



# INTEGRATED REPORTING – A GUIDE



## INTRODUCTION

The King Report on Governance for South Africa 2009 (King III) defines integrated reporting as “*a holistic and integrated representation of the company’s performance in terms of both its finance and its sustainability*”.

Integrated Reporting brings together material information about an organization’s strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value.

In simple terms, integrated reporting refers to the integrated representation of a company’s performance in terms of both *financial* and *non-financial* results.

Integrated reporting provides greater context for performance data, clarifies how sustainability fits into operations or a business, and may help embed sustainability into company decision making. The integrated report is to inform stakeholders on the strategy, performance and the activities of the company in a manner that allows stakeholders to assess the ability of the company as a whole to create and sustain value over the short, medium and long term.

The board’s audit committee must establish a formal process of assurance on sustainability reporting. It should recommend to the board the need to engage an external assurance provider to provide assurance over material elements of the sustainability part of the integrated report. It should oversee sustainability issues in the integrated report,

ensure the sustainability information is reliable, and that no conflicts or differences arise when compared to the financial results.

The concepts of accounting and accountability are obviously related: they refer to transparency, accuracy, and responsibility for the consequences of decisions. At the same time, differing assumptions about shareholder and stakeholder theory are likely to affect how integrating reporting will be designed and carried out. Disclosure, by its nature, can only be a means to an end. Information of a superior quality will help its users make better decisions; information alone isn’t much use one way or another.

An effective integrated report reflects an appreciation for the company’s ability to create and sustain value based **on financial, social, economic and environmental systems and by the quality of its relationships with its stakeholders**.

The **economic dimension** of sustainability concerns the company’s impacts on the economic conditions of its stakeholders and on economic systems at local, national, and global levels. It illustrates flow of capital among different stakeholders; and main economic impacts of the company throughout society.

**Financial performance** is fundamental to understanding a company and its own sustainability. However, this information is normally already reported in the annual financial statements.

The **environmental dimension** concerns a company's impact on living and non-living natural ecosystems, land, air, and water. Environmental indicators cover performance related inputs (e.g. material, energy, water) and outputs (e.g. emissions, effluents, waste). In addition, they cover performance related to biodiversity, environmental compliance, and other relevant information such as environment expenditure and the impacts of products and services

**Social performance** indicators concern the impacts of the company on the social systems within which it operates, e.g. labour practices (Basic Conditions of Employment Act, Labour Relations Act), human rights (non-discrimination, gender equality, collective bargaining), society (impact on local communities), and product responsibility (information and labeling, marketing, privacy).

An integrated report usually consists of the following elements:

- ✚ An annual report
- ✚ Integrated statutory financial information and sustainability information
- ✚ Sufficient information to record how the organisation has affected the economic life of the community - positively and negatively
- ✚ Forward-looking information ⇒ For example on how the board feels it can enhance the positive aspects and negate the negative aspects
- ✚ Sustainability reporting should be integrated with other aspects of the business process and managed throughout the year ⇒ Sustainability should be embedded in the organisation.

- ✚ Integrated reporting should focus on substance over form.

There have been major changes in the way business is conducted, how business creates value and the context in which business operates. These changes are interdependent and reflect trends such as:

- ✚ globalization,
- ✚ growing policy activity around the world in response to financial, governance and other crises,
- ✚ heightened expectations of corporate transparency and accountability,
- ✚ actual and prospective resource scarcity,
- ✚ population growth, and
- ✚ environmental concerns.

Against this background, the type of information that is needed to assess the past and current performance of organizations and their future resilience is much wider than is provided for by the existing business reporting model.

## STRUCTURE OF THE REPORT

To create a well structured integrated report, the following guiding principles must underpin the preparation of the integrated report:

- ◆ Strategic focus
- ◆ Connectivity of information
- ◆ Future orientation
- ◆ Responsiveness and stakeholder inclusiveness
- ◆ Conciseness, reliability and materiality

The suggested elements that should be included in the framework of the integrated report are:

- ◆ A description of the scope and boundary of the integrated report
- ◆ A brief overview of the company and its activities, a statement of its business model describing how it currently creates value, and an overview of its governance structure
- ◆ A description of the risks and opportunities that are material (this will be based on a review of financial, social, environmental, economic and governance issues and trends)
- ◆ A description of the company's strategic objectives related to the risks and opportunities identified and an indication to realize the strategic objectives with reference to a list of key performance indicators (KPIs) and key risk indicators (KRIs) that will track the performance against the objectives and targets. This should cover short-, medium- and long-term periods.
- ◆ An account of the performance in terms of the objectives, the significant social, environmental, economic and financial impacts in terms of the KPI's and KRI's

- ◆ A statement of anticipated activities and future performance objectives
- ◆ An overview of how employees and senior executives are remunerated, including factors that could influence future remuneration
- ◆ A brief analytical commentary that reflects the understanding of the company's current and anticipated performance in line with the strategic objectives.

