annual Report 2013, pp. 16-17.



Performance

To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals? Quantitative and qualitative information about performance is necessary to effectively monitor the progress of the organization against the desired strategic objectives and to compare the organization with others. KPIs that include both financial and nonfinancial information should be included since they assist in drawing the relationships between financial performance and the different forms of capital.

Case Study: PotashCorp

Organization type: Publicly listed company
Region: North America
Industry: Basic materials

PotashCorp in its integrated report provides a review of performance of their main goals against a list of set targets. PotashCorp discusses some macroeconomic factors that have impacted the performance against their goals in the previous year, but they also provide some context on factors that might impact their performance in the following year. PotashCorp reports on the performance of their goals by providing a brief overview about the context of each goal, giving the target that was set for the reporting cycle and, finally, showing the progress against that target.

PotashCorp also provides an overview on how compensation is linked with the company goals and performance against the targets, showing a high degree of alignment of their strategic plans with their operations. PotashCorp reaches out to stakeholders through its website to comment through a survey on executive compensation.

Outlook

What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance? An integrated report provides the opportunity for a company to discuss its external environment, and the challenges and opportunities that might be presented. Such a conversation about the external environment provides investors with the necessary information to evaluate how well the organization is positioned to address risks, what the mitigating strategies are, and also helps to manage future expectations.

Case Study: AstraZeneca

Organization type: Publicly listed company
Region: Europe
Industry: Healthcare

AstraZeneca in its integrated report discusses the growth drivers and challenges the company is likely to encounter in pursuing its strategy. The growth drivers were expanding patient populations, unmet medical needs, and advances in science and technology. The challenges discussed were R&D productivity, regulatory requirements, pricing pressure, patent expiries and genericization, and building trust.

AstraZeneca also provides a very thorough discussion about key risks and uncertainties which they consider to be material to the business as they might have a significant effect on our financial condition, results of operations and/or reputation. For all the risks identified, a detailed description is given together with a discussion on the impact on the business. (For some risks, specific examples are given to illustrate real cases.)

Basis of Preparation and Presentation

How does the organization determine what matters to include in the integrated report, and how are such matters quantified or evaluated?

The key elements of the basis of preparation and presentation are:

- A summary of the organization's materiality determination process that describes how the material issues were identified, evaluated and prioritized,
- The reporting boundary of the integrated report and any limitations to the information presented, and
- A summary of significant frameworks and methods that were used to quantify or evaluate material matters.

Case Study: OJSC Atomenergomash

Organization type: Publicly listed company

Region: Asia

Industry: Industrials

OJSC in their 2013 integrated report include a very detailed description of the basis of preparation and presentation of their integrated report. They start by outlining the objectives and basic parameters of the report, moving on to the regulatory framework for report preparation and to a detailed description of the process that defined the content of the report.



Source: Atomenergomash 2013 Integrated Annual Report, pp. 14-15.



Developing Metrics for the Different Forms of Capital

The capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organization. In the context of the <IR> framework, the capitals are classified as: financial, manufactured, intellectual, human, social and relationship, and natural capital. Since the capitals are essential to the operations of every organization, appropriate metrics need to be established that describe the overall stock of capitals and flow between them. These metrics need to be company-specific and quantifiable.

Natural Capital

Natural capital is composed of both renewable and nonrenewable resources and operations used to produce goods or services to the benefit of the organization. When discussing natural capital, it usually entails air, water, land, minerals, and forests together with biodiversity and ecosystem health.

COMPANY	COMPANY DESCRIPTION	EXAMPLE METRICS
Coca-Cola Hellenic Bottling Company	Publicly listed company Europe Consumer goods	Water footprint
New Zealand Post	Public sector Astralasia Consumer services	Emissions per dollar revenue
Banca Fideuram	Publicly listed company Europe Financial services	Total electricity consumption Heating oil consumption

Financial Capital

Financial capital can be described as a pool of funds. This pool of funds is used by an organization to produce goods and provide services. The way the organization attains these funds is either via financing (e.g., debt, equity), operations, or investments.

COMPANY	COMPANY DESCRIPTION	EXAMPLE METRICS
Coca-Cola Hellenic Bottling Company	Publicly listed company Europe Utilities	Water footprint
New Zealand Post	Publicly listed company Europe Oil and gas	Net cash provided by operating activities
Banca Fideuram	Publicly listed company Europe Financial services	Banks and customers deposits Return on equity



Human Capital

Human capital is centered on the premise that people’s expertise and abilities are of a profound significance for the organization and its operations. Some of the key aspects of human capital are namely the potential of people and their drive for innovation. In addition, these aspects consist of people’s positive attitudes towards the governance model, ethical matters, and the way the organization deals with risk. Commitment to the organization’s strategy and demonstrated dedication to the benefit of the organization, together with avid leadership skills, make some of the other aspects of human capital.

