The Integrated Reporting journey: the inside story

• The inside story behind the research report, Realizing the benefits: The impact of Integrated Reporting published September 2014

• Interviews with 27 different organizations from around the world
The Integrated Reporting journey:

"<IR> is a journey and it will take more than one reporting cycle to get there. As businesses start to use <IR> as a tool to better understand the connections between key resources and relationships that contribute to their success, and as a result make more informed decisions, the real value of integrated thinking and the integrated report will be realized."

PAUL DRUCKMAN, CEO
INTERNATIONAL INTEGRATED REPORTING COUNCIL (IIRC)

In the last few years, there has been increasing momentum towards better reporting, where this has been reflected in the publication of the International Integrated Reporting (<IR>) Framework and a dialogue around the world about how to improve the usefulness and transparency of corporate reporting. Our research seeks to contribute to this global dialogue. In our latest research, we focus on organizations that are already shifting towards better integration. While these organizations are at different stages and progressing at different speeds, it seems that they see <IR> as a way to tell its corporate story. In this research, we have a collection of case studies from the same research project, which focuses in more detail on the inside story behind the business benefit of moving to <IR>.

RESEARCH EVIDENCES STRONG BENEFITS

Our findings clarify the business case for <IR>. It does this by providing evidence of the changes and benefits that the journey towards integration is bringing now, and is expected to bring in the future. The research also reinforces the point that <IR> in most cases is an outcome of, or intricately related to, changes in an organization’s approach to value creation and management.

In a research project with the IIRC’s Pilot Programme organizations in mid-2014, we built on the initial research conducted in 2012. 66 organizations responded to a survey about its reporting and management processes, and the impact they have seen from changes they have made on its <IR> journey. This research piece focuses in more detail on the inside story behind the evidence.

See pages 2-3 for an executive summary from the full report published in September 2014, Realizing the benefits: The Impact of Integrated Reporting.
THE INSIDE STORY BEHIND INTEGRATED REPORTING

The evidence speaks for itself, but what it doesn’t do is highlight the voices behind the facts. As part of this research, we were privileged to speak with 27 different organizations from 11 different countries – and gain an insight into ‘its individual stories’. We were truly inspired and wanted to share these stories because we think that sometimes the most significant learnings are from hearing other people’s stories.

Intuitively, stories alter our thinking and in turn, the way we engage with the world. Stories allow us to see and experience things outside of what we believe and what we think possible. It is these journeys – sometimes tenuous, sometimes exhilarating – that inspire us to push a little bit harder, engage more widely, and face the difficult discussions in real life. We were truly uplifted to hear so many different experiences, from so many places and types of organizations. Each story is unique – with its own rationales, challenges and benefits but what struck us was the passion and the inspiration of these people trying to learn, understand and change things for the better.

All the companies were extremely positive about the impact that its progression towards integrated thinking and reporting is having. Even those in the early stages of the journey were experiencing benefits, but it was clear that organizations that have published at least one integrated report experienced even more valuable impacts.

We hope these stories will inform you, inspire you and uplift you. Thank you to everyone who contributed their time, effort and insights; your enthusiasm and energy was truly inspirational.

Read on for some serious inspiration.

BLACK SUN’S THOUGHTS ON INTEGRATED REPORTING

At Black Sun, we are working closely with the IIRC and reporters to improve corporate reporting. Why? Because we believe better reporting will help drive better decision making which in turn will help drive better businesses in the long term. We believe in the process of reporting helping to change behaviours and thinking within an organization. We see this in the everyday work that we do with clients and we are committed to evidence both internally and externally through research!

The team at Black Sun
Realizing the benefits: The Impact of Integrated Reporting

**KEY FINDINGS FROM FULL RESEARCH REPORT**

Reporters see internal benefits, including better decision making, as well as positive changes in external relations.

<table>
<thead>
<tr>
<th>Breakthroughs in understanding value creation</th>
<th>Improving what is measured</th>
</tr>
</thead>
<tbody>
<tr>
<td>As organizations work together differently, and use new information to assess their performance they have a clearer view of how they create value.</td>
<td>Nearly all organizations interviewed said they had either significantly changed what they measured or had plans to do so in the future.</td>
</tr>
</tbody>
</table>

**POSITIVE EXPERIENCES**

All respondents were extremely positive about the impact that their journey towards Integrated Reporting is having.

<table>
<thead>
<tr>
<th>92%</th>
<th>84%</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEE INCREASED UNDERSTANDING OF VALUE CREATION AS CURRENT BENEFIT</td>
<td>SEE A CURRENT BENEFIT REGARDING DATA QUALITY</td>
</tr>
</tbody>
</table>

**STRATEGIC BENEFITS**

Many noted that the most important benefit they experienced was a change in conversations between the board and management.

<table>
<thead>
<tr>
<th>71%</th>
<th>71%</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEE BENEFIT TO THEIR BOARD OF BETTER UNDERSTANDING OF HOW THE ORGANIZATION CREATES VALUE</td>
<td>SEE A CURRENT BENEFIT OF GREATER FOCUS ON MEASURING THE LONGER-TERM SUCCESS OF THE BUSINESS</td>
</tr>
</tbody>
</table>

**IMPACT ON PROVIDERS OF FINANCIAL CAPITAL**

Those that have published at least one report found that Integrated Reporting helps to build stronger relationships and better understanding with providers of financial capital.

<table>
<thead>
<tr>
<th>56%</th>
<th>52%</th>
</tr>
</thead>
<tbody>
<tr>
<td>REPORT A POSITIVE BENEFIT IN RELATIONS WITH INSTITUTIONAL INVESTORS</td>
<td>REPORT A POSITIVE BENEFIT IN RELATIONS WITH ANALYSTS</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>87%</th>
<th>79%</th>
</tr>
</thead>
<tbody>
<tr>
<td>BELIEVE PROVIDERS OF FINANCIAL CAPITAL BETTER UNDERSTAND THE ORGANIZATION’S STRATEGY</td>
<td>BELIEVE PROVIDERS OF FINANCIAL CAPITAL HAVE GREATER CONFIDENCE IN LONG-TERM VIABILITY OF BUSINESS MODELS</td>
</tr>
</tbody>
</table>
Reporters see internal benefits, including better decision making, as well as positive changes in external relations.

Breakthroughs in understanding value creation.

Improving what is measured.

Improving management information and decision making.

A new approach to stakeholder relations.

Connecting departments and broadening perspectives.

One of earliest benefits is breaking down silos and increasing respect and understanding between departments.

Nearly all organizations interviewed said they had either significantly changed what they measured or had plans to do so in the future.

Improvements in decision making were largely attributed to changes in management information.

More evidence of Integrated Reporting having an impact on engagements with external stakeholders.

As organizations work together differently, and use new information to assess their performance, they have a clearer view of how they create value.

Stronger evidence of change and benefits for organizations that have published at least one integrated report.

Stronger benefits after publishing.

Nearly all organizations interviewed said they had either significantly changed what they measured or had plans to do so in the future.

Improvements in decision making were largely attributed to changes in management information.

More evidence of Integrated Reporting having an impact on engagements with external stakeholders.

One of earliest benefits is breaking down silos and increasing respect and understanding between departments.

Nearly all organizations interviewed said they had either significantly changed what they measured or had plans to do so in the future.

Improvements in decision making were largely attributed to changes in management information.

More evidence of Integrated Reporting having an impact on engagements with external stakeholders.

One of earliest benefits is breaking down silos and increasing respect and understanding between departments.
In this research piece, 27 organizations from 11 countries around the world participated in these case studies.

1 UNITED KINGDOM
   GRANT THORNTON
   HSBC HOLDINGS PLC
   INTERSERVE
   THE CROWN ESTATE

2 NETHERLANDS
   AEGON
   AKZO NOBEL
   EY NETHERLANDS
   PWC NETHERLANDS
   ROYAL BAM GROUP

3 ITALY
   ENI
   SNAM
   THE GENERALI GROUP

4 SPAIN
   ENAGÁS

5 DENMARK
   NOVO NORDISK

6 BRAZIL
   AES BRASIL
   BNDES
   ITAÚ UNIBANCO
   NATURA
   VOTORANTIM
SRI LANKA
DIMO

RUSSIA
ROSATOM

AUSTRALIA
CPA AUSTRALIA
NATIONAL AUSTRALIA BANK (NAB)

NEW ZEALAND
NEW ZEALAND POST

SOUTH AFRICA
ANGLOGOLD ASHANTI
ESKOM
GOLD FIELDS
In this research piece, we had 27 organizations from many different sectors and 11 countries around the world participate in these case studies. Participants also represent a broad cross section of organization types that have different relationships with its providers of financial capital and therefore different reporting needs. The International <IR> Framework is flexible and relevant for many kinds of organizations, including: listed companies such as Aegon, Eni, Generali, Gold Fields, HSBC, and Natura; family owned businesses, such as Votorantim; professional services firms such as Grant Thornton and EY; and state owned enterprises such as New Zealand Post, Eskom, the Crown Estate and Rosatom.

The experiences of these organizations will be instructive to all organizations looking to implement <IR> – the stories resonate across sector and organization type.
INDUSTRIALS

- DIMO 26
- ROYAL BAM GROUP 13
- VOTORANTIM 43

OIL & GAS

- ENAGÁS 27
- ENI 28

PROFESSIONAL SERVICES

- CPA AUSTRALIA 17
- EY NETHERLANDS 30
- GRANT THORNTON 10
- PWC NETHERLANDS 40

PUBLIC SECTOR

- ROSATOM 41

REAL ESTATE

- THE CROWN ESTATE 42

UTILITIES

- AES BRASIL 9
- SNAM 14
- ESKOM 32
Embarking on the <IR> journey is a crucial time for reporters, and through our interviews we found a group of qualities arising as an impact of <IR>.

KEY HIGHLIGHTS:
- Better internal collaboration between different teams, moving away from operating in silos, to more productive environments and increased efficiency.
- Refinement of KPIs which are linked to material issues helps to improve performance management.
- Integrated thinking starts to become embedded.

A common piece of advice for those considering <IR>, is to just start. As the company heads in the direction of integrated thinking, <IR> should follow.

At the time of interviewing in 2014, all of these organizations were working towards its first integrated report. However, not all of these organizations were clear whether or not they were going to publish an integrated report. Since that time, some of these organizations have published reports and are now working on its next integrated report whereas others have not.
AES Brasil operates in the Brazilian electricity sector, generating and providing power to approximately 23 million people in the South and Southeastern parts of the country.

Since 2009, there has been substantial momentum inside the company to improve its management and communication around sustainability issues creating value for all stakeholders.

The company is now in the process of working towards its first communications based on the <IR> Framework. The company’s senior management is all on board with <IR> and integrated thinking, but internal understanding of these concepts is not uniform.