A statement from the most senior decision maker of the company (e.g. CEO) can accompany the integrated report about the significance of sustainability to the company as well as the company's approach with regards to sustainability. This statement should present the overall vision and strategy for the short-term, medium-term (e.g. 3 – 5 years), and long term, particularly with regard to managing the key challenges associated with economic, environmental and social performance.

Independent assurance lends credibility to the company's activities and reporting with regard to accuracy, completeness and reliability of disclosure in the integrated report.

King III recommends that the company's board should ensure the integrity of the integrated report and allows the board to delegate to the audit committee the evaluation of the sustainability disclosure. It also recommends that the audit committee should engage the *external auditors to provide assurance on summarized financial information while the sustainability reporting and disclosure should be independently assured.*

## SUGGESTED ELEMENTS TO BE ADDRESSED IN THE INTEGRATED REPORT

### A description of the scope and boundary of the integrated report

- The reporting cycle and period covered by the report
- The reporting boundary: Geographic scope, entities presented in the report (subsidiaries, franchisees), nature of information provided for each entity (operation performance, management performance)
- Specific limitations on the scope of the boundary of the report
- Process used for identifying the reporting boundary
- Reporting principles applied (such as King III, GRI, IFRS)
- Policy and practice relating to seeking assurance, qualifications of assurance providers, nature of relationship with assurance providers
- Significant restatements of prior reporting periods
- Significant changes from previous reporting periods in scope, boundary, measurement methods
- Reference to major supporting documentation

### A brief overview of the company and its activities, a statement of its business model describing the manner in which it currently creates value, and an overview of its governance structure

- Organisational overview: name, size, location of operations and activities, principal activities, primary

brands/products/services, operational structure (subsidiaries/associates/divisions)

- Business model: describing the manner in which the company currently creates value
- Governance structure: diagram, noting committees, outline of general governance aspects, key policies, ethical approaches

### A description of the risks and opportunities that are material

- Brief description of the issues and trends relevant to the company's activities (i.e. the sector, products/services, markets)
- Brief statement of significant impacts (positive and negative) on the company's decisions and activities
- Relationships with stakeholders and how relationships will impact ability to create and sustain value
- Describe process of identifying above issues, impacts and relationships and how it was determined which is material, also explain why certain factors has been seen as not material
- Identifying the principal risks and opportunities

### A description of the company's strategic objectives related to the risks and strategies how to realize the strategic objectives

- 'Where do we want to go and how do we intend to get there'
- A list of priority KPIs and KRIs with a brief description of each outlining how they have been determined

- Indication of the company's competencies (internal systems, personnel and culture) required to realize objectives (can include trends analysis, data management, stakeholder relationships, risk management)

**An account of the performance in terms of the objectives, the significant social, environmental, economic and financial impacts in terms of the KPIs and KRIs**

- 'How have we done over the reporting period'
- Brief overview of activities taken in terms of the strategic objectives and a review of the outcome of these activities
- Outcome must include successes AND failures

**A statement of anticipated activities and future performance objectives**

- A forward-looking statement of anticipated activities and performance objectives
- Include specific performance targets where possible
- Be consistent with KPIs and KRIs

**An overview of how employees and senior executives are remunerated**

- How they have been remunerated in current period and factors that will influence future remuneration
- Current remuneration should indicate extent to which remuneration is fixed and variable and factors that influence variable element
- Judgment on how different levels of employees are grouped into categories
- Disclosure on major components of employment costs, i.e. salaries, wages, housing benefits, post-employment benefits
- Identify KPIs that can influence senior executive remuneration

**A brief analytical commentary that reflects the understanding of the company's current and anticipated performance in line with the strategic objectives**

- 'What are the views of the leadership about the organization'
- Include how it can improve its positive material impacts
- Include how it can eliminate its negative material impacts
- Include possible ratios and summarized historic information to support views

## GUIDANCE TO IDENTIFY, EVALUATE AND ASSESS OUTCOME OF SUSTAINABILITY ISSUES

The aim of this guidance is to focus on an uncomplicated approach with practical guidance for reporting on environmental and social sustainability factors to assist in complying with the King III requirements for an integrated report. It can be broken down into three steps (for guidance):

- ◆ The identification of material sustainability issues and a description of how each of these impact on the company's strategic objectives.
- ◆ The identification of Key Performance Indicators (KPIs) and the evaluation of actions taken to address each material sustainability issue.
- ◆ An assessment of progress against agreed targets and towards intended outcomes.

