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A close-up photograph of two people's hands using smartphones. One hand is holding a silver smartphone, while the other is pointing at the screen of a gold smartphone. The background is blurred, showing a white patterned shirt and a dark jacket.

**INVISIBLE THREADS:
COMMUNICATING
INTEGRATED THINKING**

Think Ahead

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INVISIBLE THREADS: COMMUNICATING INTEGRATED THINKING

This report examines how a selection of organisations in the <IR> Business Network of the International Integrated Reporting Council (IIRC) are communicating integrated thinking in their integrated reports. It highlights the challenges preparers face, and gives practical recommendations based on existing leading practice to guide more organisations on the path to integrated thinking and integrated reporting.

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Foreword



Helen Brand OBE
Chief executive, ACCA

A handwritten signature in black ink, reading 'Helen Brand'. The signature is fluid and cursive.

Integrated reporting exists to drive integrated thinking across enterprises – a considered, holistic approach to creating value for the reporting entity itself and its stakeholders via the multiple capitals on which it relies and which it affects.

In essence, communicating integrated thinking effectively requires the weaving together of organisational threads to create a recognisable tapestry of purpose and intent.

As the corporate reporting ecosystem is coming together as never before to make a concerted push towards consolidation and simplification, it's timely for ACCA's review to reflect on the progress organisations are making in providing real insight into the quality of their integrated thinking.

This year's report looks at three key ways in which integrated thinking is communicated in the annual integrated report. Firstly, through clear communication of strategy, secondly through pertinent discussions about non-financial value drivers that form the basis of the multi-capitals model, and thirdly, through consistency between the narrative report and the financial statements.

With organisational resilience having been tested to unprecedented limits over the past year, readers of annual reports need transparent insight now more than ever. By re-examining how they communicate their intention and thinking in the most comprehensible way, reporters have an important opportunity to forge firmer connections with their stakeholders, on whom they rely for their continued existence. And, through telling their corporate story with clarity and conviction, show how business can be a force for positive progress in a changed, and changing, world.

Contents

Executive summary	6
The structure of the report	7
PART 1	9
1. Methodology	9
1.1 Characteristics of participating businesses	10
PART 2	11
2. Understanding integrated thinking	11
3. Areas of strength and weakness	13
4. Integrated thinking in setting and communicating strategy	16
4.1 Overview	16
4.2 Review findings on communication of strategy	17
5. Integrated thinking and the multi-capitals model	36
5.1 Overview	36
5.2 Review findings on the application of the multi-capitals model	37
6. Integrated thinking and consistency with financial statements	44
6.1 Overview	44
6.2 How was consistency with the financial statements assessed?	44
6.3 Review findings on consistency with the financial statements	44
6.4 How team structure plays an important role in consistency	47
PART 3	49
7. Other observations	49
7.1 The length of reports	49
7.2 Frameworks and audiences	50
7.3 Assurance of integrated reports	52
7.4 COVID-19 disclosures and resilience	54
8. Conclusion	57
8.1 The integrated thinking and reporting journey	57
8.2 Opportunities for the future	57
8.3 Top 10 practice tips	58
Appendix 1: List of featured best-practice reports	59
Appendix 2: List of <IR> Business Network organisations covered in the reviews and interviews	60
Appendix 3: Methodology and detailed results	61
References	64

Executive summary

Well-embedded integrated thinking can make organisations more resilient in the face of challenges, such as those that arose from the COVID-19 pandemic. The integrated reporting process can kick-start integrated thinking, by bringing people across the organisation together through the reporting cycle.

At the same time, in order for organisations to obtain the full benefits, the reports need to communicate this internal integrated thinking to investors and other external stakeholders.

This report looks at three key ways in which integrated thinking is communicated in the annual integrated report. These are first, through clear communication of **strategy**, second, through pertinent discussions about non-financial value drivers that form the basis of the **multi-capitals model**, and third, through **consistency** between the narrative report and the financial statements.

Many of the participating businesses we spoke with as part of our research stressed the benefits of integrated thinking and reporting. Many mentioned improvements in stakeholder engagement and materiality processes. Some said that it encouraged thinking about the pre-financial impacts of a wider range of issues. And some even spoke about its positive contribution to organisational resilience in the face of COVID-19.

But while the quality of many aspects of integrated reporting is improving, our research shows that integrated thinking – or at least its representation in the report – is not yet at the stage where it can be considered a truly embedded management approach. As long as this remains the case, the quality of integrated reporting may be held back. Chief among the areas where improvements should be prioritised is reporting on governance.

Governance disclosures today tend to be compliance-focused, lacking in strategic focus and failing to demonstrate the board's stewardship over the capitals.

This suggests that either integrated thinking is not happening at the board level, or the integrated thinking process is not being reported clearly enough.

There is much excitement about a green recovery, providing much-needed momentum for sustainability reporting. But in order for corporate behaviour to change in a meaningful way, boards and executives need to manage resources and relationships in a joined-up and forward-looking way. The multi-capitals model provides a point of reference for doing so. Nonetheless, our research suggests that multi-capitals thinking is still in its early days: key value drivers are often not discussed consistently through integrated reports, indicating perhaps a lack of consensus across the organisation about what the key value drivers are.

Next year will be an Olympic test for reporting. In both the throes and wake of the global pandemic, investors and other stakeholders will expect to see changes to risk and opportunities, strategies and business models in integrated reports. It is particularly likely that the outlook sections of company reports – an area where organisations tend to struggle – will be keenly read by investors and others. Consistency between the financial statements and the narrative report will be another area of focus, as future international and European Union (EU) sustainability standards shine the spotlight on connectivity between financial and non-financial information. In these conditions, transparency – including transparency about uncertainties – will be rewarded rather than punished.

We hope that you enjoy this report and find the discussions of integrated thinking in the context of connectivity, strategy and consistency helpful.

The structure of the report

This report is split into three Parts. Part 1 outlines the methodology of our research and the characteristics of its participants, in Section 1.

In Part 2, we set out our key findings:

- what integrated thinking means and the characteristics of reports that successfully communicate integrated thinking (Section 2, from page 11)
- key strengths and weaknesses in the ways that organisations are communicating integrated thinking within their integrated reports (Section 3, from page 13)
- further discussions focusing on aspects of integrated reporting and thinking that organisations find most challenging:
 - setting and communicating strategy (Section 4, from page 16)
 - applying the multi-capitals model (Section 5, from page 36)
 - ensuring consistency with financial reporting (Section 6, from page 44).



Throughout Part 2, we provide report excerpts that illustrate best practice. Best practice tips are provided for the three most challenging aspects of integrated reporting and thinking: these are highlighted using 'BEST PRACTICE TIP' icons, and summarised at the start of each sub-section.

In Part 3, Sections 7 and 8, we set out our conclusions and other observations that have emerged from the research, which may shape reporting practice in the future:

- the length of reports (subsection 7.1, from page 49)
- frameworks and audience (subsection 7.2, from page 50)
- assurance over integrated reports (subsection 7.3, from page 52)
- COVID-19 disclosures and resilience (subsection 7.4, from page 54)

We conclude Section 8 with **10 top practice tips** for organisations that wish to improve the way they communicate integrated thinking through their reporting (subsection 8.3, from page 58).

Weblinks to best practice examples, a list of the organisations whose reports we reviewed, and further details about our report review methodology and results can be found in the appendices.



PART 1

1. Methodology

ACCA convened an international Specialist Panel to review 14 integrated reports for 2019/2020 published by participants in the IIRC’s <IR> Business Network, as part of the <IR> Report Critique project.¹

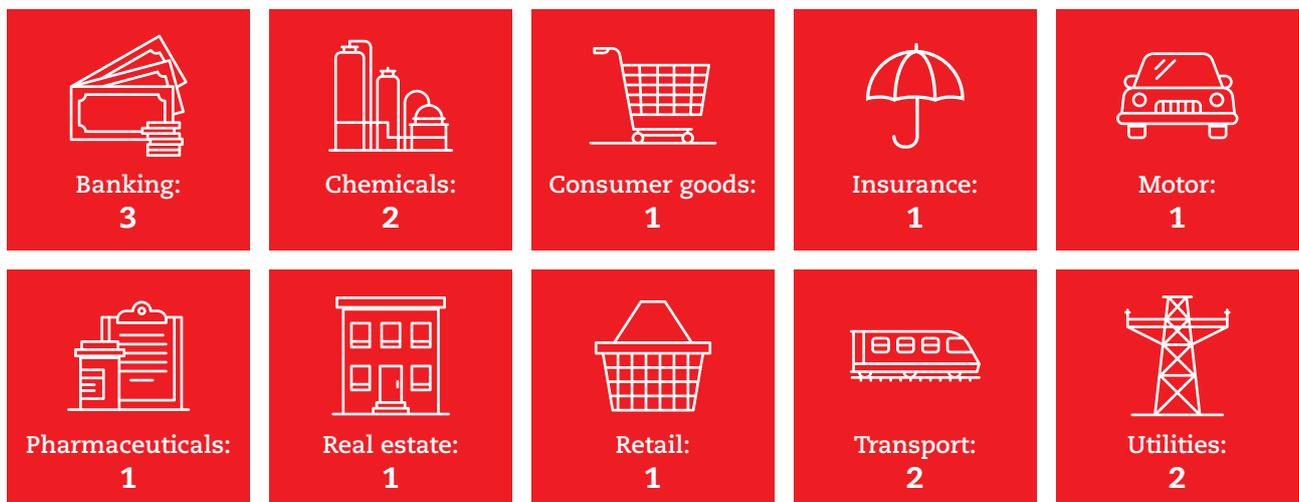
Reviewers were asked to assess and score reports against the fundamental concepts and guiding principles in the International <IR> Framework (IIRC 2021a) that were particularly relevant when evidencing integrated thinking in an integrated report:

- the fundamental concept of ‘**The capitals**’ (<IR> Framework section 2C)
- the guiding principle of ‘**Strategic focus and future orientation**’ (<IR> Framework section 3A)
- the guiding principle of ‘**Connectivity**’ (<IR> Framework section 3B)
- the ‘**Risks and opportunities**’ content element (<IR> Framework section 3D).

More details about the review process and scoring methodology can be found in [Appendix 3](#).

ACCA then interviewed representatives of 4 of the 14 organisations whose reports had been reviewed. We discussed with each interviewee areas of their organisation’s reporting that reviewers deemed particularly successful, with the aim of identifying practical recommendations for overcoming common reporting challenges. We also discussed areas of particular interest to those organisations, and touched on wider areas such as the future of reporting.

FIGURE 1: Sectors covered by the review



¹ Details are on the IIRC website at <https://integratedreporting.org/ir-report-critique-project/>.

1.1 Characteristics of participating businesses

The 14 organisations whose reports we reviewed were drawn from a wide range of different sectors and geographical regions. All have participated in the <IR> Report Critique Project for more than three years. This therefore represents a population which has adopted integrated reporting for a longer period of time than may be the average in the <IR> Business Network.

Although these organisations form a small sample, the observations drawn from them could represent leading practice. The challenges they have faced in implementing integrated reporting and integrated thinking, and the solutions that they found, can prove valuable to other organisations seeking to progress on their integrated reporting and integrated thinking journey.

FIGURE 2: Regions covered by the review



THE CHALLENGES THESE ORGANISATIONS HAVE FACED IN IMPLEMENTING INTEGRATED REPORTING AND INTEGRATED THINKING, AND THE SOLUTIONS THAT THEY FOUND, CAN PROVE VALUABLE TO OTHER ORGANISATIONS SEEKING TO PROGRESS ON THEIR INTEGRATED REPORTING AND INTEGRATED THINKING JOURNEY.



PART 2

2. Understanding **integrated** thinking

The <IR> Framework defines integrated thinking as:

‘The active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation, preservation or erosion of value over the short, medium and long term’ (IIRC 2021a).

Interviewees had wide-ranging ideas about what integrated thinking means to their organisations. One emphasised the importance of thinking about resources and relationships (the capitals) in a connected way, and said that ‘separating them out is not fully helpful, and you lose the “whole company” view’. Another described integrated thinking as a way of ‘describing the corporate anatomy – a corporate is a very complex unit, operating in

a dynamic environment’. In this person’s view, integrated thinking was a natural process: ‘in a practical sense, integrated thinking is a way of trying to understand how all these components work together. It is part of the day-to-day life of a company, and something you do when you are called upon to make decisions – how much do I invest in my employees? What am I doing with my customer engagement? Consciously or unconsciously we do these things every day – the “concept” of integrated thinking just makes it more apparent’. For this interviewee, integrated reporting was a more objective, improved way of reporting that reflects and supports value-based management, which was already taking place at their organisation. ‘We have seen an improvement in the understanding of integrated reporting by about 75–80% but have seen only a 25% improvement in institutionalised integrated thinking’.

But for another interviewee, the integrated report preceded integrated thinking proper. “There is a vice-versa effect: the process of integrated reporting fosters the



What makes a good ‘integrated thinking’ report?

Integrated thinking can be communicated in many ways in an integrated report. The following aspects of the <IR> Framework (IIRC 2021a) may be particularly appropriate indicators of good integrated thinking.

- The fundamental concept of ‘**The capitals**’ (<IR> Framework section 2C).
- The guiding principle of ‘**Strategic focus and future orientation**’ (<IR> Framework section 3A), including:
 - the extent to which the report links the organisation’s strategy to its ability to create value in the short, medium and long term
 - the extent to which the report ties the organisation’s strategy to its use of, and effects on, the capitals
 - the extent to which strategy is discussed coherently through the different content elements of the integrated report (in accordance with <IR> Framework paragraph 3.4), and
 - the extent to which the capitals are discussed consistently in connection with strategy (in accordance with <IR> Framework paragraph 3.5).
- The guiding principle of ‘**Connectivity**’ (<IR> Framework section 3B) in all its forms:
 - between the content elements
 - between the past, present and future
 - between the capitals
 - between financial and other information
 - between quantitative and qualitative information
 - between management information, board information and information reported externally
 - between information in the integrated report, information in the organisation’s other communications, and information from other sources.
- The content element, ‘**Risks and opportunities**’ (<IR> Framework section 3D).

integrated thinking. It helps us to consider all the pillars of sustainability and understand the business model in greater depth in the first place’.

As noted in Network Italiano Business Reporting’s paper *Integrated reporting <IR>: Focus on integrated thinking, a handbook for the journey*, there is no ‘right way round’ to reach the goal of embedding both integrated thinking and integrated reporting within an organisation. ‘Although some organizations may start by increasing integrated thinking, e.g. through aligning strategy to value creation and performance across their business, others have begun

with the integrated report, in the expectation that this would drive strategic alignment and integrated thinking. There is no right answer.’ (Network Italiano Business Reporting, 2018).

The presence of good connections between elements of an organisation’s reporting is a strong indicator that integrated thinking is taking place. Mervyn King, chair emeritus of the IIRC, has said that ‘[a]bove all, integrated thinking is a unifying concept and a strategic tool that helps management to bring order to [a] manifestly complex environment.’ (IIRC 2019).



PART 2

3. Areas of strength and weakness

3.1 Strengths

- Connecting performance to strategy (applying the guiding principle of '**Strategic focus and future orientation**').
- Connecting risks and opportunities to strategy (applying the guiding principle of '**Strategic focus and future orientation**').
- Discussing how the organisation is dealing with **risks and opportunities**.

It may seem unsurprising that strategic focus is emphasised strongly in the way companies report performance, because performance metrics such as strategic key performance indicators (KPIs) provide a natural link back to an organisation's strategy. Nevertheless, given the many non-financial reporting requirements and standards today that offer a wide range of different performance metrics and disclosures, it is encouraging to see that performance reporting remains connected to strategy in the sample we studied. ACCA's reviews of integrated reports in previous years have highlighted that companies often do not report progress towards strategic objectives, so it appears improvements are taking place in this area (Chen and Perrin 2018).

It is particularly pleasing to see companies improve their disclosures of risks and opportunities. Organisations generally identify and describe risks in a concrete and specific way, setting out mitigating actions. The post-COVID-19 reports, in particular, show a noticeable sharpening of focus on risk management.

As noted in previous ACCA research (Martin 2020), companies are good at reporting risks, but not so good at disclosing opportunities, probably because there is a great deal of commercial sensitivity about discussing them. But the <IR> Framework is very clear that companies should report their opportunities at a high level. EU companies in our sample have shown an improvement at reporting on opportunities this year – perhaps driven by a desire to showcase the commercial opportunities arising from the EU Green Deal. Some companies have taken to reporting using the same format for risks as for opportunities, and this has led to each being presented with equal prominence. This is a positive step.

One area for improvement in risk reporting would be a reduction in duplication. Risk disclosures often sit in two or more places – the external environment section, risk section and the outlook section. Operationally, it's possible that these different sections are written by different teams. Deeper integrated thinking could enable closer collaborations between these teams, and may well lead to combining these sections – thus improving conciseness – providing local reporting requirements allow this.

3.2 Weaknesses

- Tying strategy to uses of and / or effects on the capitals, and reporting the capitals consistently through the report (applying the fundamental concept of '**the capitals**' and the guiding principle of '**Strategic focus and future orientation**').
- Connecting governance to strategy (applying the guiding principle of '**Strategic focus and future orientation**').
- Connecting the business model to strategy (applying the guiding principle of '**Strategic focus and future orientation**').
- Connecting outlook to strategy (applying the guiding principle of '**Strategic focus and future orientation**').

Generally, the quality of reporting on the six capitals in the reports we reviewed trails behind the quality of reporting on strategy. The multi-capitals concept comes across particularly weakly in:

- governance (<IR> Framework section 4B), and
- outlook (<IR> Framework section 4G).

Reporting on governance is an area of particular concern, continuing, as in previous years, to be compliance-focused, lacking in strategic focus and failing to demonstrate the board's stewardship over the capitals (Chen and Perrin 2018). This suggests that either integrated thinking is not happening at the board level, or the integrated thinking process is not being meaningfully reported.

Most governance disclosures focus on policies rather than what is being done. The deficiencies in governance reporting may point to a need to educate board members and management, so that they appreciate the important role that they play in stewardship of an organisation's value creation, preservation and erosion over time. Reports with the strongest governance disclosures also demonstrate a strong strategic focus right from the start, with the chairperson's or the CEO's letter setting the tone.

Outlook is another area in which both strategy and the capitals feature lightly. In a year where many expectations have been turned upside down by the global pandemic, reporting on outlook is both more challenging, and also more important, than ever.

While many organisations make good connections between the capitals themselves, explicit links between the business model and strategy are often missing.

This makes it difficult for readers to understand whether (and if so, how) organisations are applying the multi-capitals model. Some innovation may be needed in this area to ensure that reporting on business models remains meaningful and relevant.

Detailed average ratings, and the relative ranking applied to identify areas of strength and areas of weakness, can be found in [Appendix 3](#).

Given the current strengths and weaknesses described above, we would recommend that organisations focus their efforts to communicate integrated thinking in the following areas. We will consider each in the following sections.

- Setting and communicating strategy
- Applying the multi-capitals model
- Maintaining consistency between the integrated report and the financial statements.



6 OUT OF 14 ORGANISATIONS POSITION THEIR INTEGRATED REPORTS AS THEIR SUSTAINABILITY REPORTING DOCUMENT.

”



The integrated report in the corporate reporting package

The <IR> Framework describes the purpose of the integrated report as ‘to explain to providers of financial capital how an organization creates, preserves or erodes value over time’ (IIRC 2021a, Executive Summary). In particular, the integrated report should:

- *[have] a combined emphasis on conciseness, strategic focus and future orientation, the connectivity of information and the capitals and their interdependencies*
- *[emphasize] the importance of integrated thinking within the organization.’* (IIRC 2021a, Preface)

There are benefits to preparing the narrative front half of the mainstream annual report (the management commentary) as an integrated report. In this way, non-financial information about how organisations create value can be connected to the company’s financial performance and position, in a way that is decision-useful for providers of financial capital and other stakeholders. In practice, as we discuss below, the connectivity between financial and non-financial disclosures on environmental and social topics is often missing.

In striving to keep their mainstream annual reports concise, many companies are opting to publish separate reports aimed at serving different audiences or purposes. Figure 3.1, from Transnet’s Investor Relations website, illustrates the different reports published typically by organisations on an annual or periodic basis.

Out of the 14 organisations whose reports we reviewed, 5 published separate sustainability reports (which include, in the EU, non-financial statements). By contrast, 6 out of 14 organisations position their integrated reports as their sustainability reporting document, publishing them separately from the mainstream annual report and linking the report to the sustainability sections of their corporate websites.

These differing approaches may indicate that these organisations are having to reconsider what they want to achieve with their integrated report, in light of the growing demand for sustainability information. This has implications for the contents of the integrated reports reviewed, as we will see later.

If the integrated reporting is seen only as a sustainability reporting document, this could be a cause for concern. Integrated thinking would seem incomplete if organisations do not present sustainability strategies and performance as part and parcel of their overarching corporate strategies, alongside and connected to financial strategies and performance. It’s worth noting that some companies are now consciously working to integrate sustainability into their corporate strategies, as we will see throughout this report.



BEST PRACTICE TIP: Whether reporting to investors or a wider stakeholder audience, it’s always good to set out in the integrated report the organisation’s full reporting package, identifying the intended audience for each report. This helps readers to know what to expect, and to find the information that they need.