COMPANY	COMPANY DESCRIPTION	EXAMPLE METRICS
Atlantia	Publicly listed company Europe Industrials	Training hours provided and percentage of employees involved Scholarship distribution by degree and by gender
CIMA	Other Europe Professional services	Number of new students
Itau Unibanco Holding S.A.	Publicly listed company South America Financial services	Salaries, charges and benefits Hours invested in training

Social Capital

Social capital is about cooperative relationships within and across communities and different stakeholders’ groups for the goal of exchange of information to improve societal welfare. It consists of shared norms and values, and relationships based on trust and demonstrated commitment to the benefit of external stakeholders. Social capital also includes intangibles related to the brand and reputation of the organization together with its social license for its operations.

COMPANY	COMPANY DESCRIPTION	EXAMPLE METRICS
JSC Atomredmetzoloto	Public sector Asia Basic materials	Taxes paid to regional budgets
Atlantia	Publicly listed company Europe Industrials	Costs and investments for road safety percentage of the Group’s Italian network covered by the Safety Tutor system
Sasol	Publicly listed company Africa Oil and gas	Investment in skills development and socio-economic development initiatives Employee turnover rate Salaries, charges and benefits Hours invested in training



Intellectual Capital

Intellectual capital involves intangibles associated with organizational capabilities and knowledge. More specifically, intellectual capital consists of intellectual property (e.g., patents, copyrights, software, rights, and licenses) and organizational capital (e.g., tacit knowledge, systems, procedures and protocols)

COMPANY	COMPANY DESCRIPTION	EXAMPLE METRICS
Eni	Publicly listed company Europe Oil and gas	R&D expenditure Existing patents
Coca-Cola Hellenic Bottling Company	Publicly listed company Europe Consumer goods	The quality index measures a wide range of factors, from taste and carbonation to closure function and condition with a maximum score of 100.
Itau Unibanco Holding S.A.	Publicly listed company South America	Internal development of software Equipment and data processing systems

Manufactured Capital

Manufactured capital is essentially manufactured physical objects, which are different from natural physical objects. The organization in the possession of manufactured capital utilizes this capital for the production of goods and/or provision of services (e.g., buildings, equipment, and infrastructure such as roads, ports, bridges, together with waste and water management). It includes manufactured items that are leased from another organization but controlled by the reporting organization for in-house use.

COMPANY	COMPANY DESCRIPTION	EXAMPLE METRICS
Iberdrola	Publicly listed company Europe Utilities	Internal quality inspections Number of quality and environmental certifications
Rosneft	Publicly listed company Asia Oil and gas	Oil products Petrochemical products
Sasol	Publicly listed company Africa Oil and gas	Property, plant and equipment Assets under construction



Communicating with Investors

A company's competitiveness depends to a great extent on the ability to effectively manage the different types of capital, and that is what an integrated report is trying to capture. Providing information about how the types of capital are managed is important for investors. A company cannot assume that its investors and other stakeholders will understand how different types of capital are related to financial performance if the company fails to communicate that information effectively.

Investors are increasingly considering nonfinancial information as an important part of their decision making and they integrate this information into their valuation models. Integrated reporting provides a unique opportunity for companies to describe their value creation story and change the way the company communicates to its investors and other stakeholders. Integrated reporting is not intended to be merely a report, but a platform for dialogue.

A combination of communication and technology channels such as online tools and social media can be used to promote this dialogue and actively seek feedback. Although an integrated report is published annually, the online information presented can be updated on a more regular basis, enabling a company to communicate on significant developments discussed on the report. Companies can unlock the potential of online reporting to engage with their stakeholders as often as they wish to provide updates regarding the company's strategy and performance. At the same time, technology can also enable feedback to be submitted allowing for better decision making on the information presented.

Two organizations that utilize online platforms well to represent their value creation methods and success are Philips and SAP.³¹ Both companies' websites are easy to navigate and benefit from a visual representation of the company's operations and the substantial use of infographics. Under the 'Sustainability' section of Philip's website, the user can find information on Philips' approach to sustainability and relevant initiatives. Infographics are used to show a summary of Philips' approach to sustainability that can also be downloaded. The integrated report of the company is visual, informative, and very well organized, allowing the user to gather the required information just with a glance. Perhaps the most innovative and attractive part of the online integrated report is the feature to create a customized version of the report allowing the user to compile several sections of the report that are of interest, and click on an icon to generate and download the customized report within seconds. This is an extremely useful tool for users interested in specific information in the report. SAP was the first company to publish an integrated report online. Its website is also widely acknowledged as excellent.

Integrated reporting can also provide the guidance needed to change the information presented in established communication practices like quarterly conference calls. Traditionally, the

³¹ For Philips see <http://www.philips.com/about/sustainability/integratedannualreport/index.page>) and for SAP go to <http://www.sapintegratedreport.com>.



conversation during these calls is based on presenting the previous quarters' financial results and providing financial guidance for the next quarter. Recent research has shown that companies fail to describe the way their different forms of capital create value during these quarterly earnings calls.³² More specifically, a comparison of leading companies across four sectors (financials, healthcare, technology & communications, and transportation) revealed that, despite significant progress having been made by all companies in understanding and describing their value creation process in their sustainability/integrated reports, these efforts are not reflected in quarterly earnings calls. The material issues identified in the sustainability reports are discussed in significantly less detail, or completely omitted, during conversations with the analyst community. A good example of a firm communicating through its various communication channels in the pharmaceutical sector is Merck.

