

“Organisations should be bold, experiment, declutter and above all, be clear about their performance and prospects”

Richard Sexton, Global Assurance Leader, PwC

Seizing opportunities with integrated thinking

The case for change has been made

To build trust, raise capital and drive sustainable growth today, some companies are starting to think more holistically about their strategies, activities, values and behaviours. This more integrated thinking will help organisations to make the most of the new opportunities and improve risk awareness as well as risk management. And to achieve this, companies need to look beyond the current reporting model that’s rooted in past financial performance to give stakeholders a clearer, more forward-looking perspective on the business.

A framework to help structure relevant communication

The International Integrated Reporting Council’s (IIRC) Integrated Reporting Framework is a positive step that provides an opportunity for companies to start to assess and address connectivity across their

business and to communicate more relevant information more clearly, without spin. Designed around six capitals, it focuses on getting companies to describe their value creation in the short, medium and long term. The framework allows companies to assess where they stand today, and what improvements they need to make going forward – a catalyst for integrated thinking and integrated internal and external reporting.

Our research highlights the challenges

Our research shows that companies are already responding to the need for an evolving set of challenges remain. We assessed the external reports of 400 larger listed companies globally against the Integrated Reporting Framework. The findings highlight where focus is most needed to communicate effectively and help build trust in business.

Resource constraints
new business partners
decline in trust
closer scrutiny opportunities for growth
rapid change
innovative integrated new investors
products and services risk thinking Demand for energy
sustained economic uncertainty attracting talent complex global issues
interdependent relationships game-changing new technologies
Climate change



Is current reporting hitting the mark?

Our research covers 400 companies across 10 territories and more than 20 industries. We considered 25 aspects of reporting chosen to reflect the IIRC's Integrated Reporting Framework and our own research over 10 years into investor and company information needs. Our research focused on the quality of information that companies present in their key reporting documents and how well that information is integrated.

Key findings

- **What's clear:** Many companies already report key content elements of the IR framework, such as strategic priorities, key risks and key performance indicators.
- **What's not:** Many guiding principles in the framework, such as connectivity and future orientation, are less well-addressed. This makes it hard for stakeholders to understand the company's value now or in the future.
- **Leading countries:** South Africa, the UK and Germany are leading adoption of many IR principles, perhaps because of regulatory changes to improve the quality and integration of reporting.
- **Leading industries:** A number of industries are slightly ahead of their peers – particularly mining, chemicals and real estate, reflecting more advanced stakeholder demand for broader information sets.

Integrated thinking and reporting – challenges and benefits

Research finds practical challenges

Our research and discussions with companies already experimenting with their business information and reporting tell us that changing from current thinking and reporting isn't easy. They highlight the following challenges that more integrated thinking is trying to overcome:

- **Overcoming silos** – current reporting often shows a lack of connectivity, perhaps reflecting the reality of organisational behaviours and diverse information sets. Better connection between different internal departments is seen as a key benefit of integrated thinking and reporting.
- **Looking to the future** – many reports adopt the 'rear view mirror' approach, focusing on the last year. Reports should have forward-looking elements, using current information to shape strategic insight over the long term.
- **Describing value creation** – many companies' reports lack insight into how dependent they are on key relationships and resources outside the organisation to create value. And it's rare to get a clear sense of how the dynamics of their risks and opportunities are evolving. Integrated thinking and reporting encourage a broader perspective, better understanding of the wider impacts and how these factors feed into the business model and drive sustainable value creation.
- **Measuring performance** – current reporting remains largely focused on financial performance. Measuring the impact an organisation has beyond traditional reporting boundaries and across multiple "capitals" is at the heart of the value of integrated thinking and reporting.