FIGURE 3.1: An illustration of the range of corporate reports



Source: Adapted from Transnet <<https://www.transnet.net/InvestorRelations/Pages/Annual-Results-2020.aspx>>.

PART 2

4. Integrated thinking in setting and communicating strategy

4.1 Overview

Consistent, coherent and focused communication of strategy would seem to be core to good communication of integrated thinking. If strategy is articulated clearly and consistently throughout an integrated report, it will probably also be well understood within the organisation as well as by external stakeholders.

In the guiding principle of ‘**strategic focus and future orientation**’ the <IR> Framework states that: *‘[a]n integrated report should provide insight into the organization’s strategy, and how it relates to the organization’s ability to create value in the short, medium, and long term and to its use of and effects on the capitals’* (IIRC 2021a: section 3A).

The ‘**strategy and resource allocation**’ content element (IIRC 2021a: section 4E) requires organisations to answer the question, *‘Where does the organization want to go and how does it intend to get there?’*. In doing so, organisations should identify:

- the organisation’s short-, medium-, and long-term strategic objectives
- the strategies it has in place, or intends to implement, to achieve those strategic objectives
- the resource allocation plans it needs to implement its strategy
- how it will measure achievements and target outcomes for the short, medium and long term.

The guiding principle strategic focus and future orientation is also linked to the content element ‘**outlook**’ content element (IIRC 2021a: section 4G), which calls on organisations to answer the questions: *‘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?’* (IIRC 2021a).

The <IR> Framework emphasises (IIRC 2021a: para. 3.4) that the guiding principle of strategic focus and future orientation shouldn’t be applied to reporting on strategy and outlook alone. Rather, it should inform how content is selected and presented in the report as a whole, including:

- *Highlighting significant **risks, opportunities** and dependencies flowing from the organization’s **market position** and **business model**’*
- *The views of those charged with **governance** about:*
 - *The relationship between past and future **performance** and the factors that can change that relationship*
 - *How the organization balances short-, medium-, and long-term interests*
 - *How the organization has learned from past experiences in determining future strategic directions.’*

Successful communication of strategic focus should therefore explicitly:

- tie the organisation’s strategy to its ability to create value over different time-frames
- tie the organisation’s strategy to the capitals (see the discussion of the multi-capitals model in [section 6](#))
- link the organisation’s strategy over the short, medium, and long term in discussions on:
 - how the organisation is influenced by, and influences, the **external environment**
 - how the organisation’s approach to **governance** helps implement the strategy
 - how the **business model** affects the strategy, and how it helps achieve strategic priorities
 - how **risks and opportunities** influence the strategy
 - how **resource allocation** helps implement the strategy
 - how **performance** relating to the strategy is monitored / measured
 - how the organisation’s **outlook** affects the strategy.

Organisations often have multiple sub-strategies in place to support an overarching corporate strategy. One interviewee described how integrated thinking had led their organisation to consider the different ways that its strategies could work together to create value over the long term:

‘We have multiple strategies – a corporate strategy at a high level, then an HR [human resources] strategy, a production strategy, and so on. The corporate strategy is generally driven by the priority of [maximising] stakeholder value. But the systems thinking [how planetary boundary conditions affect a company’s ability to grow] that we have incorporated into designing our corporate strategy has led us to think that it’s time companies understood what the appropriate time-frame for earning that money might be. Understanding value is not just about money. It’s [about] employee engagement, community value and so on. Companies can do a lot in this space, and they need to move away from bottom line value... integrated reporting can help with that’.

4.2 Review findings on communication of strategy in reports

Generally, organisations’ reporting on strategy would benefit from being more specific about time-frames, resource allocation plans, and desired outcomes.

Good connections were made linking performance, risks and opportunities to strategy. Yet common weaknesses by organisations include:

- not setting out clear time-frames for the execution of strategies
- not doing a good job of connecting strategy and the organisation’s use of / effect on the capitals
- not clearly explaining the role of the board in achieving strategic priorities
- not communicating clearly how their business model is shaped by their strategy, and / or influenced by it
- not articulating clearly how their future outlook affects their ability to implement the strategy.

To address these common weaknesses, we will provide best practice recommendations along three themes in the pages that follow:

THEME I: Considering future time-frames

- How to connect long-term strategies over different time-frames.



THEME II: Authenticity, from the inside out

How to:

- a. consider stakeholder needs
- b. materiality process to inform decision-making
- c. make corporate goals relevant to teams and individual employees.



THEME III: Connecting the dots through the report

How to:

- a. link governance to strategy
- b. link the business model to strategy
- c. link outlook to strategy.



THEME I – Considering future time-frames
Connecting long-term strategies over different time-frames

Not only should organisations’ determination of short, medium, and long-term time-frames be clear, but they should also communicate the extent to which future time-frames are relevant to decision-making, by considering questions such as the following.

- What operational plans are in place to achieve long-term strategic objectives?
- How might changes to the external environment affect short-, medium- and long-term strategy?
- What is the timing of risks and opportunities?

Showing throughout the report that future time-frames are being considered is a good indicator of integrated thinking. It makes clear that the board is planning ahead for the future, and aware of and ready to respond to challenges that may arise.

Most of the reports do refer to specific future time-frames, but interestingly most refer to the long-term (beyond

2023) (Figure 2.1). Such long-term time-frames are not applied consistently to all strategic objectives, but focus on certain areas (such as carbon reduction targets).

In most of the reports, there was a gap between the organisations’ shorter-term objectives and their long-term strategy: the long-term objectives were not supported by medium-term plans and interim targets. This might suggest that forward-looking operational plans are not yet in place. Another possibility is that forward-planning is happening, but perhaps concerns about commercial sensitivity and assurance are preventing organisations from disclosing their interim plans and targets.

Long-term future time-frames are also considered to varying degrees in different parts of the integrated report. Interestingly, the content elements where long-term time-frames tend to feature are also those that the reviewers believed had the strongest strategic focus. Those aspects where long-term time-frames generally did not feature – governance, business model and outlook – were also those where strategic focus was seen to be weakest. (For more details about how strategic focus is assessed, please refer to [Appendix 3](#)).

FIGURE 4.1: Number of 2019/20 reports (total sample of 14 reports) that described strategy over specific time-frames/periods

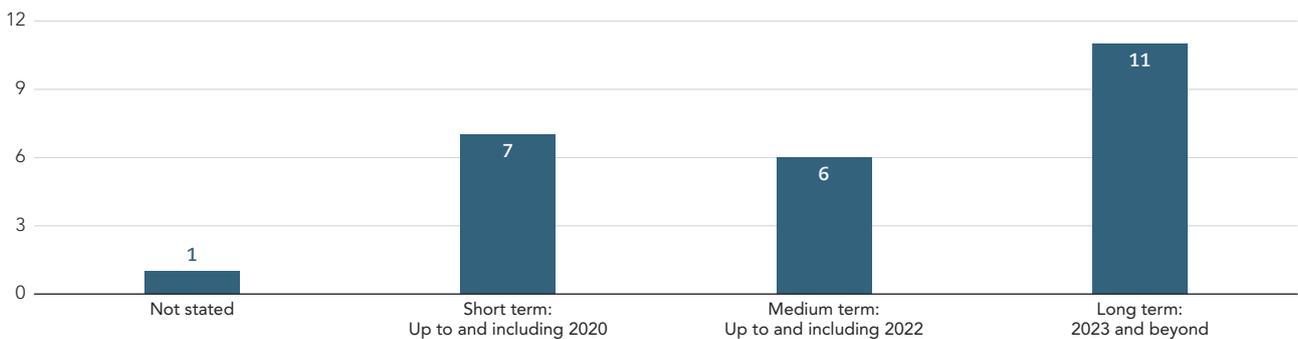
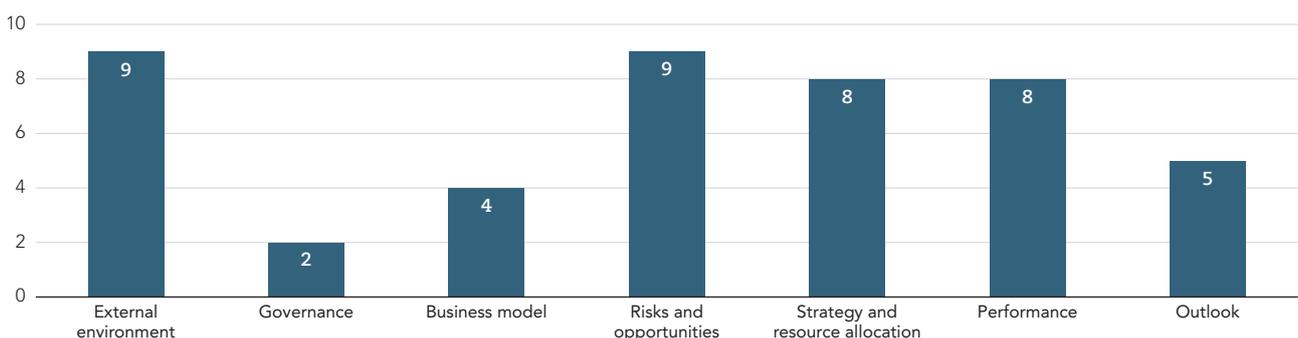


FIGURE 4.2: In which content elements are long-term time-frames (beyond 2023) considered?*



*The numbers represent the absolute number of 2019/20 reports (out of 14) which considered long-term time-frames

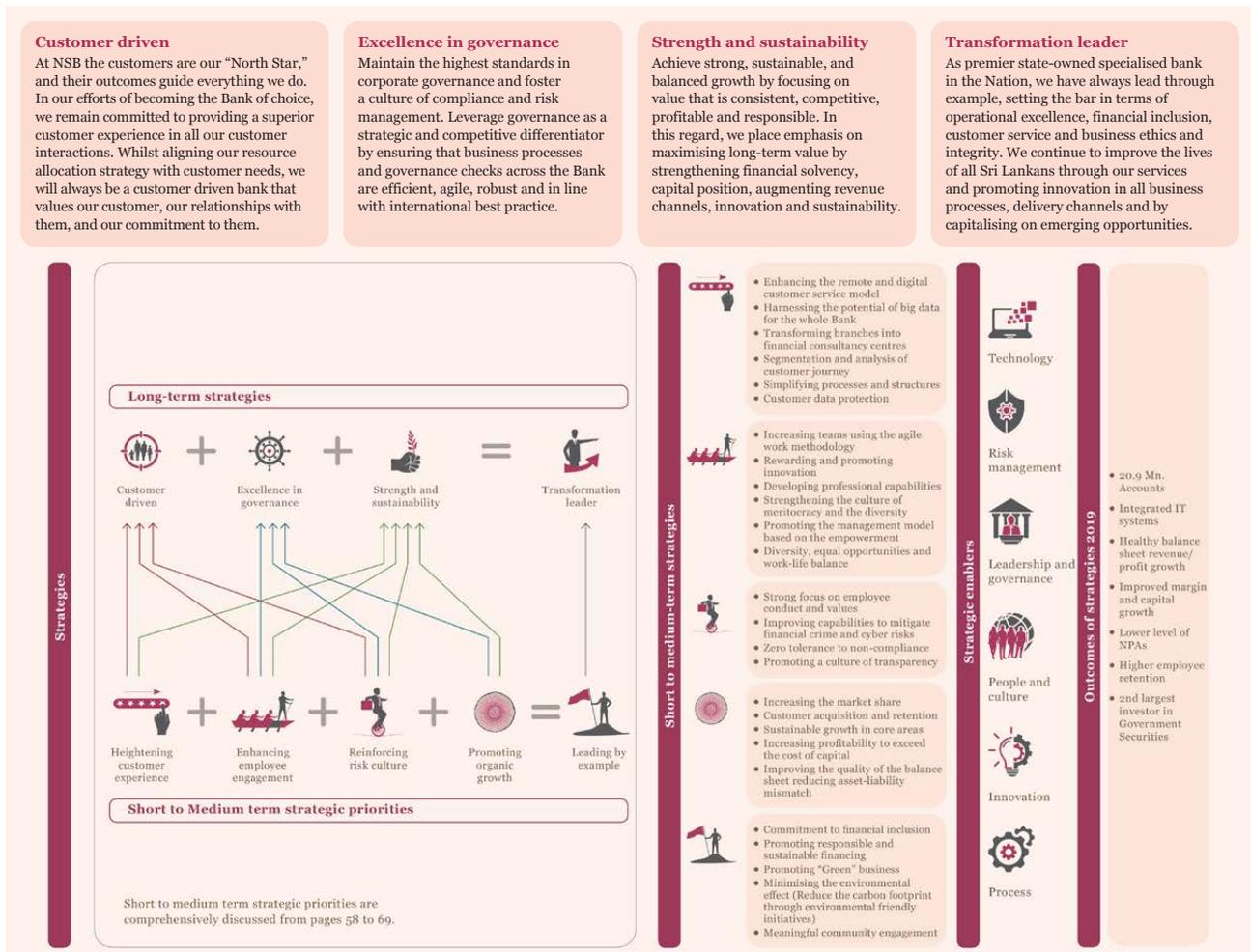
Determining appropriate time-frames can be complicated. One interviewee commented: 'It depends who you ask in the company. We have a set of KPIs that cover a big range of issues – the environment, diversity of the board, and we have objectives too. All of this rests on both quantitative and qualitative information. For objectives, including climate change, our time-frame might be much longer. But [for] financial strategy – the terms there are much shorter'. According to this interviewee, working with other departments and disciplines helped to develop an integrated approach to defining which strategies pertained to which time-frame: 'we are a big company, and at reporting time we have a lot of high-level interaction between the finance team and other teams because we consider sustainability to be part of financial reporting, and it's the same for the risk department too'.



BEST PRACTICE TIP: The board and executive management need to understand how different strategies covering different time-frames come together in support of one coherent corporate strategy. To demonstrate integrated strategy-setting in a report, it's a good idea to articulate clearly how plans and objectives (HR, production, customer service, sustainability, finance, etc.) connect to this overarching strategy.

For example, Sri Lanka's state-owned National Savings Bank (which is not in the <IR> Business Network) clearly describes its long-term strategies and these are directly connected to its short- to medium-term strategic priorities, using a strategy map (Figure 4.3). This puts the bank's current areas of operational and strategic focus into the context of its intended future goals and shows how different strategies are interlinked and support one another.

FIGURE 4.3: National Savings Bank of Sri Lanka: description of long-term strategies



Source: National Savings Bank 2019: 56-7



BEST PRACTICE TIP: Some of the reports that demonstrate the strongest strategic focus set out a small handful of long-term strategic targets to be achieved and report on the progress towards each one. Each year, on a rolling basis, they defined targets for the coming year.

ABN AMRO, a Dutch bank, demonstrates excellent future-looking strategic focus in the way it identifies 10 key strategic targets for 2024, which relate to its three strategic pillars. These are informed by an extensive materiality assessment that the bank carried out in November 2020. Besides these strategic targets, operational strategic targets have also been set for each year leading up to 2024 (Figure 4.4).

FIGURE 4.4: ABN AMRO’s strategic pillars and targets

Our 2024 strategic targets

Our ambitions feed through into a series of strategic targets that we have set for 2024, these targets cover both our strategic pillars and our financial performance.

Strategic pillars	Metric	2024 targets
Customer experience		
	Relational NPS mortgages ¹	> 0
	Relational NPS SMEs (incl. self-employed) ¹	> 0
	Market share growth in focus segments ²	2-5 percentage points in focus segments
Sustainability		
	Percentage sustainability (acceleration) asset volume ³	30%
	Percentage of women at subtop ⁴	34%
Future-proof bank		
	Straight-through-processing rate of high volume processes	90%
	Absolute cost base	EUR ≤ 4.7 billion
	Cost of risk	25-30bps through-the-cycle
	Return on equity	8% (10% ambition with normalised rates)
	CET1 ratio (Basel IV)	13%

- 1 Net Promoter Score is calculated as the percentage of promoters minus the percentage of detractors.
- 2 Focus segments are mortgages, SMEs, wealthy and affluent clients, entrepreneurs, and corporate banking in Northwest Europe.
- 3 The definition of sustainability (acceleration) asset volume is based on ABN AMRO’s Sustainability Acceleration Standards. These standards contain clear definitions with regard to clients’ sustainability policies, practice and governance. The overall target for sustainability (acceleration) asset volume is calculated as the sum of sustainability (acceleration) asset volume (mortgages and corporate loans) and sustainability (acceleration) client asset volume, divided by the sum of the outstanding mortgage loan book, corporate loan book and relevant client asset volume.
- 4 Percentage of women at Hay scales 12 and 13 in the Netherlands.

Source: ABN AMRO 2020: 20

Operational sustainability targets

We want to be a first choice partner in this field for our clients and lead by example. Our key strategic target on the volume of sustainable client loans and investment is based on the following operational targets.

	2021	2022	2023	2024
Percentage sustainability (acceleration) asset volume³				
ESG + impact investments	26%	29%	31%	35%
Mortgages	22%	24%	26%	28%
CIB (core) loans	12%	16%	20%	25%
CB loans	11%	15%	21%	27%
Total	21%	23%	26%	30%
External Rating				
S&P Global ESG Dow Jones Sustainability Index	top 5%	top 5%	top 5%	top 5%

Theme II – Authenticity from the inside, out

In the <IR> Framework, the IIRC articulates its long-term vision as follows: ‘a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by integrated reporting as the corporate reporting norm’ (IIRC 2021a).

This vision calls upon organisations to make real change happen internally, starting from board and management mindsets and corporate culture. The integrated reporting process facilitates this change – and facilitates providing a transparent account of it to investors and other stakeholders through the integrated report.

Reflecting an honest picture of what is happening internally in external reporting is not easy. The <IR> Framework, under the guiding principle of ‘Connectivity’ (section 3B), emphasises the importance of connecting management information, board information and information reported externally. It noted that, for example, ‘it is important for the quantitative indicators in an integrated report to be consistent with the indicators used internally by management and those charged with governance’ (IIRC 2021a).

Although connectivity is generally demonstrated well in the reports we reviewed, connectivity between management information and information reported externally remains weak – continuing a trend from previous years. Only 33% (five) of the reports were deemed to demonstrate connectivity in this sense (Figure 4.5).

The threads linking management information and external communication may seem invisible, but those organisations that have successfully demonstrated connectivity in this sense do so in three key ways:

- a. by considering stakeholder needs
- b. by learning from and acting upon the materiality determination process
- c. by making corporate goals relevant to teams and individual employees.

We will consider each of these in turn.

a. Considering stakeholder needs

Several interviewees highlighted how their engagement with stakeholders informs strategic decisions. Specifically, some talked about conducting a stakeholder engagement process that helped them to make strategic choices about materiality. This is a key process for integrated thinking, and one that ought to be reflected in the integrated report.

One successful example of a clear explanation of the stakeholder engagement process and its connection to strategic decision-making comes from Unilever, an Anglo-Dutch multinational consumer goods company, in its 2020 annual report.

Unilever identifies six stakeholder groups as critical to its success. For each of these stakeholder groups, the ‘Stakeholder Review’ section of the report explains in one sentence why that stakeholder group is important to Unilever, and summarises the group’s interests and concerns. The specific ways in which Unilever engaged with each stakeholder group are described. In particular, the report highlights UK corporate governance code requirements for the board to consider the interests of stakeholders and to act in the way the board considers ‘would be most likely to promote the success of their company’. Accordingly, its Stakeholder Review explains how the board addresses each stakeholder group’s interests (Figure 4.6).

FIGURE 4.5: Number of 2019/20 reports (total sample of 14 reports) that demonstrated each form of connectivity

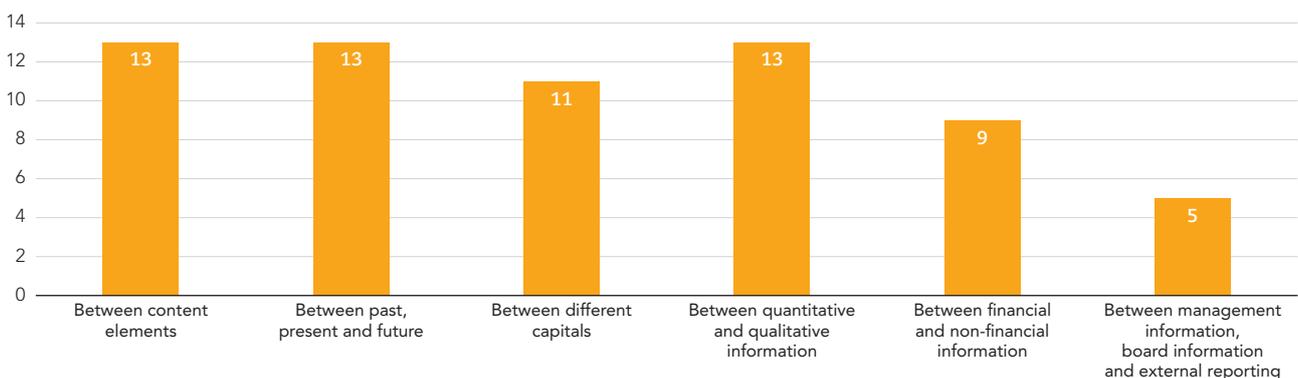


FIGURE 4.6: How Unilever addresses stakeholders’ needs

Our multi-stakeholder model in action

We’ve identified six stakeholder groups critical to our future success: our people, consumers, customers, suppliers & business partners, planet & society, and shareholders. The stakeholder reviews on pages 14 to 33 explain how we’ve worked to create value for each of our stakeholders in 2020, as well as how our business benefits from these vital relationships.