The same research found that investors are increasingly asking about information regarding the value creation process and nonfinancial indicators. In each sector examined, several analysts who were consistently requesting this type of information during the quarterly conference calls. A significant percentage of these analysts were found to be included in lists of the best analysts on Wall Street. These results highlight the importance of nonfinancial information for ensuring that the long-term prospects and the strategic positioning of a company are captured in its valuation. The CEO and CFO can utilize the structure and information presented on their integrated reports to provide their investors with value-relevant and forward-looking information about the different types of capital. This approach will enable companies to shift their attention from chasing quarterly objectives to spending more of their time focusing on running the business for the long-term.

The Future of Integrated Reporting

Integrated reporting is still a management practice exercised by few companies around the world. The universal adoption of integrated reporting in the future will require a combination of market and regulatory forces. One important market force is the voluntary adoption by companies because they see the benefits of integrated reporting, which include a better understanding of the relationship between financial and nonfinancial performance, improved internal measurement and control systems for producing reliable and timely nonfinancial information, lower reputational risk, greater employee engagement, more committed customers who care about sustainability, more long-term investors who value sustainable strategies, and improved relationships with other stakeholders.³³

Unlike financial reporting, where information technology systems and organizational processes have been developed and fine-tuned over many years, the systems and processes for producing an integrated report and disseminating its content are still being developed. The IIRC's pilot program recognizes the important role companies have in creating a useful and practical framework for integrated reporting and applying it to real practice.

³² Forthcoming: KKS Advisors and Generation Foundation, 2015: "Integrated Guidance"

³³ Eccles, Krzus, and Tapscott, Chapter 6, "It's Time for One Report;" 2010, and Eccles and Armbruster, 2011.



Another market force that will encourage the voluntary adoption of integrated reporting is pressure from large institutional investors active in both the public and private equity markets. In the public markets, investors who own a significant proportion of a company's stock can put pressure on the company to implement integrated reporting in various ways, such as raising the issue at the Annual General Meeting or even getting the topic on the proxy statement. In their role as limited partners (LPs) in private equity funds, large institutional investors can encourage these funds to provide them short integrated reports at the portfolio-company level.

Customers can also play an important role. Individual consumers who buy from companies that have adopted policies leading to a sustainable strategy and more sustainable products will both contribute to their success and put pressure on companies that have not followed similar business practices. Corporate customers can encourage integrated reporting in their supply chain and even make it a requirement in requests for proposals.

Voluntary adoption by companies out of self-interest enhanced by market forces is not enough for widespread adoption. The full value of integrated reporting will only be realized when it is done in a way that enables comparison of results across companies, at least within a sector. Therefore, regulation will be necessary to specify the framework for integrated reporting and what standards should be used for reporting nonfinancial information.

Legislation, such as the recent legislation from the European Union regarding mandatory nonfinancial reporting, can speed the adoption of integrated reporting.³⁴ Multilateral organizations, such as the G20, can help coordinate this at a global level so that country-based legislation is largely similar. Regulatory actions through the national securities regulators (e.g., the U.S. SEC and the Chinese Securities Regulatory Commission), can also facilitate the practice of creating integrated reports. The International Organization of Securities Commission (IOSCO) can play a similar coordination and homogenization function. Through stock exchange listing requirements, integrated reporting can foster promoting the practice of integrated reporting.

Moreover, nongovernmental organizations (NGOs) can exert influence on both investors and companies.³⁵ NGOs can put pressure on governments, securities and other regulators, and stock exchanges to support the integrated reporting movement.

Finally, market intermediaries, such as accounting firms, data aggregators, proxy firms, rating agencies, and boards of directors, also have an important role to play in enabling companies to implement integrated reporting, and in enabling investors to use the information made available to them. Accounting firms can contribute to the development of measurement and reporting standards as well as the development of methodologies for providing independent third-party assurance on them. Integrated reports will be most credible when they are accompanied by an integrated assurance statement. Rating agencies should also include nonfinancial factors in

³⁴ European Commission, "Disclosure of non-financial information: Europe's largest companies to be more transparent on social and environmental issues," European Commission Statement, September 2014, http://europa.eu/rapid/press-release_STATEMENT-14-291_en.htm.

³⁵ Steve Waygood, "Civil Society and Capital Markets," *Sustainable Investing: The Art of Long-Term Performance*, edited by Cary Krosinsky and Nick Robins, Earthscan, New York, N.Y., p. 178



their ratings since they are an increasingly important component of risk. Boards of directors, which have a fiduciary duty to shareholders and other stakeholders, need integrated reports to properly fulfill their duties. They can also encourage or even require management to make them available externally.

Integrated reporting presents an inviting opportunity for organizations to adapt to more sustainable business models and strategies and create value over the long term. Despite the fact that this form of reporting currently faces numerous issues, it has the potential to bring innovation through “integrated thinking” and value creation, which would certainly enhance productivity, profitability, and sustainability.