Companies recognise the benefits of integrated reporting

In spite of the practical implementation challenges our research highlights, the benefits of integrated reporting are clear to the International Integrated Reporting Council's pilot programme companies, such as Microsoft, Unilever and National Australia Bank. These benefits were noted in a report by the IIRC and Black Sun in 2012 and echoed in discussions at the PwC hosted pilot programme conference in June 2013:

98% agree that IR will lead to a better understanding of how the organisation creates value.

95% say it contributes to a better understanding of their business model and gives them the opportunity to focus on the right Key Performance Indicators (KPIs).

93% say it helps them to overcome silos between departments such as Strategy, IT, Investor Relations, Finance, Sustainability, Corporate Communications and others.

Snapshot of progress towards integrated reporting

Content elements	What's clear 2013 (and 2008*)	Evidence of IR challenges
Organisational overview and external environment	86% discuss future market trends 60% – 2008	31% link market discussions to strategic choices
Governance	65% discuss leadership effectiveness	54% have some alignment of KPI outcomes to remuneration outcomes – 15% explicitly 22% some alignment – 2008
Business model	60% make meaningful reference to their business model	25% explain the value-adding activities used to execute strategy 21% identify the material capital inputs to the business model
Risks and opportunities	93% identify their key risks 78% outlined risks – 2008 18% identified which were key – 2008	29% have clear correlation of risks with issues discussed elsewhere in the report 22% discuss how risks are changing over time 3% – 2008
Strategy and resource allocation	94% report strategic priorities 98% – 2008 68% include some non-financial capital priorities in core strategy 40% – 2008	33% base reporting on strategic themes 33% – 2008
Performance	74% explicitly identify their KPIs 48% – 2008 86% report the impacts of activities on non-financial capitals	31% align KPIs and strategic priorities 25% – 2008
Outlook	43% explain financial funding plans	20% comprehensively consider the future availability of material capitals

*Against 178 European, Australian and Canadian companies' results in PwC's *Recasting the reporting model* (2008)

How can we help you?

Challenges and questions remain. The Integrated Reporting Framework is a useful starting point, but companies also need to generate relevant and reliable information in the first place, and have an objective way of measuring their progress towards more integrated reporting.

Ask yourself...

- Would I invest in my company or choose to work for it based on what is presented externally?
- Is the market value of my company a fair reflection of the business?
- Are we telling a consistent story to all of our stakeholders?
- Is too much time spent producing the numbers, rather than gaining real insight?
- Do I have the market insight and non-financial information needed to sta

Our specialists can help you at each step on the way towards reporting that meets the needs of your business and the expectations of your stakeholders to give you a competitive edge.

Where are you now?

If you'd like more insight on how you measure up, we can benchmark your reporting against peers using our integrated reporting tool and provide relevant examples of what good practice looks like to inspire change. We can also help you engage with internal and external stakeholders to highlight what they want and identify any gaps.

And where do you need to be?

If you want to develop a blueprint for the future that reflects risks and opportunities from across the value chain and identifies any material issues, we have experience to help you achieve this and get buy-in from your internal and external stakeholders.

How will you get there?

We can help you to identify 'quick wins' that can be implemented in the current year. And we can support you with developing an integrated strategy that you can embed across the organisation. And if you need to adapt systems and controls to provide more timely, reliable and relevant information, we can advise you based on extensive experience.

Are you looking to implement more strategic change?

Would you like to re-design your internal and external reporting? Are you looking to measure and manage your total impact along your value chain to identify risks and demonstrate your contribution across economic, social and environmental dimensions? We have developed a new tool – Total Impact Measurement and Management (TIMM) – to help you do this effectively and efficiently.

To discuss benchmarking and reporting insights for your organisation, please speak to your usual contact, or email info@corporatereporting.com

Of further interest

Three-minute film

Why is business information and reporting changing?

www.pwc.co.uk/reporting-assurance/w-is-business-information-reporting-assurance-going.jhtml

World Watch online

News and views on reporting, assurance and governance

www.pwc.com/worldwatch

International Integrated Reporting Council and Framework

www.theiirc.org