The Governance of Unilever sets out the roles and responsibilities of the Board and, with the exception of specified Board responsibilities, delegates the running of Unilever to the CEO. The CFO also has certain powers in relation to financial matters set out within the Governance of Unilever. The CEO heads the Unilever Leadership Executive (ULE) which comprises the CFO, the Group Secretary and the most senior management of Unilever as set out on pages 66 to 67. The Board provides guidance and advice to the CEO and the ULE on multiple issues throughout the year. The table below highlights key Board considerations and outcomes and also where relevant the key considerations and outcomes of the ULE in line with their duties and the Board Rules outlined in the Governance of Unilever.

 **Section 172**

Under Section 172 of the UK Companies Act 2006 (‘Section 172’) directors must act in the way that they consider, in good faith, would be most likely to promote the success of their company. In doing so, our Directors must have regard to stakeholders and the other matters set out in Section 172. Pages 14 and 15 comprise our Section 172 statement, which describes how the Directors have had regard to these matters when performing their duty. In light of our purpose to make sustainable living commonplace and the Unilever Compass strategy to drive superior performance as set out on pages 8 to 9, our Directors take steps to understand the needs and priorities of each stakeholder group and do so via a number of mediums, including by direct engagement or via their delegated committees and forums. The relevance of each stakeholder may change depending on the matter at hand. In line with the UK Companies Act 2006, below we provide a high-level summary of the concerns of our stakeholders and how our Directors and ULE engaged with them and had regard to their interests when setting Unilever’s strategy and taking decisions concerning the business.

Stakeholder	Interests and concerns in 2020	How we engaged in 2020	Board and ULE considerations and outcomes in 2020
 <p>Our people</p> <p>We stepped up our engagement with employees significantly to help our people through the pandemic.</p> <p> For more see pages 16 to 19</p>	<p>Covid-19 has been the overriding concern for our people during the year as the pandemic impacted virtually every part of their lives, especially working arrangements. Through our engagement, we also consistently see that concerns such as career opportunities, wellbeing, purpose, sustainability and being a more simple and agile business remain important for our people.</p>	<p>This year our annual UniVoice survey focused on our office-based employees, and more than 42,000 people responded (see pages 16, 17 and 18 for results). We continued to run monthly UniPulse surveys throughout the year for more instant feedback. Covid-19 accelerated a widescale use of new digital platforms. We held a bi-weekly ‘Your Call’ with our CEO and ULE which gave people direct access to our leadership team in rotating guest slots, including our Chairman. We consulted with our people on a new Future Reward Framework through multiple employee focus groups and surveys, as well as consultation with the European Works Council and other local employee representation bodies.</p>	<p>Our Board engaged directly with employees throughout the year on issues of concern such as working in factories and at home through the pandemic, the new starter onboarding process and learning opportunities. These perspectives were taken into consideration in decision making (see page 63 for more details). The Board’s Corporate Responsibility Committee looked at a range of people-related issues in the year, including safety and our Code of Business Principles (see page 18). As part of the Unification of our legal structure, and after engaging with the Dutch Central Works Council and the European Works Council, the Board agreed to provide a guarantee to Unilever APF, the Dutch Pension Fund, to safeguard the pensions of Dutch employees.</p>

Source: Unilever 2020: 14

b. Materiality process to inform decision-making

According to the <IR> Framework (IIRC 2021a: section 3D), the materiality determination process for the purpose of preparing and presenting an integrated report involves internally identifying the matters that affect value creation, evaluating their relative importance, prioritising them, and determining the information to disclose about them. A robust materiality process keeps reports concise and strategically focused.

The materiality determination process is about more than reporting. It is key to management’s internal assessment

of resources, risks, and opportunities and has a key role to play in managing the business and setting strategy.

Some interviewees raised the issue that reporting using the multi-capitals model is extremely complex. Succinctly describing the six capitals and all their interconnections poses a daunting task. But by narrowing the relevant matters down to those that substantively affect the organisation’s ability to create value – and those that therefore influence the organisation’s ability to implement its strategy – the materiality process described in the <IR> Framework helps to focus both management decision-making and reporting on the important aspects.

ABN AMRO undertakes a materiality process every two years ‘to ensure it has an up-to-date understanding of what materially affects its ability to create value over the short, medium, and long-term’. According to the bank, the process has ‘highlighted the need for more effective integrated thinking within the organization as a tool to improve its integrated reporting.’ (IIRC 2020). The bank knew that pursuing internal connectivity would lead to a more connected account of value creation.

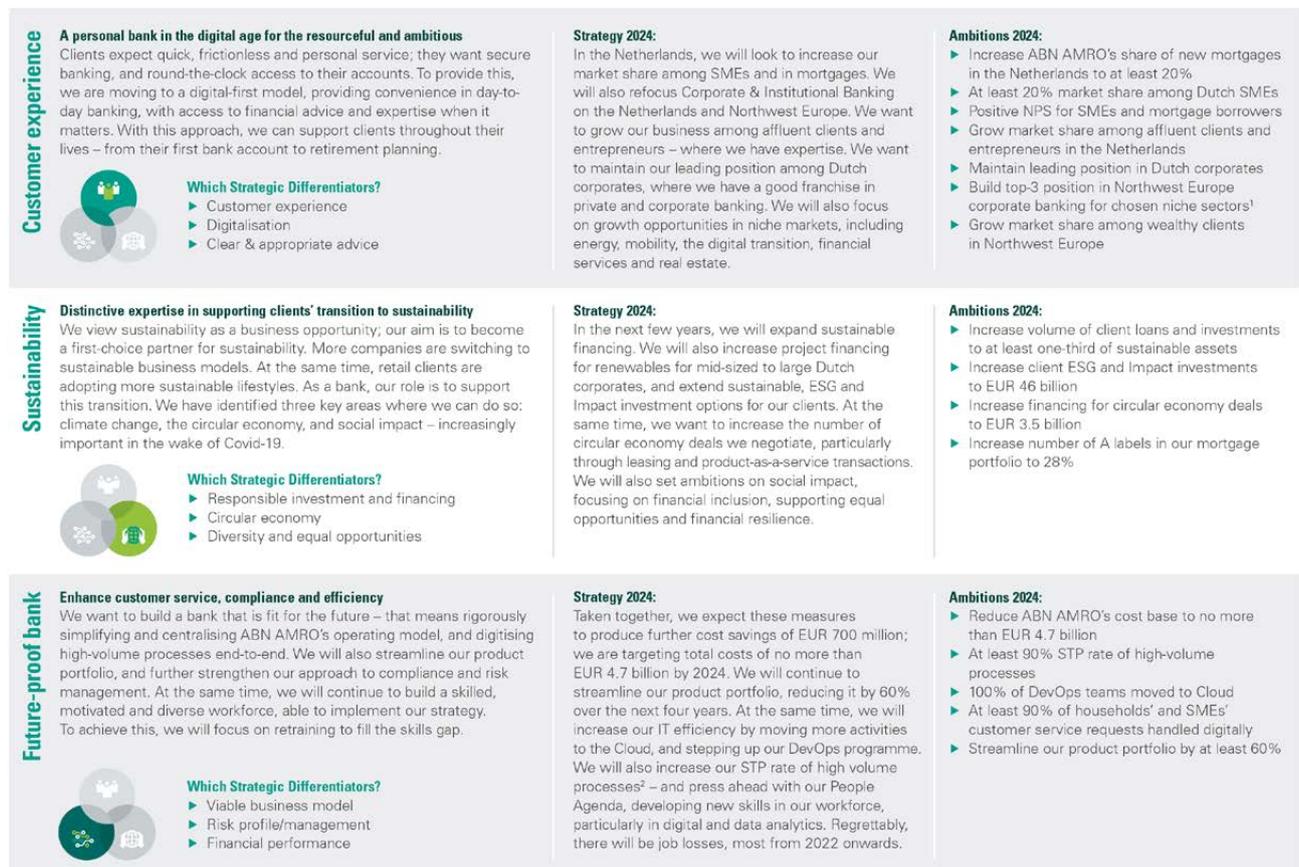
This can have significant benefits. One interviewee described how their organisation’s multi-capital, multi-stakeholder approach to materiality determination had improved business resilience. ‘Even with all the challenges this year, those organisations that can survive are those who worry about all the capitals, their context, and all the stakeholders. If you don’t take care of your employees, your environment, and so on, especially now, you’re going to get burned. To have a future, you have to be cautious of all the ways capitals interfere with value creation’. The interviewee described how the organisation’s stakeholder engagement this year had resulted in some subtle differences to what

the organisation evaluated as materially important. ‘In general, our stakeholder expectations haven’t changed. There is a little bit of a movement towards recovering to better ways...But the big difference this year was health and safety. Before it was just assumed [that] it was just compliance. But now, after the pandemic, it’s a real focus, a risk, and an opportunity, and it’s made a reappearance in our materiality matrix as a result’. This renewed strategic focus on workforce health and safety is a theme that is emerging in many of the reports reviewed this year.

The board and executive management play important roles in inputting and responding to the materiality process. Where the leadership’s involvement in the materiality process isn’t made clear in the report, it can be an indicator of poor integrated thinking across the organisation.

ABN AMRO’s integrated report (Figure 4.7) makes clear the links between reporting and strategy-setting. The bank’s biennial materiality assessment directly informs strategy, which it articulates clearly in its integrated report as three strategic pillars supported by nine strategic differentiators.

FIGURE 4.7: ABN AMRO Strategy 2024



Source: ABN AMRO 2020: 19–20

c. Making corporate goals relevant to teams and individual employees

Integrated thinking and reporting help organisations to execute their strategy. Many interviewees proudly discussed the value of integrated reporting in achieving their organisations' purposes. As ABN AMRO puts it in its case study published for the <IR> Business Network's Integrated Thinking & Strategy Group: 'ABN AMRO has found that putting its purpose at the heart of its strategy has led to better decision-making' (IIRC 2020)

For integrated thinking to be truly successful, corporate goals need to be relevant to all teams, as well as to individual employees. Everyone at the organisation needs to know what they are driving towards – how they relate to and play a role in the strategy. The way the organisation structures its people management internally has a direct effect on integrated thinking, and therefore on integrated reporting.

More organisations are using KPIs linked to strategic objectives to evaluate board and executive performance, and inform remuneration. In its case study on integrated thinking, Dutch multinational banking and financial services corporation ING Bank reveals that 'ING understands integrated thinking as a tool which supports the spread of its organizational culture among its employees' and that it has 'helped ING acknowledge one of its biggest assets [that] drive[s] its strategy: its people' (IIRC 2021b). ING's 'performance management system is aligned to the organization's people-centric approach. One of the key performance management tools...aligns individual performance objectives to the objectives of the organization's strategy.' Making these internal dynamics explicitly available in the annual report helps external stakeholders understand how the organisation executes its strategy to create value.

ABN AMRO appointed 'value-creating topic ambassadors' from across the organisation for the bank's long-term value drivers, supporting each of the three strategic pillars as shown in the excerpt in Figure 4.7. The ambassadors embed, monitor and report on progress, measured against these value drivers, within the organisation.

An organisational focus on integrated thinking is evident at DIMO, a Sri Lankan engineering conglomerate, right from the start of its annual report. The chairman's letter states: as 'an organisation, we focus on creating a culture that enables people to pursue their individual objectives and those of the organisation fully aware of the dynamics and connectivity surrounding their specific domains of responsibility. These efforts are facilitated by the employee performance management system and the accredited management systems for quality, environment and social accountability' (DIMO 2020: 6).

This is further emphasised in the 'Conversation with the CHRO' section, where a strong link is made between DIMO's brand promise and its employee value proposition (Figure 4.8).

FIGURE 4.8: DIMO Annual Report 2019/20

DIMO UNDERTOOK A BRAND REPOSITIONING IN YEAR 2019 WITH A MODIFIED PURPOSE AND VALUES. THESE VALUES REFLECT HOW EMPLOYEES SHOULD CONDUCT THEMSELVES TO LIVE UP TO THE BRAND PROMISE. HOW DID YOU INTERNALISE SUCH A CHANGE OF BEHAVIOUR?

Stakeholders perceive a brand through the consistent behaviour of its employees. In order to internalise the new brand identity by aligning employees with the brand promise, we introduced 5 Standards of Leadership. These standards are linked to our corporate values being integrity, people centricity, excellence, customer delight and accountability.

We ensured the all employees are aware of the new brand promise, understand the values and the standards of leadership and behave accordingly. The many initiatives included training programs, emails showcasing what positive and negative behaviours are, constant reminders about the Values at each monthly employee council meeting, a point system for employees who demonstrate exceptional standards of leadership and an online portal where employees could pose their questions. Most importantly, standards of leadership will be taken into consideration when an employee's potential is assessed for leadership development.

Source: DIMO 2020: 36

Theme III – Connecting the dots through the report

a. Linking governance to strategy

The <IR> Framework, in the 'Governance' content element, specifically challenges organisations to answer the question: 'How does the organization's governance structure support its ability to create value in the short, medium and long term?' (IIRC 2021a: section 4B). It identifies factors through which the board influences how the organisation creates, preserves or erodes value, including its:

- skills and diversity
- specific processes used for making strategic decisions and for establishing and monitoring the culture of the organisation
- mechanisms for addressing integrity and ethical issues
- actions to influence and monitor the strategic direction of the organisation
- attitude to risk and approach to risk management
- role in promoting and enabling innovation
- links between remuneration and incentives and value creation in the short, medium, and long term, including how they are linked to the organisation's use of and effects on the capitals

In IRC of South Africa's information paper, *Disclosure of Governance Information in the Integrated Report*, Mervyn King stated that: '[I]n exercising informed oversight the governing body should consider [...] the value creation process from inputs to outcomes, including the quality of stakeholder relationships and the organization's responses to those stakeholders' needs, interests and expectations, the trade-offs among the capitals, and the management of risks, opportunities, technology and information. Such an approach allows for the better-informed approval and monitoring of strategy and for strategic thinking on the organization's outcomes' (IRC 2017: 1).



BEST PRACTICE TIP: Integrated reports should clearly communicate the role of the board in setting and supporting the achievement of strategy.

Ultimately, integrated thinking should be led from the most senior level: the board should be using integrated thinking as a management tool. As has been noted, reporting on governance this year, and in previous years, has been markedly compliance-driven and less focused on providing clarity about the board's role in creating value.

The tone from the top is critical for integrated thinking, not just integrated reporting, to take place. One interviewee described how their organisation's journey to integrated reporting was driven at the board level: 'Reporting is about the process, not just the product, and back in 2004 at the AGM [annual general meeting], the chairman proposed that the company by-laws adopt a clause that took into account financial, social and environmental impact. So by safeguarding it in that way, that's how we came to integrated reporting. The board played a strong role from the start – our purpose and our sustainability are anchored in discussions at the board level'.

This interviewee also described how there are growing expectations for boards to lead from the top: 'As shareholders get more interested in [sustainability] issues, that elevates it to the attention of the board. That's good. [Organisations] need to be shoved and pushed. The younger generation is frustrated, angry, and they have high expectations. So getting this right is crucial if we want to remain an attractive employer for the next generation'.

Another interviewee described how their board was required to consider all three time projections – the short, medium, and long terms – in making strategic decisions, but that the reporting team's ambition was to require the board to consider all six capitals too. 'As part of the integrated thinking process, departments and businesses across the organisation are seeing more of one another's work on a daily basis. As a result, we are achieving integration between business units. Our goal is that everyone considers what kind of an impact their project has. Integrated reporting will support that process by showing the cohesion. Eventually, once integrated thinking is fully internalised within the company, we're confident that the board might consider the capitals as well as time-frames, too'.

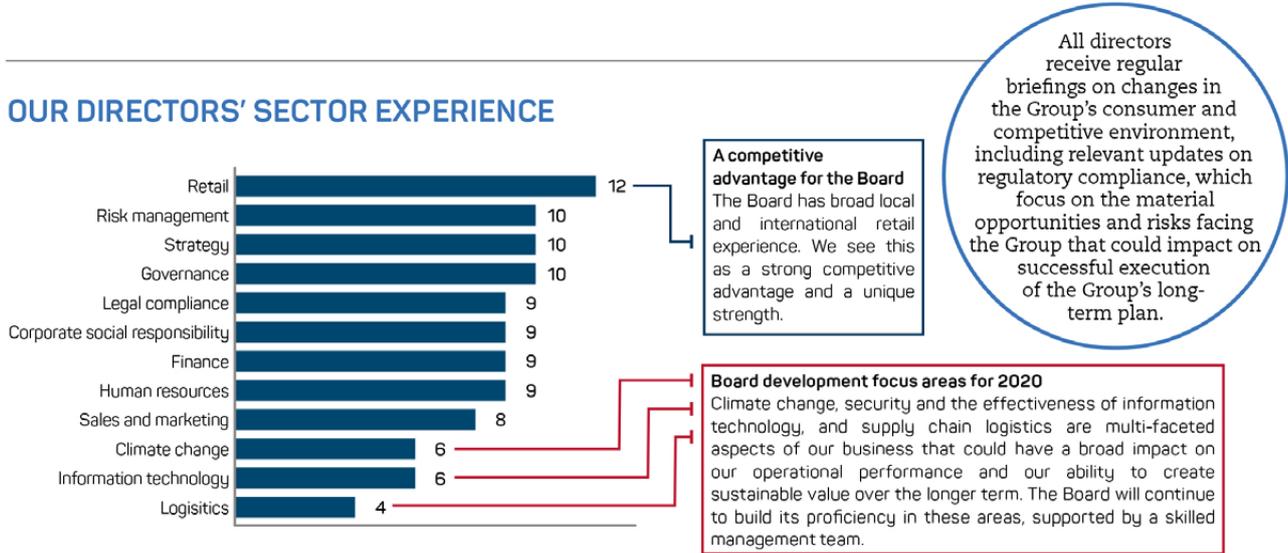


BEST PRACTICE TIP: This kind of integrated thinking requires boards to recognise the areas where they currently lack competence, and to be willing to learn.

This attitude of continuous learning is represented well in the South African supermarket chain Pick N Pay Group's report. It analyses the sector experience represented on the board (Figure 4.9), and in doing so it also identifies areas where the board will need to develop greater knowledge and expertise in order to ensure that the

Group continues to create sustainable value despite challenges from climate change, information technology and logistics. The integrated report also sets out the specific decisions and actions taken by the board during the year to protect and create value (Figure 4.10).

FIGURE 4.9: Pick N Pay Group, Directors' sector experience



The above graph indicates the number of directors on the Board who possess the relevant sector experience.

Source: Pick N Pay Group 2019: 84

AS SHAREHOLDERS GET MORE INTERESTED IN [SUSTAINABILITY] ISSUES, THAT ELEVATES IT TO THE ATTENTION OF THE BOARD. GETTING THIS RIGHT IS CRUCIAL IF WE WANT TO REMAIN AN ATTRACTIVE EMPLOYER FOR THE NEXT GENERATION.



FIGURE 4.10: Pick N Pay Group – how the board protects value

WHAT THE BOARD FOCUSED ON DURING THE YEAR

The directors ensure that the Group is managed in a transparent, equitable and responsible manner for the benefit of all its stakeholders. The Board appreciates that the strength of its strategy, the identification of material issues, the effectiveness of its risk management, its commitment to social and environmental sustainability and its financial performance are all inseparable elements of long-term value creation. Directors engage in rigorous and informed debate with the aim of promoting direction, governance and effective leadership of the Group. Decisions are made by consensus. All Board members are conscious of their obligation to act with integrity and as representatives of all our stakeholders.

The Board supports the materiality approach, which emphasises integrated reporting based on the issues, risks and opportunities that can have a material impact on the sustainable performance of the Group over the short, medium and longer term. It ensures that the reports issued by the Group enable stakeholders to make informed assessments of its performance and its longer-term prospects. Details of the material issues and related risks identified and managed by the Group are set out on pages 32 to 37.

The issues and topics addressed by the Board during the year are set out on pages 10 and 11 of the Group’s Corporate Governance report, available on our website at www.picknpayinvestor.co.za.

