WHAT BETTER REPORTING LOOKS LIKE

A snapshot of 50 organisations from around the world recognised for their integrated reporting

ACCA  Aegon  Aggreko  AkzoNobel  AstraZeneca  ArcelorMittal  Barclays Africa Group  Coca-Cola Hellenic Bottling Company  Cebu Property
CLP  CPA Australia  DBS  Eni  Eskom  Ferrovial  Fresnillo  Freund Corporation  Fujitsu  Generali  Go-Ahead  Gold Fields  Indra  Interserve  Itochu
Lawson  Liberty Holdings  Marks & Spencer  MS & AD Holdings  MTN Group  National Australia Bank  Nedbank  New Zealand Post  Nissay  Novo Nordisk
NYK Group  Omron  Rosatom  Royal Bafokeng  Sanford  Sasol  SK Telecom  Standard Bank  Stockland  Takeda  The Crown Estate
Tullow Oil  UniCredit SPA  Uralkali  Wacoal
ABOUT BLACK SUN
Black Sun is a stakeholder communications company. We believe that in today’s fast-moving and highly uncertain world, successful businesses are those who deliver long-term value to the people around them - their stakeholders. When stakeholders are heard, engaged and inspired, businesses are understood, trusted and supported. They are more valued by their stakeholders and perform better.

What we do
We help organisations define, articulate and communicate how they create value for stakeholders. We deliver inspiring communications that reach, engage and influence stakeholders.

Why we conduct research
We create a database of 164 companies that are recognised for their reporting from five regions across the world: South Africa, the UK, Europe, Asia/Oceania and Japan. The database is a useful reference and encourages organisations to learn from each other.

How we make a difference
We deliver inspiring communications that reach, engage and influence stakeholders. We engage and influence stakeholders.

Want inspiration?
In partnership with the International Integrated Reporting Council (IIRC), Black Sun has created and maintains a database that supports integrated reporting and thinking. The database is compiled of over 260 best practice <IR> reporting examples from 164 companies around the globe. Users can filter these examples by region, sector, content element, <IR> guiding principle and <IR> fundamental concept to ensure any specific examples are easily identified.

In this review, we provide an overview of how the <IR> Framework is being implemented by organisations recognised for their reporting from five regions across the world: South Africa, the UK, Europe, Asia/Oceania and Japan. We chose these regions for the following reasons:

- South Africa: It is the birthplace of integrated reporting and the only country in this review that has made integrated reporting a regulatory requirement.
- The UK’s strategic report legislation requirements are very similar to those of the <IR> Framework.
- In Europe, the EU non-financial reporting directive will raise the minimum requirements for organisations to report on non-financial information.
- Regional developments in Asia/Oceania suggest integrated reporting is gaining pace.
- In Japan, there is a strong market-led movement towards integrated reporting supported by government initiatives and regulation.

The newer integrated reporters, however, still struggled to articulate a sophisticated account of their businesses, or to demonstrate a true understanding of what the different elements and principles of the Framework mean to their business. Despite this variation, it has been encouraging to see that so many organisations are embracing integrated reporting and are attempting to articulate how they deliver long-term value in line with the principles of the <IR> Framework.

We looked at established regions as well as those where an increase in integrated reporting is emerging in order to provide insight into the different factors which may impact reporting. These factors include stronger or weaker legislative requirements, established integrated reporting practice and emerging market drivers. The reviews also looks at 10 organisations from each region that have come to our attention through their involvement in integrated reporting and award recognition. By doing so, we hope to highlight how organisations are reporting better by following the <IR> principles and identify where there is room for further improvement. We have highlighted the strengths and areas for development in each region, and have also included one indicator for each of the content elements to give a snapshot of how the regions compare. One indicator on its own does not equate to success, but gives us an indication of the progress in that reporting region.

What does this review cover?
In this review, we provide an overview of how the <IR> Framework is being implemented by organisations recognised for their reporting from five regions across the world: South Africa, the UK, Europe, Asia/Oceania and Japan. We chose these regions for the following reasons:

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Purpose of this review
This review is intended as a helpful source of information on developments in reporting across a few regions, which will hopefully give rise to further discussions about how the <IR> Framework can give organisations a means to tell their story better through their reporting. We hope it will be a useful reference and encourage organisations to learn from each other and share their ideas.

Building on our 2014 research
In 2014 we analysed the organisations on the International Integrated Reporting Council’s Pilot Programme to see how they were meeting the requirements of the International <IR> Framework.1 We found that organisations were using the <IR> Framework to provide a more complete perspective on performance and value. Most organisations were at the experimenting and learning stage of their journey towards <IR>, with the guiding principles proving the most difficult to get to grips with. We also observed organisations taking a diverse range of approaches to implementing the Framework. Regulation has emerged as a key driver of quality in integrated reporting. Building on our 2014 research of how the <IR> Framework is being implemented by organisations recognised for their reporting from five regions across the world: South Africa, the UK and Europe, we’ve provided a snapshot of how the regions compare.

