

Johannesburg
26 March 2018

WHY ALL ORGANISATIONS SHOULD PUBLISH A MEANINGFUL INTEGRATED REPORT

By Terrance M. Booysen and peer reviewed by Michael Judin (Director: Judin Combrinck Inc.)

Most modern, well-governed organisations are acutely aware of the need for their businesses to be run in an ethical and socially-conscious manner and for this ethos to be communicated to their stakeholders. This being the case, it is well documented that the influential set of so-called Millennials -- unlike their older generational 'Baby Boomers' and Xennials -- actively support organisations whose tenets are based upon transparency, including the preservation of society and the environment. Moreover, it is common knowledge that the legitimacy of an organisation is not solely linked to its purpose of creating returns for shareholders and investors. If this were true, the long-term sustainability of the organisation would be brought into question, and its viability in the context of the community and environment in which it operated would be reduced.

What is increasingly important is the way in which an organisation does business in the context in which it operates; not merely that it creates returns for its shareholders. In addition to the profit which an organisation has generated in a given period, stakeholders require information on what the King IV Code on Corporate Governance for South Africa, 2016™ ('King IV™') refers to as the interdependent triple context, or the combined context of the economy, society and environment in which the organisation operates.

Communication is key

Informed, modern stakeholders -- and especially the Millennials whose views and voices are increasingly heard through social media platforms -- put a high premium on transparency and need to be connected with in honest and meaningful ways.

The only practical way for stakeholders to know whether or not an organisation is living up to the standards and responsibilities required of it, is for them to receive this information in the form of a publicised report. In several of the principles set out in King IV™, the importance of engagement and communication with stakeholders is reiterated.

"The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects".

**King IV Code on Corporate
Governance for South Africa,
2016™**

Principle 5 of King IV™ states that *"the governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects"*. The best way for this mandate to be fulfilled is for the governing body (the board) to report to their stakeholders -- in a true and open manner -- the manner upon which they have directed and controlled all aspects of the organisation, sharing both the positive and negative aspects of the business, and being completely transparent in their reporting to those who demand it.

A holistic representation

Over the course of history, the means of reporting to an organisation's stakeholders has evolved and matured beyond merely financial reporting. In today's times, an organisation is increasingly expected to take cognisance of the non-financial aspects of its business, which have developed over time to include the organisation's impacts on *society* and the *environment*, as well as the *economy* in which it operates. To this extent, the integrated report has been identified globally as the benchmark for reporting these three elements in an inclusive, sustainable capital market system.

Notably, the King Code on Governance for South Africa, 2009 (King III™) introduced the concept of an integrated report as "a holistic and integrated representation of the company's performance in terms of both its finance and its sustainability". The integrated report, as espoused in King III™, would provide stakeholders with a concise and global view of the organisation's current performance, as well as details of its strategy to maintain its sustainability. The concept gained widespread momentum and the Integrated Reporting Committee ('IRC') of South Africa was formed in May 2010, becoming the first body to develop guidance on integrated reporting. On an international level, the International Integrated Reporting Council ('IIRC') was formed, and the International Integrated Reporting <IR> Framework developed.

With the introduction of King IV™ -- which reflects the International <IR> Framework to a large extent -- it refers to the manner in which the resources or 'capitals' used by an organisation constantly interconnect and interrelate, thereby creating value over time for the organisation and all of its stakeholders. Six specific capitals have been identified and are referred to in the International <IR> Framework and King IV™. They include financial, manufactured, intellectual, human, social & relationship, and natural capitals.

"The triple context and the six capitals are concepts which are used in King IV™ as alternative lenses. Both are pathways to integrated thinking and sustainable development."

- King IV Code on Corporate Governance for South Africa, 2016™

Ultimately, the purpose of an organisation's integrated report is to draw out the value creation aspects of the organisation's activities, enabling it to present stakeholders with a holistic view of how the organisation is leveraging the inputs from the six identified capitals to implement its business model. This business model should be founded on strong strategies and proper governance, to produce certain outputs which, in turn, may lead to positive or negative outcomes for the six capitals within an organisation. According to King IV™, each of the capitals used by an organisation are interconnected and interrelate and an organisation's reporting should accurately represent how its activities affect, and are affected by, the six capitals it uses and the triple context (economy, society and environment) in which it operates.