THE MOST MATERIAL ISSUES UNDER CONSIDERATION INCLUDED:

DISCUSSIONS, DECISIONS AND ACTIONS UNDERTAKEN BY THE BOARD DURING THE YEAR TO PROTECT AND CREATE VALUE FOR OUR STAKEHOLDERS

STRATEGY AND PERFORMANCE

<p>CONSUMER AND COMPETITIVE ENVIRONMENT</p>	<p>The Board assessed the effectiveness of Group strategy in responding to changing customer needs, with a focus on finding growth in a tough economic climate. The Board monitored the management team’s efforts to improve the cost effectiveness and efficiency of the business. Management has invested substantially in our customer offer, and effectively driven market-leading volume growth. The Board continues to monitor the impact of the increasingly difficult economic environment in South Africa on consumer confidence and consumer spend.</p>
<p>PERFORMANCE OF OUR REST OF AFRICA SEGMENT</p>	<p>The Board focused on Group operations outside South Africa to ensure tight management during tough economic times. Our Zambian team committed to and delivered strong cost discipline and working capital management to mitigate the impact of the low-growth environment. Developments in Zimbabwe were closely monitored in light of economic uncertainty and currency illiquidity in the region leading to inflationary pressure and social unrest. TM Supermarkets delivered a strong trade performance notwithstanding the difficult economic backdrop, and our financial reporting aimed to provide stakeholders with clear information on the performance of the business and the impact of currency devaluation on the Group result. The Board is committed to a prudent approach to expansion in Nigeria, without putting the core South African operation at undue risk. The Group plans to open its first store in Nigeria in 2020.</p>
<p>EFFECTIVENESS OF OUR PROCUREMENT AND DISTRIBUTION CHANNEL</p>	<p>The Board assesses the effectiveness and efficiency of the Group’s centralised supply chain on a regular basis. This year the Board agreed to additional capacity for Pick n Pay in KwaZulu-Natal and for Boxer in Gauteng. The Board will continue to assess the need for an additional Pick n Pay facility to supplement its Longmeadow distribution centre in Gauteng. Stability of labour relations across the supply chain remains a key risk, and is closely monitored by the Board.</p>

GOVERNANCE AND RISK MANAGEMENT

<p>EFFECTIVENESS OF OUR INFORMATION SYSTEMS AND TECHNOLOGY</p>	<p>The Board reviewed and updated the Group’s technology and information policy framework to ensure that our information security policy and privacy policy were current and reflected all relevant risks in our operating environment. The Board is cognisant of the increased risk of cyberattacks. The Board has endorsed ongoing investment in the development and maintenance of our IT infrastructure and security systems to guard against attack, protect the confidentiality of information and ensure the responsiveness and adequacy of recovery procedures.</p>
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Source: Pick N Pay Group 2019: 86

As we have seen already, a sense of accountability to key stakeholders helps to focus the board’s attention on strategy. State-owned organisation, Transnet, which has a Shareholder Compact agreed with the South African

government, sets out the ‘strategic intent’ by which it is bound. Transnet then translates the Statement of Strategic Intent into its five strategic levers and shows how the board exercises oversight across these strategic levers (Figure 4.11).

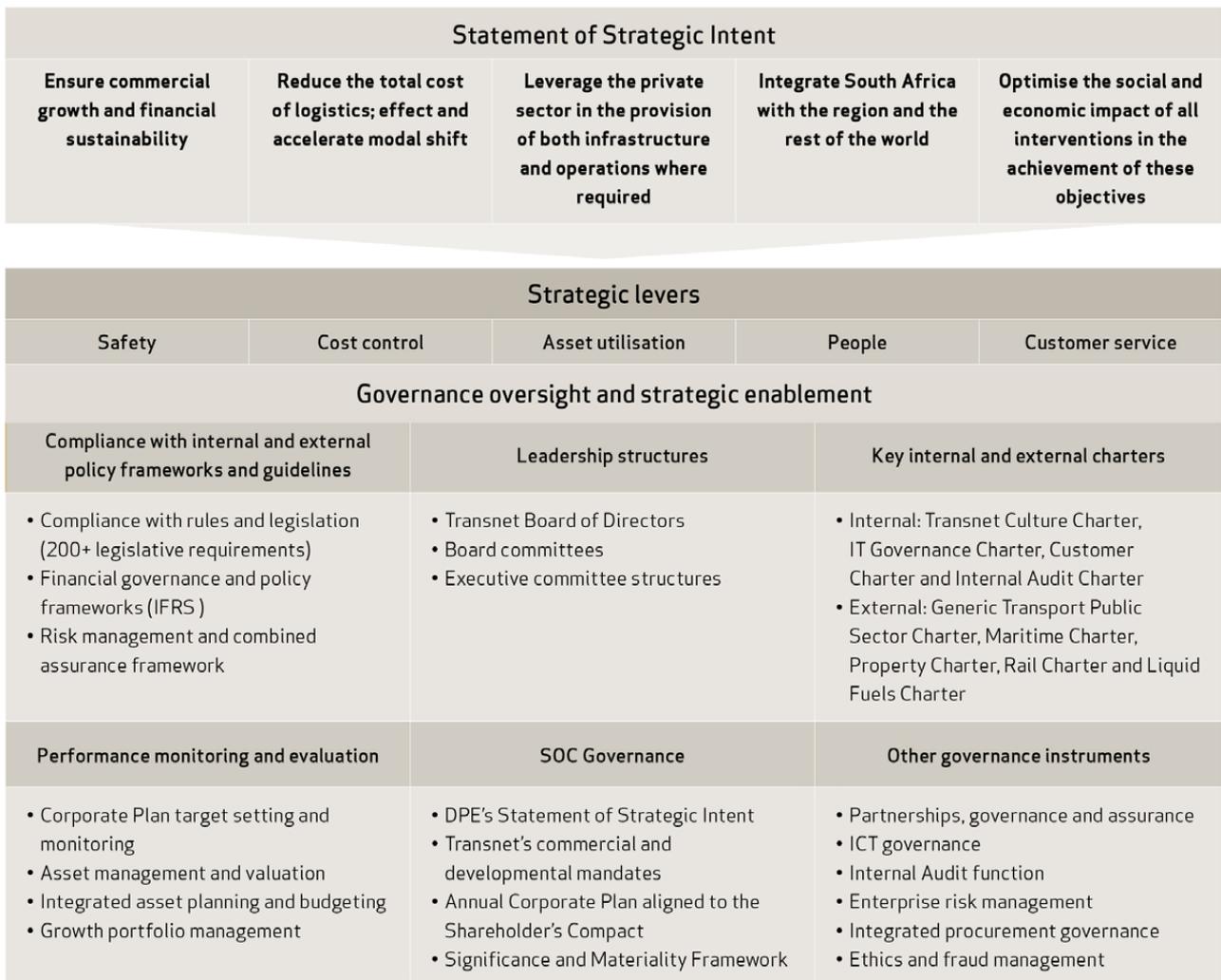
FIGURE 4.11: Transnet’s ‘Statement of Strategic Intent’

Creating value through governance



In accordance with the Treasury Regulations 29.2.1, Transnet – together with the DPE Shareholder Minister, Mr Pravin Gordhan – negotiates and concludes an annual Shareholders’ Compact. The diagram below summarises the DPE’s Statement of Strategic Intent (SSI) as contained in the Compact, together with Transnet’s five strategic levers to enable the anticipated outcomes of Transnet’s overall mandate as a SOC; and it also reflects the governance instruments in place to support Transnet’s value-creation process as mandated through the SSI. The Shareholder’s Compact for the 2020 financial year is effective from 1 April 2019 to 31 March 2020.

Figure 12: Creating shared value through governance



Source: Transnet 2020: 120

b. Linking outlook to strategy

The <IR> Framework defines outlook as ‘challenges and uncertainties the organization is likely to encounter in pursuing its strategy’ (IIRC 2021a: paragraph 4.35) and requires organisations to support future-orientated discussions with ‘transparent and sound analysis’ about:

- *The organization’s expectations about the external environment the organization is likely to face in the short, medium and long term*
- *How that will affect the organization*
- *How the organization is currently equipped to respond to the critical challenges and uncertainties that are likely to arise.’* (IIRC 2021a: paragraph 4.36).

Some preparers and users of integrated reports may expect the ‘outlook’ section to provide forecasts. One interviewee said that ‘outlook isn’t a prediction of what we will achieve. It’s not a forecast. It’s more of a plan’. One organisation discussed outlook in the risk-management section of its report. As part of its outlook and strategy discussions in its annual integrated report for the year ended 31 December 2019, this organisation had considered the effect of a – then notional – pandemic. ‘We named the possibility of a pandemic in our risk report [last year]. We didn’t see how big it was going to be, nor if or when a pandemic might occur, but it was still part of our planning analysis. We do the same for climate change and natural disasters’.

Another interviewee described the difficulty in talking specifically about environment, social and governance (ESG) issues and sustainability outlook and linking these

to strategy, because it made legal teams and auditors uncomfortable. They compared the ease of estimating financial outlook with the difficulty of estimating sustainability outlook and said with some frustration: ‘Why are people so bothered by estimation uncertainty? Of course, the numbers are in no way certain! That’s an indication of being well-managed’. They also said that investors knew that companies have numbers on their sustainability outlook, but weren’t sharing them: ‘of course we have the numbers already – because we make the budgets!’

The <IR> Framework notes: ‘Care is needed to ensure the organization’s stated expectations, aspirations and intentions are grounded in reality’ (IIRC 2021a: paragraph 4.37).



BEST PRACTICE TIP: When dealing with the inherently uncertain future, providing supporting analysis can help to make outlook discussions more meaningful and credible.

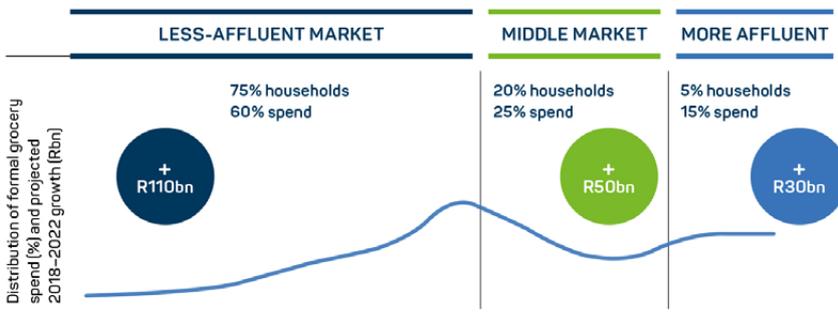
A good example of robust outlook reporting comes from Pick N Pay Group (not in the <IR> Business Network). Its reported outlook is supported by a robust analysis of its target markets, which informs the Group’s strategic positioning. The Group’s report discusses future opportunities and what the Group is doing to seize them, thereby communicating the business’s resilience to short-term challenges (Figure 4.12). The consumer outlook is presented in relation to specific future time-frames: 6–12 months, and the next 3–5 years.

FIGURE 4.12: Pick N Pay Group – growth opportunities

GROWTH OPPORTUNITIES IN THE SOUTH AFRICAN MARKET

The Pick n Pay Group is a leaner and more cost-effective business, well positioned to deliver growth in a tough market. We delivered market-leading sales growth of 7.4% in South Africa in FY19 through sharper prices, exceptional value and greater quality and innovation in grocery and allied retail services.

The Group is particularly pleased with the performance of its Pick n Pay and Boxer stores serving the lower- to middle-income segments of the market. These communities are resilient and aspirational. We believe that there are good growth prospects for this segment of the market, as circumstances start to slowly improve (for example through improved economic growth, higher wages and the availability of social grants).



Pick n Pay’s broad range of formats and our offer, including through its franchise partners, combined with Boxer’s unbeatable value, position our Group well to serve all customers, and take our fair share of growth in the market.

The Group’s ability to appeal broadly across socio-economic demographics is a key advantage. We will continue to drive range optimisation over the short term to ensure that our stores carry product ranges which are effectively tailored to meet the needs of the customers served. Range optimisation in a number of our lower- to-middle market stores has already led to a meaningful reduction in stockholdings, higher on-shelf availability, stronger promotions, reduced waste and improved trading densities.

Our broad range of formats provides further growth opportunities outside of our core grocery offer, including through developing and growing our clothing, liquor, general merchandise, health and beauty and value-added services offer. The Group is confident of its growth prospects in the South African market, notwithstanding forecasts that economic conditions are unlikely to ease over the short term.

LOOKING FORWARD: THE ROLE WE WILL PLAY IN SOUTH AFRICA

The Group will invest up to R2.0 billion in its store opening and refurbishment programme in the coming year. We will continue to follow a measured approach to capital investment, focusing on space that we are confident will drive sustainable financial returns. There are still many geographic communities across South Africa, across all demographics, where Pick n Pay and Boxer are not well represented. We look forward to bringing our offer to these communities, whether in urban, peri-urban or rural areas. Our leaner, stronger operating model has significantly improved our ability to deliver sustainable new space, including through smaller, neighbourhood stores, which reflect the growing customer demand for convenience. Our growth will provide opportunities for job creation and play an important role in alleviating high unemployment levels in South Africa. This will help to ensure the marginalised benefit from greater inclusion in the economic prosperity to come.

OUR OUTLOOK FOR THE SOUTH AFRICAN MARKET

Short-term consumer outlook

- Low consumer confidence and restrained spend
- High unemployment
- Consumers looking for more value
- Inflationary pressure from rising input costs, in particular fuel and energy costs, and a weaker rand
- Real GDP growth forecast for 2019: 1.0%, after weak Q1 data in 2019

6 to 12 months

Long-term consumer outlook is more positive, supported by:

- Greater South African political stability after the May 2019 elections
- Political intent under President Ramaphosa to streamline government, eradicate corruption and the mismanagement of public funds, and improve the performance of state owned enterprises
- Improved outlook for economic transformation and growth
- A young population
- A growing consumer base across a changing demographic
- Good infrastructure
- Robust and enduring institutions, with strong corporate governance

Next 3-5 years

Source: Pick N Pay Group 2019: 30

Aviation was one of the hardest-hit sectors in 2020, and the recovery trajectory for airlines and airports continues to be uncertain. For this sector, investors are likely to consider insightful outlook reporting critical. Munich Airport notes the severe and direct effect of COVID-19 in its 2019 report (signed off in April 2020). The short-term impacts and the mitigating actions being taken are described in detail in the outlook report, clearly setting out the expected effect of the pandemic on business units and the board’s response (Figure 4.13).

Notably, 2020 projections relating to three main KPIs, identified at the start of the report (Munich Airport 2020: 7) are provided and the drivers behind them are discussed (Figure 4.14). This is a clear demonstration of integrated thinking driving connectivity throughout the report: the organisation concisely communicates strategic management KPIs, linked to variable remuneration components for managers, which are then linked to outlook, and to risk management.

FIGURE 4.13: Munich Airport – coping with the pandemic

All business units are affected by the sharp decreases. Dramatic falls in air traffic charges will result in the Aviation business unit owing to the collapse in passenger volume. The effects are also severe in the Commercial Activities business unit, primarily because of the officially decreed shutdown of the retail units. The negative impact will be less onerous in the Real Estate business unit compared with other business units owing to the typically long-term leases.

Against the backdrop of the traffic situation and consequently the substantial decline in revenue, the Group expects that earnings before taxes (EBT) will shrink considerably in fiscal year 2020 compared with the previous year even following implementation of extensive countermeasures.

Massive efforts are being taken by the Executive Board to ensure liquidity. This is being done through savings on all costs and investments. For example, deferrable construction projects that are not business-critical or of major strategic relevance are being moved to a future

date. On the other hand, a broadly based cost-cutting program is being initiated, which also includes measures in the area of HR, including measures to secure liquidity such as short-time work.

The Group is in a position to continue to make investments that are essential and strategically important for operations. Compared with the previous year, the total investment volume will remain at the previous year’s level despite the deferral of several construction projects, but will still be significantly below the volume envisaged in the original planning. Munich Airport is in negotiations with its principal banks to address an imminent liquidity gap toward year-end. Talks are set to conclude in the coming weeks concerning the current offers. The traffic, profit, and liquidity forecasts will be updated continually over the course of 2020 and, depending on the further development of the crisis, a decision will be made as to when and to what extent an increase in the existing credit lines will be initiated and, if necessary, new funds raised. This will ensure that the Group can maintain adequate liquidity levels at all times.

Source: Munich Airport 2020: 103

FIGURE 4.14: Munich Airport’s key performance indicators, 2019

FORECAST FINANCIAL AND NON-FINANCIAL KEY PERFORMANCE INDICATORS

Fig. 47

	2019 Actual	2020 Forecast		
			from	to
			%	%
EBT [in T€]	256,822	Decrease	significant	
CO ₂ [reductions in tonnes]	24,280	Decrease	-12.3	-7.3
Passenger experience index total satisfaction	81.84	Unchanged	0.0	0.0

Source: Munich Airport 2020: 104

c. Linking the business model to strategy

The <IR> Framework defines an organisation's business model as *'its system of transforming inputs, through its business activities, into outputs and outcomes that aims to fulfil the organization's strategic purposes and create value over the short, medium and long term'* (IIRC 2021: paragraph 4.11). The process by which value is created, preserved or destroyed depends on the business model, and the business model is central to fulfilling organisations' strategies.

An organisation's business model is linked to its strategy in two ways: the business model is the mechanism through which the organisation achieves its strategic priorities, but it is itself shaped by the organisation's strategy as it evolves. The process is iterative: an internal process of integrated thinking takes place as teams gather together to try to articulate the business model, and this in itself can inform the strategy.

Well-embedded integrated thinking can lead to a better understanding of how the business model affects strategy and vice versa. But the process of integrated reporting itself can help organisations improve how they shape their business model. One interviewee said that 'it helps us to describe it more clearly in the first place'.

ACCA's previous research (Chen and Perrin, 2018) has suggested that organisations in the <IR> Business Network find the presentation of the business model particularly challenging. Most of the 2019/20 reports

reviewed present business models in a standardised format, adopting the 'octopus diagram' from the <IR> Framework (IIRC 2021a). The <IR> Examples Database² provides reporting extracts that demonstrate how a business model's outputs and outcomes can connect to strategic priorities.



BEST PRACTICE TIP: Some organisations supplement the business model or value creation model diagram with narrative about how key capital inputs, outputs and outcomes support their strategies.

This does not necessarily have to make the report longer – but it does require careful thinking about how to structure the report in an appropriately value-centric way.

Transnet's integrated report prefaces its business model with a page setting out the organisation's vision, mission and mandate. The value that it creates as a state-owned organisation for South Africa and Africa as a region, as well as for its key stakeholders, is clearly stated. This all informs Transnet's strategic objectives, which are set out in the succeeding pages, including a page that lists its value-chain activities alongside five key strategic drivers (Figure 4.15). In total, Transnet's description of its business model, including clear links to strategic drivers, covers nine pages. It is complete and extremely clear – a product of successful integrated thinking.

2 See http://examples.integratedreporting.org/leading_practices.

FIGURE 4.15: Transnet’s business model and value chain

Our business model and value chain

Our vision

Fuelling Africa's growth and development as the leading provider of innovative supply chain solutions



Our mission

Linking economies; connecting people; growing Africa!



Our mandate

- Assist in lowering the cost of doing business in South Africa
- Enable economic growth
- Ensure security of supply by providing appropriate port, rail and pipeline infrastructure in a cost-effective and efficient manner, within acceptable benchmarks



Our value propositions

As a State-owned Company, our overarching value propositions are founded in our Shareholder mandate and enabled through our strategic objectives.



Value for the economy

- Reduce the total cost of logistics as a percentage of transportable GDP
- Accelerate the modal shift, maximising the role of rail in the national transport task
- Leverage the private sector in the provision of both infrastructure and operations
- Integrate the South African economy with the region and the rest of the world
- Optimise the social and economic impact of all our interventions in achieving these objectives
- Ensure commercial growth and financial sustainability

Socio-economic value and environmental stewardship

- The modernisation and renewal of South Africa's transport and logistics infrastructure
- Regional integration to support South Africa's market competitiveness
- Preserving road infrastructure through road-to-rail migration
- Stimulating economic activity through growth in the commodities sector
- CSI initiatives that contribute to the socio-economic well-being of communities where we operate
- Activities that enhance rather than deplete the natural environment

Value for domestic and regional customers

- Aspire to deliver predictable and reliable customer volumes
- Customer-centric business innovations
- Full value chain service propositions
- Distinctive product and service designs per market segment
- Integrated cross-operating divisional customer support across the logistics value chain
- Digital transformation across the value chain

Value for suppliers and service providers

- An ethical and transparent procurement process
- Fair and equitable tender processes
- Fair, transparent and efficient contract management
- A proactive and collaborative approach to local supplier development

Value for employees

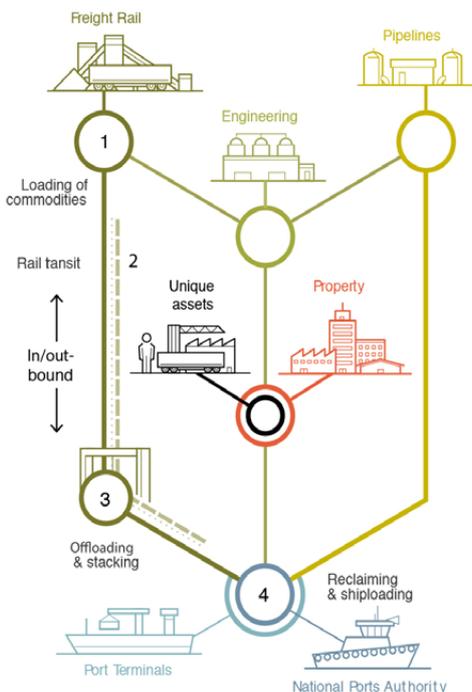
- Employer of choice
- A work ethos of 'safety and integrity in all we do'
- Opportunities to grow personally, professionally and academically
- Exposure and connectivity to broader national and regional opportunities

Value for our Shareholder

- Sustained financial returns and broad socio-economic value
- Regulatory compliance, accountable business practices, ethical leadership and responsible corporate citizenship
- Investment priorities closely aligned with Government's infrastructure programme

Value for financial partners

- A funding strategy based on strategic priorities and sound environmental, social and corporate governance principles
- Capital investments likely to yield superior financial and social returns
- A reliable and credible borrower, which issues debt on the strength of its financial position without government guarantees

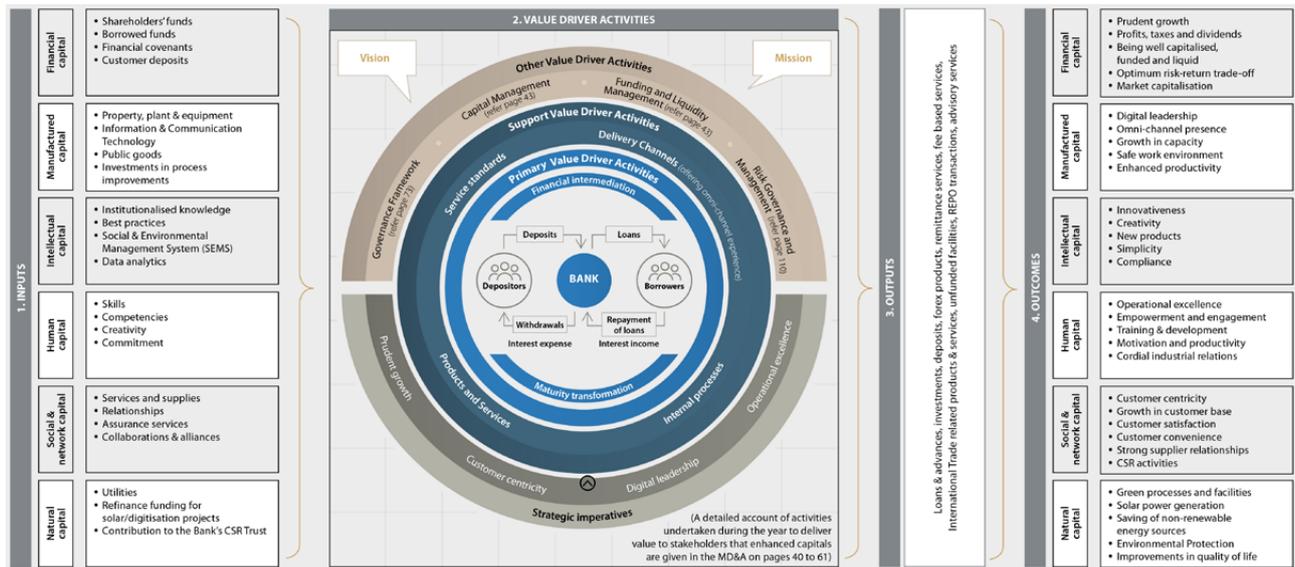


Source: Transnet 2020: 16

Another good example of ‘wrapping’ the business model with more detail on strategic value creation comes from Commercial Bank of Ceylon PLC (not in the <IR> Business Network). The bank’s business model diagram (Figure 4.16) highlights strategic imperatives and delivery channels, as well as aligning its outcomes to the capitals.