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This review shows that there is no uniform approach to integrated reporting. The <IR> Framework has been embraced and implemented in different ways and for different reasons across the globe. The next step is for different regions and organisations to share their ideas and learn from each other. Organisations should think about how the strengths exhibited by organisations in other regions and within their own region can be used to further their own development.

The impact of integrated reporting
The impact of integrated reporting has varied across regions as different drivers impact its implementation. Unsurprisingly, those regions with the strongest regulation also exhibit the strongest reporting.

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1 Black Sun, What Good Looks Like, 1 March 2014

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The underlying importance of integrated reporting

Annual Reports have for a long time been an important part of the public information provided by organisations. Their purpose is to keep current and potential shareholders informed about organisations and their activities. In today’s society, this communication is becoming even more crucial. Organisations are also beginning to understand how the reporting process can drive positive behaviour change.

**Integrated reporting drives integrated thinking**

We are now in an age where organisations are accountable to their stakeholders, and corporate reputation is one of business's greatest assets. Stakeholders are looking for more inclusive, less risky and more long-term sustainable organisations. Organisations must, in turn, find ways to meet these demands. Business as usual is no longer enough and in order to make a real impact, organisations need to understand their own inputs, the world around them, and their effect on society and their environment, so that we can all make better and more appropriate decisions.

One of the most effective ways that we can build organisations that meet this changing reality is to use integrated reporting as a tool to promote integrated thinking as a means of decision-making. The International Integrated Reporting Council’s long-term vision is a world in which integrated thinking is embedded within the mainstream, facilitated by integrated reporting as the corporate reporting norm. This aim elevates the role of the annual reporting process to a position where it is a catalyst of change within an organisation, not merely a window-dressing or box-checking exercise.

**Integrated reporting helps to drive important behaviour change by bringing down silos and challenging management to think holistically about how the organisation creates value for its stakeholders while demonstrating the connectivity of the business model, strategy, performance and risks.**

This in turn provides proven benefits which organisations themselves have acknowledged. By identifying their material issues – matters that substantively affect the organisation’s ability to create value over the short, medium and long term – and incorporating a wider set of metrics into corporate reporting, management gains access to a higher quality of information. This helps to inform better long-term decision-making and guards against future risks in order to deliver long-term returns.

Integrated reporting is also a communications tool with external benefits. It provides clear and concise communication of an organisation’s most important and relevant issues to their investors and other stakeholders. A well-crafted Integrated Report enables stakeholders to identify how the organisation creates wider value beyond the purely financial and gives them a greater understanding of how the organisation operates. Furthermore, an Integrated Report can be used to demonstrate to stakeholders, whether they are investors, customers, communities or employees that an organisation has a clear purpose in society.

In short, integrated reporting is better reporting which in turn leads to better decision-making.

**Integrated reporting is in the mainstream – and it’s here to stay**

Since its introduction in 2013, the International Integrated Reporting Council’s (IRC) Integrated Reporting (IIR) Framework has set the standard for integrated reporting around the world. The IRC aims to promote integrated reporting as the corporate reporting norm in order to facilitate the embedding of integrated thinking within both public and private sector organisations. Following the introduction of the Framework, over 100 organisations signed up for the IRC’s Pilot Programme, a market-led initiative designed to develop and test the principles, content and practical applications of integrated reporting.

Today, the Pilot Programme has developed into the <IR> Business Network, an international network of organisations committed to the adoption of <IR>. At the same time, integrated reporting has become recognised as a driver of value creation with both internal and external benefits. As a result, we are seeing an unprecedented movement towards integrated reporting and integrated thinking. We are also seeing that elements of the <IR> Framework are moving into mainstream reporting – driven not least by legislation in some countries such as the UK and South Africa, where the inclusion of non-financial information is mandatory in corporate reporting.

**Summary of regions**

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<tr>
<th>Regions</th>
<th>Strengths</th>
<th>Key areas for development</th>
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<td>South Africa</td>
<td>Clear and concise information</td>
<td>More links needed between the business model and other content elements</td>
</tr>
<tr>
<td>Europe</td>
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<td>Clearer explanation needed of performance against strategy</td>
</tr>
<tr>
<td>UK</td>
<td>Good insight into material issues and stakeholder engagement</td>
<td>More information needed on stakeholder relationships</td>
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<tr>
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<td>Well-developed business models focused on value creation</td>
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</tr>
<tr>
<td>Asia</td>
<td>Good discussion of stakeholder engagement</td>
<td>Need to outline commitment to wider value creation</td>
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<tr>
<td>New Zealand</td>
<td>Extensive discussion of material issues</td>
<td>Need to further integrate the business model with the rest of the report</td>
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<tr>
<td>Japan</td>
<td>Strong focus on the capital by Asian companies</td>
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<tr>
<td>South Africa</td>
<td>Good insight into strategic priorities</td>
<td>More discussion needed on how market trends impact the organisation</td>
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</tbody>
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2 International Integrated Reporting Council (IRC), The International <IR> Framework, December 2013, page 4

3 Black Sun, Realizing the Benefits, September 2014

4 IIRC, The <IR> Framework, December 2013, page 4
Overall trends

What drives good integrated reporting?

