

# **The impact of integrated reporting on risk management and strategic decision-making for JSE-listed companies**

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## ABSTRACT

**Title:** The impact of integrated reporting on risk management and strategic decision-making for JSE-listed companies

Integrated reporting requires a new form of disclosure to provide a holistic view of the organisation and aims to support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term. At the heart of integrated reporting is integrated thinking. Integrated thinking takes into account the connectivity and interdependencies between the range of factors that affect an organization's ability to create value over time, including (among other things) how the organization tailors its business model and *strategy* to respond to its external environment and the *risks* and *opportunities* it faces. The International Integrated Reporting <IR> Framework published in 2013 provides guidelines for the content elements required in an integrated report. One of the content elements is 'risk and opportunities'.

This study firstly assessed whether integrated reporting has enhanced integrated thinking between strategy and the risks and opportunities faced by the organisation. For this purpose a web-based research questionnaire was sent to high level implementers of integrated reporting at companies listed on the Johannesburg Stock Exchange (JSE) in South Africa, where integrated reporting is a listing requirement. Results of this study provide new insight to companies preparing integrated reports and other stakeholders to show that integrated reporting has driven change towards integrated thinking between strategy, risk and opportunities.

Secondly a content analysis was done on a sample derived from the top 100 companies listed on the JSE to determine whether integrated reporting has caused a change in the disclosure of risks and opportunities. Results provide new research findings and indicate that most companies conform to the disclosure requirements noted in the International <IR> Framework regarding risk and opportunities except for disclosures regarding the assessment of specific risks. The content analysis further found that integrated reporting has driven limited change regarding the disclosure of risk and opportunities. The originality of this study is that it applied two connected and mutually supportive empirical research studies to show that although

disclosures of risk and opportunities facing the organisation has not significantly changed there has been a change towards integrated thinking and the linking of strategy, risk and opportunities due to integrated reporting. The study contributes to the body of literature and extends prior work to provide a better understanding of the true value of integrated reporting. This is important for companies to understand the sources of information for improved disclosure, to better understand stakeholder needs and to allocate the required resources to ensure the comprehensive application of integrated reporting. The quality of integrated reports and the level of adherence to the International <IR> Framework are important for investors and analysts assessing companies and investment opportunities. The implication of this contribution is that implementers of integrated reporting agree that it advances integrated thinking between strategy, risk and opportunities which provide a reason to advocate the application of integrated reporting.

**Key words:** integrated reporting, integrated thinking, disclosure, strategic decision making, risk and opportunity

# INDEX

<b>ACKNOWLEDGEMENTS .....</b>	<b>2</b>
<b>ABSTRACT .....</b>	<b>3</b>
<b>INDEX .....</b>	<b>5</b>
<b>CHAPTER 1 .....</b>	<b>8</b>
<b>INTRODUCTION .....</b>	<b>8</b>
1.1. BACKGROUND .....	8
1.2. INTEGRATED REPORTING .....	9
1.3. INTEGRATED REPORTING IN SOUTH AFRICA .....	11
1.4. DEMARCATION AND ACTUALITY OF THE TOPIC.....	11
1.4.1. DEMARCATION OF THE TOPIC.....	12
1.4.2. ACTUALITY OF THE TOPIC.....	12
1.4.3. <i>Integrated thinking as a result of integrated reporting .....</i>	<i>12</i>
1.4.4. <i>The importance to disclose risk and opportunities facing the organisation.....</i>	<i>13</i>
1.5. RESEARCH OBJECTIVES .....	14
1.5.1. <i>The effect of integrated reporting on integrated thinking .....</i>	<i>14</i>
1.5.2. <i>The effect of integrated reporting on the disclosure of risks and opportunities .....</i>	<i>15</i>
1.6. RESEARCH METHODOLOGY .....	16
1.6.1. <i>Introduction.....</i>	<i>16</i>
1.6.2. <i>Research design.....</i>	<i>16</i>
1.6.3. <i>Research method.....</i>	<i>17</i>
1.6.4. <i>Research method and design applied to this study.....</i>	<i>18</i>
1.7. KEY DEFINITIONS .....	18
1.8. OVERVIEW .....	19
1.8.1. <i>Chapter 1: Introduction .....</i>	<i>20</i>
1.8.2. <i>Chapter 2: Research methodology .....</i>	<i>20</i>
1.8.3. <i>Chapter 3: integrated reporting FRAMEWORK .....</i>	<i>20</i>
1.8.4. <i>Chapter 4 (Research article): The effect of integrated reporting on integrated thinking and the disclosure of risks and opportunities .....</i>	<i>20</i>
1.8.5. <i>Chapter 5: Summary and conclusion .....</i>	<i>20</i>
<b>CHAPTER 2 .....</b>	<b>21</b>
<b>RESEARCH METHODOLOGY .....</b>	<b>21</b>
2.1. INTRODUCTION .....	21
2.2. TYPES OF RESEARCH .....	22
2.2.1. <i>Pure versus applied research.....</i>	<i>22</i>
2.2.2. <i>Descriptive versus analytical research.....</i>	<i>23</i>
2.2.3. <i>Conceptual versus empirical research .....</i>	<i>24</i>
2.2.4. <i>Qualitative versus quantitative research.....</i>	<i>24</i>
2.2.5. <i>Structured versus unstructured approach.....</i>	<i>25</i>
2.3. DESIGNING THE RESEARCH.....	25
2.3.1. <i>Frame of reference .....</i>	<i>25</i>
2.3.2. <i>Research design.....</i>	<i>26</i>
2.4. RESEARCH METHODOLOGY .....	30
2.4.1. <i>Introduction to Research methodology.....</i>	<i>30</i>

2.4.2.	<i>Paradigms of research</i> .....	30
2.4.3.	<i>Application of the Research methodology</i> .....	31
2.4.4.	<i>Measuring instruments</i> .....	31
2.5.	THE RESEARCH SAMPLE .....	32
2.5.1.	<i>For the purposes of the questionnaire</i> .....	32
2.5.2.	<i>For the purposes of the qualitative data analysis</i> .....	33
2.6.	THE SURVEY QUESTIONNAIRE .....	34
2.6.1.	<i>Description of the questionnaire</i> .....	34
2.6.2.	<i>Design of the questionnaire</i> .....	34
2.6.3.	<i>Survey process and administration</i> .....	35
2.6.4.	<i>The objectives of the questionnaire</i> .....	36
2.6.5.	<i>Structure of the questionnaire</i> .....	36
2.6.6.	<i>Reliability and validity of the questionnaire</i> .....	37
2.7.	DATA ANALYSIS.....	37
2.7.1.	<i>Description of the data analysis</i> .....	37
2.7.2.	<i>Design of the data analysis</i> .....	37
2.7.3.	<i>Data analysis process and administration</i> .....	38
2.7.4.	<i>Objectives of the data analysis</i> .....	38
2.7.5.	<i>Reliability and validity of the data analysis</i> .....	40
2.8.	SUMMARY .....	40
<b>CHAPTER 3</b> .....		<b>41</b>
<b>INTEGRATED REPORTING FRAMEWORK</b> .....		<b>41</b>
3.1.	INTRODUCTION .....	41
3.2.	BACKGROUND .....	41
3.3.	INTEGRATED REPORTING IN SOUTH AFRICA .....	42
3.4.	THE INTERNATIONAL INTEGRATED REPORTING <IR> FRAMEWORK .....	43
3.5.	SUMMARY .....	46
<b>CHAPTER 4</b> .....		<b>47</b>
<b>RESEARCH ARTICLE</b> .....		<b>47</b>
4.1.	INTRODUCTION .....	49
4.2.	BACKGROUND .....	52
4.3.	LITERATURE REVIEW.....	55
4.4.	RESEARCH METHODOLOGY .....	59
4.1.	QUESTIONNAIRE.....	60
4.1.1.	<i>Limitations of the questionnaire results</i> .....	62
4.1.2.	<i>Results of the questionnaire</i> .....	63
4.2.	DATA ANALYSIS AND APPLICATION OF THE CHECKLIST .....	67
4.2.1.	<i>Limitations of the analysis</i> .....	69
4.2.2.	<i>Results of the data analysis</i> .....	69
4.3.	CONCLUSION .....	73
4.4.	REFERENCES .....	75
<b>CHAPTER 5</b> .....		<b>81</b>
<b>SUMMARY AND CONCLUSION</b> .....		<b>81</b>
5.1.	INTRODUCTION .....	81
5.2.	RESEARCH SUMMARY .....	81

5.2.1.	<i>Literary research summary</i> .....	82
5.2.2.	<i>Emprirical research summary</i> .....	83
5.2.3.	<i>Concluding discussion</i> .....	84
5.3.	LIMITATIONS OF THE STUDY .....	85
5.4.	FUTURE RESEARCH .....	85
<b>REFERENCES</b> .....		<b>86</b>
<b>ANNEXURE A: LANGUAGE CERTIFICATE</b> .....		<b>96</b>
<b>ANNEXURE B: CONFIRMATION OF ARTICLE SUBMISSION TO SA BUSINESS REVIEW</b> .....		<b>97</b>
<b>ANNEXURE C: SA BUSINESS REVIEW - JOURNAL SUBMISSION GUIDELINES</b> .....		<b>98</b>
<b>ANNEXURE D: WEB-BASED QUESTIONNAIRE</b> .....		<b>100</b>
<b>ANNEXURE E: EXTENDED RESULTS OF THE DATA ANALYSIS</b> .....		<b>102</b>
<b>ANNEXURE F LIST OF ABBREVIATIONS</b> .....		<b>107</b>
<b>ANNEXURE G: THE INTERNATIONAL INTEGRATED REPORTING FRAMEWORK</b> .....		<b>108</b>

## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1. BACKGROUND**

The objective of financial statements is to provide stakeholders with information about the financial position, financial performance and cash flows of an entity, to help them make economic decisions (IASB, 2015). Traditional disclosure requirements for organisations focused on annual reports and primarily historical financial data. With the collapse of large internationally recognised enterprises over the last two decades, it became apparent that a more balanced organisational perspective should be used by organisations and stakeholders to evaluate the holistic performance of the enterprise. This gave rise to the 'triple bottom line' effect, where organisations take cognisance of the importance of financial achievement in addition to the importance of their social and environmental effect and performance (Smit, 2011:24). This has contributed to the movement for more sustainable business practices and more stakeholder-oriented disclosures. During the last two decades, reporting of sustainability information has become widespread. While fewer than 100 firms globally reported such information twenty years ago, by 2013, more than 6 000 companies were issuing sustainability reports (Ioannou & Serafeim, 2014:2).