This is followed by a clear narrative that explains in succinct detail how the bank’s core business activities create value. A ‘Statement of Capital Position’ is also provided, which uses mostly quantitative indicators to capture the value related to each capital at the start and end of the year.

FIGURE 4.16: Commercial Bank of Ceylon PLC – business model



Business Model for Sustainable Value Creation

Business model of the Bank revolves around the two primary value driver activities of **financial intermediation and maturity transformation**. They directly accounted for 71.51% of the total operating income, 66.35% of total assets and 83.98% of liabilities at December 31, 2019. However, since the Bank accommodates few walk-in customers, a substantial portion of the rest of the operating income, assets and liabilities too arose from or related to these two activities. A number of other value driver activities enhance the quality of stakeholder interactions and minimise risk.

Financial intermediation and maturity transformation
Financial intermediation refers to the intermediary role the Bank plays between various stakeholders – depositors and borrowers in particular that enable channelling savings into investments. Maturity transformation refers to the process of converting short-term funds into long-term lending and investments. These are two activities essential for economic development of the countries through efficient allocation of resources by ensuring credit reaches the needy without jeopardizing the interests of those who invest such funds.

Capitals
By sustainably delivering and deriving value over a century of its existence, the Bank has been able to build a base of loyal stakeholders and ‘stocks of value’ we respectfully call ‘capitals’. Besides financial and intellectual capitals that reside within the Bank, these include manufactured, human, social & network and natural capitals. It is these capitals that provide ‘inputs’ for our value driver activities that enable delivery of value to and deriving of value from the stakeholders. Similarly, it is in these capitals that the ‘outcomes’ and consequences of our activities leading to value creation manifest.

Statement of capital position
The activities we undertake in furtherance of financial intermediation and maturity transformation and the consequent interactions among the capitals augment the capitals, a reflection of value created. See Table 07 on pages 38 and 39 for the Statement of Capital Position of the Bank as at January 1, 2019 and December 31, 2019 and growth during the year that reflect the value created during the year.

Besides the value derived as reflected in the enhanced positions of the other capitals, the two broader categories of income – net interest income from fund-based operations and fee and commission income from fee-based operations – enable the Bank to enhance its financial capital. Fund based operations involve the process of mobilising funds from depositors and borrowing from others incurring interest expenses and lending such funds to borrowers and investors earning interest income. The interest margin which is the difference between the lending rate and the borrowing rate compensates the Bank for credit risk, funding risk and interest rate risk. All other services provided by the Bank not involving funds are fee-based operations. Reflecting efficient financial intermediation, the Bank generated 71.51% of its total operating income (70.57% in 2018).

Gearing
Financial intermediation and maturity transformation cause the business model of banks to substantially differ from other corporates. Principal difference is the substantially lower Return on Assets (ROA) which is less than 2% in general in stark contrast to between 10% – 20% earned by corporates in other sectors. This prompts banks to resort to the process of gearing in order to make the returns to the investors attractive in terms of Return on Equity (ROE). Gearing involves expanding the business volumes by mobilising more and more funding from depositors and other providers of funds to the banks and lending or investing such funds to grow the loan book, and investment portfolios on the strength of a given amount of capital.

Gearing primarily remains the foundation of our business model, which enables us to operate at around

10 times higher business volumes compared to the shareholders’ equity. It is our license to mobilise deposits from the public that has made it possible. However, we are well aware that gearing exposes the Bank to a multitude of internal and external risks. In addition, certain emerging global developments are now threatening to disrupt this conventional business model. As explained later in the report, the Bank has established a sound risk management framework with necessary oversight of the Board of Directors and thereby has been able to successfully manage such risks.

Stakeholder returns
As shown in Table 07 on pages 38 and 39, Commercial Bank has been able to improve its profitability over the years while prudently maintaining gearing at acceptable levels. This improvement in profitability reflects the net impact of the value we have been able to create by delivering value to and deriving value from our stakeholders. From investors’ perspective, this value creation is reflected in the returns the Bank has been able to generate for them in terms of earnings, dividends and appreciation in market price of shares. The market capitalisation of the Bank’s shares remained the highest among the Banking, Finance and Insurance institutions as at end 2019 while its shares ranked fourth among all listed companies in the Colombo Stock Exchange as at end 2019. Further details on the performance of the Bank’s shares are found in the section on ‘Investor Relations’ on pages 288 to 305.

While growing organically and in the domestic market, the Bank has taken steps to leverage inorganic and regional growth opportunities, primarily to geographically diversify its risk exposures and sources of revenue and thereby enhance its sustainability of operations and long-term value creation. These efforts have now made the Bank a well-established regional bank.

Financial capital			Statement of	
Indicator of value derived	Value derived as at January 1, 2019	Activities undertaken to create financial capital *	Value derived as at December 31, 2019	Growth in value created
Shareholders’ Funds	Rs. 118.4 Bn.	Grew the business volumes prudently through robust and efficient financial intermediation and maturity transformation, thereby strengthening the leadership position	Rs. 133.2 Bn.	12.5%
Subordinated liabilities	Rs. 38.0 Bn.		Rs. 38.0 Bn.	-
Deposits from customers	Rs. 983.0 Bn.		Rs. 1,053.3 Bn.	7.1%
Borrowings from banks/other borrowings	Rs. 50.1 Bn.		Rs. 51.5 Bn.	2.8%
Market share in total assets	11.1%		11.1%	-
Market capitalisation	Rs. 114.9 Bn.		Rs. 96.8 Bn.**	-15.8%
CSE ranking in market cap	3		4	
Price to Book Value	Highest among the BFI sector	Highest among the BFI Sector		
Manufactured capital				
Indicator of value derived	Value derived as at January 1, 2019	Activities undertaken to create manufactured capital *	Value derived as at December 31, 2019	Growth in value created
Branch network	285	• Maintained profitable mix of owned and rented buildings • Delivery channels • Conducted cost-efficient transport arrangements • Improved procurement services	287	0.7%
Number of ATMs	690		685	-0.7%
Number of CRM	160		200	25%
Bank on Wheels	2		3	50%
Investment in capital expenditure	Rs. 15.3 Bn.		Rs. 15.2 Bn	-0.7 bps
Intellectual capital				
Indicator of value derived	Value derived as at January 1, 2019	Activities undertaken to create intellectual capital *	Value derived as at December 31, 2019	Growth in value created
Brand equity	Rs. 29.3 Bn.	• Invested in centralisation • Improved processes and procedures • Developed new products and services • Expanded network, conducted research and development • Deepened technological expertise • Supported knowledge sharing initiatives	Rs. 37.3 Bn.	27.3%
Value of intangible assets	Rs. 0.9 Bn.		Rs. 1.1 Bn.	22.2%
Receipt of awards and accolades	Most awarded bank in Sri Lanka		Most awarded bank in Sri Lanka	
World’s Top 1000 Banks	Included in 2018		Included in 2019	
Fitch rating	AA (lka)		AA (lka)	
Employees serving for > 20 years	834		791	-5.2%

Source: Commercial Bank of Ceylon 2019: 37, 38



PART 2

5. Integrated thinking and the multi-capitals model

5.1 Overview

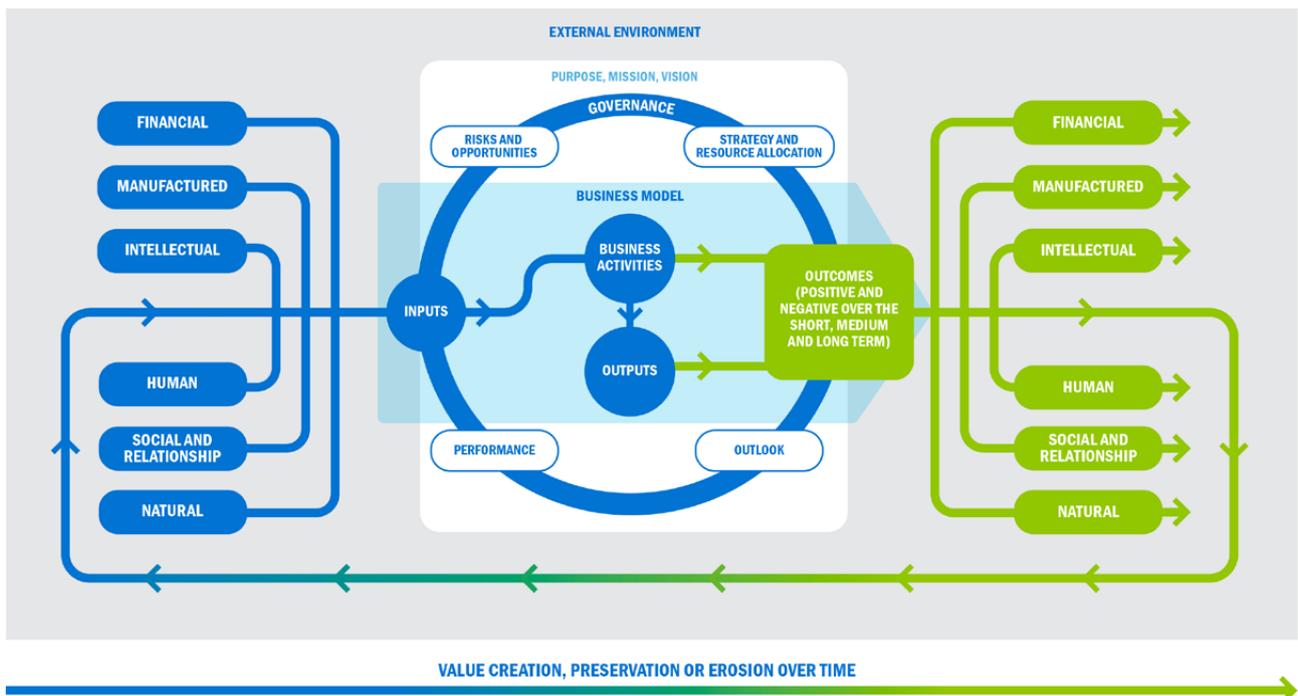
The <IR> Framework defines the capitals as ‘stocks of value that are increased, decreased or transformed through the activities and outputs of the organization’ (IIRC 2021a: section 2C). It identifies six capitals: financial, manufactured, intellectual, human, social and relationship, and natural (Figure 5.1).

The multi-capitals concept is intended to encourage management and boards to exercise stewardship over these different drivers of value, safeguarding the non-financial as well as the financial resources. The <IR> Framework also emphasises the fact that the capitals are interdependent – using one form of capital may increase

another. For example, when an organisation invests in an employee training programme, its financial capital is reduced while its human capital is increased through better-trained employees.

The guiding principle of ‘connectivity’ states that ‘an integrated report should show a holistic picture of the combination, interrelatedness, and dependencies between the factors that affect the organization’s ability to create value over time’ (IIRC 2021a: paragraph 3.6). This includes reporting on ‘the **dependencies, interdependencies and trade-offs** between the capitals, and how changes in their availability, quality and affordability affect the ability for the organization to create value’ (IIRC 2021a: paragraph 3.7).

FIGURE 5.1: Process through which value is created, preserved or eroded



Source: IIRC 2021a: 22

In addition, the guiding principle of **‘strategic focus and future orientation’** calls on organisations to articulate clearly *‘how the continued availability, quality and affordability of significant capitals contribute to the organization’s ability to achieve its strategic objectives in the future and create value’* (IIRC 2021: paragraph 3.5).

Understanding the often-complex interrelationships between the capitals, and how they affect strategy, is a core aspect of integrated thinking. The IIRC’s Integrated Thinking and Strategy Group states in its *Integrated Thinking & Strategy: State of Play Report* that *‘[t]o manage a business effectively in the 21st Century company boards need access to information and data from across the different dimensions of value – the six ‘capitals’...[...] but these drivers of value do not sit in isolation from one another; just as we live in a world of interconnected risks, there are trade-offs between the use of different capitals that need to be assessed and explained’* (IIRC 2019). This is what is meant by multi-capital thinking. As the report notes,

‘[a]pplying the multi-capital discipline also orients the risk management, internal audit, and company secretary functions towards this broader understanding of strategy, influencing the flow of information to the board, and improving management’s line of sight over key risks and opportunities’ (IIRC 2019).

5.2 Review findings on application of the multi-capitals model

Judging from the 14 reports reviewed, it seems that organisations – even those that have implemented the <IR> Framework for several years – are still struggling with the multi-capitals model. Often, because the terminology of the six capitals is not used (as is permitted by the <IR> Framework), and resources and relationships are not discussed in a systematic way throughout the report, reviewers were left to infer indirect links to the capitals. This has an impact on the reports’ perceived strategic focus and connectivity. Further, discussions about strategy are often not explicitly tied to organisations’ uses of and effects on capitals. This echoes findings from ACCA’s previous research that organisations struggle to apply the multi-capitals model in their reports (Chen and Perrin 2018).

Interesting inconsistencies emerge when the quality of reporting on different capitals is analysed in relation to each <IR> content element. Different capitals are often prioritised in different parts of the reports.

Figure 5.2 shows a heat map reflecting the average scores (out of 5) representing the quality of reporting on each of the capitals in different <IR> content elements. The areas where the assessed quality of reporting is good are coloured in green; the areas where the assessed quality of reporting is weak (where a relevant capital is discussed only superficially or not at all) are coloured in red. (For details about the scoring methodology used, refer to [Appendix 3](#)).

FIGURE 5.2: Heat map showing variations in emphasis on the capitals in different parts of the report

	Financial	Manufactured	Intellectual	Human	Social & relationship	Natural
External environment	3.36	2.14	2.79	2.75	3.29	3.92
Governance	2.79	1.46	2.43	3.08	2.57	2.77
Business model	3.79	2.85	3.57	3.38	3.79	3.21
Risks and opportunities	3.86	2.71	3.86	3.54	3.93	3.71
Resource allocation	3.36	2.93	3.79	3.17	3.71	3.23
Performance	4.43	2.85	3.00	3.50	4.00	3.86
Outlook	3.36	2.23	2.57	1.92	2.79	2.92

In most of the reports, discussions on financial capital appear to be prioritised over other capitals. By contrast, some reports – those that fulfil the function of sustainability reports – focus on natural and social and relationship capitals, almost to the exclusion of financial capital.

It is encouraging to see natural capital discussed well in the context of risks, opportunities, and performance, possibly because organisations are starting to implement the recommendations of the Task Force for Climate-related Financial Disclosures ('TCFD Recommendations') (TCFD 2017).

Strikingly, manufactured capital featured very lightly in most reports reviewed. This could suggest either that manufactured capital is often not considered to be strategically important, or that boards and preparers of reports may be less familiar with this capital than others. There may be a misconception that the scope of manufactured capital is limited to assets recognised on balance sheets, such as property, plant and equipment. We will look at an example featuring manufactured capital in Figure 5.3 below.

Two other capitals – intellectual and human – are often highlighted in the reports as crucial to implementation of the organisation's strategy. Surprisingly, however, discussions relating to these capitals seem to be notably weak in some content elements: especially those on governance and outlook.

Indeed, reporting on capitals is generally weak in relation to governance and outlook: two content elements where, as we have seen above, strategic focus is also relatively weak. Given the importance of these two content elements in good reporting, improvements are needed urgently here. Perhaps a closer alignment between strategy and discussions on governance and outlook will also facilitate more coherent and consistent reporting on the capitals.

In summary, the multi-capitals model needs to be embedded more fully in organisations so that:

- the story of value creation is consistent and coherent
- the model can be applied in management, not just in reporting, and
- it can form the basis on which the strategy is developed.

In the following sub-sections, we focus on three main areas of challenge in managing and reporting on the capitals:

- a. connecting the capitals to strategy
- b. applying the multi-capitals model to the organisation
- c. reflecting the multi-capitals model in reporting.

a. Connecting the capitals to strategy

Understanding how the achievement of strategic objectives is dependent on the availability, quality and affordability of essential capitals is a key part of integrated thinking. The IIRC's report *Integrated Thinking and Strategy: State of Play* notes that integrated thinking would lead to a 'new understanding of value, where value creation and destruction are considered throughout the value chain' (IIRC 2019: 6).



EXAMPLE – ABN AMRO

For example, one of ABN AMRO's three strategic pillars is to be 'a personal bank in the digital age for the resourceful and ambitious'. To achieve this ambition, the bank needs to differentiate itself in three ways:

- customer experience
- digitalisation
- clear and appropriate advice (ABN AMRO 2020).

This highlights the importance of three capitals: social and relationship capital (customer experience), intellectual capital (digitalisation), and human capital (clear and appropriate advice, requiring financial expertise in niche growth areas).

Although most reports tie strategy to capitals, the link is usually indirect and often made sporadically. The terminology of the capitals is sometimes not used directly, so reviewers have had to apply significant imagination to fit the organisation's narrative to the capitals. Where capitals are explicitly identified, they are often individually discussed but not linked to strategy.

It's worth pointing out that the <IR> Framework recognises that 'not all capitals are equally relevant or applicable to all organizations' (IIRC 2021a: paragraph 2.16). Different organisations may choose to categorise the capitals differently, applying the language that works best for them.



EXAMPLE – Munich Airport

Munich Airport identifies its key capitals as 'finances, employees, expertise, infrastructure, and society'. Noting that 'Munich Airport is investing in the most important resources with the goal of increasing value over the long term', it highlights 'qualified and motivated employees, high-performance and demand-driven infrastructure, and the successful continuation of the digital transformation' as its priorities for the coming years (Munich Airport 2020: 12).

Transnet, the South African state-owned railroad company, sets out strategies it is undertaking to create or sustain value for each of its key capitals, such as manufactured capital (Figure 5.3). Each of the capitals is then mapped to Transnet’s strategic levers, which address the organisation’s

material matters. For example, as shown in Figure 5.4, manufactured capital is linked (through the use of a red ‘manufactured capital’ icon) to asset utilisation. The discussion provided shows clearly that the organisation places a particular strategic focus on technology.