The guiding principles underline the preparation and inform the content of an Integrated Report, and how the information is presented. An Integrated Report should:

- **Strategic focus and future orientation**: Provide insight to strategy and how it relates to the organisation’s ability to create value in the short, medium and long term, and its use of and effects on the capitals.
- **Connectivity of information**: Show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation’s ability to create value over time.
- **Stakeholder relationships**: Provide insight into the nature and quality of the organisation’s relationships with key stakeholders, and how and to what extent they engage with the organisation and how they understand, take into account and respond to their needs and interests.
- **Materiality**: Disclose information about matters that substantively affect the organisation’s ability to create value over the short, medium and long term.
- **Conciseness**: Be concise.
- **Reliability and completeness**: Include all material matters, both positive and negative, in a balanced way.
- **Consistency and comparability**: The information should be presented on a basis that is consistent over time and in a way that enables comparison with other organisations.

Source: IIRC, The <IR> Framework, page 5

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Source: IIRC, The <IR> Framework, page 5

In conducting this review, we saw much of the same, as well as more sophisticated, detailed and developed discussions of how organisations create wider value, beyond financial value. These discussions considered stakeholders and were used to link the report together.

Moving beyond just financial value

The <IR> Framework identifies six types of capital: financial, manufactured, intellectual, human, social and relationship and natural capital. We found a huge improvement in the identification of these capitals (often referred to as resources and relationships). Almost all organisations had some reference to the capitals in their business model and strategy. This suggests that organisations are considering a broader range of information, when thinking about value creation.

Importance of stakeholder relationships

The majority of reporters clearly identified their stakeholders and discussed stakeholder engagement activities. A third of organisations went a step further by providing a specific discussion of how they have responded to feedback from the stakeholder engagement process. This suggests that organisations are beginning to understand that their ability to create value for themselves is linked to the value they create for others.

Increased focus on materiality

The <IR> Framework challenges organisations to disclose information about matters based on their impact on value creation. Most organisations identified their material issues and almost half identified their material determination processes. Additionally, understanding of these issues and their impact on strategy, governance, performance and prospects is increasing. Some organisations integrated their material issues throughout their reports and with some even using material issues to define the report’s structure.

Connectivity of information

The more established reporters displayed clearer elements of integrated thinking throughout their reports, with links between their strategy, risks and performance. They demonstrated a firm understanding of the capitals they rely on to create value and how these link to their business model and strategy. However, organisations could improve by ensuring that connections between all of the key content elements are clear.

Overall trends

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<th>How does the organisation’s ability to create value differ?</th>
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</thead>
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Overview

As a result of the legislative requirements of the King Report on Governance 2009 (King IV), South Africa is considered the birthplace of integrated reporting and is the most developed region included in this review. There have been significant improvements in integrated reporting in South Africa since then. We expect the King IV report on Corporate Governance published on 1 November 2016 to precipitate further developments in integrated reporting in South Africa. King IV is written through the lens of value creation and the six capitals, and echoes the concept of the “three shifts” – from financial capitalism to inclusive capitalism, from short-term capital markets to long-term sustainable capital markets and from silo reporting to integrated reporting, which is advocated by the IIRC.5

As the strongest region, the reports from the South African organisations showed that they have embraced the spirit of the <IR> Framework, the guiding principles and content elements.

“We can see the increasing importance our customers and other stakeholders are putting on sustainability issues, and it is important that we can convincingly demonstrate that these issues matter for us as well and are integrated into the way we do business.” – Lakshmi N. Mittal, ArcelorMittal Chairman and CEO

Strengths

Concise and clear information

According to the <IR> Framework, an Integrated Report should provide readers with sufficient context to understand the organisation’s strategy, governance, performance and prospects, without being burdened with less relevant information.6 South African reporters were notably strong for conciseness and accessibility of content, continuing the progress made since the introduction of the Framework. In the early stages of integrated reporting in South Africa, organisations often produced long reports which were effectively a combination of the Annual Report and the Corporate Responsibility Report. However, the 10 South African reports we looked at for this report were on average 131 pages long, a drop of over 200 pages which suggests that these organisations have really begun to integrate the way they communicate their long-term sustainability. The majority of these reports were easy to read and explained industry or complex terms clearly by using visual aids and design features, presenting the information in an accessible and engaging way.