In addition to the manner in which the six capitals have contributed to an organisation's value-creation proposal and reality, stakeholders require an understanding of the risks, opportunities, impacts and implications of various other elements of an organisation's business. These include the organisation's financial performance, its sustainability goals and impacts, the manner in which it is governed and the extent to which it complies with relevant legislative and regulatory requirements, among others. Detailed information of this nature may find expression in the likes of the organisation's financial statements or

sustainability report, which will feed into a holistic picture and, in turn, draw out the material elements of the 'organisational story' in an integrated report. This will ensure that stakeholders are able to discern the ability of the organisation to create value in the short, medium and longer term.

Informed stakeholders want to know whether or not the organisation is one with which they wish to be associated, and whether or not it is one in which they wish to invest? Done correctly, an integrated report is expected to provide assurance to stakeholders regarding the organisation, not least also provide them the answers to these questions in a clear, concise and understandable form.

Integrated reporting in practice

Once an organisation has identified the necessity for integrated thinking, in terms of which it actively considers the relationships between its operating and functional units and the capitals that the organisation uses or affects, it needs to be cognisant of applying this thinking to the publication of its integrated report.

It is likely that the translation of this ideal into reality will provide a stumbling block for many organisations, and especially those only embarking on the evolutionary journey of integrated reporting for the first time.

"An integrated report enhances transparency and accountability, which are essential in building trust and resilience, by disclosing how key stakeholders' legitimate needs and interests are understood, taken into account and responded to through decisions, actions and performance, as well as ongoing communication."

International <IR> Framework

Boards of directors and those in management positions, who are tasked with the publication of the organisation's annual integrated report, will need to have a bird's eye view of the organisation, as well as a detailed and working knowledge of every key aspect of the business and its governance components. In order to produce this report; the writer's will need to understand various matters ranging from the organisation's strategy, operational performance and internal controls, IT governance, the manner in which key legislation and regulation is being complied with, right through to the executive's performance, group wellness and skills, stakeholder engagement and communication, to name but a few areas.

Through the likes of an organisational-specific and digitised *Corporate Governance Framework®*, which facilitates complete transparency, monitoring and oversight, those compiling and publishing an integrated report will have access to the up-to-date, relevant and insightful information needed to satisfy the reporting requirements of their stakeholders. Once all the relevant information is at hand, the content requirements and guiding principles for an integrated report can be sought through the guidance papers of the IRC of South Africa and IIRC's International <IR> Framework. In acknowledging that the process of compiling and publishing an integrated report is individual to each organisation, both the IRC of South Africa and the IIRC provide organisations with a globally-accepted framework and set of standards for the publication of integrated reports.

Benefits beyond the integrated report

While integrated reporting is not currently mandatory for most non-listed entities in South Africa, they will face increasing pressure from internal and external stakeholders to comply with the governance principles of King IV™ and to reflect the manner in which they have applied its principles, amongst other matters, in an integrated report. In addition, there are numerous positive spinoffs from the reporting process, which should be seriously considered in deciding whether or not to publish a report of this nature.

The process of compiling and publishing an integrated report will provide an opportunity for organisations to conduct a deep-dive analysis and assessment of all aspects of the business on a regular basis, providing them with a means to ensure that they take steps to remain strategically and operationally self-aware, sustainable, viable, and most importantly, legitimate.

Should an organisation get the contents of their integrated reporting wrong, or such that it can be proved that the information contained in the report is misleading, or that the organisation's activities are in fact harmful to the eco-social issues -- which include matters such as animal handling, land practices, and water, energy and waste management -- there's no doubt that the stakeholders and indeed those of the Millennial generation will take great exception to the organisation's practices and they may even boycott the organisation outright!

ENDS

Words: 1,637

For further information contact:

CGF Research Institute (Pty) Ltd
Terrance M. Booyesen (Chief Executive Officer)
Tel: +27 (11) 476 8264 / Cell: 082 373 2249
E-mail: tbooyesen@cgf.co.za
Web: www.cgf.co.za

Judin Combrink Inc.
Michael Judin (Director)
Tel: +27 (0) 83 300 5000
E-mail: Michael@elawnet.co.za
Web: <http://www.elawnet.co.za/>