“The process goes more smoothly if it is top down, and there is substantial support coming from company leadership.

KEY BENEFITS RELATED TO <IR>

The company believes that working with the <IR> Framework has helped it move in the right direction to embed sustainability and move towards integrated thinking. Sustainability goals are now integrated into the corporate strategy, which has helped streamline processes as there are no longer overlapping conversations tying goals to multiple strategies. Another internal benefit is that <IR> has improved communication and collaboration between departments.

As AES Brasil is bringing sustainability reporting under the <IR> Framework, the company has experienced more freedom to choose material issues, focusing reporting on those things that are most relevant to the business and to its stakeholders. This has the potential to further streamline processes and improve communication.

AES Brasil sees value in many aspects of the <IR> process, but one of the most useful has been the process of exploring how its business creates value for its stakeholders. As an electricity company, AES Brasil understands that the real value it creates for society has to do with the value of promoting well-being and development with the safe, sustainable and reliable provision of energy solutions. This supports economic development and many other aspects of daily life for residents of the 142 municipalities that AES Brasil serves.

KEY CHALLENGES AND LEARNINGS FROM PROCESS

As AES Brasil is still in an early stage of adopting <IR>, it is still managing a number of challenges. For instance, as the company’s understanding of its value creation processes change, it is determining how best to communicate to stakeholders about how it creates value.

Alvarez notes that in her experience, the involvement of sustainability departments is critical to the <IR> process. It has considerably understanding of what stakeholders value. Moving toward integration also involves working collaboratively – and having a single, integrated language to talk about value creation and performance.
Grant Thornton UK LLP (Grant Thornton) was assessing whether to adopt <IR> at the time of interview and what the impact would be on the firm. The firm has since decided to commence the journey of producing an integrated report. Even at this early stage, Grant Thornton has experienced the benefits from being part of the IIRC Pilot Programme and from the process of considering how it might move to a more integrated approach to management.

In terms of existing reporting requirements, Grant Thornton currently produces financial statements in accordance with UK GAAP and a transparency report with information about the audits it conducts of listed companies and how it ensures and encourages quality in the provision of audit services. Both of these reports fulfil compliance with various regulations. While the organization is determining what the structure of a possible future integrated report might look like, it is likely some compliance reporting will remain separate.

“Our management team is looking at the long-term drivers of success for the business” Martin Drew says. “We know that sustainable profitability is driven by our people, but we don’t necessarily understand yet all the implications of certain decisions on non-financial capitals such as our people.”

While the firm measures many aspects of ‘human capital’ and ‘brand and reputational capital’, this information is not always linked or fully weighted into an integrated decision making process at local, regional or national levels.

Grant Thornton also sees potential benefits in being able to explain better its business model to external audiences. Drew notes that one way of thinking about the social license to operate for the firm is the real value of its services to society.

Grant Thornton has seen unexpected benefits from joining the IIRC Pilot Programme.

“Through our participation in the IIRC Pilot Programme and our engagement with the IIRC, we understand the thinking behind the <IR> Framework, how the <IR> Framework ended up where it is, and this has certainly been very useful in our conversations with companies that are considering adopting <IR>,” Drew says.

**KEY BENEFITS RELATED TO <IR>**

For Grant Thornton, a key internal benefit is an opportunity to stand back and assess the real drivers of the business and future challenges it faces and thus understand how the organization might benefit from a more integrated approach to internal decision making at all levels.

“One challenge of our existing reporting is the increasing pressure to be more transparent regarding regulatory compliance, that is very separate from <IR>, which is more focussed on our business model and how the firm creates value.”

**KEY CHALLENGES AND LEARNINGS FROM PROCESS**

For Grant Thornton, a challenge in moving to <IR> is ensuring that there is a clear and consistent message across the various reporting requirements and avoiding overload with other, competing reporting priorities, largely driven by regulatory agendas. There is also a challenge in articulating the benefits of such a process to the firm’s internal stakeholders. The push for greater integrated thinking is coming from within, from the firm’s own management team.

Drew explains that the firm is considering how it might work differently with the most relevant non-financial capitals. The firm is still at an early stage however, and there is a broad range of views internally on how a more integrated approach would work in practice.

* Since this interview, Martin Drew has moved to a new role outside Grant Thornton.
One of the world’s largest banks, HSBC has faced a significant increase in reporting requirements. Between 2011 and 2013 the company’s annual report grew from more than 400 pages, to just under 600 pages. In 2014 a redesign and content review saved 100 pages. 

The financial crisis has put pressure on banks like HSBC to pay attention to justifying their continued existence. In common with other financial institutions, HSBC has come to realize that it needs to provide far more information about how its business works, and the value it creates for society, than it used to provide.

On its journey towards more holistic Integrated Reporting, HSBC has added more and better non-financial data into its annual report, providing more context for reported financial performance. While the 2011 and 2012 reports begin with financial highlights in the 2013 annual report, financial performance comes after a discussion of the company’s purpose, its strategic priorities, and it’s approach to integrated performance management.

Other notable additions which began in the company’s 2013 annual report and continued in 2014, include a value creation section that explains the company’s strategy in terms of its business model with its competitive environment and more information on the company’s values and approach to managing human capital - its talented workforce.

The transition to <IR> has been very timely for HSBC as there is growing realization that the world is an increasingly integrated place. Assessment of potential risks are much more holistic and expansive than in the past. For example, the company now considers social media to be a potential risk as it can have widespread reputational impacts very quickly.

HSBC has found that there are benefits to having more parts of the organization involved in reporting. As reporting requirements grew for HSBC, the company felt that the finance department was doing too much of the heavy lifting. As part of the process of moving towards <IR> and changing the way the company reports, operational units are now more equal partners in the reporting process, and content owners have more responsibility for reporting. 

CONTINUED >>
HSBC Holdings plc

INTERVIEW WITH RICHARD SCURR CONTINUED >>

KEY CHALLENGES AND LEARNINGS FROM PROCESS

HSBC has been pleased to see the momentum and public acceptance that <IR> has achieved. This momentum, along with changes in regulations and public expectations for the financial services industry, has helped drive internal change.

The complex regulatory and statutory reporting requirements, particularly in the UK, are a significant challenge for financial service companies. These detailed disclosures do not always sit easily with the principles-based <IR> Framework, which calls for focus on conciseness in reporting and on what is material to value creation. However, HSBC finds that its reporting output is enhanced as a result of striving to marry these different demands.

Another challenge is that with some exceptions, HSBC has found that investors still do not assess the company’s performance in an integrated way. In HSBC’s experience, most financial analysts prioritise data and their interactions with top management.

HSBC’s experience has been that the kind of change <IR> requires can best be achieved by having buy-in and commitment at the top of the organization. This is necessary to drive accountability and keep the change management process on track.

HOW IT IS APPLYING WHAT IT HAS LEARNED IN THE <IR> PROCESS

The company has also moved to replace the standalone sustainability report with a summary in the Strategic Report (a UK requirement that is aligned with <IR>) and additional disclosures on the HSBC website.

Integration of a management system for a company the size of HSBC is a long-term process. Looking ahead, HSBC sees opportunities to increase the integration of the its strategy development process and subsequently improve links between the strategy and non-financial KPIs.

HSBC continues to work on integrating the key elements of its broader performance (eg. on human capital) into its annual report. It expects to base its future reporting on the general structure required by UK legislation and regulations, integrating as far as possible the elements within its Strategic Report. Having reduced the length of its annual report by 100 pages in 2014, work continues on identifying opportunities for further reductions, enabling it to streamline future reports.
Royal BAM Group, a European construction company, joined the IIRC Pilot Programme in 2011 because of its desire to be an industry leader in sustainability. It finds that <IR> enables a more concise articulation of value creation.

Royal BAM Group has produced sustainability reports, in addition to annual reports since 2007. The 2014 report, published after this interview, is BAM’s first integrated report, describing strategy and how it has implemented integrated thinking throughout the Group.

“We can only do a proper integrated report if we have a well-integrated strategy. We have learned a lot. The transition to a more holistic approach to value creation has helped us reflect upon our strategy.

KEY BENEFITS RELATED TO <IR>

In the transition to <IR>, Royal Bam Group has made changes in how it measures and manages performance. For example, it realized that for some types of capital, they did not have any performance indicators. For others, including human capital, it realized that the performance indicators it had been using for sustainability reporting had no direct link with value creation.

Performance indicators are monitored on a quarterly basis. Likewise, performance is reported to the company’s Supervisory Board every quarter.

The company believes that one of the key benefits of moving to <IR> is that it provides new tools for improving sustainability throughout its supply chain, which the company associates with operational excellence and reduced risk.

“We don’t see a lot of demand from external stakeholders for some of the things we are doing,” William van Niekerk admits. “However, embedding and increasing sustainability helps us to become more efficient and to improve our reputation, which helps us get invitations for tenders for new projects. It also helps with community support for project sites.”

Community support, or lack of resistance, reduces construction time, which subsequently lowers the Group’s costs.

KEY CHALLENGES AND LEARNINGS FROM PROCESS

“We’ve realized that most of our indicators are lagging indicators,” van Niekerk says. “Our main challenge in connecting information is to find leading indicators.”

Royal BAM Group is also working to monetize natural and social capital in the hopes for management of the Group’s impacts and improving reporting in these areas.

While BAM Group has found value in the <IR> process, it has also found that implementation of the <IR> Framework is not as simple as it seems. Even with the best of intentions, it can be difficult to see far ahead into the future. Stakeholders, both internally and externally, also have different ideas about what constitutes value creation, particularly in the long term. Tackling these challenges, however, has proved rewarding for Royal BAM Group.

“The process of mapping value creation gave us more understanding about what we should do more of and what we should do less of. This is a continuous learning process,” van Niekerk says. “It is very valuable in terms of business improvements.”
SNAM
INTERVIEW WITH LORENZA BARSANTI

SNAM, an integrated group of gas infrastructures, joined the IIRC’s Pilot Programme because it is convinced that <IR> and Environmental, Social and Corporate Governance (ESG) issues will be more and more important in the future. EU legislation requiring non-financial reporting has also contributed to the company’s movement towards <IR>.

SNAM has been assessing the feasibility of producing an integrated report for 2014. The company has considered the possibility of doing a ‘trial run’ version internally for 2014 and if the process is approved, it will be published in the near future.

KEY BENEFITS RELATED TO <IR>
SNAM hopes that <IR> will help embed integrated thinking throughout the organization. The company also believes that the process will lead to better understanding internally of how the company creates value for all stakeholders.