Encouragingly, the level of connectivity found in these reports implies that a degree of integrated thinking is starting to take hold within these organisations. Clear insight into material issues and stakeholder engagement

South African organisations provided clear insights into how material issues were identified, with clear consideration of stakeholder engagement and the business’ response to stakeholder issues. This helps the reader to understand the matters that substantively affect the organisation’s ability to create value over the short, medium and long term.10 Disclosures concerning stakeholder engagement also demonstrate how stakeholders perceive value, and highlight the role stakeholder engagement plays in determining what issues are material. This suggests that these organisations have a good understanding of the role of these relationships and how it impacts their value creation.

organisation.9

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100%

of organisations identified their material issues

70%

of organisations linked their material issues to their strategy
Market context integrated throughout the report
Unlike their UK counterparts whose market information was focused predominately in one section, many top South African reporters had market discussions integrated throughout the report, as well as a specific markets section. This reflects a sophisticated and truly integrated approach setting the scene in terms of the social, environmental and political context influencing the organisation’s ability to create value in the short, medium and long term.

Good level of detail provided on the capitals
In 2014, we found that the majority of organisations in the Pilot Programme did not provide detail on the capitals they rely on. However, the South African organisations we looked at for this review stood out for the level of detail given to the capitals, with insights into performance, connectivity to strategy and relation to stakeholders. We found that the majority of the reports had standalone ‘resources and relationships’ sections providing insight into the various forms of capital that the organisation relies on in order to achieve success.

Areas for development
More links needed between business model and other content elements
Although the reports had clear links between different content elements, there was sometimes a lack of connectivity between the business model and the rest of the report. However, this was not always a reflection of the quality of the business models. Some reporters used a different style of ‘storytelling’ where, for example, the value creation story or an overview of the businesses’ resources and relationships were discussed in more detail in a section separate from the business model.

Clearer explanation needed of performance against strategy
The South African reporters were found to be relatively weak with regard to linking performance to strategy, as less than half did not link all their KPIs to strategic priorities. This suggests that even some of the top reporters aren’t making it clear how they measure performance against strategy.

Organisational overview and external environment
Percentage of reports that gave information on the impact of industry or market trends on the organisation.

Business model
Percentage of reports in which the business model discussed outcomes.

Risks and opportunities
Percentage of reports that linked risk to strategy or business model.

Strategy and resource allocation
Percentage of reports that outlined long-term business objectives/priorities.

Performance
Percentage of reports that used KPIs to measure progress against strategic objectives.

Governance
Percentage of reports that linked KPIs with Directors’ remuneration.

Outlook
Percentage of reports that discussed the organisation’s outlook in detail.

Basis of preparation
Percentage of reports that referred to the IIRC.
Overview

The UK is another region where the regulatory framework is supportive of integrated reporting which is why we have examined it separately from the rest of Europe. There is a clear overlap between the UK’s strategic report regulations, introduced in 2013, which made the inclusion of material non-financial information compulsory for UK companies, and the <IR> Framework. The FRC’s Guidance on the Strategic Report provides further direction as to how non-financial information should be incorporated into Annual Reports. The strategic report regulations and the market-led integrated reporting initiative have worked together to make the UK one of the stronger regions for integrated reporting.

UK organisations recognised for their reporting demonstrated well-developed content elements and, in particular, articulated clear links between strategy, risk, performance and remuneration. They also displayed strong allegiances to <IR> with references to certain aspects of the Framework, even though some of the reports were not specifically identified as Integrated Reports.

Strengths

Sophisticated connectivity of information

The surveyed reports were especially sophisticated in terms of their connectivity of information. In particular, the reports demonstrated which KPIs and principal risks were linked to strategic objectives and performance. This interconnectivity is a strong indicator that these organisations have a holistic understanding of how their business creates value over time.

This connectivity is likely to be a result of the strong regulatory requirements that UK reporters adhere to. For example, regulation of the strategic report demands a broad range of content to be included, and the FRC encourages organisations to provide links between related pieces of information in different parts of the Annual Report.

Most of the UK reports included strategic objectives with a timeframe of over two years, providing a clear view of where the organisation intends to go and its strategy for getting there. The long-term focus suggests that these organisations are aware of the plethora of external factors that have an impact on their ability to create long-term sustainable value, such as risks and opportunities, relationships with stakeholders and dependence on resources, and that the nature of these constraints means that readers need a longer time frame to assess an organisation’s success.

Strong governance reporting

Due to the sophistication of the UK Corporate Governance Code, governance reporting among the UK reporters was strong. The <IR> Framework challenges organisations to explain how they balance short, medium and long-term interests and how their leadership learns from past experiences in determining future strategic direction. The best reports from the UK did this by providing detail of Board activities and evaluation, with the Chairman often taking ownership of the governance section. More common factors like Board composition, evaluation, and remuneration. This demonstrates accountability, transparency and connectivity, and gives insight into how incentives are linked to value creation in the short, medium and long term.

Additionally, the majority of UK reports linked their KPIs to executive remuneration. This demonstrates accountability, transparency and connectivity, and gives insight into how incentives are linked to value creation in the short, medium and long term.