The Global Reporting Initiative (GRI) publishes internationally accepted guidelines on sustainability reporting and advocates transparent disclosures about the disclosing company's economic, environmental and social impacts. The GRI was formally launched in 1997, and was soon aligned with the International Accounting Standards Board (IASB) and the Financial Standards Board (FASB). The GRI is a framework that assists firms with their sustainability reporting by providing specific report standards for recording environmental, social and economic performance (Nikolaou *et al.*, 2013:177). According to GRI (2015) G4 is the latest version of the guidelines provided by the GRI.

Previous researchers argue that sustainability reporting has done little to change the way in which businesses operate. According to Hess (2008) there is also little reason



to believe that social reporting meets its ideal purpose beyond perhaps a handful of industry leaders. Hinson and Ndlovu (2011:332) describe 'green washing' as attempts by companies to present the image of a socially responsible corporate citizen without any real changes to their business approach. This has motivated the need for integrated reporting.

"The aim of integrated reporting is to contribute to the clear and concise communication of how an organisation applies its resources to create value in the short, medium and long term. In addition to serving an information purpose it is intended to help businesses think holistically about their strategy and plans, make informed decisions and manage key risks to build investor and stakeholder confidence and improve future performance" (IIRC, 2015).

Van Bommel (2014) argues that integrated reporting is said to go beyond traditional accounting and sustainability disclosures, which are situated in the financial and sustainability community respectively. According to KPMG (2010) a feature of integrated reporting is that it traverses precisely these two worlds or communities with their respective traditions, and also combines short-term and long-term thinking, strategy and governance as well as numbers and figures, adding multiple layers of complexity, fragmentation and pluralism. KPMG (2010) noted that compared to the traditional historically oriented annual report as the prime report to stakeholders, the concept of integrated reporting is regarded globally as an evolutionary stride and transformation in corporate reporting.

## **1.2. INTEGRATED REPORTING**

The International Integrated Reporting Council (IIRC) – formerly known as the International Integrated Reporting Committee – has driven the process towards integrated reporting. In 2013, the IIRC published The International Integrated Reporting <IR> Framework. According to the IIRC (2013:3), the International <IR> Framework provides principles-based guidance for companies and other organisations wishing to prepare an integrated report.

According to Roth (2014:63) the framework advocates disclosing a company's resources and relationships from six different perspectives which is described as 'capitals' in the framework. The resources or 'capitals' relate to financial funds available, assets available for use in production, intellectual assets, people, stakeholder relations and the availability of natural resources to support past, current and future prosperity.

"The International <IR> Framework is consistent with developments in financial and other reporting, but an integrated report also differs from other reports and communications in a number of ways. In particular, it focuses on the ability of an organisation to create value in the short, medium and long term, and in so doing it:

- has a combined emphasis on conciseness, strategic focus and future orientation, the connectivity of information and the capitals and their interdependencies; and
- emphasises the importance of integrated thinking within the organisation" (IIRC, 2013:2).

According to the IIRC (2013:2), the International <IR> Framework also places a strong emphasis on integrated thinking taking into account the connectivity and interdependencies between the range of factors that affect an organisation's ability to create value over the short, medium and long term.

Steyn (2014a:476) describes the implementation of integrated reporting as an evolutionary step in corporate reporting. "The focus of the integrated report on disclosing forward-looking statements in external reporting represents a radical shift in emphasis from traditional reporting, which previously reported largely on historical performance. The introduction of integrated reporting appears to have created a new set of priorities for directors, expressed through reporting" (ACCA, 2012:5).

### **1.3. INTEGRATED REPORTING IN SOUTH AFRICA**

According to IoDSA (2009) South African listed companies are amongst the first in the world to be subjected to a 'comply or explain' requirement to prepare an integrated report, as described in the King Code of Governance Principles for South Africa of 2009. This is achieved by a Johannesburg Stock Exchange (JSE) listing requirement in respect of all JSE-listed companies for financial year-ends commencing on or after 1 March 2010 (Steyn, 2014b:145). According to De Villiers *et al.* (2014:1043) integrated "reporting guidance for South African companies was subsequently developed by South Africa's Integrated Reporting Committee." De Villiers *et al.* (2014:1050) states that The Integrated Reporting Committee of South Africa went on to endorse the IIRC's investor value creation focused Integrated Reporting Framework on 12 March 2014. IIRC (2013:2) describes the International <IR> Framework as the corporate reporting norm where integrated thinking is embedded in main stream business practices. According to Steyn (2014a:479) South African listed companies are global leaders in the drive towards integrated reporting.

The movement towards integrated reporting is clearly growing. In 2010, only 14 per cent of global reports published in the GRI's sustainability disclosure database were self-declared as integrated by reporting organisations. This number rose to 20 per cent in 2011 (Hughen *et al.*, 2014:60). These researchers, Hughen *et al.* (2014) attribute this in some part to the JSE listing requirements for South African companies to produce integrated reports, and this requirement has been internationally acclaimed. The GIM (2012:17) notes that JSE has set an exemplary "precedent in its pioneering decision to require all listed companies either to produce an integrated report or to explain why they are not doing so." De Villiers *et al.* (2014:1050) confirm that South Africa was a pioneer in the development and mandating of integrated reporting.

### **1.4. DEMARCATION AND ACTUALITY OF THE TOPIC**

The broad title of this study is "The impact of integrated reporting on risk management and strategic decision-making".

#### **1.4.1. DEMARCATION OF THE TOPIC**

At the heart of integrated reporting is integrated thinking. According to the IIRC (2013:2), “integrated thinking takes into account the connectivity and interdependencies between the range of factors that affect an organisation’s ability to create value over time, including (among other things) how the organisation tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces.” The International <IR> Framework published in 2013 (IIRC, 2013) provides guidelines for the content elements required in an integrated report. One of the content elements is ‘risk and opportunities’. The broad title of this study is refined to the more specific title of the article in Chapter 4: “The effect of integrated reporting on integrated thinking and the disclosure of risks and opportunities”.

#### **1.4.2. ACTUALITY OF THE TOPIC**

Integrated reporting has gained significant prominence since the formation of the International Integrated Reporting Committee (IIRC – subsequently renamed the International Integrated Reporting Council) in 2010. According to De Villiers *et al.* (2014:1043), “the IIRC has become the dominant body globally in developing policy and practice around integrated reporting.” Brown and Dillard (2014) argue that integrated reporting will help organisations to be more sustainable in the long-term. Roth (2014:67) notes that a United Nations task force proposed that “at least by 2030—all large businesses should be reporting on their environmental and social impact—or explain why if they are not doing so.”

#### **1.4.3. INTEGRATED THINKING AS A RESULT OF INTEGRATED REPORTING**

Haller and Van Staden (2014:1206) identify the ultimate aim of integrated reporting as integrated thinking. According to the IIRC (2013:2), integrated thinking is fundamental when preparing an integrated report. The application of the International <IR> Framework should coincide with a change in management behaviour and decision-making, which the IIRC calls ‘integrated thinking’ (Haller & Van Staden, 2014:1192). Based on PWC (2013:28), ‘integrated thinking’, as defined by the IIRC

(2013) was identified as a key benefit by those participating in the IIRC pilot programme and who have started to transform their reporting to become more integrated.

#### **1.4.4. THE IMPORTANCE TO DISCLOSE RISK AND OPPORTUNITIES FACING THE ORGANISATION**

According to Plourde (2009:69), companies cannot disclose the existence of a risk management strategy and regard this as sufficient, because companies need to engage actively in risk management practices. According to the IIRC (2015:28), an integrated report should answer the following question:

“What are the specific risks and opportunities that affect the organisation’s ability to create value over the short, medium and long term and how does the organisation deal with them?”

The disclosure of risks and opportunities influencing value creation is highlighted as a specific content element within the International <IR> Framework. Based on information published by the IIRC (2013:28), disclosures of risks and opportunities should include among other things the following:

- the specific risks and opportunities that affect the organisation’s ability to create value;
- risks and opportunities that affect the availability, quality and affordability of relevant capitals;
- specific external sources of risk, specific internal sources of risk, the company’s assessment of the likelihood that the risk or opportunity will come to fruition and the magnitude of its effect if it does;
- steps being taken to mitigate or manage key risks; and
- the organisation’s approach to any real risks that is fundamental to the ongoing ability of the organisation to create value and which could have extreme consequences.

The requirements of the content element are regarded as valuable proxy for disclosure guidelines. According to EY (2015:6) it's really only by applying the structured thinking and approach offered by the International <IR> Framework that a company will be applying a comprehensive methodology that will lead it to think about the business, the business model it's using and the results achieved (in terms of both outputs and outcomes) in a holistic manner. "A clear statement acknowledging the directors' responsibility for the report, and their opinion or conclusion on whether the report is prepared in accordance with the International <IR> Framework are critical aspects underpinning the perceived credibility of the report for the users" (EY, 2015: 18).