KEY CHALLENGES AND LEARNINGS FROM PROCESS
SNAM sees the biggest challenge as reporting on long-term perspectives. Because financial reporting is historical, there is more confidence in its accuracy. Developing confidence in a longer-term view of value creation will be a learning process.
In the next stage of the <IR> journey, we see further internal benefits which go beyond the surface expectations. As reporters become more in tune with integrated thinking and reporting, companies are beginning to experience improved insights into its business.

**KEY HIGHLIGHTS:**
- Improved insights into the business model and value creation, as <IR> compels businesses to think more deeply about the inputs, outputs and outcomes, leading to better decisions.
- Internal understanding of strategy improves.
- Dialogue between management and board improves.

At the time of interviewing in 2014, all five companies had published its first integrated report, and some were on the way to publishing its second. Since that time, some of these organizations may have published a second report.
BNDES (The Brazilian Development Bank)  
INTERVIEW WITH ANA MAIA

BNDES, the Brazilian Development Bank, joined the IIRC Pilot Programme in 2012 to introduce and test <IR> principles within its own organization. Its journey really began in 2011, when the organization began considering doing a sustainability report.

BNDES’s experience is that <IR> goes deeper; it does a better job of getting to the heart of an organization’s objectives and goals.

BNDES’s first challenge was to discuss its business model internally. The company has adapted the balanced scorecard methodology for this purpose, using development results in place of financial results since the organization is a development bank. At this point in its reporting evolution, BNDES’s integrated report maps outcomes in relation to strategic objectives. At the same time as developing a framework for assessing performance using outputs and outcomes, they are also changing measurement, monitoring and evaluation processes.

“Our changes in monitoring and evaluation are not for reporting; reporting is the outcome of other management processes,” says Ana Maia, Head of Planning.

KEY BENEFITS RELATED TO <IR>

At BNDES, the benefits of <IR> have, thus far, been primarily internal. However, since the Brazilian government owns the institution, the impact of these internal benefits has a societal impact.

The process of <IR> has helped BNDES reassess its product offerings in light of both strategic objectives and public policy goals. The process of looking at inputs and outputs has helped BNDES see opportunities to optimize existing products and reduce the overall number of product offerings - making borrowing simpler for the development bank’s clients.

As a lender, BNDES is a user of reporting as well as a reporting entity. While Brazil has been moving towards a ‘report or explain’ model, this largely relates to sustainability information. As BNDES has begun the process of integrated thinking and reporting, it is seeing the added benefit of integrating financial and non-financial dimensions of performance.

“We are beginning to tell our clients that they can improve their businesses by moving to integrated thinking,” Maia says, adding that BNDES is rethinking the type of reporting it requests from client companies.

Maia notes that BNDES works with a large range of businesses, and it cannot all be expected to do similar types of reporting. For large companies, the development bank is beginning to ask for more analysis of intangibles and non-financial capital stocks, as well as the projected longer impacts of strategy. Getting this type of information for smaller, regional businesses is much more of a challenge.

BNDES has found that another benefit of <IR> has been an increase in collaboration and mutual respect within the bank itself. Each department now has a better understanding of how other departments create value, Maia says.

Finally, as a state owned enterprise, BNDES frequently receives questions about its output in terms of its social impact.

“Now, we are better able to communicate what we do, we are more transparent now simply because we have more insight.”

KEY CHALLENGES AND LEARNINGS FROM PROCESS

Maia’s advice to other reporters interested in <IR> is to just get started.

“We were initially concerned that we didn’t have complete clarity about our business model,” Maia says. “We were paralyzed. It’s a learning process, and having started the process, we now have better understanding.”

To accelerate integration internally and to engage stakeholders, BNDES is looking for ways to use even more accessible language as well as technology. To increase understanding of integrated thinking and reporting, the bank created a three-minute video, using tree roots to represent the capitals and the branches of a tree to represent outcomes and impacts.

“We know of course that there are areas where we can improve,” Maia said. “We are looking to innovate even more.”
CPA Australia

INTERVIEW WITH NICHOLAS DISS AND EMMA SWEET

CPA Australia is a professional membership organization for accountants in Australia and other parts of the Asia Pacific region. The organization has completed its first integrated report following two years of combined reporting.

“Combined reporting really felt like we were doubling up on information” says Emma Sweet. “Whereas the integrated report represents the business much more clearly with a single document.”

CPA Australia has pursued <IR> because it hopes to model emerging best practice for its members. To date, it has seen significant internal benefits from the <IR> process and a slight impact on external engagements.

KEY BENEFITS RELATED TO <IR>

For CPA Australia, moving towards <IR> has involved a real shift in internal management systems and processes. To provide internal comfort with the integrated information the organization wanted to present externally on an annual basis, monthly internal management reporting was integrated.

“Previously, monthly management reporting was very financial,” says CPA’s Nicholas Diss. “What we now measure on a monthly basis has changed significantly. We now use a lot more qualitative information and our internal reporting is much more connected.”

The connectivity in management information has changed the conversations between the organization’s management and board.

“It has helped us make better decisions. We had found that with stand-alone sustainability reporting there was a push for more reporting from some areas of the business. With an integrated approach, it is easier to stay focused on what is related to value creation.”

A more connected approach to value creation and assessing risks and opportunities has led CPA Australia to a different understanding of the risks it faces. The organization has revised its top 20 risks, and related risk management processes, as a result of its transition to integrated thinking.

KEY CHALLENGES AND LEARNINGS FROM PROCESS

Because CPA Australia is trying to model evolving models of reporting for its members, it is using GRI’s G4 framework in addition to the <IR> Framework. In addition, the company is clear within the report that it is reporting on issues, such as natural capital, that are not extremely relevant for its service organization. Once again, it does this to model this type of reporting for others. Its goal is for the integrated report to be shorter, but the organization admits that achieving the conciseness it seeks is a challenge.

While CPA Australia believes that it has achieved substantial benefit through its reporting, they also note that the changes brought by <IR> have added to reporting costs. “Overall, our reporting costs have gone up at least 50%,” says Diss. Most of these costs came from the introduction of sustainability reporting with new staff members hired for new data systems, and a substantial increase in costs for assurance of non-financial data. Moving from separate sustainability and financial reports to an integrated approach has not added to these costs, if anything there has been a slight decrease with only one report being produced.
The Generali Group
INTERVIEW WITH ANNAMARIA BRADAMANTE

Generali is a publicly-listed insurance company based in Italy. The company published its first integrated report for 2013, which included expanded strategy and non-financial performance information along with traditional financial reporting elements.

Previously, the company had included non-financial information in its financial reporting, but in a separate section. For 2013, Generali has continued to also produce a sustainability report.

“...Our integrated report is based on our strategy, our sustainability report is based on a broader approach to values and stakeholder interests."

Harnessing technological tools, Generali introduced an app for its integrated report, with the goal of providing a better understanding of the connectivity of different types of information in the report. The company is looking at use of the app versus PDF downloads, and trying to assess whether the app improved understanding of the company’s reporting.

KEY BENEFITS RELATED TO <IR>

Like many first-time integrated reporters, Generali’s primary benefit thus far is better collaboration internally. More departments are involved in reporting and performance management. For instance, human resources are now involved in tying key performance indicators for management to reporting.

Generali has also received feedback from investors that the company’s disclosure has improved with its move to <IR>. The company believes that this is because <IR> is strategy driven, so the format makes a company’s strategy clearer.

KEY CHALLENGES AND LEARNINGS FROM PROCESS

Generali’s experience is that implementing <IR> is a difficult change, one that involves significant expense.

“We are assessing whether <IR> adds value for the financial community,” says Generali’s report project leader, Annamaria Bradamante.

In the meantime, there is more integration to be done at Generali. At present, executive remuneration is primarily linked to financial capital and the company has not yet developed many performance indicators for material non-financial issues. Generali is also looking at integrating its quarterly disclosure information, which it believes is too short-term in focus.

The company is currently in discussions with Italian regulators about some of the reporting changes it seeks to make, hoping to make its reporting not only more integrated, but more concise.
Interserve began working on integrating its business and sustainability strategies a few years ago, moving towards integrated management and integrated thinking. As part of this process, they determined that moving toward <IR> would help support its integration efforts. The company’s 2013 integrated report was its first.

“We came to <IR> relatively late in our process of moving toward integrated thinking,” explains Tim Haywood, Interserve’s Finance Director and Head of Sustainability.

Our primary motivation was to redefine what good looks like, and to redefine the outcomes we expect to achieve as a business.

KEY BENEFITS RELATED TO <IR>

While integrated thinking has not been a revolution for Interserve, it’s something that the company’s customers wanted and it was definitely in the company’s self-interest – the company has seen definite benefits. Notably, the internal understanding of the business’s impact has changed, and along with it, the understanding of sustainable shareholder value creation.

The company has also seen benefits with external stakeholders, particularly with government entities, a key stakeholder group for a company that is largely involved in public-private partnerships. The company now finds itself featured in government publications as an example of how business should be conducted.

Interserve has also found that on its journey, it has started having more strategic conversations about working collaboratively to achieve non-financial outcomes – both with customers and companies in its supply chain.

KEY CHALLENGES AND LEARNINGS FROM PROCESS

One of the most challenging steps for Interserve has been setting ambitious targets.

“That was not part of our culture,” Haywood admits. “We had previously been more modest. Understanding that a heroic failure against stretch targets was preferable to success against modest targets – the process of being a leader – was a significant change for our organization.”

While the company sees itself as having made the most important step, redefining its business, it now sees a need to measure many aspects of performance that have not previously been measured. This will be an ongoing process. The company’s initial integrated report includes what the company calls ‘emerging measures,’ an effort to establish baselines and begin providing the full complement of non-financial data that will be needed to manage and assess the business’s integrated approach to performance.

Despite having combined the roles of finance and sustainability director, Interserve is not a fan of monetization of non-financial value. Instead, the company is using a balanced-scorecard type approach, recognizing four types of capital and four types of value creation.

“We decided we cannot measure the opening and closing balance of knowledge or intellectual capital, but we can and should be measuring and managing the flow of knowledge capital,” Haywood explains, noting that this requires a reporting approach that is different than a financial balance sheet.

Other key learnings from Interserve’s experience are:

- Develop a bespoke method of integrated management and reporting that fits your organization. To really fit and work properly, it needs to be customized.
- Start out with integrating thinking and strategy then focus on the integrated report. The <IR> Framework can help drive thinking at certain points, but preparing a report in accordance with the <IR> Framework should not necessarily be your starting point.