Organisation | Sector | <IR> Business Network | IIRC Database | Award Recognition | Global or Regional Award
--- | --- | --- | --- | --- | ---
ACCA | Professional Services | ✓ | ✓ | | |
Aggreko | Oil & Gas | ✓ | | ICSA Hermes Transparency in Governance Awards | Europe
AstraZeneca | Healthcare | ✓ | IR Society Awards | IR Magazine Awards | Global
Coca-Cola Hellenic Bottling Company | Consumer Goods | ✓ | IR Society Awards | Global
The Crown Estate | Real Estate | ✓ | PwC Building Public Trust in Corporate Reporting Awards, Finance for the Future Awards | Global
Fresnillo | Oil & Gas | ✓ | IR Society Awards | Global
Go-Ahead | Consumer Services | ✓ | IR Society Awards | Global
Interserve | Industrials | ✓ | Finance for the Future Awards | Global
Marks & Spencer | Consumer Goods | ✓ | PwC Building Public Trust in Corporate Reporting Awards, Finance for the Future Awards | Europe
Tullow Oil | Oil and Gas | ✓ | PwC Building Public Trust in Corporate Reporting Awards, IR Society Awards | IR Magazine Awards | Global

90% of organisations covered Board evaluation in their governance discussion

“We recognised the importance of building trust, of looking at wider capitals (not just financial), communicating with authenticity and ensuring that organisations have a long-term vision which they use to explain their decision-making and strategy externally.” - Clare Minchington, ACCA, Executive Director, Strategy and Development.

11 IIRC, ‘IIRC welcomes move towards better quality reporting in the UK’, 9 June 2014
12 IIRC, The <IR> Framework, page 25
13 ACCA website, ACCA embeds integrated reporting, 29 April 2013

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Informative business models

Where business models in UK reports were once purely descriptive, the reports in this review displayed a truly sophisticated understanding of the value creation process and how the external environment impacts it. These reporters also provided context for their resources and relationships, which indicates that they have a good understanding of how their business depends on their stakeholders and the capitals.

Strong risk reporting

The UK organisations also demonstrated strong risk reporting with detailed disclosures of risk management. Most of the organisations also discussed changes in risk and risk appetite. In addition, the identified principal risks appeared to be a lot more entity-specific than those found in reports from other regions. These findings reveal that UK organisations have developed a sophisticated understanding of the risks that affect their ability to create value over time. This is an improvement on the findings of our 2014 research in which we identified making risks entity-specific as an area for development.

Areas for development

More information needed on stakeholder relationships

Compared to their European and South African counterparts, the UK reports lagged behind in relaying information on stakeholder relationships. Although a mixed bag, many reports did not include much detail of stakeholder engagement and feedback. In general, UK organisations needed to provide more insight into the matters that are important to stakeholders and how these might affect the organisation’s ability to create value.

More detail needed on how material issues are identified

Although the top UK reporters clearly had relevant content in their reports, they often failed to discuss how they identify their material issues. At its most effective, the materiality determination process is integrated into the organisation’s management processes. Failure to provide insight into materiality assessment is a significant area for development, as it may suggest that these organisations fail to give sufficient attention to matters that have a substantial impact on their ability to create value.

60% of organisations showed whether their risks have changed year-on-year

20% of organisations specifically discussed their materiality assessment

Snapshot of the UK
In this sample, we examined organisations from Denmark, Italy, the Netherlands, Russia and Spain that adhere to different reporting regulations and legislation. However, with the introduction of the new EU non-financial reporting directive, all EU countries will have to implement minimum standards for the reporting of non-financial information for organisations with 500 employees or more.16 From the financial year commencing in 2017, around 6,000 large European entities will have to disclose material non-financial and diversity information on social and environmental matters.17 The new regulation aligns with the spirit of the <IR> Framework and could lead to further development in the region.

Despite their disparities, it was evident that these organisations followed the spirit of the Framework, displaying good articulation of how they create value. "Integrated reporting led to additional internal insights, which led to better management decisions in some cases."18 – Ivar Smits, Sustainability Reporting Manager, AkzoNobel.

**Strengths**

Comprehensive information on stakeholder engagement and material issues

In our 2014 research, only a handful of organisations described stakeholder engagement, their materiality processes, and the resulting material issues. This time, however, we found comprehensive detail on stakeholder relationships, materiality processes and material issues in the European reports. Encouragingly, these reporters provided good insight into their relationships with key stakeholders and clearly identified the matters that affect their organisation’s ability to create value in the short, medium and long term. They also demonstrated how material issues and stakeholder feedback have been integrated into their organisation’s management processes. The findings suggest that these reporters have developed a deep understanding of the relationships they depend on, in order to create value and the issues that are most pertinent to their continued ability to do so.

80% of organisations specifically discussed their materiality assessment

50% of organisations specifically discussed value creation for stakeholders
Market discussions give good insight into external environment
The European organisations also tended to report well on the external environment and included information on the legal, commercial, social, environmental and political context in which they operate. Additionally, almost all of the European reports used the market discussion to set up the strategy, and identified macro-economic as well as industry-related trends. They provided clarity on their external environment and the circumstances in which they operate, which reflects a solid understanding of their external environment and the potential impacts it can have on the organisation.