**Step 1: The Identification of material sustainability issues and a description of how each of these impact on the company's strategic objectives.**

### A. What should be reported?

- ◆ **Market context:** An analysis of the environmental and social trends which have a material impact on the sector, market and regulatory context within which the business is operating, where possible in quantitative terms and supported by evidence
- ◆ **Business model:** A description of the implications for the way the business operates and generates value in response to identified environmental and social trends

- ◆ **Objectives and strategies, risks, resources and relationships:** The connection between material sustainability impacts and issues, the achievement of the company's objectives and implications for the strategies it has adopted. The analysis of material sustainability issues should include the following:

- Principal risks and opportunities, an explanation as to why they are important and an estimation of their impact in either financial or operational terms;
- Assessment of the sustainability of key resources (natural, human and financial) and key relationships (e.g. supplier, customer, employee, regulator, community) upon which the strategy is dependent;
- Reference to the approach followed by management to determine which sustainability factors are material; and
- A description of the actions being taken by management to effect organizational change, including development, training and incentives.

### B. How should the above be reported?

1.1 Identify the social, economic, environmental, society and product issues that are most relevant to the organization, the sector and markets in which it operates ensuring that:

- ◆ An assessment is made of the full range of products/services offered, markets served and site locations;



- ◆ Both global issues (such as climate change, population growth and over-consumption of finite resources) and those which are more localized (such as the availability of a skilled workforce) are considered;
- ◆ Issues with potential future impacts are considered, as well as those affecting the organization at present;
- ◆ Broader impacts are assessed, including the direct impacts of the organization on the communities and the environment in which it operates, as well as more indirect upstream (supplier) and downstream (customer) impacts; and
- ◆ Stakeholders, with whom relationships are critical to the success of the business, are consulted and their views considered.

1.2 Determine which of the identified issues are material to the organization's performance, by taking the following into account:

- ◆ Risks, resources and relationships, the potential impact of issues on the way that the business operates and on the achievement of the organization's strategic objectives (which may highlight the need for objectives to change); and
- ◆ The extent to which issues that have an impact on external parties, but do not represent a cost to the business ("externalities"), are likely to become internalized through additional regulation or impacts on the organization's reputation.

1.3 Report on each material issue, using both qualitative and quantitative analysis, to provide an explanation on how it impacts on the organization's objectives, strategy and operations, including:

- ◆ The market context: for example, changing patterns in customer demand towards more sustainable products, as evidenced by trend data on market share of ethically sourced products as a percentage of total market;
- ◆ The business model: for example, within the food retail sector, changes to structure of relationships with suppliers to improve security of supply in the face of projected scarcity of key products resulting from increasing water stress;
- ◆ The risks and opportunities: for example, the value of property considered at high risk from the physical impacts of climate change as a percentage of the total;
- ◆ The resources availability: for example, the impact of sustainability performance on the availability of finite natural resources upon which production growth objectives is dependent.
- ◆ Relationships with key stakeholders: for example, the linkage between employee satisfaction, cost of absence and retention rates.

1.4 It is recommendable to make available to users (for example on the company's website) an outline of the process followed to identify material issues. This should, in particular, explain why any measures generally considered significant at sector, national or international levels are not considered material for disclosure by the business. This will help to avoid concern about possible cherry-picking and will provide insight into management decision-making and risk management processes.



## Step 2: Key Performance Indicators (KPIs) and actions taken

### A. What should be reported?

- ◆ The actions taken to address each material sustainability issue, including steps to mitigate key risks or capitalize on opportunities identified, in support of delivery of the business strategy.
- ◆ The KPIs selected to measure performance, including the accounting policy adopted for each indicator, and the relationship to business performance, if possible quantified in financial terms.
- ◆ A description of how management is incentivized to deliver intended outcomes, including the link with governance, remuneration and rewards.

### B. How should the above be reported?

2.1 Identify the actions taken to address each of the material environmental and social issue identified resulting from **Step 1**.

2.2 Establish the intended outcome for each action, ensuring there is an explanation of how it will:

- Help the company achieve its strategic objectives; and
- Help achieve a more sustainable society and environment.

2.3 Set out how progress towards intended outcomes will be measured, identifying KPIs for each material issue, as relevant. KPIs should:

- Enable comparability from year to year and with other companies, and as such should be:

- Based on generally accepted indicators, where available at a sector, national or internal level; and
- Aligned with national or internationally agreed measures of sustainable development.