OTHER IMPACTS OF <IR>

While Interserve sees benefits in many areas, it has found that proving the benefit of integrated thinking and reporting to investors is a more incremental process. Because an integrated approach is what Interserve’s customers want, Interserve is confident it will be able to make the case to investors that, over time, its new approach to management and reporting will help attract business while addressing potential reputational risks.
Itaú Unibanco
INTERVIEW WITH DENISE GIBRAN NOGUEIRA

Itaú Unibanco has been doing combined reporting for several years. In 2013, the company made a concerted effort to improve the efficiency of the data gathering related to its combined reporting process – which results in a 600+ page consolidated annual report. In parallel to this compliance-driven process, in 2013 Itaú Unibanco also issued an integrated report using the <IR> Framework.

Itaú Unibanco has used its consolidated annual report to generate their integrated report as well as reports for stock exchanges and sustainability indices. The company believes that it will continue to produce both the large consolidated annual report – which incorporates financial statements and a GRI reporting index – as well as an integrated report. The integrated report provides a concise overview that is, Itaú Unibanco believes, more understandable and usable.

KEY BENEFITS RELATED TO <IR>

The primary benefit of <IR> for Itaú Unibanco is the ability to make the company’s business model and strategy clearer. Itaú Unibanco’s ambition is to be a leader in sustainable performance and customer satisfaction, and central to this ambition is the creation of shared value. While <IR> has helped the company understand the interconnections that underlie shared value, the measurement necessary to tie performance to the company’s vision will take more time.

The most unexpected benefit from Itaú Unibanco’s first integrated report has been how useful it has been internally. Because the report provides a concise summary of the bank’s strategy and activities supporting shared value creation, it increased not only internal understanding but also pride.

Like many other IIRC Pilot Programme participants, Itaú Unibanco also feels that it has benefitted from connecting internal departments with different mindsets.

“Now, we use a broader range of information to make decisions on a daily basis.

KEY CHALLENGES AND LEARNINGS FROM PROCESS

“We had to build our understanding of what each of the capitals meant for our business,” Denise Gibran Nogueira, Itaú Unibanco’s superintendent of sustainability explains. “Although we are a financial services organization, we understand that manufactured capital is very relevant to our strategy and vision.”

The bank sees that its investments in data centres improve customer service and information security. Based on stakeholder feedback about its 2013 reporting, Itaú Unibanco intends to improve the integration of information about different capitals in its consolidated annual report as well as continue to improve its integrated report. One change in the integrated report will be to prioritize the six capitals reported on, making clearer distinctions about the bank’s most important impacts.

Finally, Itaú Unibanco has begun the process of interlinking different types of performance, although it sees this as a long process. In terms of shared value creation, the bank has made a significant investment in financial education. It hopes to understand how this investment relates to the quality of its loan portfolio, and whether the investment will lead to reduced losses and retention of clients.

“<IR> helps us understand the connections, but now we are working on this from a data standpoint,” Nogueira says. “Our investment in financial education is long term, and our expectation is that the most significant results will be down the road.”
From our research, we found that those further along the <IR> journey had experienced more benefits than their counterparts. This was our biggest group, with 15 companies who have published two or more integrated reports, and it was interesting to see how even this far into the journey, reporters were still feeling like they were learning about its companies and experiencing new benefits.

KEY HIGHLIGHTS:
- Clarification of how leading indicators of financial performance were unveiled by information about other capitals.
- Greater connectivity gives report readers greater insight into business models and long-term outlook.
- Better data and an evolving understanding of value creation leads to even better internal decisions.

At the time of interviewing in 2014, all companies had produced at least two or more integrated reports. Since that time, many of these organizations may have published another report.

COMPANIES

AEGON N.V. 22
AKZO NOBEL 23
ANGLOGOLD ASHANTI 24
DIMO 26
ENAGÁS 27
ENI 28
EY NETHERLANDS 30
ESKOM 32
GOLD FIELDS 33
NATIONAL AUSTRALIA BANK (NAB) 34
NATURA 35
NEW ZEALAND POST 37
NOVO NORDISK 38
PWC NETHERLANDS 40
ROSATOM 41
THE CROWN ESTATE 42
VOTORANTIM 43
Aegon N.V.

INTERVIEW WITH MIKE MANSFIELD

Aegon started its <IR> journey in 2011 and along this journey, it has found that progress has become easier.

Management buy in, which was strong at the beginning of the <IR> journey, solidified as the company saw benefits over time. A move toward a more integrated approach to management was also timely for the financial services company in the wake of the financial crisis.

"We were initially very focused on talking about our capital position and explaining how we would weather the financial crisis, but in the long run, survival is not enough. We had to convince people that we are the company they want to do business with, invest in and work for."

KEY BENEFITS RELATED TO <IR>

Aegon has experienced a shift in internal thinking about value creation, with more understanding of how customer loyalty and human capital are linked to long-term financial performance. The company’s 2013 report was organized around its value creation process.

For some of the company’s life insurance and pension products, the value creation process can be up to 40 years long. Customer loyalty is therefore critical to the business’s sustainability. This is made clear not only in Aegon’s Integrated Annual Review, but also in investor relations presentations that focus on customer relations.

KEY CHALLENGES AND LEARNINGS FROM PROCESS

Aegon’s experience is that the <IR> journey takes time. At the beginning, it is necessary to understand people’s appetite for talking about multiple dimensions of performance as part of corporate reporting. The true goal, however, is to move the needle and shift the default from talking solely about financial performance to a more holistic discussion on performance. Aegon has found that it takes time to change how people talk about the company. It’s also critical to have successes, to see benefits, and build on those.

In Aegon’s case, it has helped that some investors see the benefits of <IR>. Gradually, over time, there has been an increase in the number of questions at its annual general meeting relating to matters beyond just financial performance.

Aegon’s experience is that reporting costs have not increased with <IR>, and that the time spent on reporting has also not changed significantly. In the initial phase of its journey, quantitative non-financial data was collected and managed using the same systems as for financial data; qualitative data was collected using a MS Word based survey. As the broader set of performance data has become more robust, the company sees a need to invest in specialized new data systems.

OTHER IMPACTS OF <IR>

Part of Aegon’s patient, incremental approach to <IR> is a wariness of collecting and reporting information purely for the purposes of reporting. Instead, the reporting team has worked with internal expert groups to get data that is not only based on solid methodologies, but is useful internally. Over time this has had an impact on the internal management of talent and customer relations, with a strong focus on sharing best practice between geographic regions.

“If non-financial data is used for internal management purposes, it is reviewed more closely, and better systems are developed to capture and store it,” Mike Mansfield notes.

As the company has become more integrated, there have also been structural changes. The sustainability unit has become part of a larger Strategy and Sustainability department, keeping environmental and social management up front and centre.
At Akzo Nobel, a chemical company based in the Netherlands, <IR> was one part of a process of restructuring and transformation. The goal was to create a more streamlined, focused business with more synergies in decision making.

The company knew that decisions related to its people and resource efficiency were as important to its future as financial decisions, and wanted to move toward a process that reflected this interconnectivity.

The transition began with integrated thinking among management and was formalized in an integrated strategy. Eventually, the integrated strategy was articulated in an integrated report.

**KEY BENEFITS RELATED TO <IR>**

Overcoming some of the initial challenges in <IR> led to some of the most important benefits in Akzo Nobel’s experience. Initially, aligning data streams was a challenge.

“Financial people were used to more frequent reporting,” notes Akzo Nobel’s Ivar Smits.

However, once the company made initial investments in systems and people, and created new processes for better non-financial data, it began to get new insights into its own operations.

“<IR> led to additional internal insights, which led to better management decisions in some cases. We see the most material non-financial information as leading indicators of financial performance.”

**KEY CHALLENGES AND LEARNINGS FROM PROCESS**

Akzo Nobel believes its own management has become better at using non-monetized information for decision making, but there is less evidence that financial analysts following the company are making this transition. Investor relations meetings are still largely focused on financial issues. Because analysis of ESG issues can often happen in a process separate from financial analysis, Akzo Nobel has begun holding conference calls for ESG analysts.

Going forward, the company is considering how to report in ways that encourage investors to better understand the company’s future. For instance, carbon is not reflected in financial models because the immediate regulatory future is quite uncertain. This oversight, however, leaves important information out of the overall picture.

“We see more use of monetization as a natural next step in the integrated report,” Smits says. “This is needed to really change minds.”

While the company sometimes receives positive feedback on the way that it uses integration, even after several integrated reports it has yet to receive much constructive criticism from report users. Many of Akzo Nobel’s plans for future reporting improvements involve connecting data to further improve internal decision making.
AngloGold Ashanti

INTERVIEW WITH STEWART BAILEY

AngloGold Ashanti, based in South Africa, published its first integrated report in 2011 in accordance with new requirements for companies listed on the Johannesburg Stock Exchange. Today, the company publishes a ‘suite’ of reports that includes an integrated report, a financial report and a sustainability report.

The integrated report has become the centre of gravity for all of the company’s reporting. The intent is to streamline or rationalize the entire reporting suite going forward, which will result in the integrated report having even more importance over time.

“Our first integrated report was really a cut and paste job, combining our financial and sustainability reporting,” says Stewart Bailey, Head of Investor Relations and Group Communications. “But it was done in good faith. At that time we thought that that was an integrated report, and we have tried to improve every year.”

Over time, the information in the integrated report has become more connected. The company’s most recent report begins with a detailed business model, including an explanation of how the company’s mining and refining processes for minerals result in wages, tax payments and community investments in addition to returns for shareholders.

KEY BENEFITS RELATED TO <IR>

While the process and presentation for the company’s integrated report has evolved over time, one of the biggest breakthroughs involved linking executive remuneration to the company’s integrated strategy.

“We realized that remuneration was the centre pole in the circus tent,” Bailey explains. “This eureka moment was a direct result of Integrated Reporting. It forced us to more clearly articulate behavioural links.”

AngloGold Ashanti has conducted investor roadshows specifically about remuneration issues, which have been well received.

The company has long had a significant level of internal integration. Moving to <IR> has helped make these management strengths more visible externally.

The company’s Board has also found <IR> helpful as it gives a good overview of the company, including multiple dimensions of performance.

Integrated Reporting... forced us to more clearly articulate behavioural links.
2013 was a year of particular upheaval in the gold industry. Prices dropped precipitously and, like many of its peers, AngloGold Ashanti went through a significant upheaval in its business. In such an environment, the company found that the process of Integrated Reporting helped it to regain its bearings and clarify its future direction for employees and external stakeholders. The company is convinced that its Integrated Reporting (IR) evolution has helped employees understand strategic changes.

**KEY CHALLENGES AND LEARNINGS FROM PROCESS**

AngloGold Ashanti’s advice for companies beginning the process of Integrated Reporting: start now. It takes time to iron out kinks in systems and processes. In reporting, as in many other things, companies learn best by doing. “Be transparent,” advises Bailey. “Tell people you are starting a reporting journey.”