Companies can benefit if they adhere to the content element 'risk and opportunities' in the International <IR> Framework. According to Roth (2014:65), improved communications is one aspect of risk management and reporting specific risks can help improve an organisation's reputation. Steyn (2014a:491) found that the highest-ranking benefit of integrated reporting for JSE-listed companies is the advancement of corporate reputation. Steyn (2014b:163) noted that the "inclusion of future-looking information in the integrated report is perceived to pose a degree of challenge for organisations in respect of business confidentiality." This creates a conflict as the benefit of adherence to the International <IR> Framework and improving the company's reputation have to be weighed against the risk of sharing strategic information and information providing a competitive advantage in the public domain.

## **1.5. RESEARCH OBJECTIVES**

The aim of this study is to elevate the application of the International <IR> Framework and to understand the quality of disclosures regarding risks and opportunities. In view of the above two research objectives were identified.

### **1.5.1. THE EFFECT OF INTEGRATED REPORTING ON INTEGRATED THINKING**

The first objective of the present study was to assess the perceived effect of integrated reporting on the ability of JSE-listed companies to link strategy, risk and opportunities and to promote integrated thinking.

The following five research questions were formulated to resolve this research objective:

- Has integrated reporting increased organisational focus on integrating risks into overall strategic objectives?
- Has integrated reporting encouraged managers to consider the linkages and interdependencies between strategy, risk and opportunities?
- Has integrated reporting advanced the closer alignment between strategy and key risk indicators (KRIs)?
- Has integrated reporting improved root cause analysis and risk assessment?
- Has the transparent disclosure of risks and KRIs in the integrated report advanced organisational culture by embedding risk management into the strategic planning process?

#### **1.5.2. THE EFFECT OF INTEGRATED REPORTING ON THE DISCLOSURE OF RISKS AND OPPORTUNITIES**

The second objective of this study was to assess whether there had been changes in the disclosure of risk and opportunities subsequent to the introduction of integrated reporting. The following research questions were formulated to achieve the research objective:

- Has the mandatory requirement to publish an integrated report changed the way in which the top 100 JSE-listed companies disclose risks and opportunities?
- Do the top 100 JSE-listed companies disclose risks and opportunities facing the company in accordance with the content element 'risks and opportunities' included in the International <IR> Framework?

## **1.6. RESEARCH METHODOLOGY**

Before starting a research project it is important to understand the research methodology and research design to be followed in such a project. As stated above the aim of this study is to elevate the application of the International <IR> Framework and to understand the extent to which the disclosure of risks and opportunities comply with the guidelines in the International <IR> Framework.

### **1.6.1. INTRODUCTION**

Kumar (2005:7) describes research as a designed analysis that uses acceptable methodologies in order to find answers to questions and produce new knowledge. Research can also be defined as a creative activity and an original investigation carried out with the intention of contributing to knowledge and understanding in a particular field (Myers, 2013:6). Grinnell (1993:4) describes research as a structured inquiry “that utilises acceptable scientific methodology to solve problems and create new knowledge that is generally acceptable.” Before embarking on a research project, it is necessary to understand the research design and research methodology to be followed in such a project (Hindley, 2012:9). This section describes the basic definitions applicable to the research methodology as well as the research design, method of research, sample selection and how the relevant data was obtained. The research design was developed to answer the research questions noted above.

### **1.6.2. RESEARCH DESIGN**

According to Mouton (2011), research design can be described as the strategy followed by a researcher to address the formulated research problem. In the research design, the researcher decides on all the various components of a research project, the philosophical assumptions, the research method, which data collection techniques the researcher will use, and the approach to measurement and analysis of data (Myers, 2013:19). According to Trochim (2012), research design is the glue that holds the research project together. The design articulates which data is required, from whom, and how it is going to answer the research question (Jalil, 2013). The research design is not related to any particular method of data collection



or to any type of data (Hindley, 2012:10). Vithal and Jansen (2004:26) state that one needs to keep the research question in mind when deciding on research designs as more than one strategy or method could be appropriate for the collection of data for a specific research question. The purpose of the research design is to ensure that evidence obtained during the research process will enable one to answer the formulated research question as clearly as possible (Hindley, 2012:10).

### **1.6.3. RESEARCH METHOD**

According to Clarke (2005), the purpose of a research methodology is to define what initiated a research activity, to help establish which processes will be applied and how progress and results will be measured. The research methodology also specifies how results can be interpreted and communicated. According to Merriam (1998), the researcher should provide an audit trail to give a clear and specific explanation of how data is to be collected, how themes and categories will be derived, and reasons for decisions made.

Jalil (2013:12) notes two main research methods namely qualitative and quantitative research. Based on Creswell (2003:18), a *quantitative* approach is applied when the researcher primarily uses post-positivist claims to develop knowledge and utilises strategies of inquiry such as surveys and experiments, and collects data on pre-set instruments that yield statistical data. Jalil (2013:12) indicates that quantitative data comes from surveys, structured interviews, observation checklists or archival records, such as from government databases.

*Qualitative* research describes events scientifically without the use of numerical data (Manoharan, 2010:12). Pellissier (2007:23) states that qualitative research aims at solving problems through the use of a wide assortment of data-collection methods and the application of varied conceptual frameworks. Manoharan (2010:13) notes that qualitative research is more responsive to its subject than quantitative research.

#### 1.6.4. RESEARCH METHOD AND DESIGN APPLIED TO THIS STUDY

In the present research, firstly, a self-administered web-based questionnaire (Annexure D) was sent to high-level implementers of the integrated reporting requirements at companies listed on the JSE. This survey assessed the perceived changes to integrated thinking regarding strategy, risk and opportunity as a result of integrated reporting two years after its mandatory introduction for all JSE-listed companies. The population included all companies listed on the JSE, with certain adjustments.

In addition, a data analysis was done by comparing a sample of integrated reports published in 2014 or 2015 to the same companies' 2010 annual reports to assess whether there had been changes in the disclosure of risks and opportunities. This was done after a significant period of time had lapsed to gain a clear understanding of reporting norms and the application of the International <IR> Framework. A sample of 18 of the top 100 companies listed on the JSE was used for the purpose of the data analysis.

#### 1.7. KEY DEFINITIONS

**Integrated reporting:** According to the IoDSA (2009:108), King III describes an integrated report as a holistic and integrated representation of the company's performance in terms of both its finances and its sustainability. The primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time (IIRC, 2013:4). Integrated reporting provides context to financial and non-financial information and goals. It connects strategies with the organisation's commitment to the long-term stewardship of material environmental, social and economic issues (EY, 2013:2).

**The International Integrated Reporting <IR> Framework:** Organisations are using the International <IR> Framework to communicate a clear, concise, integrated story that explains how all of their resources are creating value (IIRC, 2015). The International <IR> Framework is helping businesses to think holistically about their strategy and plans, to make informed decisions and to manage key risks to build

investor and stakeholder confidence and improve future performance. This framework is shaped by a diverse coalition, including business leaders and investors, to drive a global evolution in corporate reporting (IIRC, 2015).

**Integrated thinking:** At the heart of integrated reporting is integrated thinking. According to the IIRC (2013:3), integrated thinking takes into account the connectivity and interdependencies between the range of factors that affect an organisation's ability to create value over time, including (among other things) how the organisation tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces.

**Strategic decision-making:** The Chartered Institute of Management Accountants (CIMA) (2009) defines a strategic decision as a decision made to provide advantages for an organisation to affect it in the long term. CIMA (2009) also indicates that effective strategic business decisions bring together the right resources for the right markets at the right time. Janczak (2005:58) indicates that decision-making, strategy formation, innovation, and learning are processes that happen continually, implying an increase in complexity.

**Disclosure:** Oxford University Press (2010:151) defines 'disclosure' in the context of business disclosures as "the provision of financial and non-financial information on a regular basis to those interested in the economic activities of an organisation".

**Risk:** According to PMI (2008), a risk is an uncertain event or condition that, if it occurs, has an effect on at least one project or objective.

**Opportunity:** Cambridge Dictionaries Online (2015) defines 'opportunity' as an occasion or situation that makes it possible to do something that you want to do or have to do.

## 1.8. OVERVIEW

The present study followed the article route mini-dissertation format and is divided into five chapters:

### **1.8.1. CHAPTER 1: INTRODUCTION**

The first chapter serves as the introduction to the research study and illustrates the actuality and relevance of the topic. The chapter comprises the following: background of the study, integrated reporting, application of integrated reporting in South Africa, objectives of the study, research methodology and an overview of the study.

### **1.8.2. CHAPTER 2: RESEARCH METHODOLOGY**

This chapter includes the research design and selected methods of research.

### **1.8.3. CHAPTER 3: INTEGRATED REPORTING FRAMEWORK**

This chapter includes a literary study regarding integrated reporting as a framework for disclosure.

### **1.8.4. CHAPTER 4 (RESEARCH ARTICLE): THE EFFECT OF INTEGRATED REPORTING ON INTEGRATED THINKING AND THE DISCLOSURE OF RISKS AND OPPORTUNITIES**

The fourth chapter comprises the research article and includes a literature review on integrated reporting, a discussion on integrated thinking between strategy, risks and opportunities, and on the disclosure of risks and opportunities to external stakeholders. The empirical results of a web-based questionnaire sent to high-level implementers of integrated reporting are shown and discussed. In addition, the results of disclosure comparisons related to risk and opportunities by a sample of JSE top 100 companies are illustrated and discussed.

### **1.8.5. CHAPTER 5: SUMMARY AND CONCLUSION**

In the last chapter, a conclusion is reached in the light of the objectives set in the first chapter, and possible conclusions are drawn from the results.

## CHAPTER 2

### RESEARCH METHODOLOGY

#### 2.1. INTRODUCTION

Research is the application of scientific procedures to study a problem and to acquire useful and dependable information to discover answers to meaningful questions (Manoharan, 2010:3). In more simple terms, Dane (1990:4) defines research as a critical process for asking and attempting to answer questions about the world. The goal of research is ultimately to answer a research question. Research is synonymous with the creation of knowledge and linked to innovation, both necessary for social and economic development (Pellissier, 2007:75).