Well-developed business models focused on value creation
The <IR> Framework asks companies to articulate the organisation’s system for transforming inputs into outputs and outcomes that aims to fulfill the organisation’s strategic purposes – the business model. Reports from Europe for the most part included well-developed business models that articulated the organisation’s inputs, outputs and outcomes and identified how the organisation creates short, medium and long-term value. Representing an improvement since 2014, the progress observed in business model reporting among European reporters indicates that organisations have a firm understanding of value creation.

Areas for development
Additional insight needed into performance against strategy
To evidence the organisation’s progress against its strategic objectives, an Integrated Report should contain quantitative and qualitative information on its non-financial as well as financial performance. This performance is often measured using KPIs. Rather than having a clear set of KPIs to measure strategic progress, some of the European organisations listed a large number of data points throughout the report. This led to a lack of clarity that impaired the level of connectivity between performance data and other content elements in the reports.

More concise and accessible presentation of information needed
Although the best reporters from this region provided a clear and concise read while ensuring the content was material to the Integrated Report, a number of European reporters have further progress to make in ensuring that their reporting is clear and concise. Some European organisations produced long reports that failed to use devices such as page references to avoid repetition. An Integrated Report should avoid duplication of information and only include content that is material to the organisation’s ability to create value over the short, medium and long term. Additional information can be provided elsewhere, such as on the corporate website.

Organisational overview and external environment
Percentage of reports that gave information on the impact of industry or market trends on the organisation.

Business model
Percentage of reports in which the business model discussed outcomes.

Governance
Percentage of reports that linked KPIs with Directors’ remuneration.

Performance
Percentage of reports that used KPIs to measure progress against strategic objectives.

Risks and opportunities
Percentage of reports that linked risk to strategy or business model.

Outlook
Percentage of reports that discussed the organisation’s outlook in detail.

Strategy and resource allocation
Percentage of reports that outlined long-term business objectives/priorities.

Areas for development
Additional insight needed into performance against strategy
100% of organisations discussed inputs and outputs in the business model

Organisational overview and external environment
Percentage of reports that gave information on the impact of industry or market trends on the organisation.

Business model
Percentage of reports in which the business model discussed outcomes.

Governance
Percentage of reports that linked KPIs with Directors’ remuneration.

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Percentage of reports that used KPIs to measure progress against strategic objectives.

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Strategy and resource allocation
Percentage of reports that outlined long-term business objectives/priorities.

Snapshot of Europe

19 IIRC, The <IR> Framework, page 25
20 IIRC, The <IR> Framework, page 28
21 IIRC, The <IR> Framework, page 18
Overview
This group contains organisations from the Asia/Oceania region excluding Japan, whose move towards integrated reporting merits a separate chapter. Regional developments in Asia/Oceania suggest that integrated reporting is starting to gain pace. For example, in Malaysia, 20 leading companies are now piloting <IR>. In Australia, integrated reporting is evolving at a slow pace but the country has some reporters who are not yet explicitly referring to the <IR> Framework in their reports but are nonetheless beginning to follow its spirit. Reluctance among those at the top to declare future ambitions due to fear of liability has proved a stumbling block for progress. However, the Government's desire to reduce the amount of red tape for companies is aligned with the <IR> Framework.

Strengths
Strong discussion of stakeholder engagement
All organisations we looked at in this region clearly identified their stakeholders, and described what the business does to engage with them. This demonstrates a good understanding of how the organisation’s ability to create value for itself is linked to the value it creates for others. The reports from this region provided a significant amount of information to suggest that they have a well-developed understanding of their stakeholders, and how their relationship with them affects their material issues, strategy development and risk management.

Extensive discussion of material issues
Nearly all the reports from this region identified material issues with the majority providing specific discussion of their materiality assessment. This feature suggests that these organisations are beginning to develop an understanding of the link between the way material issues are managed and the organisation’s ability to create value. However, their understanding of how these fit into the larger value creation process appears to be still developing as most were not linked to the business model and strategy.

Strengths
Strong focus on the capitals by Asian companies
Whilst most companies provided a basic discussion of their resources and relationships, a number of the Asian reporters from this region went above and beyond baseline descriptions of their dependencies to provide specific and detailed discussions of the capitals. These discussions reflect a view of value that extends beyond financials to incorporate non-financial capitals, and takes a broader view of how the organisation creates value and is dependent upon different capitals.

Notably, the University of New South Wales, ‘How integrated reports are gaining ground by stealth’, 16 February 2016

For example, as NAB’s materiality process becomes more integrated, with a fully comprehensive filter for business and societal issues, this also helps change the conversation about strategy development.23 as National Australia Bank, Australia

70% of organisations provided insights into feedback resulting from engagement processes
60% of organisations specifically discussed their materiality assessment

Good insight into strategic priorities
The strategy discussions in these reports, especially from Australia and New Zealand, were fairly detailed – often providing more refined information than the business model – with strategic priorities providing further insights, such as targets and links to risk. This finding suggests that these organisations are beginning to grapple with the role of strategy as a driver of value creation.