**OTHER IMPACTS OF <IR>**

Integrated Reporting is a listing requirement for AngloGold Ashanti, but they have found it to be both timely and valuable. Labour issues and community relations are no longer viewed as ‘soft’ issues in the extractives industry. While responsible investors may look at some of these issues in greater detail, all investors are interested.

“Non-financial issues make up as much as 95% of discussion in many of our investor relations meetings,” Bailey notes. “If these things aren’t managed properly, you no longer have a business.”
When we did an integrated report for the first time, we only had a very vague idea about <IR>,” says Suresh Gooneratne, DIMO’s CFO. “For instance, we didn’t have the same understanding of the word value as we do now. Until our fourth integrated report, we didn’t have a clearly articulated value creation model, or what some may call a business model.”

Gooneratne explains that being a part of the IIRC’s Pilot Programme helped the company in its journey. Interaction with companies involved in <IR> helped the company think about its reporting in new ways, which led to improvements in each subsequent report.

KEY BENEFITS RELATED TO <IR>

For DIMO, the biggest benefit of <IR> has been the ability to look at its business, and its value creation process in a new way.

“Five years ago, if we spoke about value, we would look at our value added statement. We would have looked at what is monetized,” Gooneratne says. “Now, we look at value added through non-monetized capitals as well.”

This has led to changes in the way that the company looks at non-monetized capitals. Efforts are being made to take non-monetized capitals into account in decision making much more than before. In the past, the main focus of internal management reporting would have been the profit and loss statement.

Today, the company looks at the addition of non-monetized value too – whether or not this can be quantified.

This broader approach to value creation has led to a change in the way DIMO interacts with key stakeholders. As the company focuses more on non-monetized capital, it has begun to focus more on key stakeholders and its interests.

Previously, when we did sustainability reporting, we primarily talked about stakeholders from a ‘license to operate’ perspective. That has changed. Now stakeholders represent something much more integral to our business – a capital stock.

DIMO believes that this evolution in thinking about value creation is changing its internal management and its relations with stakeholders, particularly suppliers. This evolution will also form the basis of the company’s reporting over the next three years.

KEY CHALLENGES AND LEARNINGS FROM PROCESS

DIMO’s report is externally assured using the AA1000 process and this has been an important part of DIMO’s journey. Initially, the company had trouble finding options for assurance of an integrated report.

Gooneratne says the quality of its conversations with its assurance provider have changed as their reporting has evolved.

“Oh, course, verification is done using standards that focus on different qualities of a report. But, companies don’t work like that; they work as complex entities. In time to come, the length and the breadth of assurance services should expand,” Gooneratne explains.

DIMO believes that a key determinant in how fast it advances in integrated thinking and reporting largely depends on how well the company adopts processes to include non-monetized value into decision-making processes and how well integrated thinking is internalised. To achieve this, the involvement of top management is key.

“We know that when employees are engaged, the value the company creates increases. But these pieces of information come in from different systems,” Gooneratne explains. “Top management has to train their mind to think differently about the organization, and about how information is used and analyzed.”

In the longer term, DIMO hopes to integrate its quarterly reporting as well as its annual reporting. The company believes that the annual report needs to be refined further before quarterly reporting is integrated.
Enagás, the technical manager of Spain's gas system and the main carrier of natural gas in Spain, became interested in <IR> because it was struggling to achieve its reporting objectives using ‘traditional’ reporting formats.

<IR> has helped the company make its reporting more effective by providing a better framework for explaining how ESG issues are integrated into core business management.

Enagás's reporting has, for several years, included both financial and non-financial key figures at the beginning of the report. The company's 2013 report has a value creation section, explaining how the CSR strategy is integrated into the business plan. At over 400 pages, the company's 2013 report is lengthy but very complete, with consolidated financial statements and audit and assurance reports. Appendices referencing how the report complies with the IIRC and GRI frameworks are also included.

"The annual report is verified externally. Having a checklist for the IIRC Framework was suggested by our assurance provider to help report users assess how well we adhere to The Integrated Reporting Framework."

KEY BENEFITS RELATED TO <IR>
In addition to an increase in internal collaboration between teams, Enagás has also made some changes to internal management structures in line with its changes to external reporting. One example is that risk management used to have a different reporting structure – now it is integrated with reporting processes and risk management is properly linked to strategy.

Enagás is also convinced that investors now have a better understanding of the company’s strategy and have more confidence in its long-term future. More detailed reporting on the company’s business model has helped to make Enagás’s role in the natural gas value chain clearer, particularly to investors outside of its home market.

KEY CHALLENGES AND LEARNINGS FROM PROCESS
One of Enagás’s challenges is that ESG rating agencies want a lot of information that the company does not deem to be material. Enagás has found, however, that it can only get ‘credit’ for information requested if it is reported publicly. The company is addressing this problem by including all ESG information requested by primarily ESG analysts, even if it’s not considered as material, both as an appendix in its integrated report and on its corporate website.

Enagás notes that it still has work to do, and that its reporting is evolving. The company is committed to doing a single report that includes all material information, but it hopes to be able to improve the conciseness of its presentation.
Eni, the Italian oil and gas company operating in 85 countries around the world, was one of the pioneer companies to publish an integrated report. The company’s <IR> journey began in 2010, and its 2013 annual report is its third integrated report.

<IR> allows Eni to represent its sustainable business model in all its detail, highlighting its ability to generate sustainable value over time for stakeholders and leveraging the competitive advantages of the company in deploying its strategy. At the end of the day, the launch of the IIRC had a name: integrated thinking which is the most relevant result of the integrated report for the Eni team.

The biggest challenges for Eni on its <IR> journey have been in internal processes and procedures. This has led to greater collaboration across units within the company – particularly relating to the development of the company’s business model and integrating the planning process. A multi-functional team has been set up to share different skills and information and to define integrated disclosures.

“Eni has always leveraged non-financial levers to reach operational and financial targets. This is the way we do business, but, for years, the logic of organizational silos has prevailed. Thanks to our journey towards <IR>, the review of practices to facilitate cross-fertilization has begun.

KEY BENEFITS RELATED TO <IR>

Eni believes that its Board has benefitted from having more information that goes beyond its financial performance and outlook. Our business naturally has a long-term outlook because the company has very long-term operations and assets. To guarantee sustainable business growth, non-financial aspects must be considered. <IR> allows the company to represent the connectivity between financial and non-financial KPIs, mainly on strategic aspects.

The company also feels that the process of coming to internal agreement and reporting on its business model has been useful. For all six capitals, Eni reports on what actions are in place to enhance each capital. These actions relate to value creation for society and for the company. A future goal is to operationalize this information, with more KPIs related to value creation.

The move to <IR> has also led Eni to disclose its strategy in greater detail, and link more information to its strategy. In its 2013 report, for example, the company reported on links between key risks, and risk management and strategic objectives.

The integrated report discloses also how the company is progressing in its strategy. That is to say that the performance of the year is compared to the strategic goals announced to investors, highlighting the main efforts put in place to reach targets announced by management. In this way, <IR> adds value by linking information...
reported in the strategy presentation made by top management to the financial community to the current year performance.

Eni believes that more transparent disclosure, and improving connectivity between reported information, is useful for investors as well as for all other stakeholders.

KEY CHALLENGES AND LEARNINGS FROM PROCESS

The most important challenge for Eni to develop its reporting is to work on connectivity and integrated KPIs. As part of this process, it is searching for the right method to quantify its sustainability impact to explain how pursuing sustainability objectives create value for the company.

The company sees that non-financial performance drives many business objectives, and wants to better understand and explain the links. For example, Eni knows that increases in production are linked to skilled people benefitting from training. Being able to quantify this link, and report on it, is an example of how the company seeks to improve its integrated management and external reporting.

One of Eni’s key learnings is that <IR> is mainly for the investor community. The company sees its integrated report as its primary reporting document, but continue to have a separate sustainability report with information for other stakeholder groups.

Eni, like many other IIRC Pilot Programme organizations, has found it challenging to achieve conciseness with its integrated report. It has linked several other documents to the report in an effort to report comprehensively but to streamline the main document.

Since 2011, Eni’s annual report has included Consolidated Sustainability Statements, a description of the main sustainability performance drafted in accordance with the Global Reporting Initiative G3.1 Sustainability Reporting Guidelines.

Eni believes that companies should make investors and other stakeholders aware of the importance of integration, and should find ways to explain the process and use of <IR>.

Currently, there is evidence that stakeholders are just at the very beginning of the journey towards appreciating companies’ integration efforts.
There are no legal obligations to do any non-financial reporting, but as a knowledge organization, EY plays an important role advising clients on corporate sustainability, sustainability reporting and <IR>. EY is actively contributing to, for example, the adoption of robust reporting and accounting standards that enhance the transparency of every form of capital that influences a business, not only financial but also natural, social and intellectual capital.

EY therefore see its clients as an important target audience for its reporting, and want its reporting to serve as a model for other reporters. EY’s third Integrated Annual Review was released in September 2014.

As EY’s Integrated Annual Review has evolved, the report has become more concise and, it believes, more useful to key stakeholders. The firm’s first integrated report included the full financial statements. These have now been removed from the integrated report and are presented in a separate report. Apart from these there is also the firm’s transparency report, which is very compliance oriented and a separate GRI Report. All four reports are published on a special annual report website and are interlinked to increase the connectivity.

“Our main goal was to produce an annual report that is more understandable. We found that if we made a concise report with key highlights of our strategy, it gives our stakeholders a better picture of who we are,” says Carla Neefs, Senior Manager for Cleantech and Sustainability.

Financial auditing accounts for only 40% of the firm’s revenue. Moving to a more concise integrated report has helped the firm do a better job of explaining how it creates and adds value through other work, such as tax and advisory services.

In the 2014 report, EY was focusing on improving its ability to identify the impact of its service offerings on all relevant capitals.

**KEY BENEFITS RELATED TO <IR>**

At EY Netherlands, <IR> has improved collaboration within the organization, as well as increasing understanding of value creation and how the strategy is linked to financial and non-financial performance. This is very important for EY, because providing integrated assurance and advisory service offerings, linking management and measurement of financial and non-financial performance is part of its business.

* Since this interview Carla Neefs has taken on new roles, including at SBM Offshore
EY Netherlands has also benefitted from the shift to <IR> in terms of stakeholder relationships. As the firm’s reporting has changed, stakeholder consultation has increased and become more structured.

Finally, EY Netherland’s Board has developed a broader understanding of how the firm creates value within Dutch society. As EY is part of a global organization, the strategy is globally defined but applied to the Dutch context. As the Dutch firm’s reporting and thinking about societal value creation has changed, its approach to implementation of the global strategy has also changed.

**KEY CHALLENGES AND LEARNINGS FROM PROCESS**

EY’s most important learnings have been changes in the way it thinks about materiality, moving from a sustainability-driven approach to an integrated approach which is more linked to business relevance.