According to Terre Blanche *et al.* (2006:34), research may be viewed as a process consisting of five stages:

Stage 1: Defining the research question;

Stage 2: Designing the research;

Stage 3: Data collection;

Stage 4: Data analysis; and

Stage 5: Writing a research report.

This chapter provides insight into the five stages noted above, including the research design and methodology used in the execution of this study. The research design or a description of the scientific procedures is discussed followed by a description of the research objectives and the research methods used for this study.

In Hofstee (2006) Confucius is quoted as saying, "A man who reviews the old so as to find the new is qualified to teach others." Hofstee (2006:3) notes that at the basic level of the classic academic method students need to identify a problem and find out what other academics have written about the problem. In the present study, the first step was to find a topic. The topic was selected after the application of the topic scoring sheet provided by Hofstee (2006:16), which provides criteria to assess a suitable topic and to isolate a problem.

The criteria can be explained as:

- the topic has to be focused and should allow for data to be easily gathered;
- data should be easy to find by reviewing secondary literature;
- suitable research methods should be available;
- the topic should lend itself to appropriate supervisor support;
- the student should have time available to complete the research; and
- the student should consider his or her strengths and interests when selecting a topic.

The present study focused on the effect of integrated reporting on integrated thinking and the disclosure of risks and opportunities.

A literature review was conducted after deciding on the topic. Dane (1990:32) notes that after the research question had been developed, the next step is to become familiar with the topic. According to Adams *et al.* (2009:49), a literature review is important to understand what has already been done on a specific topic. A good literature review is comprehensive, critical and contextualised (Hofstee, 2006:91). A literature review was used to develop the study.

## **2.2. TYPES OF RESEARCH**

Research can be classified into various categories including the following:

### **2.2.1. PURE VERSUS APPLIED RESEARCH**

“*Pure research* involves developing and testing theories and hypotheses that are intellectually challenging to the researcher” (Kumar, 2011:10). Thus, pure research often involves the testing of hypotheses containing very specialised and abstract concepts. Manoharan (2010:12) indicates that pure or fundamental research is mainly intended to discover certain basic principles.

“In *applied research*, the recommendations will usually be for managerial action, with the researcher suggesting one or several alternatives that are supported by the findings” (Cooper & Schindler, 2014:512). Pellissier (2007:14) notes that the

common goal of applied research is the evaluation of a particular course of action to solve a specific problem.

Based on previous research by Williams (1998:4), pure (or basic) research contributes to the base of knowledge whereas applied research resolves a particular problem. The research in the present study can therefore be seen as applied research as the results could assist in formulating policies to understand the application of integrated reporting better.

### **2.2.2. DESCRIPTIVE VERSUS ANALYTICAL RESEARCH**

A *descriptive study* tries to discover answers to the questions who, what, when, where and, sometimes, how (Cooper & Schindler, 2014:170). According to Kumar (2011:10), a descriptive study attempts to describe systematically a situation, problem, phenomenon, service or attitude towards an issue. Manoharan (2010:15) notes that descriptive research is carried out with a definite objective and therefore definite conclusions are the result. This strategy is intended to answer questions about the current state of individual variables for a specific group of individuals (Gravetter & Forzano, 2009:147). It is noteworthy that Dane (1990:7) found that descriptive research captures the flavour of an object, a person, or an event at the time that the data is collected, but that flavour may change over time.

*Analytical research* requires an analysis of the facts to evaluate the data critically. Kothari (2004:54) shows that this type of research studies determines the frequency with which something occurs or its association with something else.

This study comprised a web-based questionnaire and a data analysis of integrated reports. Based on this, a dual-method approach of descriptive and analytical research was followed.

### 2.2.3. CONCEPTUAL VERSUS EMPIRICAL RESEARCH

*Conceptual research* is research related to an abstract idea or theory. It is typically used by philosophers to develop new concepts or reinterpret existing theories (Kothari, 2004:21).

*Empirical research* is defined by Cooper and Schindler (2014:66) as research findings and propositions based on sensory experiences and/or are derived from such experiences through inductive logic, including mathematics and statistics. Empirical research is data-based research, which uses observations or experiences to provide results for the research question.

The web-based questionnaire and data analysis used in this study related to empirical research.

### 2.2.4. QUALITATIVE VERSUS QUANTITATIVE RESEARCH

Data can be classified into one of two categories, namely non-metric (qualitative) and metric (quantitative) data, based on the type of attributes or characteristics the data represent (Hair *et al.*, 2010). According to Kumar (2011:13), a study is *qualitative* if the analysis establishes the variation in a situation without quantifying it.

On the other hand, Kumar (2011:13) shows that a *quantitative* study is applied if one wants to quantify the variation in the phenomenon, situation, problem or issue and if the analysis is geared to ascertain the magnitude of the variations. Manoharan (2010:13) finds that the results from quantitative research are readily evaluated and interpreted. According to Myers (2013:8), quantitative research is the most suitable method if one requires a large sample size. Quantitative research is used to quantify data and generalise results from a sample of the population.

The present study firstly applied a quantitative approach with distribution and interpretation of results from a web-based questionnaire to assess the effect of integrated reporting on integrated thinking at JSE-listed companies. The study secondly applied a qualitative data analysis when the risks and opportunities



disclosed in integrated reports were compared to the disclosure guidelines of the International <IR> Framework and disclosures of risk and opportunities over multiple years are compared.

### **2.2.5. STRUCTURED VERSUS UNSTRUCTURED APPROACH**

Based on Kumar (2011:11), everything in the research process from defining the objectives, research design, selecting the sample to the questions that will be asked to respondents is predetermined when applying the *structured* approach. The *unstructured* approach by contrast allows flexibility in all these aspects of the process (Kumar, 2011:11).

Cooper and Schindler (2014:66) define a survey as a measurement process using a highly structured interview, which employs a measurement tool called a questionnaire. Questionnaires by their very nature require a structured approach. This research study with a web-based questionnaire and data analysis followed a structured approach.

## **2.3. DESIGNING THE RESEARCH**

When engaging in a research project it is important to organise the thinking about the practice of scientific research before deciding on a research design and the research methodology (Mouton, 2011:141).

### **2.3.1. FRAME OF REFERENCE**

Mouton (2011:137) provides a framework between three 'worlds' or 'frames' or 'contexts'. The three worlds are:

World 1: The world of everyday life and lay knowledge;

World 2: The world of science and scientific research; and

World 3: The world of meta-science.

World 1 is the world in which we live and the social and physical reality in which we exist. In everyday life, we produce and use knowledge of different kinds (Mouton, 2011:138). World 2 is the world of science, defined by Mouton (2011:138) as the “search for truth or truthful knowledge”. World 3 refers to meta-disciplines and goes beyond searching for truthful knowledge to a reflection on the nature of science and scientific research.

The present study found itself in World 2. Integrated reporting (found in World 1) is considered to find truthful knowledge (in World 2) about its effect on integrated thinking between strategy, risk and opportunity and whether integrated reporting has changed the disclosure of risk and opportunity.

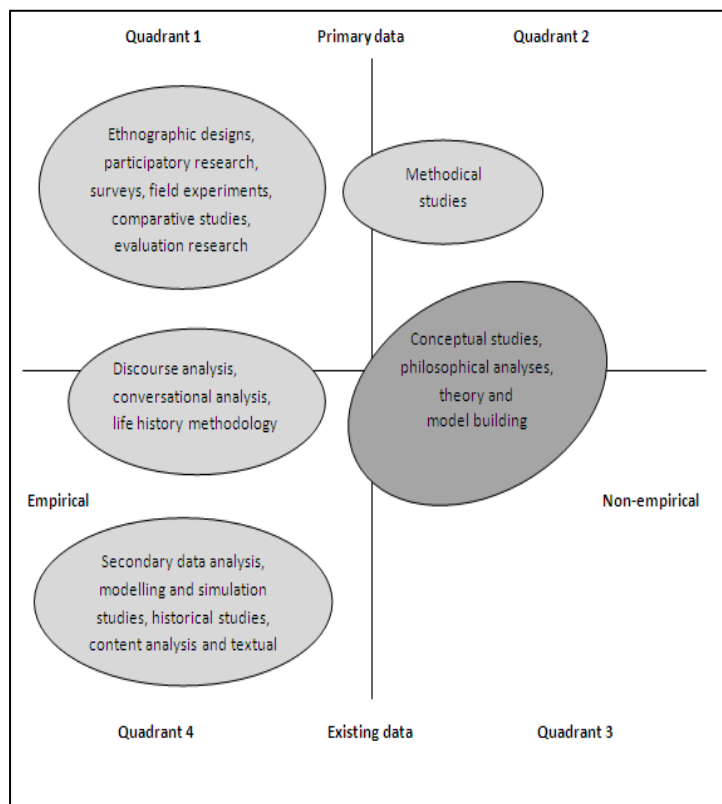
### **2.3.2. RESEARCH DESIGN**

“A research design is a strategic framework for action that serves as a bridge between research questions and the execution or implementation of the research” (Terre Blanche *et al.*, 2006:34). Mouton (2011:55) clearly distinguishes between research design and research methodology. The analogy of building a house is often used in books about research. When building a house it is a good idea to start with a plan to determine the proposed size, style and shape of the house. These ideas are used by an architect to draw a plan for the house (the blueprint). Terre Blanche *et al.* (2006:34) note that like building plans, the research design ensures that the study achieves a particular purpose and that the research can be finalised with available resources. When the plans for the building of a house are finalised, the building contractor will be able to start building the house with clear guidelines of what is required. The building contractor will use various methods to perform the different tasks of building the required house. If the building of a house is compared to a research project, the plans drawn up by the architect represent the research design and predicted end product. These plans define the process of performing the research by deciding on the type of study to perform (Terre Blanche *et al.*, 2006:161). The main function of the research design is to explain how the researcher will find answers to his or her research question (Kumar, 2011:23). The tools and methods used by the building contractor to build the house are compared to the

research methods, which focus on the process and the kind of tools and procedures to be used to arrive at the answers to the research question.