22 University of New South Wales, ‘How integrated reports are gaining ground by stealth’, 16 February 2016
23 IIRC, IIRC Newsletter – Highlights from 2016, 20 December 2016
Areas for development

Need to outline commitment to wider value creation

Although aimed primarily at investors, an Integrated Report should explain how an organisation creates value over time, both for itself, its stakeholders and society at large. The best reporters in this region are moving beyond baseline value creation descriptions and refining their understanding of the value creation process. However, there is significant variance in the application of the Framework across this broad region and some reporters provided less detailed insight into their commitment to wider value creation. For example, three reporters from this region did not provide even a basic outline of their commitment to wider value creation. Need to further integrate the business model with the rest of the report

Organisational overview and external environment

Percentage of reports that gave information on the impact of industry or market trends on the organisation. 60% of organisations included strategic objectives in their report against previous targets. 24

Business model

Percentage of reports in which the business model discussed outcomes.

Risks and opportunities

Percentage of reports that linked risk to strategy or business model.

Strategy and resource allocation

Percentage of reports that outlined long-term business objectives/priorities.

More discussion needed of how market trends impact the organisation

Business models in the reports from Asia/Oceania were quite siloed, which suggests that they report to meet the criteria of the Framework, rather than exploring how the Framework can 'fit' the organisation. As a result, the reporters from Asia/Oceania are missing an opportunity to provide a more holistic insight into how the business model and strategy are developed in response to the risks, opportunities and external environment faced by the organisation.

Performance

Percentage of reports that used KPIs to measure progress against strategic objectives.

Governance

Percentage of reports that linked KPIs with Directors’ remuneration.

Outlook

Percentage of reports that discussed the organisation’s outlook in detail.

Basis of preparation

Percentage of reports that referred to the IIRC.

24 IIRC, The <IR> Framework, page 10

More insight into strategic performance needed

We found that the reporters from Asia/Oceania lag behind the other regions in their reporting on strategic performance. Only three reports from this region specifically linked KPIs to strategic objectives, and two organisations identified a very large number of KPIs without clearly explaining their relevance to the organisation’s strategy. This obstructed the ability of the reader to understand how the organisations had performed against their strategic objectives, meaning that these reporters miss an opportunity to communicate how they measure progress and performance. At the same time, two other reports from the region identified no KPIs at all, instead providing a large number of data points without explaining their significance.

More discussion needed of how market trends impact the organisation

Generally, the market discussions in the reports from this region provided an overview of market conditions, for both macro-economic and industry trends. However, we found that these discussions were relatively weak when it came to outlining how market trends impacted the organisation. Fewer reporters from Asia/Oceania used the market discussion to set up the strategy than those in other regions. These organisations could therefore provide more information on how their ability to create value is influenced by their external environment. Similarly, only a few reports included non-financial issues in the market discussion.
Overview

The movement towards <IR> in Japan has been market-led but has also received strong backing from the government, which considered <IR> an instrument for increasing long-term investment.25 It is for this reason that we have examined Japan in isolation.

Some of the drivers of progress are the 2014 Ito Review, the 2014 Stewardship Code for institutional investors, the new Corporate Governance Code that came into effect in 2015, and the 2015 report published by the Ministry of Economy, Trade and Industry (METI) recommending integrated reporting as a means of improving the dialogue between companies and investors.26 As a result, according to KPMG’s Survey of Integrated Reports in Japan, over 200 Japanese organisations produced Integrated Reports in 2015, an increase of 65 reports from the previous year, making Japan one of the <IR> success stories of recent years.27

Although integrated reporting is not as far advanced in Japan as in the other regions in this review, the Japanese reports clearly demonstrated a move away from their traditional focus on financials and a greater focus on insights into purpose and the value creation story.

Strengths

Good articulation of mission and purpose

Almost all of the Japanese reporters we looked at followed the spirit of the Framework by providing a mission and a purpose statement, usually in the ‘at a glance’ section of the report.28 This provides the reader with a good insight into the organisation’s spirit and reason for existing. Although this is an exciting development, few of these mission and purpose statements appeared to be entity-specific.

Strong focus on human capital

Japanese reports often discussed the broader set of capitals that the organisation depends on to create value. In particular, disclosure on human capital was strong, with almost all the reports including a human capital/resources section separate from the business model which covered topics such as employee satisfaction and diversity. Some Japanese reports also included value creation models showing how the capitals that the organisation relies on are transformed into outputs.

Encouraging movement towards more forward-looking information

While Japan remains new to integrated reporting, the Japanese reporters showed signs that they are moving away from historical information and adopting a more future-orientated approach in line with the principles of the <IR> Framework. Although many of the reports continued to include more information than reports from the other regions on the organisation’s history and historic performance, some of them are starting to highlight long-term strategic objectives.