“Working with materiality from an integrated perspective drives you directly toward the core business,” says Neefs.

Neefs added that the process of looking at corporate strategy from an integrated perspective is much more interesting, and that EY Netherlands has also developed more awareness of the interaction between financial and non-financial performance.

“Our financial people are learning how non-financial issues impact financial performance. We are really learning from each other.”
Eskom

INTERVIEW WITH LELANIE SHERMAN AND JACOB BUYS

Eskom, which has been reporting on non-financial performance (including sustainability information) for more than 20 years, has just released its third integrated report. Eskom’s purpose is to provide sustainable electricity solutions to grow the economy and improve the quality of life of people in South Africa and the region.

As a state-owned utility that provides more than 95% of South Africa’s electricity, focusing on the needs of multiple stakeholder groups is second nature to the organization, and critical to running its business.

Eskom is unusual in that it produces both annual and interim integrated reports. The annual reports include detailed information on Eskom’s business model, leadership and governance as well as historic performance and future outlook, while the interim reports are much shorter and focused on performance updates for the six months.

Within the last year, Eskom has expanded its disclosure on leadership and corporate governance, including disclosing some of the key decisions made by the executive committee and board about some of the key risk areas, seeking to provide more context to Eskom’s reported information.

KEY BENEFITS RELATED TO <IR>

Because of the changes in South Africa and in the power sector, Eskom is juggling various trade-offs and challenges. It is therefore difficult to attribute changes, in stakeholder sentiment for instance, solely to reporting.

One internal change that the company is able to tie to <IR> is a shift toward integrated internal business reporting.

By applying the <IR> principles to the quarterly shareholder’s report, the report became more streamlined and focussed on material items. Eskom also uses the same teams, same format and same processes to produce the quarterly reports and the interim and integrated reports – therefore consistently improving the process.

“...You really have to align internal reporting with external reporting. We began by focusing on our quarterly internal reporting which is submitted to our shareholder (government) and now we are changing our monthly business reporting to be more integrated.

Previously, the company’s monthly consolidated internal reporting had been mostly about financial performance, but during the last year, Eskom has started bringing in a broader range of information into the consolidated monthly reporting – demonstrating how technical performance impacts the financial results, and vice versa.

The company has also found that the streamlined, comprehensive nature of the integrated report makes it a good reference point and ensures “one version of the truth”. Public inquiries are often answered by referring to the report. This saves time and also serves as a check that the report includes the information that key stakeholders care about.

KEY CHALLENGES AND LEARNINGS FROM PROCESS

Standardizing processes and data is one challenge that Eskom has successfully tackled, although it requires constant work and focus. The company’s <IR> process is driven by a steering committee which includes members of the executive management team and is chaired by the Finance Director. Content is then gathered from a working group of 50 data and information owners from across the organization.

The company underwent a standardizing and optimising process called “Back to Basics” in 2010, before it started its <IR> journey, and this has helped to ensure data gathered through the working group is of a high quality. Eskom has increased the number of KPIs that are subject to assurance by its external auditors, and has moved from limited to reasonable assurance, as its internal processes improved. Currently, almost all of its KPIs disclosed in the integrated report are subject to reasonable assurance by its auditors.

“We have a rule that if we don’t stand by a number 100%, then we don’t publish it,” Sherman said.

One challenge is to include numbers that are externally sourced where Eskom cannot verify the data, such as indirect job creation or economic impact. This is something the company is working on as part of its future reporting development.

Like other <IR> Pilot Programme organizations, Eskom has found that commitment from the top is important. Eskom’s commitment to <IR> and to transparency – has been driven by its executive management, which helped eliminate challenges for the reporting team. Winning local reporting awards has helped raise the visibility of reporting within the organization, and increased involvement.

* Since this interview Lelanie Sherman has joined communications company Greymatter & Fitch.
Gold Fields

INTERVIEW WITH SVEN LUNSCHÈ

Gold Fields, a mining company listed on the Johannesburg Stock Exchange, is required to prepare an integrated report by the JSE Listing Requirements which have adopted the King III codes of corporate governance.

While regulatory requirements were an impetus in moving the company in the direction of <IR>, it was also an ideal way to communicate the socio-economic benefits of its business and to address ESG issues related to mining and economic development in communities where it mines.

“Integrated Reporting helps us provide a better picture of the total value we generate for society – not just financial value.

As Gold Fields’ <IR> has evolved from 2010 to 2014, the company’s Integrated Annual Report has become more concise, and has fallen from over 300 pages to about 120. While financial reporting is a requirement, detailed financial statements have been removed from the Gold Fields’ Integrated Annual Report. The company produces a separate Annual Financial Report to meet accounting and governance requirements.

“Certain types of investors want a lot of detailed financials and remuneration information, but most stakeholders want an overview,” Sven Lunsche explains.

The next evolution in Gold Fields’ <IR> will be Quarterly Reports of Non-Financial data, which will be a first in the mining industry. This is due to significant investments in this area to ensure that the data quality of non-financial data is treated with the same rigour as financial data. Gold Fields’ ESG data is audited by internal auditors quarterly and assured by external auditors annually.

KEY BENEFITS RELATED TO <IR>

At Gold Fields, <IR> reinforces a focus on integrated management. In mining, there is so much pressure to show value created beyond the bottom line that integrated thinking permeates performance management. Around one-third of the Gold Fields’ CEO’s KPIs are ESG-related.

The move to <IR> prompted Gold Fields’ to invest in non-financial data quality. This, in turn, has improved reporting to Board committees. Board reports are more extensive and more structured, with a far broader and more holistic view providing directors with an overview of issues such as the top 5 issues raised by communities, the latest energy performance per operation, etc. Before reports go to the Board, they are approved by senior managers, who have to be familiar with non-financial performance information and community issues.

Finally, <IR> gives Gold Fields’ a framework for communicating a longer-term vision of performance. This is becoming increasingly important to investors, particularly those with a longer-term focus. One of the company’s largest investor is South Africa’s government pension fund, which has a long-term view and asks questions, for example, around safety policies, carbon emissions and social investments in adjacent communities. The company builds its integrated report around the information needs of long-term investors, such as the government pension fund.

KEY CHALLENGES AND LEARNINGS FROM PROCESS

Gold Fields has won a number of awards in South Africa and the UK for the quality of its <IR>. Still, the company sees areas for improvement. The materiality process for the Integrated Annual Report is derived from the company’s internal risk assessment. Gold Fields is looking at how it might open up the process so that the direct views of external stakeholders are reflected. In addition, the company aims to improve its ability to set and report on long-term targets.

One key challenge is managing the growing reporting burden. Reporting against many different frameworks — including the GRI, CDP (Carbon Disclosure Project) and UNGC (UN Global Impact) is very time consuming and resource intensive and the information required in these processes does not always align with the company’s <IR>. The company is looking at ways to more efficiently handle its reporting burden, and is looking at ways of using the integrated report as a basis for the other sustainability frameworks while at the same time reviewing its participation in some of these standards and frameworks.
National Australia Bank (NAB) began its <IR> journey in 2010, driven by a desire to reduce duplication of effort and content overlap in the company’s corporate responsibility and shareholder review documents.

Over the course of the company’s past four reports, NAB has focused on improving the usefulness and robustness of its broader performance data. The company has also continually focused on conciseness, as well as on the format and content its audience looks for in annual reporting.

The focus on more robust data beyond financial data and conciseness feeds into the information needs of two of the integrated report’s most important audiences: retail shareholders (NAB has more than 500,000 shareholders in total) and ESG analysts. Stakeholders can still easily access NAB’s Annual Financial Review, which it continues to produce in accordance with Australian law. The company has found, however, that ESG investors, individual investors, and employees, are not well served by the cumbersome compliance document. The Integrated Annual Review provides a more concise, holistic alternative.

KEY BENEFITS RELATED TO <IR>

As NAB’s materiality determination process is becoming more integrated, with a fully comprehensive filter for business and societal issues, this also helps change the internal conversation about strategy development.

NAB has reduced its reporting burden to ESG analysts by including the information most commonly requested in its streamlined integrated report. In some cases, the data reported has been developed as a result of open dialogues with analysts, which the company holds regularly. In addition to one-on-one meetings, the company also invites some ESG analysts to present to company leadership, which increases understanding of integrated thinking.

As NAB has been more and more able to clearly articulate its broader value creation, the company’s corporate responsibility agenda has also become more linked to business drivers.

KEY CHALLENGES AND LEARNINGS FROM PROCESS

NAB’s integrated report includes much more detailed and robust non-financial performance data today than at the beginning of its <IR> journey. The next major measurement challenge is developing a better understanding of the links between different areas of performance and value creation.

An integrated report raises the question of who the audience will be for the report. In NAB’s experience, it is essential to clearly understand the interests and expectations of key stakeholders.

“We never lose sight of what KPIs and information is meaningful within our organization,” notes Lauren Owens, Corporate Responsibility Performance Manager. “You want to avoid doing reporting for reporting’s sake.”
More than ten years ago, Natura, a Brazilian-based cosmetics and personal care company with a direct sales model, was an early adopter to ‘combined reporting’.

“Our ‘combined reporting’ was not tied to integrated management,” says Jose Wanderley, Natura’s Corporate Finance Controller. “We would collect data for the Annual Report, but some of it was not actually tied to the company’s management.”

At the urging of the company’s executive committee, Natura began a rigorous process of moving towards integrated thinking and integrated management in 2011. The outcome of this process has been the company’s first two integrated reports – although Natura still doesn’t consider that its report is fully integrated. It already has many aspects of the <IR> Framework such as value creation and risk management.

The move to integrated thinking involved meetings held in every unit throughout the company to discuss all material performance indicators for the business together.

“The Board was very involved in the process of paring down the company’s KPI structure to focus only on those KPIs that would be useful in decision-making and value creation,” Wanderley explains. “For instance, we’d previously reported the average salary of our employees in Brazil, compared to the average salary in Argentina and Columbia. But we don’t make management decisions based on this.”

KEY BENEFITS RELATED TO <IR>

Five controlling shareholders own 60% of Natura’s shares while the other 40% are publicly traded. The five controlling shareholders are very interested in creating social as well as financial impact through its investment. These shareholders believe that the company is on the right course to achieve both objectives with its move to integrated thinking.

At Natura, integrated thinking and reporting drive a focus on both financial success and sustainable development. Bonuses for executives are tied to strategic sustainability objectives – even if financial results are on target, failure to achieve a certain level of performance against sustainability objectives results in no bonus payment.

Other stakeholders have also reacted positively to Natura’s new reporting, which is sent to investors, suppliers and government entities. As the company’s reporting has become more focused on strategic, material issues, it has become more streamlined. Stakeholders report that they find it easier to use the company’s revised reporting.