According to Yin (2006:5), the research design is a plan that shows the researcher how to collect, analyse and interpret observations to draw conclusions about causal relations among the variables under investigation. When undertaking a research design, the researcher decides on all the various components of a research project, the philosophical assumptions, the research method, which data collection techniques will be used, and the approach to measurement and analysis of data (Myers, 2013:19). A common differentiation between different types of research data has been to categorise them as 'primary data' or 'secondary data' (O'Reilly & Kiyimba 2015:130).

Figure 2.1 below is used to illustrate the research design of this study, which mapped out the different dimensions of empirical versus non-empirical studies and primary data versus existing data.



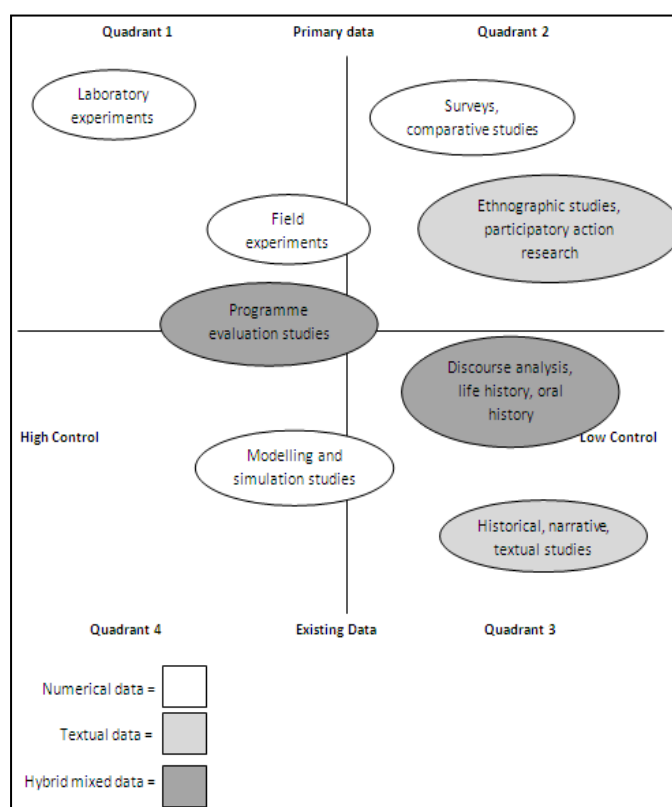
**Figure 2.1: Mapping designs (Level 1)**

Source: Mouton (2011:144)

The first part of the study included a web-based research questionnaire to assess the perceived effect of integrated reporting on integrated thinking between strategy, risks and opportunities. This part of the study provided new information or primary data as a result of an empirical study and falls in the first quadrant (see Figure 2.1). The primary data was considered to provide conclusions.

The second part of the study comprised a data analysis comparing disclosures of risks and opportunities in integrated reports published by JSE-listed companies to corresponding annual reports of the same companies published prior to the JSE requirement to publish an integrated report. This part of the study falls in the fourth quadrant (see Figure 2.1) as it applied an empirical research approach to analyse existing or secondary data (company reports and disclosures in the public domain).

Figure 2.2 below elaborates on empirical studies, which are mapped out using the dimensions of primary data versus secondary data and the degree of control.



**Figure 2.2: Mapping designs (Level 2)**

Source: Mouton (2011:145)

The first part of the study applying a web-based questionnaire fell between the first and second quadrant. The questionnaire provided quantitative data, which could be measured, based on the rankings of responses to specific questions. This part of the study provided primary data with clear results from respondents, which required limited interpretation from the researcher. A high level of control is present as another researcher is likely to interpret the data in the same manner.

The second part of the study fell in the third quadrant (see Figure 2.2). It involved data analysis of secondary data with a level of interpretation involved from the researcher. As interpretation is used, a low level of control is present as another individual will not necessarily interpret the data in exactly the same manner.

Mouton (2011:146) also provides the following classification framework of research design types.

Dimension	Type
<b>Dimension 1:</b> Empirical or non-empirical	Empirical Non-empirical
<b>Dimension 2:</b> Data collection of primary or secondary nature	Primary Secondary Hybrid
<b>Dimension 3:</b> Type of data	Numeric Textual Combination
<b>Dimension 4:</b> Degree of control	High control Medium control Low control

**Figure 2.3: A classification framework of design types**

Source: Mouton (2011:146)

Using the classification framework in Figure 2.3 above, the first part of the study (web-based questionnaire) can be classified as empirical, collecting primary numeric and textual data (a combination thereof), with a relatively high level of control.

The second part of the study (data analysis) comprised an empirical study, analysing secondary data, predominantly textual in nature with a low level of control.

## **2.4. RESEARCH METHODOLOGY**

Berg (2009) describes research methodology as the “systematic, theoretical analysis of the methods applied to a field of study.”

### **2.4.1. INTRODUCTION TO RESEARCH METHODOLOGY**

Berg (2009) notes that the research methodology consists of the theoretical analysis of the body of methods and the principles associated with a branch of knowledge. Typically, the research methodology encompasses concepts such as paradigm, theoretical model, phases and quantitative or qualitative techniques. The quality and validity of any findings resulting from research are directly dependent on the accountability of the research methodology that was implemented in the study (Mouton, 2011). Therefore it is critical to define the research methodology and with it the principles and methods that will be used to plan, organise and conduct the research.

### **2.4.2. PARADIGMS OF RESEARCH**

There are numerous research paradigms. According to Kumar (2011:14), there are two main paradigms that form the basis for research. The paradigm rooted in the physical sciences is the positivist, scientific or systematic approach. A positivist paradigm lends itself to qualitative and quantitative data. Positivist research believes that reality is objectively given (Yin, 2003:254). According to Babbie (2010:34), positivism is the view that society could be studied scientifically. This formed the foundation for subsequent development of the social sciences. The opposite paradigm is known as the ethnographic, qualitative, ecological or naturalistic approach (Kumar, 2011:14).

### **2.4.3. APPLICATION OF THE RESEARCH METHODOLOGY**

The research methodology for this study included a review of the current available literature and a concurrent mixed method research approach, which encompassed both aspects of an epistemological approach. “A mixed method approach is built on both qualitative and quantitative methods” (Ivankova *et al.*, 2013:262). The best philosophical foundation for justifying this approach is pragmatism. According to pragmatists, the truth is what works best in interpreting a specific research problem (Ivankova *et al.*, 2013). With the positivist approach, the research questions are considered more important than the methods used to answer them (Ivankova *et al.*, 2013:265). According to Myers (2013) interpretative researchers assume that access to reality is only through social constructions such as language, consciousness and shared meanings. Interpretative researchers attempt to understand the context of a phenomenon through the meanings assigned to them by people, since the context is what defines the situation.

In the present study, positivism was applied to acquire quantitative data through an electronic web-based questionnaire, and an interpretative approach was followed to gather qualitative data on a less-objective basis from an assessment of reporting disclosures regarding risks and opportunities. The study was done over a period of time to achieve the purpose sensibly.

### **2.4.4. MEASURING INSTRUMENTS**

The study applied a number of measuring instruments to gather data. A web-based questionnaire was sent to chief executive officers (CEOs), chief financial officers (CFOs), company secretaries or those charged with the responsibility for integrated reporting at JSE-listed companies. All contact details were found in the June–September 2012 JSE Profile’s Stock Exchange Handbook (Profile Media, 2012) or on the internet (in the public domain). This survey assessed the perceived changes to integrated thinking between strategy, risk and opportunity as a result of integrated reporting two years after it had become mandatory for all JSE-listed companies to publish an integrated report.

Data was hand-collected from the annual reports of 18 of the top 100 JSE-listed companies. The latest available integrated reports as at 30 September 2015 were analysed and compared to the same company's 2010 annual report. Disclosures regarding risks and opportunities were measured against the required disclosures included under the content element 'risk and opportunities' in the International <IR> Framework published by the IIRC (2013:28). This contributed to the reliability of the research.

Content analysis was also carried out to search these data sources for evidence that there had been a change in the disclosure of risks, opportunities, mitigating action plans (to reduce risks) and the assessment of risk. The reports were read, and key terms including synonyms were searched. An *a priori* coding approach as defined by Nieuwenhuis (2013:107) was followed, and results were verified and recorded using Excel on an expanded version of the checklist to support the reliability and validity of the analysis.

## **2.5. THE RESEARCH SAMPLE**

Based on Kothari (2004:31) a *population* is all the items being considered in any field of inquiry. Due to time and cost restraints research studies are often based on only a few items. Kothari (2004:72) describes the selected respondents as a *sample* and by selecting a sample the researcher is able to study only a portion of the population. The selected sample should represent the total population in order to produce a miniature cross-section (Kothari, 2004:72).

### **2.5.1. FOR THE PURPOSES OF THE QUESTIONNAIRE**

In South Africa, the requirement to publish an integrated report is limited to companies listed on the JSE; therefore, the population used for the purpose of this research started with the 347 entities listed on the Main Board of the JSE in 2012, as per the June–September 2012 Profiles Stock Exchange Handbook (Profile Media, 2012). The population was adjusted for group structures (20 companies) where companies that form part of a group structure were consolidated into a single entity for the purposes of the survey. Twelve listings were also removed from the



population because of secondary listings, delisting or schemes of arrangement that had been entered into after the publication of the handbook. It was established that 273 of the remaining 315 companies had issued an integrated report in full or partial compliance with the requirements of King III. Forty-two companies did not have an integrated report published in the public domain, or only issued an annual report and sustainability report by 31 December 2012. These were also removed from the population to ensure that respondents were experienced in the publishing of an integrated report. After the abovementioned changes, the population was established at 273 companies. The population of 273 companies was deemed manageable and all these companies were targeted in the survey with no sampling necessary.