Areas for development

More insight into governance needed

The governance sections in the Japanese reports displayed a focus on complying with legislation, with little detail on the Board’s activities over the past year or personal insights into Board practices. Generally, most Japanese reporters are missing an opportunity to communicate how the organisation’s governance structure supports its ability to create short, medium, and long-term value.29

Organisation | Sector | <IR> Business Network | IIRC Database | Award Recognition | Global or Regional Award
--- | --- | --- | --- | --- | ---
Freund Corporation | Healthcare |  |  |  |  
Fujitsu | Technology | Yes | Responsible Business of the Year Awards | Global |
Itochu | Basic Materials | Yes | WICI Awards (Japan) | Japan |
Lawson | Consumer Goods |  |  |  |
MS & AD Holdings | Financial Services | Yes | WICI Awards (Japan) | Japan |
Nissay | Financial Services |  |  |  |
NYK Group | Industrials | Environmental Communication Awards | Global |
Onno | Technology | Yes | WICI Awards (Japan) | Japan |
Takeda | Healthcare | Yes | Environmental Communication Awards | Global |
Wacoal | Consumer Goods |  |  |  |

27 KPMG, Survey of Integrated Reports in Japan 2015, April 2016
28 International Integrated Reporting Council (IIRC), Takeda Pharmaceutical Company’s Journey towards Integrated Reporting, 12 December 2013
29 IIRC, The <IR> Framework, page 25

90% of organisations reported on human capital
Better articulation of the business model needed

We found that business model disclosure was less developed in the Japanese reports we looked at, compared to those seen in other regions. This is a noteworthy omission as it represents one of the cornerstones of integrated thinking and reporting.

More detail needed on the capitals

Although most of the Japanese organisations discussed the capitals, these discussions often lacked relevant detail. Unlike the best reporters from other regions, discussion of the capitals in Japanese reports tended to be confined to one section instead of being linked to multiple sections of the report. While Japanese reports discussed the capitals, they did so without making it specifically clear how these form a vital part of the value creation process. This suggests that more work needs to be done in understanding the significance of the capitals and what this means for their organisation and its ability to create value in the short, medium and long term.30

Greater insight needed into principal risks

Very few of the Japanese organisations stated what their principal risks are, and instead opted for a brief explanation of their risk management processes. Based on this observation, there appears to be room for Japanese reporters to develop further by providing more information on the specific risks and opportunities that affect the organisation’s ability to create value.

More information needed on performance against strategy

Few of the Japanese reports linked the organisation’s performance to strategic objectives in the spirit of the <IR> Framework, and none of the Japanese reports we looked at linked all of their KPIs to strategic priorities. Moreover, few Japanese organisations identified non-financial KPIs. A suggestion that would enable Japanese reporters to provide a more holistic insight into the organisation is to indicate how it is performing against its strategy.

Need to identify material issues

Only two of the Japanese organisations in this report clearly identified their material issues, which shows that many organisations have more to do to understand and identify relevant matters. This impairs the quality of information provided and raises questions as to whether these reports are truly disclosing the information most relevant to the organisation’s ability to create value over time.

30% of organisations disclosed their Board changes in the governance section

20% of organisations clearly identified their material issues

Organisational overview and external environment

Percentage of reports that gave information on the impact of industry or market trends on the organisation.

Business model

Percentage of reports in which the business model discussed outcomes.

Risks and opportunities

Percentage of reports that linked risk to strategy or business model.

Strategy and resource allocation

Percentage of reports that outlined long-term business objectives/priorities.

Performance

Percentage of reports that used KPIs to measure progress against strategic objectives.

Governance

Percentage of reports that linked KPIs with Directors’ remuneration.

Outlook

Percentage of reports that discussed the organisation’s outlook in detail.

Basis of preparation

Percentage of reports that referred to the IIRC.

30 IIRC, The <IR> Framework, pages 11-12

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Black Sun Best Practice Communications Database

Created and maintained by Black Sun in partnership with the IIRC, the Integrated Reporting database contains examples of emerging practices in <IR> that illustrate how organisations are reporting concise information about how their strategy, governance, performance and prospects, in the context of their external environment, leads to sustainable long-term value creation.

The database is compiled from over 260 best practice <IR> reporting examples from 164 companies across the globe. Black Sun updates the database on a monthly basis, taking inspiration from the latest award-winning, recognised reports.

To find out more, visit http://examples.integratedreporting.org/home

Black Sun Best Practice Communications Academy

Every day we are helping businesses to tell their value creation story, build trust and strengthen relationships with their stakeholders for the short, medium and long term. We have created the Black Sun Best Practice Communications Academy to help you think and act in ways that illuminate the value your organisation creates for the benefit of all your stakeholders, today and in the future. We are the only company authorised to provide IIRC-licensed and accredited <IR> training in the UK and Singapore.

We offer a range of training courses that challenge you to think about the concept of integrated thinking and reporting in the context of your own organisation.

Please contact Academy Manager (kvieru@blacksunplc.com) to learn more.
Awards referenced in this report

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<th>Organisation</th>
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<td>Australasia Reporting Awards</td>
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<td>Finance for the Future Awards</td>
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<td>ICA Awards for Sustainability Reporting</td>
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<td>WICI Awards (Japan)</td>
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