Since the company’s move to integrated thinking, employee surveys have shown a continuous increase in employee perceptions that Natura’s business benefits society. Natura believes that this perception will help in managing staff turnover, which is linked to the company’s profitability. The company also believes that integrated thinking and reporting have increased the value of its brand due to a more positive perception of the company in society.

Finally, Natura has seen an impact on its investor relations efforts. While the company once made significant efforts to attract sustainable and responsible investors, now these investors are seeking out Natura.
KEY CHALLENGES AND LEARNINGS FROM PROCESS

The move from very extensive, comprehensive reporting that was not reflective of the way the company managed to a more streamlined, strategic approach did make many employees uncomfortable initially. Natura was the first company in South America to adopt the GRI framework in 2000, even before it went public, because of its belief in the importance of disclosure and transparency with stakeholders. “We were approaching information in a new way,” Wanderley says. “Many people had been involved in collecting and presenting data on KPIs that we decided not to continue using. It took six to eight months for people to understand what material information was.”

While Natura has considerable experience with non-financial data, it still believes its data processes can improve. One benefit of collecting less data is that it is easier to analyse and manage performance with a smaller data set.

OTHER IMPACTS OF <IR>

One of the company’s newest products, a low-priced liquid soap called Sou, was created to be 50% of the cost and have only 70% of the environmental impact of similar products. Sou has been a significant success, and competitors have rushed to produce something similar.

“We are starting to believe that an integrated decision is a better business decision. We believe we will see even greater benefits in the longer term.”

Another very important impact is that <IR> improves Natura’s understanding of risks and opportunities associated with its business. Furthermore, it helps the company’s investors by providing a framework that allows for comparability across an investment portfolio.

ADVICE FOR OTHER REPORTERS

In Natura’s experience, it is critical for executive management to believe in integrated thinking – and for the integrated report to come after integrated thinking has taken root.

To facilitate change management, the human resources team was involved in all board and management meetings where KPIs were assessed, so that KPIs could then be rolled out in performance assessments and compensation plans. This helped to embed integrated thinking, but it was a significant change for a company that had been working with sustainability for many years.

Patience is also a very important factor. It takes time for the necessary change management inside the company to have an impact on thinking. “Being part of the IIRC Pilot Programme helped tremendously,” Wanderley notes.
New Zealand Post

INTERVIEW WITH DAWN BAGGALEY

New Zealand Post used to be very compliance orientated with its annual reporting but in the last few years has moved to <IR>. The company is a state-owned enterprise owned by the New Zealand government, that offers post, courier and banking services.

“Reporting was not previously seen as value creating. It was something we had to do.”

Dawn Baggaley describes her role as the convener of New Zealand Post’s thinking and reporting steering group. The organization has a number of roles responsible for strategy but does not have a dedicated strategy department, and the integrated thinking and reporting process has helped shape and drive strategy at a time of tremendous change.

Like many postal services, New Zealand Post has seen a large drop in post volume and corresponding revenue. Remaining profitable in the face of such changes has involved reducing mail frequency and closing facilities in parts of the country, eliminating jobs.

“We have to make a profit, but in the current environment, that has meant a lot of redundancies and a lot of change,” Baggaley notes. “<IR> does not influence the emotional impact of these changes, but it does provide a framework for talking about trade-offs between cost savings and social relationship value.”

Because the <IR> process and the related efforts to embed integrated thinking have helped the organization think more strategically, New Zealand Post is convinced that <IR> has led to better decision making.

“Our CFO developed a business plan using the six capitals model,” Baggaley says. “It is helping people internally understand the long-term non-financial impacts of certain decisions.”

In addition, New Zealand Post is convinced its reporting has improved, and that this has implications for stakeholder relations. Because reporting had been considered a compliance issue, it was initially difficult to get people involved – particularly heads of operational units. There is now a growing feeling that the <IR> process is creating something of value to stakeholders.

In New Zealand, as in a handful of other countries such as France and Bhutan, the government is looking beyond GDP and considering broader and more holistic ways of measuring economic growth and economic impact. The New Zealand Treasury has expressed interest in New Zealand Post’s reporting, seeing <IR> as part of a long-term change that is needed to put economic growth in the appropriate societal context.

Because New Zealand Post is the first business to use <IR> in New Zealand, not all stakeholders immediately understood the value of the organization’s new reporting.

“We are not using GRI indicators now, although we may again in the future,” Baggaley notes, “and a lot of people are still used to the GRI model. But our report is easier to read and understand now.”

One structural change that New Zealand Post made was to move the required financial statements to a second volume, and to report on strategy and the six capitals in the first volume of the report. This has created a concise overview that is useful for all stakeholder groups.

Going forward, Baggaley sees New Zealand Post’s reporting evolving as the organization’s integrated thinking evolves. While the organization has been working on its materiality determination processes, there is still more work to be done on materiality. Using more accessible language is also a priority. One unexpected benefit of <IR> at New Zealand Post has been the appeal internally, and how the change in reporting has boosted internal understanding of changes taking place.

“More people have opened up to the idea of managing non-financial issues,” Baggaley says. “More people now understand the financial impact of what were previously considered sustainability issues.”
Novo Nordisk recently published its 11th integrated annual report. The Danish-based pharmaceutical company, the world’s largest producer of insulin, began reporting environmental information in 1994. The company’s first social report followed in 1998.

The impetus for <IR> came when the company management and board of directors decided to update the company’s articles of association to state: ‘The Company strives to conduct its activities in a financially, environmentally, and socially responsible way.’ The intent was to convey a clear message to investors about how Novo Nordisk does business.

While the first attempt at <IR> was essentially a combined report, the company has worked to further integrate performance reporting and management ever since. Notable milestones include the creation of ESG notes in 2004 and the creation of social and environmental statements in 2009.

For Novo Nordisk, <IR> is the external, tangible expression of its strong commitment to managing its business in a long-term, holistic approach for the benefit of multiple stakeholder groups. The company sees this commitment as aligned with the principles of its founders, including a doctor who started the company for the purpose of saving the lives of diabetics.

KEY BENEFITS RELATED TO <IR>

Novo Nordisk sees considerable benefits to its approach to integrated management. This approach is attractive to long-term investors, it is of benefit in stakeholder relations, and it is a powerful tool for attracting and retaining talented employees in a very competitive industry.

“How Novo Nordisk chooses to report reflects how we are viewed in the world. We think that our reporting approach has fostered goodwill, which makes us more resilient as a company,” Cora Olsen says. “However, we don’t see <IR> as optional. It is so closely tied to how the company is managed.”

Novo Nordisk’s integrated thinking has also had an impact on its sales and business model. As a pharmaceutical company, Novo Nordisk has long understood that its most important impact is improving and extending quality of life. Measuring this, however, and reporting this impact, is a significant challenge, particularly because there is no direct interaction between the company and the ultimate beneficiaries of its products. In an attempt to measure the social impact of the company’s business and products, the <IR> team decided to come up with a methodology to report the number of people treated with Novo Nordisk’s diabetes care products.

In its 2011 integrated annual report, Novo Nordisk reported the estimated number of patients treated for the first time, along with sales and earnings information. The number of patients treated was one of the main topics presented by the company’s CEO at the AGM in 2012. The company had long reported on its market-leading share of the diabetes care market, and on the growing number of people worldwide suffering from diabetes. Now, the company was reporting on its contribution to managing a global epidemic.

Once the company began reporting the number of patients treated, it began discussing how that number could be raised. A long-term target was subsequently set with the ambition to nearly double the number of patients reached from 21 million, reported for 2011, to 40 million people in 2020.

The goal is to enable more people with diabetes to live better lives.

“Setting that target created internal pressure to complete more transactions in developing countries, even at lower margins,” says Olsen. “It will be a challenge to reach the target – ambitions are high and we believe we can do it.”

In this case, Novo Nordisk’s desire to improve the transparency of its social impact through reporting has led to adjustments in certain aspects of strategy.
KEY CHALLENGES AND LEARNINGS FROM PROCESS

Novo Nordisk is using an estimated number of patients reached, based on a methodology which uses treatment guidelines in different parts of the world and the volume of insulin sold, to drive its business. Olsen notes that there is often a significant amount of estimation in financial reporting.

“If you are going to use non-financial – or what I call pre-financial data – in management reporting, it’s important that the data is good. We have made significant investments to make sure that we have confidence we can use the data we have for decision making. This focus on data quality is, by itself, a driver of materiality discussions. The company is only willing to invest in data that relates to understanding value creation.

The company is resistant to reporting information just because it is available and reportable; quality and the usefulness of information are paramount. Novo Nordisk’s board insists that the integrated annual report remain very brief and concise, yet complete. In 10 years of <IR>, the company has never produced an integrated annual report longer than 120 pages, including financial, social and environmental statements and notes. Novo Nordisk does not produce an additional financial or sustainability report, but does continue to issue an annual Communication on Progress to the UN Global Compact.

Despite Novo Nordisk’s success at integration, it still views it as a challenge. Its experience is that true integration cannot be done overnight. Full integration of management systems is an ongoing process that takes many years.

“Change in management systems is always incremental,” Olsen explains.

Finally, Novo Nordisk has found that language can be a barrier to the understanding and communication of integrated performance. Stakeholders have different understandings of some of the terms used in reporting—particularly ‘sustainability’.

“It’s not possible to talk about sustainable business without talking about financial performance,” Olsen says.

HOW ARE THE COMPANY APPLYING WHAT THEY’VE LEARNED IN THE <IR> PROCESS?

Developing good aggregate ESG data is an important part of <IR> and is helpful in managing overall strategy. Sometimes, however, aggregated data is not the right approach.

In the past few years, Novo Nordisk has developed an approach to measuring shared value creation that focuses on the company’s impact in specific countries, and within the context of specific health care systems. This information is not aggregated globally, and is therefore supplemental to what is reported in the company’s annual integrated report <IR>.
PwC Netherlands

INTERVIEW WITH ROBERT VAN DER LAAN

PwC Netherlands, like all large accounting firms, is a partnership and therefore not subject to the disclosure regulations of publicly listed companies. The firm does have a long history of disclosure, but primarily financial disclosure.

Because of rising stakeholder pressure on the accounting profession in the Netherlands, there is growing pressure to increase transparency and accountability. It is this stakeholder pressure that has driven PwC’s own reporting evolution.

“Even though we are not publicly held, sometimes it feels as though we are,” says Robert Van Der Laan, Partner, Integrated Reporting. “We decided that we needed to improve our reporting to address stakeholder interests, and, since we advise other companies on reporting, we wanted to make sure our reporting was also an example.”