- Form part of the ongoing decision-making and reporting processes within the company, rather than being reported on an annual basis for external purposes only;
- Be either narrative or quantitative in nature; and
- Be underpinned by disclosure of the following elements to facilitate verifiability and understandability (either within the report or made available to users on the company's website):

- Definition
- Calculation methodology
- Underlying assumptions
- Level of uncertainty
- Scope and boundaries

2.4 Identify the relationship between selected KPIs and financial or business performance, where possible quantifying the relationship in terms of impact on revenue, expenditure, investment, cash flow or measures of operational performance.

2.5 Describe clearly in the integrated report:

- The actions taken in response to each material issue;
- How these will achieve the intended outcomes;
- The KPIs which demonstrate performance, highlighting the connection with the strategic direction of the business; and

- The governance arrangements in place to incentivize and reward behavior contributing to the delivery of intended outcomes.

**Step 3: A balanced assessment of progress against agreed targets and towards intended outcomes**

**A. What should be reported?**

- Clear targets for each KPI, where feasible.
- Actual performance against baselines, prior years, targets and industry or other benchmarks.
- Financial or business performance measures alongside each sustainability KPI to explain the connection to the business's results.
- Commentary on progress towards both targets and intended broader outcomes.

**B. How should the above be reported?**

3.1 Agree on targets for each KPI and supporting performance measures, ensuring that each target:

- Aligns to the company's targets/plans;
- Considers time horizons that are applicable to the issue, the industry or the company itself;
- Considers levels set by peers, industry and national average or other benchmarks;
- Includes a baseline against which it will be measured; and
- Considers the sufficiency of the response to address the identified sustainability issue.

3.2 Ensure appropriate information collection processes are established to provide complete, accurate and consistent information.

Where possible, integrate and align sustainability-related data capture systems and processes with financial systems.

3.3 Report on the actual performance achieved in the reporting period, with reference to:

- The agreed targets;
- The reporting baseline;
- Performance in prior years, where possible providing trends over the past five years; and
- Peers, industry and national results or other benchmarks.

3.4 Report related financial or business performance measures alongside KPIs, providing a clear indication of the relevance of sustainability performance to the business's results if quantification of financial impact is not possible, report in qualitative terms.

3.5 Provide disclosure of any restatements to historic data, including the breakdown between changes as a result of acquisitions or disposals and changes due to improvements in data collection or changes in accounting policies adopted.

3.6 Create a commentary which provides an explanatory narrative of performance and progress against targets and towards intended broader outcomes, reflecting a balanced perspective of:

- Reasons for successes and failures;
- Challenges to progress and how management is responding; and
- Explanation of plans to deliver strategic objectives, including how targets will be achieved.

## EXAMPLES OF KEY PERFORMANCE INDICATORS AND KEY RISK INDICATORS

Below are extensive examples of sustainability performance indicators per category. It is intended to address the company's approach to managing sustainability topics associated with risks and opportunities.

### Economic performance indicators

- ◆ Operating costs (payments to suppliers)
- ◆ Employees compensations (benefits)
- ◆ Donations and other community investments
- ◆ Payments to capital providers (dividends/interest)
- ◆ Financial implications due to climate change and costs to comply with new regulations
- ◆ Opportunities for new products and services due to climate change
- ◆ Policy and proportion of spending on locally-based suppliers
- ◆ Procedures for local hiring and proportion of senior management hired from the local community
- ◆ Infrastructure investments and services provided primarily for public benefit through commercial engagement (roads, schools, hospitals)

### Environmental performance indicator

- ◆ Materials used by weight/volume, like non-renewable resources, raw materials
- ◆ Percentage of materials used that are recycled input materials (total recycled materials/total material used x 100)
- ◆ Direct energy consumption by primary energy source (coal, natural gas, fuel from crude oil)

- ◆ Indirect energy consumption by primary source (solar, wind, hydro energy, electricity, steam, nuclear)
- ◆ Energy saved due to conservation and efficiency improvements
- ◆ Total water withdrawal by source (sources: municipal, waste water, rainwater, ground water)
- ◆ Percentage and total volume of water recycled and reused
- ◆ Location and size of land owned/leased/managed that are protected areas and areas of high biodiversity value
- ◆ Description of significant impacts of activities, products and services in protected areas and areas of high biodiversity value
- ◆ Habitats protected or restored
- ◆ Total direct and indirect greenhouse gas emissions by weight
- ◆ Initiatives to reduce greenhouse gas emissions and reductions achieved
- ◆ Emissions of ozone-depleting substance
- ◆ Total weight of waste by type and disposal method
- ◆ Total number and volume of significant spills
- ◆ Weight of transported, imported, exported, or treated waste deemed hazardous
- ◆ Initiatives to mitigate environmental impacts of products and services, and extent of impact of mitigation
- ◆ Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