### **2.5.2. FOR THE PURPOSES OF THE QUALITATIVE DATA ANALYSIS**

A second empirical study was done with an interpretative qualitative data analysis. Data was hand-collected from the annual reports of 18 of the top 100 JSE-listed companies. The latest available integrated reports as at 30 September 2015 were analysed and compared to the same companies' 2010 annual reports.

Ernst and Young Excellence in Integrated Reporting Awards (EY, 2015) annually ranks the integrated reports of the top 100 companies listed on the JSE. These companies were selected based on their market capitalisation as at 31 December 2014, which was the last trading day of that year. For the purpose of this study, companies were randomly selected from each of the categories within the EY Excellence in Integrated Reporting Awards (2015) (EY, 2015). The selection also ensured that an equal number of companies were analysed from each of the JSE main industry categories. Table 2.1 below indicates the distribution of the companies selected to form a representative sample for the qualitative data analysis.

Main JSE listing industry category	Categories per the EY Excellence in Integrated Reporting Awards 2015					Total
	Top 10	Excellent	Good	Average	Progress to be made	
Resources	2	1	3	—	—	6
Financials	1	1	1	1	2	6
Industrials	1	1	-	2	2	6
Total	4	3	4	3	4	18

**Table 2.1: Distribution of sample for qualitative data analysis**

## **2.6. THE SURVEY QUESTIONNAIRE**

The survey questionnaire followed a quantitative mixed method approach. A discussion of the description, design, administration, objectives, structure as well as the reliability and validity of the survey questionnaire (Annexure D) follows.

### **2.6.1. DESCRIPTION OF THE QUESTIONNAIRE**

The research method for the first part of the study was a self-administered web-based questionnaire aimed at top management (CEOs, CFOs and other high-level implementers) of the integrated reporting requirements at companies listed on the Johannesburg Stock Exchange (JSE). This survey assessed the perceived changes within the organisation as a result of the integrated reporting requirements, with specific reference to the effect that the changes have had on certain elements of risk management. A 5-point Likert-type scale, ranging from ‘strongly agree’ (1) to ‘strongly disagree’ (5) was used to rank respondents’ perceptions regarding statements in the survey. The survey consisted of Section A and Section B. Only five of these questions will be used for the purposes of this discussion. The remaining sections are covered in a separate research report (Steyn, 2014b). Respondents were also given the opportunity to include specific comments after each construct within the survey.

### **2.6.2. DESIGN OF THE QUESTIONNAIRE**

Hofstee (2006:132) notes that a questionnaire is a manner of eliciting information directly from the person/people who are presumed to have the required information. He goes on to note that questionnaires are a form of structured interviewing, where

several respondents are asked the same question and offered the same options for ranking their answers.

Since the concept of integrated reporting is new, and the practical outcome of these requirements is unknown, the questionnaire was designed to address wide-ranging aspects rather than the in-depth aspects that are associated with more established concepts where there has been previous research on the subject matter. The following aspects were taken into account during the development of the questionnaire (Adams *et al.*, 2009:130; Jansen, 2013:9):

- Instructions: It was ensured that instructions were simple, clear and concise.
- Appearance: The questionnaire was designed to be user-friendly.
- Completion time: CEOs, CFOs and high-level implementers of integrated reporting targeted as part of the questionnaire have limited time. The questionnaire was developed to gain the most accurate information in the quickest time possible.
- Question sequence: The questionnaire had a short introduction explaining the survey to the participants. The questions were organised in such a way so as not to be confusing to the respondents.
- Types of questions: Closed (structured) questions were used in the survey (Maree & Pietersen, 2013:160) although participants were provided with the opportunity to give additional comments.

An effort was also made to apply guidelines offered by Hofstee (2006:134) that questionnaire questions should be clear and neutral.

### **2.6.3. SURVEY PROCESS AND ADMINISTRATION**

The database for the 273 eligible listed companies was compiled and these companies were contacted based on the contact details supplied in the JSE Handbook (Profile Media, 2012). The purpose here was to identify the CEO or CFO of the company or, alternatively, the person responsible for the overall implementation of integrated reporting in the company. An email with the link to the electronic survey was sent to the appropriate person identified in the company. This

was followed up by reminder emails sent at seven-day intervals, as well as telephonic reminders, requesting respondents to complete the questionnaire. The electronic responses were recorded in a secure database during the period, November and December 2012. Incomplete responses and all fields submitted for capturing in the database were removed from the data prior to performing the statistical analysis.

#### **2.6.4. THE OBJECTIVES OF THE QUESTIONNAIRE**

The objectives of the questionnaire were to determine whether –

- integrated reporting increases organisational focus on integrating risks into overall strategic objectives;
- integrated reporting encourages managers to consider the linkages and interdependencies between strategy, risk and opportunities;
- integrated reporting advances closer alignment between strategy and key risk indicators (KRIs);
- integrated reporting improves root cause analysis and risk assessment; and
- transparent disclosure of risks and KRIs in the integrated report advance organisational culture by embedding risk management into the strategic planning process.

#### **2.6.5. STRUCTURE OF THE QUESTIONNAIRE**

The survey questions were designed based on the literature review. This mini-dissertation reports on the results of questions included in section B of the questionnaire. Sections A, C and D are addressed in another study (Steyn, 2014b) and information regarding company profiles, response rates and limitations may be similar to the study by Steyn (2014b). Closed questions as defined by Maree and Pietersen (2013:161) were set. These questions provided a set of responses from which the respondents could choose, restricting the choice available to form a definite conclusion.

## **2.6.6. RELIABILITY AND VALIDITY OF THE QUESTIONNAIRE**

As a general scale (in the format of a Likert-type scale) and construct were utilised in this study, the questionnaire had to be standardised to measure the responses. For such a measuring instrument to be standardised, it has to be reliable and valid (Pietersen & Maree, 2013:215). Reliability is the extent to which a measuring instrument is consistent when used repeatedly (Pietersen & Maree, 2013:215). Validity of an instrument is the extent to which the instrument measures what it is supposed to measure (Pietersen & Maree, 2013:216). The questionnaire was analysed by a statistician to ensure that the research objectives had been met. The survey was also validated by a trial of the electronic survey completed by five colleagues who were experienced researchers to ensure that the constructs were clear, the web-based design was fully functional and the survey was easy to use.

## **2.7. DATA ANALYSIS**

A second empirical study was done with an interpretative qualitative data analysis.

### **2.7.1. DESCRIPTION OF THE DATA ANALYSIS**

According to Babbie (2010:34), qualitative analysis is the non-numerical examination and interpretation of observations, for the purpose of discovering underlying meanings and patterns of relationships. This is the most typical method of field research and historical research. Hofstee (2006:124) describes a content analysis as a study that closely examines the content of preserved records. This part of the study provided primary data, but focused on existing data as defined by Mouton (2011:144). Integrated reports and annual reports were accessed from reliable sources, i.e. the websites of the companies included in the sample.

### **2.7.2. DESIGN OF THE DATA ANALYSIS**

According to Myers (2013:26), the data collection methods used should enable the researcher to collect the information required to answer the research questions. Data was hand-collected from the annual reports of 18 of the top 100 JSE-listed

companies. The latest available integrated reports as at 30 September 2015 were analysed and compared to the same companies' 2010 annual reports. Disclosures regarding risks and opportunities were measured against the required disclosures included under the content element 'risk and opportunities' in the International <IR> Framework published by the IIRC (2013:28).

### **2.7.3. DATA ANALYSIS PROCESS AND ADMINISTRATION**

Content analysis was also carried out to search the data sources for evidence that there had been a change in the disclosure of risks, opportunities, mitigating action plans (to reduce risks) and the assessment of risk when measured against the International <IR> Framework disclosure guidelines for risks and opportunities provided by the IIRC (2013:28). The reports were read and key terms, including synonyms, were searched. An *a priori* coding approach as defined by Nieuwenhuis (2013:107) was followed, and results were verified and recorded using Excel on an expanded version of the checklist. The extended results are provided in Annexure E.

### **2.7.4. OBJECTIVES OF THE DATA ANALYSIS**

The objectives of the data analysis was to determine whether there had been a change in the disclosure of risks and opportunities when comparing 2010 annual reports to the latest available integrated report as at 30 September 2015. The content element for the disclosure of 'risk and opportunities' included in the International <IR> Framework was used as a guideline.

To which extent did companies' latest available integrated reports as at 30 September 2015 comply with the disclosure requirements for risk and opportunities included in the International <IR> Framework?

The following are included in the International <IR> Framework under the content element 'risk and opportunities' (IIRC, 2013:28):

- "What are the specific risks and opportunities that affect the organisation's ability to create value over the short term and how is the organisation dealing with them?"

- What are the specific risks and opportunities that affect the organisation's ability to create value over the medium term and how is the organisation dealing with them?
- What are the specific risks and opportunities that affect the organisation's ability to create value over the long term and how is the organisation dealing with them?
- Key risks and opportunities that are specific to the organisation, including those that relate to the organisation's effects on and the continued availability, quality and affordability of relevant capitals in the short, medium and long term.
- Specific external sources of risks and opportunities, including aspects of the legal, commercial, social, environmental and political context that affect the organisation's ability to create value in the short, medium or long term.
- Internal sources of risk and opportunity, including how the organisation differentiates itself in the market place.
- Internal sources of risk and opportunity, including the extent to which the business model relies on revenue generation after the initial point of sale.
- Internal sources of risk and opportunity, including how the organisation approaches the need to innovate.
- Internal sources of risk and opportunity, including how the business model has been designed to adapt to change.
- Contribution made to the organisation's long-term success by initiatives such as process improvement, employee training and relationships management.
- The organisation's assessment of the likelihood that the risk or opportunity will come to fruition, and the magnitude of its effect if it does.
- The specific steps being taken to mitigate or manage key risks or to create value from key opportunities, including strategic objectives, strategies, policies, targets and KPIs.
- The organisation's approach to any real risks that are fundamental to the ongoing ability of the organisation to create value and that could have extreme consequences."