FIGURE 5.3: Transnet’s assessment of its manufactured capital

 Manufactured capital		
Means of generating value through physical infrastructure in the form of property, plant and equipment, which includes rail, port and pipeline infrastructure of the country		
Strategies to create or sustain value	Trade-offs	Value generated
<ul style="list-style-type: none"> Adhere to the capital maintenance programme and cultivate a culture of process fine-tuning and preservation of existing assets, while maximising asset utilisation Ensure integrated management of projects through the Integrated Capital Projects Programme Structure and maintain the ICT network for reliable connectivity Optimise Transnet’s property portfolio 	<ul style="list-style-type: none"> Investing in manufactured capital requires substantial investment and reduction of financial capital. There is a trade-off between using financial resources on maintenance spend or expansionary capital spend In recent years, spend was weighted towards expansionary capital. Going forward, to safeguard financial sustainability and improve operational efficiency, the investment balance will tilt towards infrastructure maintenance 	Capital investment: <ul style="list-style-type: none"> Spend on expansion amounted to R3,5 billion Spend on sustaining amounted to R15,1 billion See page 87 for more on performance and planning as it relates to infrastructure and physical assets

Source: Transnet 2020: 17

FIGURE 5.4: Transnet’s asset use

Strategic levers	Material matters	Influencing factors
Asset utilisation 	15. Optimise business continuity following business disruption (mainly Covid-19) 16. Enable access to network infrastructure – particularly with new remote work practices 17. Proactive use of Transnet assets and resources during and after the pandemic 18. Optimise data management, analytics and scenario planning	<ul style="list-style-type: none"> Business disruptions and operational shutdown due to Covid-19 Emergence of new operational and remote work patterns Maintenance backlog, derailments and the impact of low volume targets Crisis infrastructure support (e.g. ICT infrastructure and data management) Security risks to assets (theft, vandalism) Emerging risks and impacts of the 4th Industrial Revolution, e.g. changing skills sets, changing technologies (AI, advanced robotics, distributed manufacturing)

Source: Transnet 2020: 48

b. Applying the multi-capitals model to the organisation

How an organisation discusses the capitals is an important factor in the coherence of its report – in its story of value creation. But it is also a good indicator of its degree of integrated thinking.

Some organisations point out that they do apply multi-capitals thinking within their organisations, although this hasn't made its way into their external reporting. One interviewee said: 'the multi-capitals model is very much anchored in our thinking, but we don't apply the language in our report'.

For another organisation, although the multi-capitals mindset is well embedded, the language of the capitals is not used by management: 'the language of multi-capitals is only really present in the report'.

Some of the organisations that have embedded the multi-capitals concept most successfully have tailored

the language and concept of the multi-capitals model to fit with their organisation's specific circumstances and strategy.

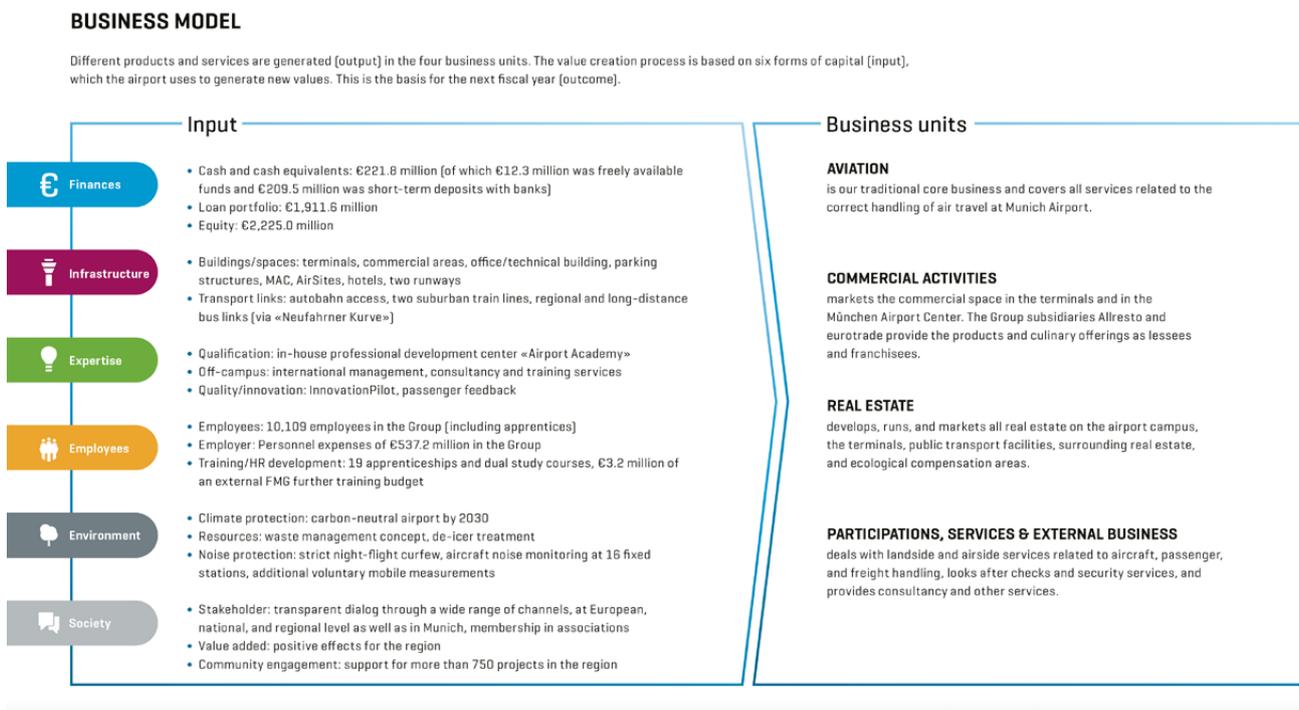
As pointed out above, it is not necessary to report on all six capitals.



BEST PRACTICE TIP: Focus on those capitals that are key to the organisation's strategy, and report consistently on them. Frame the capitals in terms that make sense to internal and external stakeholders.

For example, Munich Airport replaces 'intellectual capital' with 'expertise'. The organisation shows its inputs, outputs, and outcomes in relation to the six capitals. The outcomes on the capitals are then used as the basis for capital inputs for the following fiscal year, ensuring they are considered consistently from year to year (Figure 5.5).

FIGURE 5.5: The six capitals in Munich Airport's Integrated Report 2019



Source: Munich Airport 2020:16

c. Reflecting the multi-capitals model in reporting

The discussions of the multi-capitals model elicited a wide range of responses from interviewees.

In practice, some interviewees found that there was a gap between the ability to think in an integrated way internally, and the ability to report coherently externally:

‘It’s quite different, capturing interconnections internally, and reporting them externally. Integrated thinking is a way of understanding, it’s in our DNA and is part of our core culture. But reporting it in a way that is understandable is a bit of a struggle. Reporting on our place in a circular economy, for example: it’s complicated to make sure readers know which capitals and which shareholders we’re talking about, without creating a mess’.

Another interviewee suggested that categorising resources and relationships into capitals may not fully capture the complex and dynamic way in which these different drivers of value affect each other and the organisation’s strategy. ‘For us, integrated thinking is about flows of information, mindset, value. The “buckets” conversation detracts from integrated thinking, in a way. Integrated thinking is about issues, strategy, and business models – a pre-financial way that you use to communicate internally’.

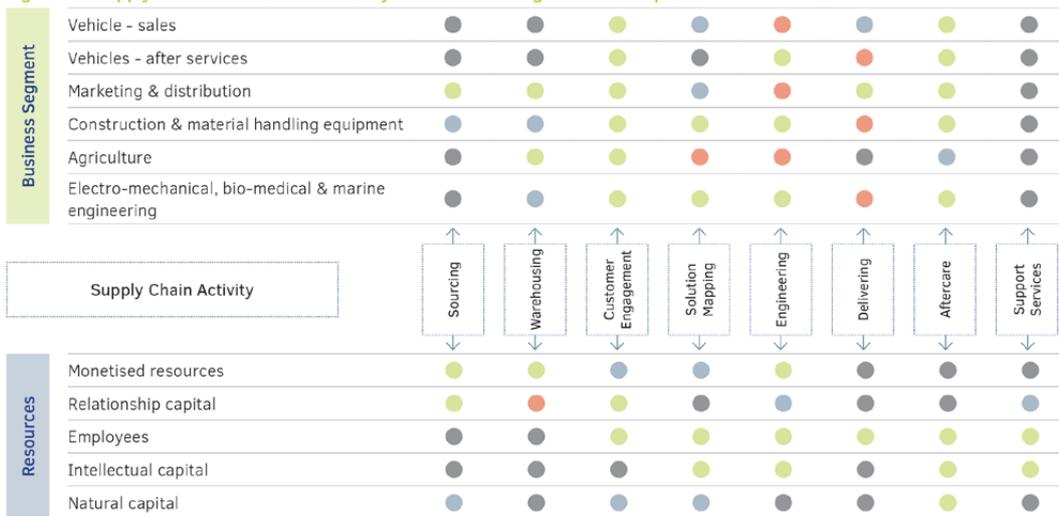
One of the best examples of reporting the multi-capitals model comes from DIMO’s 2019/20 annual report, which has an excellent focus on value creation throughout, based on a clearly well-embedded multi-capital management approach. One particularly good illustration of this is the ‘Basis for resource allocation’ section, which maps each of the organisation’s five capitals (excluding manufactured capital) to each supply chain activity that the group undertakes (DIMO 2020) (Figure 5.6).

FIGURE 5.6: DIMO’s resource allocation

BASIS FOR RESOURCE ALLOCATION

The value chain activities of the six business segments may differ based on the nature of products or services offered. The resources required by one value chain activity could, on the other hand, be different from the resource requirement of another. The following illustration depicts how critical each value chain activity is to each business segment and how critical each resource is for the respective value chain activity, thus establishing connectivity between each business segment and each resource. By establishing this connection, we allocate resources based on the requirement of each value chain activity and consequently, for each business segment.

Figure 05: Supply chain activities’ connectivity with business segments and capitals



Legend
 Criticality of Supply Chain Activity to Business Segment and Criticality of Resources to the Supply Chain Activity

- Extremely Critical
- Moderately Critical
- Required may not be Critical
- Moderately Required or Not Required

Value Creation Activity and Description

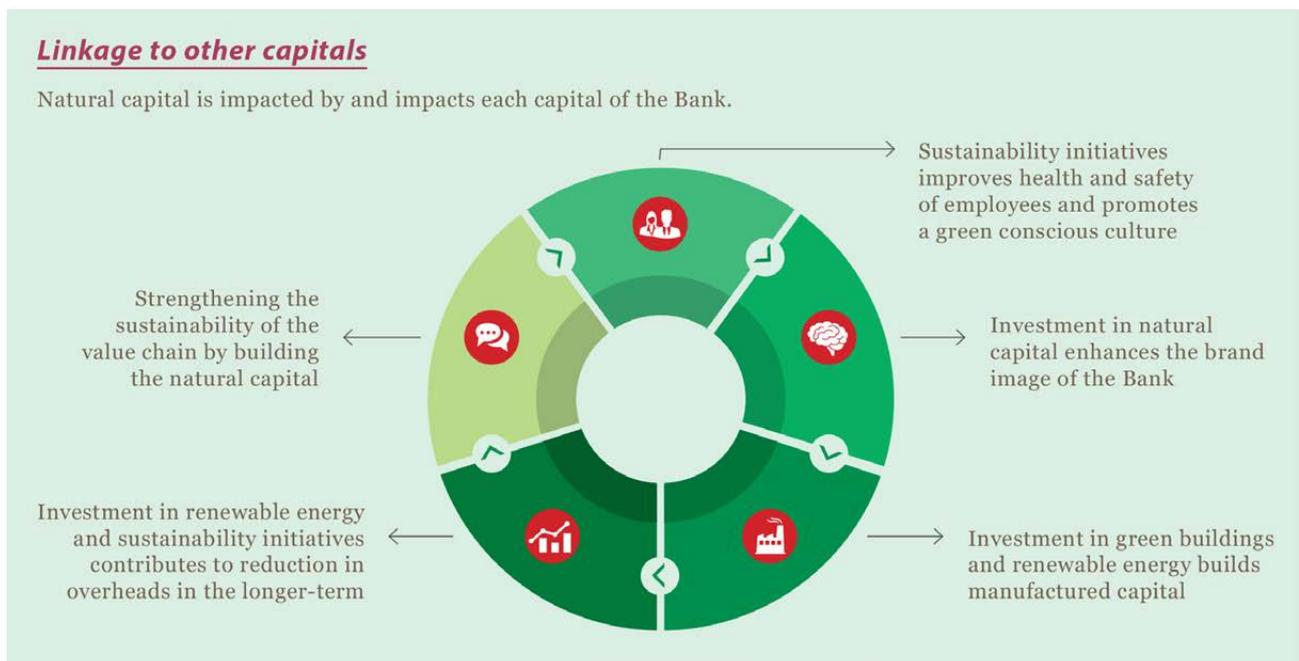
SOURCING	Evaluation of requirements, identification of suppliers and inward carriage
WAREHOUSING	Unloading and storing
CUSTOMER ENGAGEMENT	Marketing, identification of customer needs, prospecting and selling
SOLUTION MAPPING	Identification of a solution for the customer need
ENGINEERING	Planning, designing and execution of engineering work
DELIVERING	Physical delivery of goods, rendering services and delivery of solutions to the customers
AFTERCARE	Addressing customers’ post-delivery requirements
SUPPORT SERVICES	Provision of support services for supply chain activities

Source: DIMO 2020: 18

Another excellent example of connectivity between the capitals comes from Sri Lanka’s National Savings Bank (not in the <IR> Business Network). For each of the six capitals, the bank highlights how that capital affects, and is affected

by, the other capitals (Figure 5.7). Here, it shows the ways in which natural capital is connected in multiple ways to other capitals – something that might not appear so obvious for stakeholders of a bank.

FIGURE 5.7: Linkage between capitals in National Savings Bank Integrated Annual Report 2019



Source: National Savings Bank 2019: 164



PART 2

6. Integrated thinking and consistency with the financial statements

6.1 Overview

Here, we consider the consistency and correspondence between the narrative report and the financial statements.

In its section on defining the reporting boundary, the <IR> Framework states that information in the financial statements serves: *'as an anchor or point of reference to which the other information in an integrated report can be related'* (IIRC 2021a: paragraph 3.31). Given that an integrated report is about value creation, preservation or erosion, the information in the narrative section of the integrated report should be reflected in the financial statements, and vice versa.

As the IFRS Foundation sets up a Sustainability Standards Board to operate alongside the International Accounting Standards Board (IASB), and as momentum continues to gather on the implementation of the TCFD recommendations, with the aim of incorporating climate-related financial disclosures in mainstream annual reports, the consistency and connectivity between the 'front half' narrative report and the financial statements will come under increasing scrutiny.

More importantly, however, consistency between narrative reporting and financial reporting is also an indicator of integrated thinking: demonstrating whether a forward-looking approach to creating value is really reflected in the way the organisation performs against its declared strategy.

6.2 How was consistency with the financial statements assessed?

First, reviewers checked for glaring inconsistencies: where a material uncertainty about the organisation's ability to continue as a going concern has been identified by the directors or the auditors, but has not been included in the narrative section of the integrated report.

Second, reviewers focused on impairments recorded in the financial statements, since this allows a more nuanced assessment of consistency. For example, if plant and machinery are being impaired in the financial statements,

is there a corresponding discussion on the decreasing value of manufactured capital in the integrated report? And if goodwill on a recently acquired business is being impaired, are the implications for financial capital, social and relationship capital, and perhaps human capital, being discussed?

6.3 Review findings on consistency with the financial statements

There are no instances where going concern issues are not reflected in the narrative report. Nonetheless, more subtle inconsistencies seem to be prevalent. Out of the 14 reports in our sample, 11 record impairments in the financial statements – in 9 cases, the impairments are not mentioned in the narrative integrated report. In addition, other inconsistencies were observed, such as large litigation costs that are recorded in the financial statements but not discussed in the narrative section of the report.

This would seem to be a cause for concern. Some of the impairments may have been considered to be immaterial for the purposes of the integrated report. For example, small fair value changes in the measurement of financial instruments may have little impact on the organisation's ability to create value. By contrast, relatively large impairments to plant and machinery – for example, production plants and assets under construction – might well be important enough for their impact on the execution of the organisation's strategy to deserve a mention in the integrated report.

These inconsistencies between the financial statements and the integrated report also raise questions about the balance of reporting, and the completeness and reliability of integrated reports. Providers of finance and other stakeholders would want to know when and why an asset has significantly decreased in value. If positive investments in assets are included in the integrated report and impairments in assets are not, the integrated report does not serve its users' needs for balanced and transparent reporting.

The consistency problems between the financial statement and narrative reporting can flow the other way too: with information reported in the narrative report, that is not reflected in the financial statements. A report published by ACCA with the Adam Smith Business School, *Climate Change Risk-related Disclosures in Extractive Industries* (Baboukardos et al. 2021) highlights this by looking at one of the main risks facing business and the planet now.

BP (not in the <IR> Business Network) is an extractives company that does connect the dots successfully. In its 2020 annual report and Form 20-F, BP clearly explains its long-term price assumptions, which are used to inform its investment appraisal processes as well as the impairment of assets for financial reporting (BP plc 2021). These price assumptions take into considerations scenarios reflecting different paces of climate transition.



Climate Change Risk-related Disclosures in Extractive Industries

From a review of annual reports for 2019 from 60 listed companies in the extractives industry, the authors find that ‘companies do not sufficiently engage with disclosures about climate-related risks’ and provide ‘overly generic disclosures’, failing to discuss ‘how climate change risks affect their operations’ (Baboukardis et al. 2021: 6)

But while discussions about climate change risks are generic in the narrative management report, these risks feature even less in the financial statements.

- Only four companies in the sample provide performance indicators with integrated financial and climate change-related information.
- Only 10% of the sample companies (six) disclose that they incorporate climate change risks in their estimations of future cash flows, as part of their impairment testing calculations.
- None of the sample companies identify climate change risk as an important factor in determining their assets’ useful lives.

- Fewer than 30% of the sample companies consider climate change risks in the estimation and recognition of provisions and only 10% consider contingent liabilities.

The organisations covered in the extractives industry research are not in the <IR> Business Network. However, this lack of connectivity between the management narrative and the financial statements could, arguably, also point to a lack of integrated thinking. As ACCA’s report highlights, those organisations that do not consider the climate impacts in the round ‘risk being seen as unprepared because they have not integrated a key business risk’ (Baboukardos et al. 2021: 6).

FIGURE 6.1: Investment process price assumptions at BP

Reinventing bp – our investment process

Our investment process

Price assumptions

Revising long-term price assumptions

Our price assumptions are determined for use in our investment appraisal processes. They are also used to inform decisions about internal planning processes and the impairment testing of assets for financial reporting.

What the prices are

As part of our strategy development we reviewed our portfolio and capital development plans. That work was informed by bp’s views of the long-term price environment and its balanced investment criteria. Together these create a framework that seeks to ensure investments align with our strategy and add shareholder value.

Additionally, with the COVID-19 pandemic continuing throughout 2020, we see it having an enduring impact on the global economy, with demand for energy weaker than expected for a sustained period.

We attach increasing weight to the possibility that the aftermath of COVID-19 will accelerate the pace of transition to a lower carbon economy and energy system, as countries seek to ‘build back better’ so their economies are more resilient and sustainable.

As a result of all the above, we revised down our long-term price assumptions, and also extended them to 2050 to align with the horizon of our ambition. The next few years will likely see periods of market volatility as demand recovers against a backdrop of reduced levels of investment and we believe we are well positioned to benefit from any near-term increase in oil prices. The role of long-term price assumptions is to look through this near-term volatility and help ensure our future projects are resilient to the longer-term trends affecting our industry.

Our revised investment appraisal long-term price assumptions are now an average of around \$55/bbl for Brent★ and \$2.90 per mmBtu for Henry Hub★ gas (2020 \$ real), from 2021-2050. We consider these lower long-term price assumptions to be broadly in line with a range of transition paths consistent with the Paris goals. However, they do not correspond to any specific Paris-consistent scenario. We also revised our carbon prices for the period to 2050, and these now include a price of \$100/teCO₂ in 2030 (2020 \$ real).

Source: BP plc 2021: 28

Key investment appraisal assumptions

	2021	2025	2030	2040	2050
Brent oil (\$/bbl)	50	50	60	60	50
Henry Hub gas (\$/mmBtu)	3.00	3.00	3.00	3.00	2.75
RMM★	10	12	12	10	10

Carbon price (US\$/tCO₂e)

	2021	2025	2030	2040	2050
Central case real (2020)	50	50	100	200	250

Impairment testing

As a result of the revision of long-term price assumptions used for investment appraisal, we also revised the price assumptions we use in value in-use impairment testing. These two price sets are now aligned.

→ See pages 166-167 for more about oil and natural gas price assumptions used for impairment testing and relating sensitivity testing.

Investment process price assumptions

All investments are evaluated against our long-term price assumptions across a range of alternative prices (central, upper and lower) for oil, natural gas and refining margins. In addition, all investment cases above defined thresholds for anticipated annual greenhouse gas (GHG) emissions from operations must estimate those anticipated GHG emissions and include an associated carbon price into the investment economics.

All price assumptions place some weight on scenarios in which the transition to a low carbon energy system is sufficiently rapid to meet the goals of the Paris Agreement, as well as scenarios in which the transition is not, or may not be, sufficiently rapid. They also place some weight on a range of other factors, which can drive prices, and are not related to the goals of the Paris Agreement.

These price ranges do not link to specific scenarios or outcomes, but instead try to capture the range of different possibilities surrounding the future path of the global energy system. The nature of the uncertainty means that these price ranges inevitably reflect considerable judgement. The ranges are reviewed and updated on an annual basis as our understanding and judgement about the energy transition evolves.

In addition to consideration of a range of price assumptions, investment cases are asked to present scenarios covering a range of variables, related to the economics of the investment, such as cost, resource, policy changes and schedule, to highlight the robustness of investment cases to a range of other factors.

6.4 How team structure plays an important role in consistency

As we have seen, inconsistency between the financial statements and the narrative section of the integrated report may be an indication of a lack of integrated thinking.