- ◆ Total environmental protection expenditures and investments by type

## Social Performance Indicators

### Labour practices

- ◆ Total workforce by employment type, employment contract, region, broken down by gender
- ◆ Total number and rate of new employee hires and employee turnover by age group, gender and region
- ◆ Benefits provided to full-time employees that are not provided to temporary or part-time employees
- ◆ Percentage of employees covered by collective bargaining agreements
- ◆ Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender
- ◆ Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases
- ◆ Health and safety topics
- ◆ Average hours of training per year per employee by gender, and by employee category
- ◆ Programs for skills management
- ◆ Percentage of employees receiving regular performance and career development reviews, by gender
- ◆ Breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity
- ◆ Ratio of basic salary and remuneration of women to men by employee category

### Human rights

- ◆ Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns
- ◆ Percentage of significant suppliers, contractors or other business partners that have undergone human rights screening
- ◆ Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations
- ◆ Total number of incidents of discrimination and corrective actions taken
- ◆ Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk
- ◆ Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour

### Product responsibility

- ◆ Customer health and safety: life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and service categories
- ◆ Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services
- ◆ Product and service labeling: type of product and service information required
- ◆ Total number of incidents of non-compliance with regulations and voluntary codes
- ◆ Practices related to customer satisfaction, including results of surveys

- ◆ Marketing communications: Programs for adherence to laws, standards
- ◆ Total number of incidents of non-compliance with regulations
- ◆ Compliance: Monetary value of significant fines for non-compliance

### Society

- ◆ Percentage of operations with implemented local community engagement
- ◆ Operations with significant potential or actual negative impacts on local communities
- ◆ Prevention and improvement measures implemented in operations with significant potential or actual negative impacts on local communities
- ◆ Business units analyzed for risks related to corruption
- ◆ Employees trained in company's anti-corruption policies and procedures
- ◆ Actions taken in response to incidents of corruption

## CONCLUSION

So, to sum up: Integrated Reporting is a challenge to conventional reporting in two ways: (1) it calls into question the efficiency of markets based on current reporting standards and (2) it calls into a question the fundamental efficiency of markets in serving society.

Integrated Reporting must demonstrate the linkages between an organization's **strategy**, **governance** and **financial performance** and the **social, environmental and economic context** within which it operates. Integrated Reporting can help businesses take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing.

Integrated Reporting will have an impact on various stakeholders, such as:

- ❖ **Investors** – The information contained in the integrated information set will help investors to take into account the full range of issues that affect the entity. Greater emphasis is placed on information about the future and key risks and opportunities are disclosed. Access is given to the most significant information in one concise and integrated form, with the opportunity to “drill down” to more detailed information where necessary. Collectively, the above benefits will result in more effective investment decisions, better long-term investment returns and more effective capital allocation.
- ❖ **Civil Society** – The organization's stewardship of human, natural, social and other capitals will be displayed, which is likely to align with the interests of many civil society interest groups. The emphasis on stakeholder engagement is likely to result in greater consultation with civil society interest groups. Integrated Reporting will provide greater visibility of how an organization impacts on the stakeholder groups across its supply chain and the integration of environmental and social issues with financial issues could result in a reduction in focus on some issues of concern to particular civil society interest groups.
- ❖ **Employees** - Current and prospective employees will be able to gain an integrated perspective on the future prospects of their employer and they will be better able to discern whether their employer's values are consistent with their own. Employees will gain a better understanding of how their performance links to the objectives of the organization and to identify how they contribute to the ability of the organization to create and sustain value over time.
- ❖ **Assurance providers** – When the Integrated Report will become an organization's primary report, it is likely that it will be subjected to independent assurance. Some information in an Integrated Report may be more difficult to assure than information disclosed under traditional reporting frameworks and this will require the development of new techniques, standards

and reporting mechanisms to support assurance on Integrated Reports.

- ❖ **Researchers and Educators** - Researchers will research emerging topics as Integrated

Reporting evolves over time. Education and capacity building across the reporting system will be essential to Integrated Reporting's long-term success.

#### Resources used

1. Sustainability Reporting Guidelines of the GRI
2. Connected Reporting of the Prince's Accounting for Sustainability Project
3. Framework for integrated reporting and the integrated report discussion paper issued by the Integrated Reporting Committee
4. The Landscape of Integrated Reporting
5. Towards Integrated Reporting: Communicating Value in the 21<sup>st</sup> Century (Discussion Paper)