### **2.7.5. RELIABILITY AND VALIDITY OF THE DATA ANALYSIS**

Data analysis was carried out to search the abovementioned data sources for evidence that there had been a change in the disclosure of risks, opportunities, mitigating action plans (to reduce risks) and the assessment of risk. The reports were read, and key terms including synonyms were searched. An *a priori* coding approach as defined by Nieuwenhuis (2013:107) was followed and results were verified and recorded using Excel on an expanded version of the checklist to support the reliability and validity of the analysis.

### **2.8. SUMMARY**

In this chapter, the types of research, the research design and methodology of research were outlined and the steps of conducting the research discussed. The population and sample used for the research were described. This was followed by a discussion on the measuring instruments, namely the web-based questionnaire and data analysis. The next chapter provides literature on The International Integrated Reporting <IR> Framework. The concept of integrated thinking between strategy, risk and opportunities along with the disclosure requirements included under the content element 'risk and opportunities' in the International <IR> Framework provided the framework for this study.



## **CHAPTER 3**

### **INTEGRATED REPORTING FRAMEWORK**

#### **3.1. INTRODUCTION**

The primary literature applicable to this study was the International Integrated Reporting <IR> Framework. The framework formed the basis of this study. This chapter provides insights into the aim of integrated reporting, sheds light on the concept of integrated thinking, and notes the guiding principles and content elements required in an integrated report. The literature also elaborates on the evolution of annual reporting, integrated reporting, its application in South Africa and the underlying principles of the International <IR> Framework.

#### **3.2. BACKGROUND**

According to Steyn (2014a:479) traditional corporate reporting focused on historical financial performance. Increased awareness about climate change and other social, environmental and governance issues has led organisations to consider sustainable development. According to Brockett & Rezaee (2012:8) sustainable development is critical to contribute to the future viability of organisations in view of increasing pressure on energy and commodity prices and growing scarcity of raw materials. This has also changed the global view on reporting requirements. Jones III and Jonas (2011:66) note that reporting on CSR activities surfaced as early as the 1960s and gained momentum with the 1987 report, 'Our common future', initiated by the United Nations. The Global Reporting Initiative (GRI) was established in the late 1990s to provide standards on sustainability reporting and disclosures. According to Borkowski *et al.* (2010:30), the GRI was set up by the Coalition for Environmentally Responsible Economies (CERES) to incorporate and unify the various standards of corporate social responsibility (CSR) reporting in the marketplace into one generally accepted sustainability reporting framework. According to Steyn (2014b:146) the GRI was formally launched in 1997, and aligned with the requirements of the International Accounting Standards Board (IASB) and the Financial Standards Board (FASB). The GRI Reporting Framework, the latest version of which is the G4 guidelines (GRI, 2015:5), provides a framework for reporting on an organisation's economic,

environmental and social performance. According to Accounting for Sustainability (2015) the need for sustainable business practises was amplified by the establishment of the Prince's Accounting for Sustainability project by HRH the Prince of Wales in 2004. This project advocates that sustainability as well as the health and stability of communities and the environment should form part of organisations' strategic thinking.

De Villiers *et al.* (2014:1046) explain the pioneering work in two integrated reporting initiatives – those of Novo Nordisk, a leading Danish pharmaceutical company, and the South African King Commission which was the first regulatory initiative on integrated reporting. Novo Nordisk's approach to integrated reporting appears to be driven by an aspiration to develop a culture of integration in measurement and management. In working towards this aspiration, Novo Nordisk, has been a leader in expanding and developing voluntary non-financial disclosures. From 2003, the company became a leader in the quest to measure and report social, environmental and financial performance within a single document (De Villiers *et al.*, 2014:1046). Based on IIRC (2013:4) the primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time.

### **3.3. INTEGRATED REPORTING IN SOUTH AFRICA**

According to the IoDSA (2009) The King Code of Governance Principles for South Africa of 2009 ('King III') encourages the concept of integrated thinking. De Villiers *et al.* (2014:1047) explain that King III urged organisations to commit to the principle of integrated thinking by promoting the concept to entwine and disclose strategic, governance and sustainability considerations. According to De Villiers *et al.* (2014:1047) the King III principles were integrated into the JSE listing requirements for financial years commencing on or after 1 March 2010 on a comply or explain basis (Steyn, 2014b:147).

### 3.4. THE INTERNATIONAL INTEGRATED REPORTING <IR> FRAMEWORK

Integrated reporting was internationally advanced with the formation of The IRC (Integrated Reporting Committee) under the chairmanship of Professor Mervyn E King SC in 2010. According to Steyn (2014a:481) the IRC was the first in the world to published guidelines on integrated reporting as recommended by King III. This was done in the form of a discussion paper entitled “Framework for integrated reporting and the integrated report” published on 25 January 2011. The first discussion paper was soon followed by the publication of the international discussion paper entitled “Towards integrated reporting: Communicating value in the 21st century” by the IIRC on 12 September 2011 (Steyn 2014a: 480). The IIRC was formed in 2010 by leaders from the Global Reporting Initiative (GRI) and The Prince’s Accounting for Sustainability Project (GRI, 2010:1). According to the GRI (2010:1) the IIRC brings together a cross section of representatives from civil society and the corporate, accounting, securities, regulatory and standard-setting sectors. These include representatives from the GRI, King Committee on Corporate Governance, the International Federation of Accountants (IFAC) and the International Accounting Standards Board (IASB). It also incorporates the work of The World Business Council for Sustainable Development (WBCSD), the World Resources Institute (WRI), the Carbon Disclosure Project (CDP) and the United Nations Global Compact (UNGC) (Stubbs & Higgins, 2014: 1069).

In 2013, the IIRC published the International <IR> Framework which outlines:

- using the framework;
- fundamental concepts;
- guiding principles; and
- content elements (IIRC 2013:3).

The International <IR> Framework aims to:

- “improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital;
- promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and which communicates the full range of

factors that materially affect the ability of an organisation to create value over time;

- enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies; and
- support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term” (IIRC 2013:2).

Integrated reporting extends beyond financial and non-financial reporting and disclosures. In particular, it focuses on the ability of an organisation to create value in the short, medium and long term, and in so doing it:

- “has a combined emphasis on conciseness, strategic focus and future orientation, the connectivity of information and the capitals and their interdependencies; and
- emphasises the importance of integrated thinking within the organisation” (IIRC, 2013:2).

Integrated thinking takes into account the connectivity and interdependencies between the range of factors that affect an organisation’s ability to create value over time, namely:

- “the capitals or sources of finance used by the organisation and the interdependencies between them;
- the capacity of the organisation to respond to key stakeholders’ legitimate needs and interests;
- the way the organisation tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces; and
- the organisation’s activities, performance (financial and other) and outcomes in terms of the capitals – past, present and future” (IIRC 2013:2).

The integrated reporting concept consists of two major pillars: the guiding principles and the content elements (Haller & Van Staden, 2014:1198). According to the IIRC (2013:16), there are seven guiding principles. These guiding principles underpin the preparation and presentation of an integrated report, informing the content of the report and the way information is presented (IIRC, 2013:16). In addition, the

International <IR> Framework provides nine content elements to guide disclosures (IIRC, 2013:24). According to Haller and Van Staden (2014:1192), the International <IR> Framework provides a principles-based platform that explains the objectives and concepts of integrated reporting as well as the guiding principles and content elements. Table 3.1 below lists the guiding principles and content elements in the International <IR> Framework although the IIRC (2013:24) states that the information in an integrated report and the content elements can be sequenced in any way.

**Table 3.1 Major pillars of the International <IR> Framework disclosures**

Fundamental concepts	Guiding principles	Content elements
1. Capitals	1. Strategic focus and future orientation	1. Organisational overview and external environment
Financial	2. Connectivity of information	2. Governance
Manufactured	3. Stakeholder relationships	3. Business model
Intellectual	4. Materiality	4. Risks and opportunities
Human	5. Conciseness	5. Strategy and resource allocation
Social and relationship	6. Reliability and completeness	6. Performance
Natural	7. Consistency and comparability	7. Outlook
2. Creation of value		8. Basis of preparation and presentation
		9. General reporting guidance

Source: Stent and Dowler (2015:95)

Integrated thinking is the process which is central to integrated reporting. It is concerned with higher-level thinking, decision-making and reporting processes, as opposed to superficial compliance with mandatory requirements to produce corporate reports (Stent & Dowler, 2015: 94). According to Stubbs and Higgins (2014:1086) integrated reporting is used as an explicit tool to drive change.

The complete the International <IR> Framework is included as Annexure G.

### **3.5. SUMMARY**

In this chapter, an analysis of the International <IR> Framework was presented and the key disclosure requirements were noted.

It was found that the International <IR> Framework places emphasis on integrated thinking. One of the considerations of integrated thinking is tailoring the strategy of the company to respond to its external environment and the risks and opportunities it faces.

The literature went on to list the guiding principles and content elements. Included under the content elements is a requirement to disclose the risk and opportunities facing the organisation. This forms the basis of the study in the next chapter, which presents two empirical analyses. The analyses firstly assessed the effect of integrated reporting on integrated thinking between strategy, risk and opportunity. Secondly, it assessed the effect of integrated reporting on the disclosure of risk and opportunities.

The discussion of the results of the empirical analyses, as deliberated on in the next chapter, is presented in the form of an academic article and also touches on the more basic principles included in Chapter 1 and Chapter 2.