BEST PRACTICE TIP: To ensure that value is measured, managed and reported, the finance function should work closely with other functions and management throughout the reporting cycle.

An integrated report, with consistency between both halves of the document, should be a natural outcome of the way the organisation works together.

One interviewee said that their organisation’s integrated reporting journey had led to better integrated thinking, and better communication between the sustainability department and operational departments. ‘Before, it used to be us knocking on their door for information. Now they knock on our door – so we even play an educational role. We don’t have a strict or established process to ensure that the front and back half of the report connect and are consistent, but the communication is constant’.

And another said that their Corporate Communications and Politics team leads the preparation and process of the report, but that ‘colleagues from finance and sustainability management are part of the editorial team. Teams from finance take care that the management report is consistent with the financial statements’. They also ‘make physical connections in the online report’ between the front and back end.

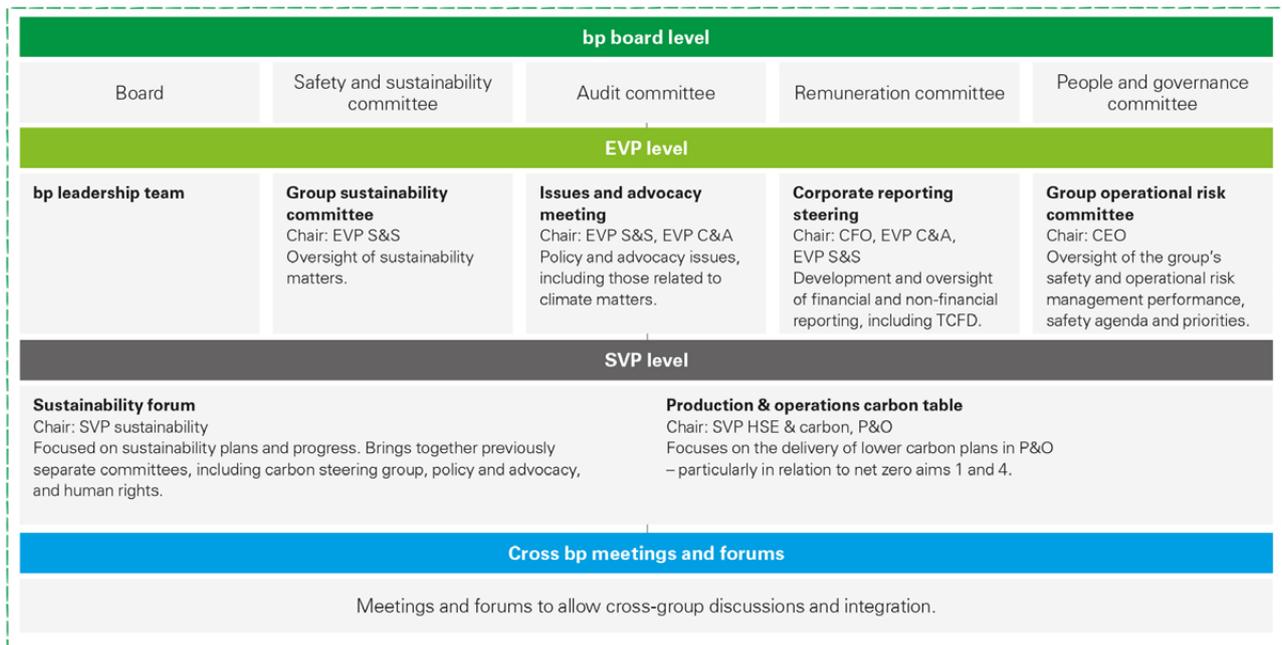
Another interviewee also described the report-writing process as crucial to achieving consistency. ‘The secret of a good report is fourfold: comprehending, conceptualisation, creativity, and communication. The conceptualisation we do together as a team so that everyone involved in the preparation of the integrated report is on the same page. Experts in each section do the writing, and the underlying driving force for everything is materiality’. The same things that are designated as material in the narrative section of the report should be made evidently material in the financial statements.

At BP, climate-related matters are assessed and managed by committees and teams through different levels of the organisation, starting from the board (Figure 6.2). The corporate reporting steering group maintains oversight over both financial and non-financial reporting.

FIGURE 6.2: BP’s approach to climate governance

Climate governance: management of climate-related matters

As at 1 January 2021



Source: BP plc 2021: 53



PART 3

7. Other observations

The reviews and interviews that we conducted uncovered some further observations. Although these may be only tangentially related to the communication of integrated thinking, they are nevertheless relevant in the light of the current significant developments in corporate reporting. Boards and reporting teams may want to monitor these areas, and consider their impacts on the organisation’s integrated reporting.

We will discuss the following areas in turn:

- the length of reports
- frameworks and audiences
- assurance of integrated reports
- COVID-19 disclosures and resilience.

7.1 The length of reports

The <IR> Framework states that an integrated report ‘should be concise’ (IIRC 2021a: 3.36). It should include sufficient context to understand the organisation’s strategy, governance, performance, and prospects without being burdened with ‘less relevant information’ (IIRC 2021a: 3.37). But for the principle of conciseness to be effectively addressed, the <IR> Framework notes that conciseness must always be balanced with the principles of completeness and comparability.

Conciseness itself may be an indicator of integrated thinking: having a clear focus on strategy and good grasp of key value drivers helps organisations to report in a more concise way. A robust materiality determination process, enabled by integrated thinking, should lead to the exclusion of irrelevant information, or lengthy exposition thereof.

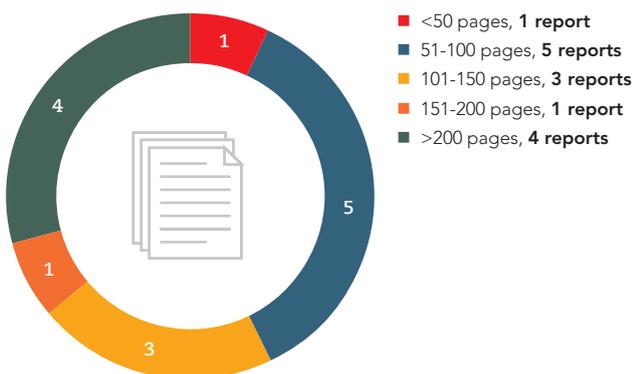
While six reports (43%) were under 100 pages, four of the reports (29%) were very long (over 200 pages) (Figure 7.1). Three of the four reports were from European Union (EU) companies (the fourth report was a dual-language report, which effectively doubled its length). The application of the EU’s Non-financial Reporting Directive (NFRD), effective in 2018, may also have widened the scope of activities and information on which EU organisations must report.

Developments in Europe

A multi-stakeholder Project Task Force appointed by the Corporate Reporting Lab, part of the European Financial Reporting Advisory Group (EFRAG), conducted a review that concluded that companies within scope of the NFRD may be struggling with uncertainty and complexity when deciding which non-financial information to report, and where to report it.

Following the recommendations of the Project Task Force, the European Commission unveiled a new Corporate Sustainability Reporting Directive – revising the current NFRD, the Audit Directive and Regulation and the Transparency Directive, in April 2021. This should help to make reporting by listed companies in Europe more comparable, but global convergence of standards will be essential if complexity and the reporting burden are to be alleviated for report preparers.

FIGURE 7.1: Number of pages contained in the reports reviewed, excluding financial statements



Some of the organisations assessed in this review are also on a journey to implement initiatives such as the TCFD’s reporting recommendations of and the measurement of their sustainable development impacts against the United Nations Sustainable Development Goals (SDGs). Consequently, reporting teams may be focusing less closely on conciseness at present. It’s worth noting, however, that although 9 out of 14 companies state that they are adopting the TCFD recommendations, three publish their detailed TCFD disclosures in a separate report from the integrated report.

Regulatory requirements aside, making reports concise certainly demands dedicated effort. One participating organisation commented that:

‘Our board will only accept reports of up to 112 pages, and that’s useful because it helps us keep it concise’.

7.2 Frameworks and audiences

Using multiple frameworks – the situation, difficulties, and opportunities

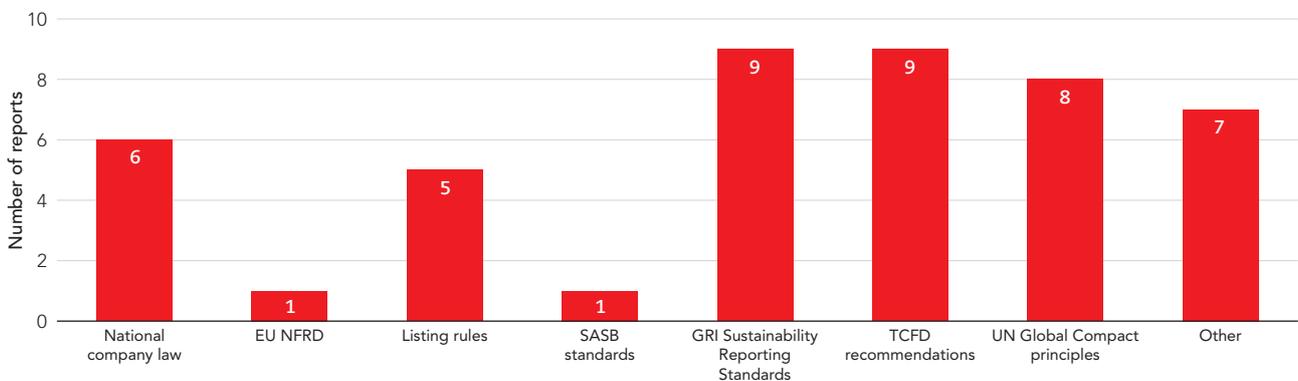
The proliferation of new frameworks and the ever-growing number of recommendations and standards with which companies must comply, as well as important new areas of reporting, such as climate-related disclosure, is making preparers’ jobs very difficult. In order to report usefully and well, they must not only choose what they judge is the best way of ‘telling their story’ but also make sure that the report is coherent, concise, and compliant with this growing number of reporting requirements.

The market is desperate for a form of harmonisation within the reporting landscape, but this is not just a matter of aligning frameworks and standards. As the CDP, CDSB, GRI, IIRC, and SASB) stated in their Corporate Reporting Dialogue paper on framework alignment, ‘[e]ach organisation has its own governance and due process in place to fulfil its purpose [–] serving its stakeholders’ needs’ (Corporate Reporting Dialogue 2019). It is these needs, which differ between organisations’ stakeholders, that partly drive the diversity of frameworks and standards.

But harmonisation could be in sight. The IFRS Foundation has announced the launch of the new Sustainability Standards Board (SSB), which would operate alongside the international financial reporting standard-setter, the IASB. The work of the future SSB will build on existing standards and frameworks, and the IIRC and SASB – as the newly merged Value Reporting Foundation – will play an important part in laying the groundwork for future international standards (IFRS 2021). At the same time, the EU is progressing apace to develop EU sustainability reporting standards, to complement the implementation of the Corporate Sustainability Reporting Directive.

One interviewee said that they needed harmonisation. ‘We think it’s going to happen. We want it to happen. Right now, we are struggling with different frameworks, and as non-financial reporting increases in importance, more needs to be covered. There is too much to comply with, too much overlapping and interlocking’. They added that ‘we need to prepare different reports for different entities, in different indexes – it’s a complete universe. We have high expectations for the IIRC / SASB merger but our ideal end point is one standard framework,

FIGURE 7.2: Other reporting frameworks to which reports claim compliance, in addition to the <IR> Framework



* The number of companies stating that they use EU NFRD may appear low because companies tend to refer to national member state NFR laws rather than the EU’s Directive itself. Many companies also comply with EU NFRD requirements by publishing a separate non-financial statement, which sits outside the annual integrated report.

** ‘Other’ included national reporting requirements, national corporate governance reporting standards, various non-mandatory guidelines, European Securities and Markets Authority (ESMA) guidelines, and the SDG framework.

*** Our interviews indicate that several organisations within the sample have started to apply the SASB standards in their 2020/2021 integrated reports.

accepted by all authorities, with certain specifics that you can use or lose depending on your context’.

Despite the multiplicity of frameworks, some report preparers argue that there are important areas not covered by any framework. One interviewee highlighted the problem: ‘We issue an integrated report, and apply the SASB standard for the sector, but it only drives us to report traditional ESG information – not sustainability’. But these approaches did not help the business to communicate sustainability satisfactorily, particularly the ‘planetary boundaries’ or ‘system boundaries’ aspects of calculating impact.

‘Sustainability/ESG reporting [as it is now] can actually make the path to zero negative impact longer’, said the interviewee, indicating that if companies did not understand the system boundary conditions, then they could not accurately report and manage impact. ‘We have to clear up this ESG / CSR / sustainability language issue. They are used interchangeably, but are not the same. CSR is usually programs or philanthropic activities and is often not integrated into the business model or strategy. ESG is a broad palette of information related to environmental, social and governance, which per default does not equal sustainability – this information has to be sorted and then be correctly ‘put together’ to actually address sustainability. Sustainability is systemic thinking – the ultimate understanding of risk to and from the business (negative impacts) on society and the planet. The existing frameworks and standards are not irrelevant, they’re just incomplete. The Future-Fit Business Benchmark, an open-source management tool, provides

companies with clear actionable guidance on what is required to become sustainable and not just less bad. This must be part of the frameworks and standards if meaningful progress is to be made.’

In contrast, Sri Lanka-based People’s Insurance PLC (not in the <IR> Business Network) believe they need to go beyond existing standards and frameworks in order to make reporting more relevant to the business. The company notes in its 2019 annual report, which is prepared in accordance with the <IR> Framework and GRI standards:

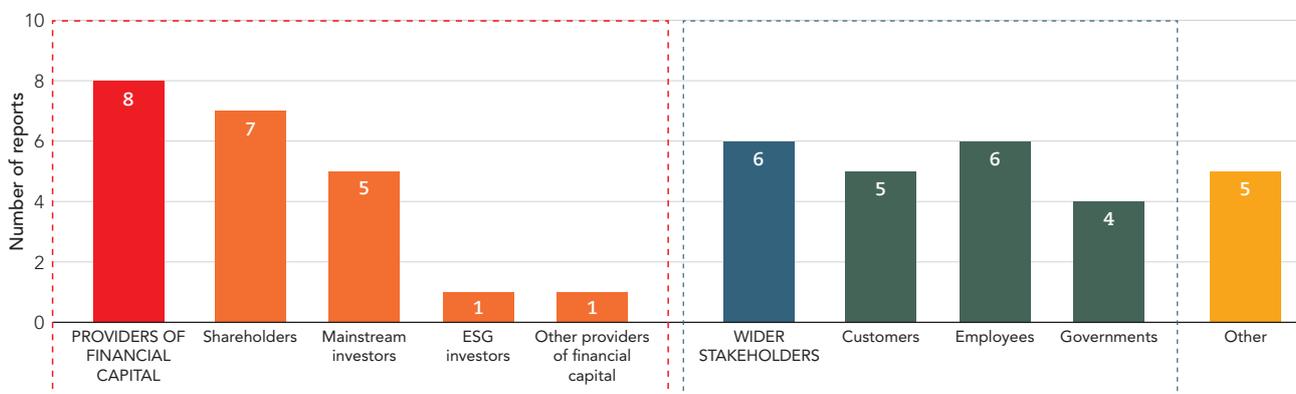
‘In improving the relevance and meaningfulness of our Report, this year we have broadened the scope of the material topics looking beyond the topics prescribed by the GRI framework to include factors that are more specific to our business, industry landscape and supply chain’ (People’s Insurance PLC 2020: 49)

Audiences of reports

Of the 14 2019/2020 reports, just over half (eight) explicitly identified their intended audiences. The graph below shows the number of reports that identified each stakeholder group as the intended audience.

As seen below, the <IR> Framework defines the primary audience of an integrated report as providers of financial capital (IIRC 2021a). Nonetheless, it also recognises that the integrated report ‘benefits all stakeholders interested in an organization’s ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers’ (IIRC 2021a: section 1C).

FIGURE 7.3: Intended audience where they are explicitly identified in the reports



* ‘Other’ included, for example, commercial partners and suppliers.

Six out of 14 reports identified stakeholders other than investors as the intended audience. Among the six that did not explicitly identify the audience, some seemed to imply throughout that the report was intended for wider stakeholders. This would seem to correspond with the way some companies are positioning the integrated report as their sustainability reporting document.

One interviewee commented that their company's focus on audience was connected to its purpose.

'The economic success, social commitment, and protection of the environment are not separable. With a holistic view, readers understand how we create value. And by presenting economic, ecological, and social matters, we serve the vast majority of audiences anyway. Our stakeholder base is extremely diverse, and integrated reporting means that every group finds something of interest in the report. We focus strongly on the reader and try to make the report easy to access'.

7.3 Assurance of integrated reports

Significant changes are on the horizon for the assurance of integrated reports. In April 2021, the International Auditing and Assurance Standards Board (IAASB) updated its non-mandatory guidance on the application of ISAE 3000, the standard for assuring non-financial information, including integrated reports. This was preceded, in February 2021, by the launch of a new initiative, by the IIRC and the International Federation of Accountants (IFAC), on the assurance of integrated reports.

The IIRC/ IFAC joint paper (*Accelerating Integrated Reporting Assurance in the Public Interest*) sets out the challenges to and benefits of assuring integrated reports (IFAC and IIRC 2020). Given that many of the business-critical metrics are the self-determined result of the integrated thinking process (strategic KPIs set by the

board, for example, rather than financial values whose measurement is determined by accounting standards), this places particular demands on the integrated report assurance practitioner. The practitioner needs to consider a wider scope of business activities and exercise a broader range of business knowledge, skills and experience.

At present, limited assurance is more common than reasonable assurance over the integrated report, being easier to obtain. Reasonable assurance provides the same level of assurance as that given in a statutory audit of the financial statements. Limited assurance is a lower level of assurance, which concludes only that nothing has come to the practitioner's attention to indicate that the report is materially misstated. There is an ambition to go beyond this: IFAC and the IIRC have stated that '[i]deally, the end game is...reasonable assurance of integrated reports' (IFAC and IIRC 2020).

External assurance is not the only means of enhancing trust in information included in the integrated report. One interviewee commented that companies should also focus on robust internal assurance:

'Internal assurance and data quality is just as important – really important. If you do not ensure data quality, the integrated reporting becomes less reliable, which is a business risk leading to disclosures being challenged in terms of providing the foundation for decision-making'.

At the start of its *Integrated Report 2020*, Transnet, a South African state-owned transport organisation, sets out the assurance that it has obtained over its integrated reporting process, as part of its Integrated Assurance Plan (Figure 7.4). Internal, as well as external sources of assurance are cited, and the frameworks against which assurance has been provided are also identified.

FIGURE 7.4: Transnet’s integrated approach to assurance

Integrated approach to assurance



Transnet’s Integrated Assurance Plan has been applied to the process of preparing the integrated report to provide an independent perspective on the transparency and accountability of our disclosures. The Integrated Assurance Plan encompasses the assurance provided by the Transnet Board, its committees and management, internal specialists, internal audit, external audit, external advisers and service providers. The Board serves as the last line of defence.

Table 1: Integrated Reporting Assurance Framework

Content	Assurance providers	Outcome	Framework/Standard
Integrated Report (in full)	<ul style="list-style-type: none"> • Transnet Board and Board committees oversight • Auditor General of South Africa (AGSA) oversight • Department of Public Enterprises (DPE) oversight • Parliamentary oversight 	<ul style="list-style-type: none"> • Review and commentary • Approval 	<ul style="list-style-type: none"> • International Integrated Reporting <IR> Framework • Audit Committee’s Governance Terms of Reference for the report (Annexure A) • Corporate Governance Committee • King IV • PFMA • Companies Act
Annual Financial Statements (consolidated and summary)	<ul style="list-style-type: none"> • Transnet Board and Board committees oversight • Auditor General of South Africa (AGSA) oversight • DPE oversight • Parliamentary oversight • SizweNtsalubaGobodo Grant Thornton Inc. 	<ul style="list-style-type: none"> • Qualified audit opinion due to external audit not being able to satisfy themselves that the reported irregular expenditure in note 39 in the Annual Financial Statement is complete and accurate • Review and commentary • Approval 	<ul style="list-style-type: none"> • Public Finance Management Act (PFMA) • Companies Act of South Africa, No 71 of 2008 (Companies Act) • International Financial Reporting Standards (IFRS)
Selected information relating to Transnet’s Sustainable Developmental Outcomes (SDOs) contained in this report	<ul style="list-style-type: none"> • Transnet Board and Board committees oversight • Auditor General of South Africa (AGSA) oversight • DPE oversight • Parliamentary oversight • SizweNtsalubaGobodo Grant Thornton Inc. 	<ul style="list-style-type: none"> • Review and commentary • Reasonable assurance opinion, and limited assurance conclusion • Selected Sustainability information has been prepared in all material respects in accordance with Transnet’s reporting criteria • Approval 	<ul style="list-style-type: none"> • Transnet’s sustainability reporting criteria
Review of internal controls and risk management	<ul style="list-style-type: none"> • Transnet Board and Board committees oversight • Transnet Internal Audit 	<ul style="list-style-type: none"> • Review and commentary • Assess and address residual risks resulting from the Covid-19 context • Strengthen risk governance policies and protocols • Internal audit outcome: risk management requires improvement • Approval 	<ul style="list-style-type: none"> • Committee of Sponsoring Organisations (COSO) • PFMA • ISO standards relating to safety and environment, including ISO 9000 and ISO 14000 • Legislative requirements • Enterprise risk management ISO 31000 standard

Source: Transnet 2020: 4

7.4 COVID-19 disclosures and resilience

It would not be possible to publish this report without some reference to COVID-19 and its impact on integrated reporting.