The firm’s 2012-2013 report includes a business model which shows the company’s most important impacts and a chapter on value creation.

KEY BENEFITS RELATED TO <IR>

PwC has found that the process of producing an integrated report has resulted in better internal coordination and the breaking down of internal silos. The full board is also now involved in stakeholder dialogues.

PwC also believes that <IR> helps support the overall health of its brand and reputation. The Dutch government has asked the Dutch accounting profession to come up with KPIs linked to quality, not sales targets, and the government has threatened to intervene in designing reward systems for accountants.

“In such an environment, it’s very important to be transparent, to open up the windows and let society in.” Van Der Laan says. “<IR> has helped us do this.”

Finally, as PwC has honed its own process, focusing on the fundamentals of materiality, value creation, and outcome measurement, it finds that this has helped it be of more assistance helping client companies on its own <IR> journeys.

KEY CHALLENGES AND LEARNINGS FROM PROCESS

Despite the fact that much of PwC’s business is linked to reporting processes, some board members had other backgrounds, such as consulting, and had to be convinced of the value of some aspects of <IR>. PwC believes that its ability to create value is linked to its ability to understand stakeholders, and a constant focus on aligning with stakeholder expectations has helped the board see the value of <IR>.

In refining its business model, PwC defined nine outcomes. The ambition is to measure all nine of the outcomes outlined in its business model, but this will be a process that will take time. At present, the firm is working to measure three of the nine outcomes, and has found the process of outcome measurement to be a substantial challenge.

“ ”

ADVICE FOR OTHER REPORTERS

Van der Laan thinks that 80% of companies begin with the integrated report, not integrated thinking, and, in his opinion, this is a logical way to start.

“You don’t really understand the value until you do it. Most reports are a small step ahead of the organization, which helps move strategy forward. Companies make commitments externally, and then follow through internally.

On the other hand, he also suggests thinking not about how to improve reporting, but about how to improve a company’s management dashboard. This will have immediate benefits internally and will also drive reporting improvements.
ROSATOM (State Atomic Energy Corporation)

INTERVIEW WITH SERGEY GOLOVACHEV

ROSATOM, a state-owned enterprise responsible for implementing Russian national nuclear energy policy, has issued five public annual reports. All of them have been integrated reports.

In addition to its integrated annual reporting, the company issues a compulsory report to the Russian government, and a voluntary ecological report with more detail on certain environmental impacts. ROSATOM uses similar KPIs in its integrated annual report as in its reporting to the Russian government.

Due to its ownership structure, transparency and managing significant reputation risks are priorities in ROSATOM’s reporting process. Key audiences for the company’s integrated reports are government regulators, potential customers, international business partners and its employees. Particularly in the wake of the 2011 nuclear incident at the Fukushima plant in Japan, and distrust of the nuclear industry, ROSATOM put a lot of efforts into its transparency in particular about how it operates and how it complies with international norms and standards.

ROSATOM’s reporting objective is primarily to address the information needs of external stakeholders, stakeholder input is critical to determining the report’s content and structure. Stakeholders are involved in helping the organization to figure out the most material issues which resulted in streamlining the report from more than 300 pages in 2010 to less than 200 pages for the 2013 report. What’s more there is regular and successful practice of arranging public stakeholder dialogues which is a useful tool to get the feedback on the information disclosed (or planned to be disclosed) in the report. These events contribute not only to the report’s quality, but to ROSATOM’s overall transparency and reputation and thus raise public acceptance of the nuclear industry in Russia.

KEY BENEFITS RELATED TO <IR>

ROSATOM’s reporting seeks to achieve a high level of compliance with a number of global standards, including the <IR> Framework and the GRI reporting framework. The company has found that this commitment to comprehensive reporting has helped the organization improve its dialogues with environmental NGOs.

“We disclose everything that is asked of us, and we follow through on our disclosure commitments,” says Sergey Golovachev. “This has changed the tone of discussions.”

KEY CHALLENGES AND LEARNINGS FROM PROCESS

While <IR> is supported by ROSATOM’s management, support has not grown over time and the organization has made less progress in terms of integrated thinking and management. In contrast with many other <IR> Pilot Programme organizations, the change in reporting process has not had much impact on internal decision making.

OTHER IMPACTS OF <IR>

ROSATOM has not only undertaken <IR> but has championed support for it within Russia, leading the launch of the Russian <IR> regional network.

What we’ve seen in our stakeholder dialogues is that stakeholders did not initially understand the need for integrated reporting. This has changed over time. We are changing the understanding of best practice.
The Crown Estate

INTERVIEW WITH JOHN LELLIOTT

The Crown Estate is an independent commercial organization created by a UK Act of Parliament. It is entrusted to invest in and sustainably manage some of the UK’s most important and best loved assets. The organization’s profits go to the Treasury for the benefit of the nation.

In the Crown Estate’s first integrated report, it focused on areas that it believed would give them the greatest business benefit: the business model, material issues, connectivity, and the benefits of integrated thinking. In its second integrated report, there was more emphasis on setting out its vision and strategic objectives, understanding the markets it works in and the relationships and resources it relies on to create value.

“Financial reporting is financial reporting, and always will be,” says Finance Director, John Lelliott. "<IR> is using smarter non-financial information and KPIs and integrating these with the financial data to understand the full value that we create.”

KEY BENEFITS RELATED TO <IR>

At the Crown Estate, the biggest internal change with the integrated report has been linking business planning and strategy with the <IR> process.

"We have developed a new approach to business strategy incorporating integrated thinking, materiality and our business model. Material issues have to be part of a business planning process, in order to address the things that will impact our business.

Like many other <IR> Pilot Programme participants, The Crown Estate emphasises the quality of information over quantity and managed to make its second report even more concise than the first.

The Crown Estate has begun to develop a methodology to understand the significant value it creates beyond financial return – what it calls 'Total Contribution'. Being able to measure this value is a big step forward and The Crown Estate is working towards including this in its integrated report as it becomes more robust. The outcome is that internal and external stakeholders believe that it has a better understanding of The Crown Estate’s business model and value creation processes.

KEY CHALLENGES AND LESSONS LEARNED FROM PROCESS

"It is about working as a team. Everyone involved plays an important role and we could not have done it without them all" Lelliott says. He continues “Without a doubt, <IR> has added to our reporting costs,”

More rigorous systems, methodologies and assurance for non-financial data all increase the amount the company has to spend. For example the 2014 report included assurance of all of the KPIs for the first time.

The Crown Estate believes though that the benefits make it more than worthwhile. These include being able to tell a clear story of how it creates value and informing a more comprehensive strategy that integrates both the financial and non-financial elements of its business. Moving forward, the Crown Estate plans to improve the connectivity between the different sections of the report, develop better KPIs and ways of measuring its performance, and demonstrate how integrated thinking delivers greater value.
Brazilian-based Votorantim is a family-owned conglomerate of six different businesses. Since 2010, the company has followed all reporting and disclosure requirements for listed companies, although it is not obligated to do so.

The company produced its first sustainability report in 2010, and decided, based on feedback, that moving toward <IR> would be most relevant for its key stakeholder groups. Even though Votorantim is privately held, the company requires access to capital through banks or bond markets. Reducing the cost of capital by clearly explaining the strategies and value creation processes of all six companies in the group is one of the key objectives of Votorantim’s reporting.

One of Votorantim’s challenges is to explain six different companies in one report. The companies all have the same ideals, but have different strategies and business models as they are in different industries. The <IR> Framework is used in Votorantim’s reporting as a kind of index. Votorantim uses its business model as an index to indicate where the different types of capitals are explained for each of the group’s six businesses.

**KEY BENEFITS RELATED TO <IR>**

Overall, Votorantim believes that its reporting has succeeded in lowering the cost of capital. This is apparent in the company’s cost of borrowing and how conversations with banks have changed as the company has become more transparent.

“The feedback on our first integrated report was that information was clearer to stakeholders. Transparency has helped with bankers and investors. They understand our business better and have fewer questions.”

Votorantim has also found that working with the six capitals has led them to understand and communicate what it does in new ways. For instance, the group now tracks and discloses more information about innovation. All six companies are in commodities, so constant technological innovation is necessary to reduce the cost and increase returns in commodities businesses, this was something the group had not previously discussed with stakeholders or publicly disclosed.

**KEY CHALLENGES AND LEARNINGS FROM PROCESS**

Votorantim found that beginning its <IR> journey by doing sustainability reporting first helped the company organize information and get started.

“You need data to develop a strategy, and sustainability reporting helped put us on the right path,” David Canassa says.

While Votorantim believes that working with the six capitals has helped the organization and its board, measuring outcomes and interdependencies related to the six capitals remains a longer-term objective that it is working towards.

**OTHER IMPACTS OF <IR>**

Votorantim has found <IR> so useful that it has plans to produce seven integrated reports instead of just one. In the future, it will produce an integrated report for each of its six companies as well as the group report.
We wish to thank...


...and the following organizations

Black Sun is one of Europe’s leading strategic corporate communications consultancies. Founded in 1991, it brings together corporate reporting, sustainability and digital communications to create powerful integrated solutions for clients.

Black Sun works with companies – from small businesses to large global organizations – to produce effective communications that build greater trust and confidence with stakeholders. Its dedicated strategic research team identifies trends and best practice to provide clients with up-to-date analysis, advice and guidance.

If you would like to understand more about the work of Black Sun Plc or this research, please contact:

Sarah Myles at smyles@blacksunplc.com or +44 (0)20 7736 0011
www.blacksunplc.com

INTEGRATED REPORTING <IR>

<IR> is enhancing the way organizations think, plan and report the story of its business.

Organizations are using <IR> to communicate a clear, concise, integrated story that explains how all of its resources are creating value. <IR> is helping businesses to think holistically about its strategy and plans, make informed decisions and manage key risks to build investor and stakeholder confidence and improve future performance. It is shaped by a diverse coalition including business leaders and investors to drive a global evolution in corporate reporting.

If you would like to understand more about <IR> and the networks that you can join, please contact:

Neil Stevenson at neil.stevenson@theiirc.org
www.integratedreporting.org

ABOUT SUSAN BLESENER

Susan Blesener led many of the interviews for this report and was the primary writer and editor, working on behalf of Black Sun. Susan provides advisory services for integrated performance management and reporting to clients based around the world. She began working on integrated reporting at the World Bank in 2006 and has 20 years of experience in corporate reporting, performance measurement and management and strategic change.

Susan Blesener at susan@theartofvalue.com

FOR INSPIRATION...

If you are looking for further inspiration or want to understand what integrating reporting looks like, see the Integrated Reporting Examples Database.

It includes a getting started section with specific examples of <IR> content elements, principles and concepts as well as a new section of whole reports that have been recognized as leading practice.

http://examples.integratedreporting.org