Ten of the reports reviewed have December 2019 year ends, one has a January 2020 year end, two have March 2020 year ends, and one a June 2020 year end. The depth of discussion of the impacts of COVID-19 in annual reports for 2019/20 naturally differed depending on the date at which the reports were signed off. Those reports signed off earlier in 2020 discussed COVID-19 at a higher level in the narrative section of the report, and did not generally quantify its impacts. Those reports that were published well after the pandemic took hold tended to provide more specific information, and in some cases report with quantitative detail.

The pandemic has clearly caused organisations to reassess their risks, as new or previously lower-profile risks have come to the fore. In their 2019/20 integrated reports, most organisations discuss its impact on their outlook, and many do so in relation to the external environment and key risk and opportunities (Figure 7.5).

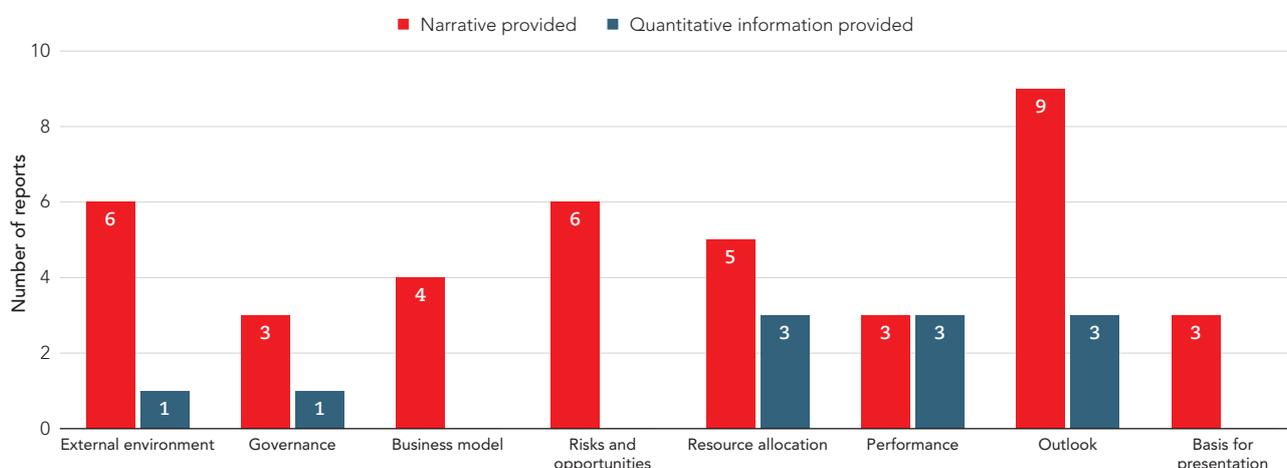
It will be interesting to see the disclosures that come through in the 2020/21 reports, which will reflect more concrete data about COVID-19's impacts in 2020. Given the level of uncertainty throughout the last year, including differences in state responses to the pandemic, and continuing developments in those responses,

reporting on the expected impact of the pandemic is a difficult task. But it is an important one since it will probably touch every area of each business in some way. Integrated reports with transparent and sound analysis of COVID-19 impacts will convey business resilience to investors and other stakeholders.

Nedbank Group took advantage of the South African government's extension of the annual report filing deadline and decided to use its 2019 integrated report in a refreshingly forward-looking way to include more information on top risks for the coming year (Figure 7.6). It has updated its risk assessment following the start of the COVID-19 crisis, and identifies 12 top risks which, as it points out, are 'formulated to ensure Nedbank remains resilient during and after the market crisis/COVID-19.' People and operational risks and liquidity have emerged at the top of the agenda. Climate risks have also been introduced for the first time, as the Group starts to apply the TCFD's recommendations.

A number of interviewees discussed how integrated reporting had made their organisations more resilient as a result of the integrated thinking process that sits behind it. One shared that its consultation process with stakeholders had revealed a new and greater interest in risks that had previously been seen as minor compliance issues, such as health and safety. And that investors saw this as not just an emerging threat, but also as an area of differentiation and opportunity. One said that their integrated report had already considered the probable impacts of a pandemic and this had helped shape the organisation's response.

FIGURE 7.5: Number of reports that disclosed the effects of COVID-19, by content element



Another interviewee said that COVID-19 had caused them to reconsider their broader reporting approach: ‘Our reporting needs to be more fluid, more snappy, and online. We don’t have all the answers but we have an ambition to move our reporting into a more dynamic space, where we update information more quickly’. This interviewee acknowledged that since this information would sit outside the annual report, there would be less governance over it, but implied that the speed of publication, and the ability to use different formats to communicate better with stakeholders other than investors, would be a positive development.

ACCA’s report, *Observed Effects of COVID-19 on Corporate Reporting – Preliminary Survey* concludes that ‘in difficult and unprecedented times, information supplementing the financial statements will be more important than ever’ (ACCA 2020). It emphasises that explanation of strategic responses, performance and prospects will be especially important: ‘Maximum transparency to shareholders and markets is called for’. Up-to-date and forward-looking information will be key.

FIGURE 7.6: Nedbank Group’s discussion of its top risks

MANAGING RISK STRATEGICALLY

Nedbank has updated the 2020–2022 Risk Management Plan to engrave the evolution of risk management, compliance, internal audit and regulation strategically across Nedbank, and ensure Nedbank remains ‘fit-for-purpose’ successfully.

The 2020 Risk Management Plan was approved by the board as part of the Nedbank Group 2020–2022 Business Plan. The group has a sound risk culture, an appropriate and enabling risk appetite, as well as a robust Enterprisewide Risk Management Framework (ERMF), which has served Nedbank well during the past volatile, uncertain, complex and ambiguous (VUCA) decade.

NEDBANK’S TOP 12 RISKS

Reflection on top 10 risks for 2019

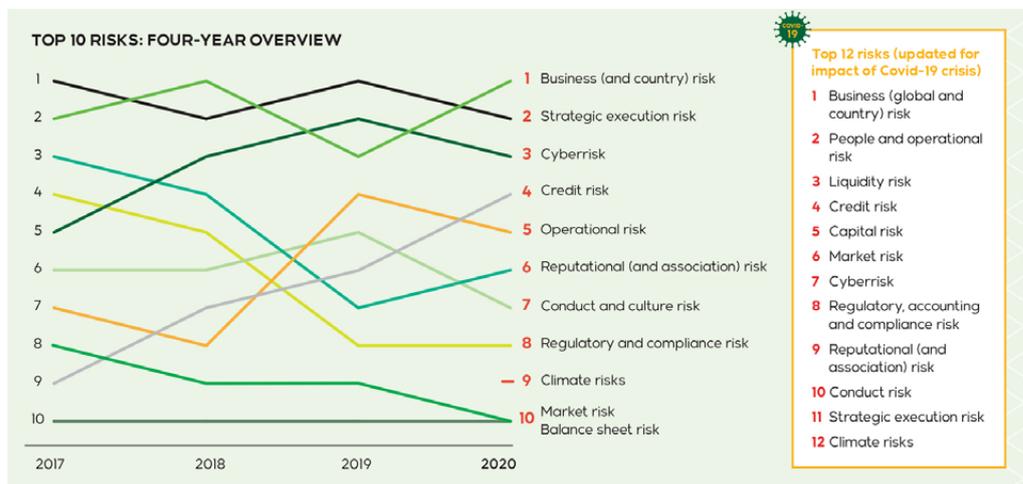
The top 10 risks have been successfully managed in all material respects despite the difficult external macroeconomic and political environments, and radically increased risk and regulatory universes. The overall state of Nedbank’s risk, internal control, regulatory and balance sheet profiles and environments, and risk management position across the enterprise has remained in good shape.

Top 12 risks for 2020

In this unprecedented environment, Nedbank Group has pivoted its strategy by increasing focus on key risks to concentrate efforts on the health and safety of staff and clients, and capital and liquidity focus to prevent systemic risk. In parallel, the group has been assessing the impact of the market crisis/Covid-19 on activities that are driving Nedbank’s strategy. The outcome of the assessment is evident in Nedbank’s 2020 top 12 risks as outlined in the table below. The top 12 risks are formulated to ensure Nedbank remains resilient during and after the market crisis/Covid-19.

As a purpose-led organisation Nedbank has done sound climate-related work over the past three decades. In recent times the focus on climate-related risks has been increasing globally and the exponential elevation of risks relating to climate change is why Nedbank adjusted the group’s risk structures to incorporate climate risks in our top 12 risks. Climate risks are newly evolved (but less mature) C-suite risks.

Climate change is one of the most defining issues of this century, alongside poverty, requiring urgent and unprecedented action. Nedbank has taken a proactive approach as being a purpose-led bank to ensure that climate-related risk is managed enterprisewide and spans across several clusters and functions within Nedbank. Nedbank established the Climate Task Group and the Climate Risk Leadership Group (CRLG) with representation across the enterprise and is in the process of developing a Climate-related Risk Framework in alignment with best global practice, more specifically, Task Force on Climate-related Financial Disclosure (TCFD) recommendations.



Source: Nedbank Group 2020: 62.



PART 3

8. Conclusion

8.1 The integrated thinking and reporting journey

Integrated thinking and integrated reporting form an inseparable process. If companies get the thinking part right, then understanding how to report succinctly on more complicated areas, such as trade-offs between capitals, or the identification of material issues, should follow naturally.

Clearly, the integrated thinking and reporting process have helped the organisations in our sample to remain resilient through the acute challenge of a global pandemic. But most are still some way from fully embedding integrated thinking, and many find it difficult to reflect that thinking in their reports. In the reports, evidence of that difficulty takes the form of a lack of strategic focus, unbalanced reporting on the capitals, and inconsistencies between narrative portions of the report and the financial statements.

As covered in the ACCA report *Insights into Integrated Reporting 3.0: The Drive for Authenticity* (Chen and Perrin 2019), the challenges in summarising succinctly how an organisation creates value are not new, and organisations continue to grapple with this – as can be seen in the reporting on business models. Specific concerns about competitive information, or relating to assurance challenges, may have driven a lower quality of reporting on outlook in the sample reviewed.

Perhaps more concerning is the quality of reporting on governance we observed in the sample reviewed. There is a lack of strategic focus in governance reporting, weak connectivity with the rest of the integrated report and insufficient discussion of the capitals that are identified elsewhere as being strategically important. This may point to a lack of awareness of the crucial role that the board and executive management plays in driving integrated thinking, and sustainable value-creation, within the organisation.

But there are solutions. In parallel with integrated reporting, organisations need to accelerate their integrated thinking journeys, with leadership from the

top. This involves carefully defining the organisation's purpose, and understanding how, and for whom, value is being created. From there, robust materiality assessments – involving teams from across, and stakeholders external to, the organisation – can serve not only to identify what needs to be reported, but importantly, what value drivers need to be actively managed. This process of collaboration strengthens integrated thinking between teams. That, in itself, can be the source of benefits for years to come.

8.2 Opportunities for the future

Corporate reporting seems to have reached a tipping point. Multiple interviewees said that they were 'swamped' by the number of frameworks and requirements they had to satisfy. But they were also excited by attempts at harmonisation and consolidation (such as that between the IIRC and SASB). And they were excited, too, by the growing strength of new means of measurement, such as the Future Fit Business Benchmark, and proposed developments, such as an SSB run by the IFRS Foundation, that may offer more comprehensive or powerful ways of putting sustainability at the heart of reporting performance, and therefore at the heart of capitalism.

The attempts by integrated reporters to accord, as one interviewee said, 'due respect to all forms of capital' is increasingly backed by potential investors and public opinion. A previously niche issue is becoming ever more mainstream. For example, the increasing attention paid to, and unaddressed concerns about, the legal and ethical treatment of labour was behind the reluctance of some large funds to participate in the recent Deliveroo initial public offering (IPO) (Mooney and Bradshaw, 2021). This is an IPO that only a few years ago would have appealed to many, if not all, large institutional funds.

Institutional and retail investors are increasingly gathering behind the view that the multi-capitals approach is a critical factor in sustainable value creation, and it is highly likely that their demands for information about this will bring many changes to the integrated report in coming years. We look forward to it.

8.3 Top 10 practice tips

Integrated thinking

1. Collaborate, from the start: Plan the report with a cross-functional team, with teams from across the organisation working together.



3. Materiality process as a management tool: Use the materiality process to focus on risks and opportunities that have the most impact on value creation, and develop strategy accordingly.



2. Tone from the top: Active steering and oversight from a forward-looking board that is willing to learn.



4. Stakeholders and purpose: Understand how each key stakeholder group enables your organisation to fulfil its purpose, and consider their legitimate needs and interests when developing strategy.



Communicating strategy

5. Focus on strategic goals: Identify a core set of long-term strategic objectives, develop rolling targets, and report on these consistently from year to year.



6. Connect strategies: Understand and articulate how topic-specific strategies and operational plans work together to support core strategic goals.



7. Break out of the template: Think consciously about how your unique business model supports the achievement of strategic goals, and make this link clear in the report.



Applying the multi-capitals model

8. Adapt the model: Know which capitals and components of capitals really matter to the achievement of your organisation's strategy, and report on them in a way that internal and external stakeholders can understand.



9. Show why you care: Clearly explain the value of different capitals to your organisation.



Ensuring consistency with financial reporting

10. Work at the connections: Put in place active mechanisms to ensure that the integrated report is consistent with the financial statements – in the numbers, the events and transactions reflected, and in its underlying assumptions.



Appendix 1

Links to featured best-practice reports

<IR> Business Network

ABN AMRO Integrated Report 2020



Diesel and Motor Engineering PLC (DIMO)
Annual Report 2019/20



Munich Airport Integrated Report 2019



Transnet Integrated Report 2020



Unilever Annual Report and Accounts
Highlights 2019

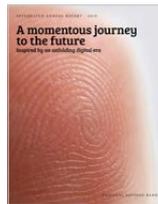


Other featured reports

Commercial Bank of Ceylon PLC Annual Report 2019



National Savings Bank Integrated Annual Report 2019



Nedbank Group Integrated Report 2019



Pick N Pay Integrated Annual Report 2019



BP Annual Report and Form 20-F 2020



Appendix 2

List of <IR> Business Network organisations covered in the reviews and interviews

Our thanks go to all these organisations, and especially to representatives from those organisations who took time out of their busy schedules to share their insights and experiences with us.

The organisations interviewed for this report are indicated with an asterisk (*).

Assicurazioni Generali S.p.A.

BASF

Diesel and Motor Engineering Plc*

EnBW Energie Baden-Württemberg AG

Flughafen Muenchen Group (Munich Airport)*

Industria de Diseño Textil S.A. (Inditex)*

Jones Lang LaSalle

National Australia Bank Limited

Novo Nordisk*

PTT Global Chemical Public Company

Transnet

Snam S.p.A.

UniCredit S.p.A.

Unilever Plc

Appendix 3

Methodology and detailed results

For the last five years, ACCA has collaborated with the IIRC to perform a review of the corporate reports of many of the businesses participating in the IIRC's <IR> Business Network. Our sample this year comprised 14 organisations that have taken part in the <IR> Report Critique project for over three years. Our sample does not cover the whole Business Network, nor all the organisations participating in the <IR> Report Critique project. Participating organisations receive welcome and confidential feedback on their integrated reports.

For each organisation, we reviewed one primary document that they consider to be core to their integrated reporting package (even though it may not be called an 'integrated report'). We did not consider other reports, such as sustainability reports, corporate governance reports, climate impact reports, or regulatory reports.

For each of the 14 corporate reports reviewed, <IR> Specialist Panel reviewers rated the quality of reporting against selected aspects of the <IR> Framework. Ratings were on a scale of 1 to 5, where 1 = does not satisfy the <IR> Framework guidance at all, and 5 = fully satisfies the guidance.

The <IR> Specialist Panel included Prof. Marvin Wee of Australian National University, Michael Wang, Michael Bray and Prof. Peter Carey of the Deakin Centre for Integrated Reporting (Australia), Dr George Nel of Stellenbosch University (South Africa), and expert reviewers and moderators from the ACCA. Our sincere thanks go to the reviewers for their important contribution to this project.

Some organisations in the sample have not yet reported externally using the <IR> Framework's principles but may be somewhat aligned with it on the basis of their current practices and regulatory requirements. The individual reviews are used to inform companies on progress to date and opportunities for improvement.

It should be noted that the ratings given are subjective in nature and, given this, the average ratings may be affected by the different composition of the <IR> Specialist Panel from year to year. Nonetheless, the relative rank gives an indication of the evolution of strengths and weaknesses in reporting.

Table 1 provides the average ratings across the sample of 14 reports for selected guiding principles and content elements from the International <IR> Framework. Alongside the 2020 average ratings, the relative ranks (where applicable) for the 2020, 2019, 2018, 2017 and 2016 Report Critique Projects are also provided, with '1' indicating the highest-scoring area. The results from the previous two years are shown in separate columns.

Unlike previous years' reviews, which covered all aspects of the <IR> Framework, the 2020 reviews for experienced integrated reporters focused on selected guiding principles and content elements that were considered particularly relevant to integrated thinking, namely: strategic focus and future orientation, connectivity, and risks and opportunities.

In previous years, reviewers assessed the quality of reporting in relation to each of the <IR> content elements. This year, only the quality of reporting on the content element 'Risks and opportunities' was separately assessed. Instead, reviewers assessed the extent to which strategic focus and future orientation were demonstrated in the <IR> content elements. No comparatives are therefore available in the 'Content elements – connecting strategy' section.

The average ratings relating to the extent to which the capitals are discussed in each of the <IR> content elements are excluded from the relative ranking. These are shown separately in Table 2.

The reports reviewed relate to accounting periods ended up to and including 31 March 2021.

TABLE 1: Quality of reporting in relation to selected guiding principles and content elements

Average ratings and relative ranks

Framework paragraph reference	<IR> FRAMEWORK TEXT	AVERAGE RATING	2020 relative rank (1/11 = highest score, 11/11 = lowest score)	2019 relative rank (1/32 = highest score, 32/32 = lowest score)	2018 relative rank (1/31 = highest score, 31/31 = lowest score)	2017 relative rank (1/32 = highest score, 32/32 = lowest score)	2016 relative rank (1/25 = highest score, 25/25 = lowest score)
GUIDING PRINCIPLES							
Strategic focus and future orientation							
3.3	• An integrated report should provide insight into the organisation's strategy, and how that relates to its ability to create value in the short, medium and long term...	3.71	6/11	27/32	24/31	22/32	18/25
3.3	• ...and to its use of and effects on the [six] capitals.	3.5	8/11	29/32	27/31	25/32	18/25
Connectivity of information							
3.6	• An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between factors that affect the organisation's ability to create value over time.	3.86	5/11	21/32	11/31	18/32	16/25
CONTENT ELEMENTS							
Risks and opportunities							
4.24	• An integrated report should answer the question: What are the specific risks and opportunities that affect the organisation's ability to create value over the short, medium and long term...?	4.21	1/11	8/32	13/31	10/32	13/25
CONTENT ELEMENTS – CONNECTING STRATEGY							
Organisational overview and external environment							
4.4	• An integrated report should answer the question: What does the organisation do and what are the circumstances under which it operates?	3.93	4/11	N/A	N/A	N/A	N/A
Governance							
4.8	• An integrated report should answer the question: How does the organisation's governance structure support its ability to create value in the short, medium and long term?	3	11/11	N/A	N/A	N/A	N/A
Business model							
4.10	• An integrated report should answer the question: What is the organisation's business model?	3.43	9/11	N/A	N/A	N/A	N/A
Risks and opportunities							
4.24	• An integrated report should answer the question: What are the specific risks and opportunities that affect the organisation's ability to create value over the short, medium and long term?	4.14	3/11	N/A	N/A	N/A	N/A
Strategy and resource allocation							
4.28	• An integrated report should answer the question: Where does the organisation want to go, and how does it intend to get there?	3.64	7/11	N/A	N/A	N/A	N/A
Performance							
4.31	• An integrated report should answer the question: To what extent has the organisation achieved its strategic objectives for the period, and what are its outcomes in terms of effects on the capitals?	4.21	1/11	N/A	N/A	N/A	N/A
Outlook							
4.35	• An integrated report should answer the question: What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?	3.43	9/11	N/A	N/A	N/A	N/A

TABLE 2: Quality of reporting on the capitals in each content element

	Financial	Manufactured	Intellectual	Human	Social & relationship	Natural	Average by content element
External environment	3.36	2.14	2.79	2.75	3.29	3.92	3.04
Governance	2.79	1.46	2.43	3.08	2.57	2.77	2.52
Business model	3.79	2.85	3.57	3.38	3.79	3.21	3.43
Risks and opportunities	3.86	2.71	3.86	3.54	3.93	3.71	3.60
Resource allocation	3.36	2.93	3.79	3.17	3.71	3.23	3.36
Performance	4.43	2.85	3.00	3.50	4.00	3.86	3.61
Outlook	3.36	2.23	2.57	1.92	2.79	2.92	2.63
Average by capital	3.56	2.45	3.14	3.05	3.44	3.38	

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