## CHAPTER 4

### RESEARCH ARTICLE

**Title:** The effect of integrated reporting on integrated thinking and the disclosure of risks and opportunities

The reader is requested to take note of the following:

The article has been submitted for publication (Annexure B) in the following International Bibliography of the Social Sciences (IBSS)-indexed, peer-reviewed academic journal as follows:

Moolman, J., Oberholzer, M., Steyn, M. The effect of integrated reporting on integrated thinking and the disclosure of risks and opportunities. *SA Business Review*.

The article was written in line with the journal's submission guidelines, which are included as Annexure C: Southern African Business Review submission guidelines. Note that in this chapter, the technical aspects, especially the referencing and reference list, differ from the rest of the document, since the article here is presented exactly as it was submitted to the journal. Only the page numbers and the paragraph numbering were altered to fit into this whole document.

The article was researched and written by the first author as the candidate and primary author, while the second author as the study leader of the research project fulfilled a reviewer function. The third author contributed with the general layout of the web-based questionnaire and directed the process to collect responses. The article reports on the results of questions in section B of the questionnaire. Sections A, C and D of the questionnaire are addressed in another study (Steyn, 2014b).

## **The effect of integrated reporting on integrated thinking and the disclosure of risks and opportunities**

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### **ABSTRACT**

Integrated reporting requires a new form of disclosure to provide a holistic view of the organisation and aims to support integrated thinking, decision-making and actions that focus on the creation of value. The International <IR> Framework published in 2013 provides guidelines for the content elements required in an integrated report. One of the content elements is 'risk and opportunities'.

This study firstly assessed whether integrated reporting has enhanced integrated thinking between strategy and the risks and opportunities faced by the organisation. For this purpose, a web-based research questionnaire was sent to high-level implementers of integrated reporting at companies listed on the Johannesburg Stock Exchange (JSE) in South Africa, where integrated reporting is a listing requirement. Results of this study provide new insights for companies preparing integrated reports and other stakeholders to show that integrated reporting has driven change towards integrated thinking between strategy, risk and opportunities.

Secondly, a content analysis was done on a sample derived from the top 100 companies listed on the JSE to determine whether integrated reporting has caused a change in the disclosure of risks and opportunities. Results provide new research findings and indicate that most companies conform to the disclosure requirements noted in the International <IR> Framework regarding risks and opportunities except for disclosures regarding the assessment of specific risks. The content analysis further found that integrated reporting has driven limited change regarding the disclosure of risk and opportunities.

**Key words:** integrated reporting, integrated thinking, disclosure, risk and opportunity, strategy



## 4.1. INTRODUCTION

The British writer, Conan Doyle, well known for his fictional stories of Sherlock Holmes, famously said, “It is a capital mistake to theorise before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts” (Doyle, 2008). In a world of uncertainty, there is an ever-increasing need for information, transparency and accountability.

Integrated reporting is an evolutionary step in the disclosure of financial and non-financial information for all organisations. According to Bartocci and Picciaia (2013), the basic concept of the integrated reporting model is that all kinds of organisations need to provide stakeholders with access to information on value-generating factors. The International Integrated Reporting <IR> Framework provides clear disclosure guidelines. Integrated reporting requires organisations to disclose financial and sustainability information in one report to provide a holistic view of the company. “Integrated reporting aims to support integrated thinking, decision-making and actions that focus on the creation of value over the short-, medium- and long term” (IIRC, 2013:3).

According to Steyn (2014b:145) integrated reporting is clearly evolving with South Africa playing a leading role. De Villiers *et al.* (2014:1047) explain that The King Code of Governance Principles for South Africa of 2009 (‘King III’) urges organisations to commit to the principle of integrated thinking by linking strategic, governance and sustainability considerations. King III also suggested that organisations should integrate their reporting approaches and practices on risks and opportunities through financial and sustainability considerations (De Villiers *et al.*, 2014:1047). Based on Stent and Dowler (2015:96) the incorporation of King III (IoDSA, 2009) into the Johannesburg Stock Exchange (JSE) listing requirements resulted in all JSE listed companies being required to issue an integrated report for financial years commencing on or after 1 March 2010 on a ‘comply or explain’ basis. According to De Villiers *et al.* (2014:1045) the first regulatory initiative on integrated reporting was in South Africa with JSE listed companies being among the first in the world to publish integrated reports. Other countries around the world are assessing the effect of integrated reporting in South Africa to determine whether integrated

reporting should be adopted elsewhere. Based on Eccles and Krzus (2010:218) the concept of integrated reporting is nascent and voluntary reporting by companies is increasing, but widespread change is only expected once integrated reporting is mandated globally.

The experience in South Africa has shown that the preparation of an integrated report is not overly complex (Cheng *et al.*, 2014:101). It is stated by the IIRC (2013:27) that an integrated report should answer the question: “Where does the organisation want to go and how does it intend to get there?” At the heart of integrated reporting is *integrated thinking*. According to the IIRC (2013:3), integrated thinking takes into account the connectivity and interdependencies between the range of factors that affect an organisation’s ability to create value over time, including (among other things) how the organisation tailors its business model and *strategy* to respond to its external environment and the *risks* and *opportunities* it faces. According to Haller and Van Staden (2014:1192), the application of the International <IR> Framework should coincide with a change in management behaviour and decision-making, which the IIRC calls ‘integrated thinking’. Cheng *et al.* (2014:101) state that the important question to be posed is whether integrated reporting changed the way organisations are doing business. In another study, Churet and Eccles (2014:64) define integrated thinking in broad terms, but confirm that integrated reporting is linked to integrated thinking, which results in managing the business in a way that meets near-term priorities while also achieving the company’s long-term vision and goals.

The first research question of this study was whether integrated reporting has specifically enhanced integrated thinking regarding *strategy*, *risk* and *opportunity*. This will provide preparers of integrated reports, investors and other stakeholders with new insights to assess the effect of integrated reporting. From an organisational perspective, integrated reporting is also expected to enhance risk management processes and allow better access to capital because of improved disclosure (ACCA, 2012). One of the content elements included in the International <IR> Framework is guidelines regarding the disclosure of risk and opportunities facing the organisation. Hughen *et al.* (2014:60) note that integrated reporting goes beyond *disclosures* of historical information and provides investors and other stakeholders with information

about a company's current and prospective risks and opportunities. This begs a second research question, namely whether JSE-listed companies comply with the statutory reporting requirement to *disclose* information regarding risks and opportunities facing the organisation per the International <IR> Framework.

This first objective of the study was to assess the perceived effect of integrated reporting on the ability of JSE-listed companies to link *strategy, risk and opportunities* and to promote *integrated thinking*. This was achieved through a web-based questionnaire, which was sent to high-level implementers of the integrated reporting requirements at companies listed on the JSE two years into the integrated reporting regime.

The second objective of the study was to assess whether there had been changes in the *disclosure* of risk and opportunities by a sample of the top 100 JSE-listed companies over a period of five years by comparing annual reports published in 2010 with integrated reports published in the 2014 or 2015 financial years. The content element 'risk and opportunities' published by the IIRC (2013:28) in the International <IR> Framework was used as proxy for the assessment. In addition, disclosures by the same sample of companies, regarding risks and opportunities, were analysed to determine the level of adherence to the content element 'risk and opportunities' in the International <IR> Framework.

Companies produce reports for short- and medium-term decision-making with a strategic focus, and assessing the true value of integrated reporting is important for companies to understand the sources of information for improved analysis and to understand stakeholder needs better. Steyn (2014a:491) found that the highest-ranking benefit of integrated reporting for JSE-listed companies is the advancement of corporate reputation. Owen (2013) states that integrated reporting developments can only be in the wider public interest of improving the relevance of information for decision-making for all stakeholders, thereby allowing greater efficiency in the allocation of financial and other resources, and in adding public value. This study was motivated by the fact that integrated reporting is a very topical concept for those charged with the governance and reporting to stakeholders within companies and organisations. There is also a lack of current literature to establish whether

integrated reporting has specifically influenced management's ability to integrate strategy, risk and opportunity. Conflicting arguments from previous research on whether integrated reporting has achieved the objectives noted in the International <IR> Framework and whether integrated reporting has driven change regarding disclosure underpinned in the International <IR> Framework also motivated this study. Companies need to understand whether integrated reporting holds real benefits for all stakeholders to validate its comprehensive application. Analysts, investors and other stakeholders also need to comprehend whether integrated reporting has changed the disclosure of risk and opportunities and whether companies are following the International <IR> Framework guidelines in this regard. The IoDSA (2011:10) notes that an institutional investor should develop a policy on how it incorporates sustainability considerations, including environmental, social and governance considerations, into its investment analysis and activities. This should include among other things the quality of the company's integrated reporting dealing with the long-term sustainability of the company's strategy and operations. By promoting integrated reporting and its business benefits, accountants can play a key role in the development of financially successful sustainability strategies (Hughen *et al.*, 2014:61). Two empirical studies were used for the purpose of this research study to gain a holistic view of the effect integrated reporting has on integrated thinking regarding strategy, risk and opportunity as well as disclosures concerning risk and opportunity.

This article commences with a background to the study and a review of the available literature. This is followed by a discussion of the results and it concludes with a summary of findings and suggestions for further research.

## **4.2. BACKGROUND**

According to Steyn (2014a:479) traditional corporate reporting focused on annual reports and primarily historical financial performance. During the last two decades, reporting of sustainability information has become widespread. In 2012 the United Nations General Assembly (2012:9) emphasised the importance of corporate sustainability reporting and encouraged companies to consider integrating sustainability information into their reporting. While fewer than 100 firms globally

reported such information twenty years ago, by 2013, more than 6,000 companies were issuing sustainability reports (Ioannou & Serafeim, 2014:2).

Social and environmental disclosures are to a large extent self-laudatory (Hooghiemstra, 2000). Too often, companies attempt to change perceptions without changing facts (Hess, 2008). Based on available evidence, there is also little reason to believe that social reporting meets its ideal purpose beyond perhaps a handful of industry leaders (Hess, 2008). Hinson and Ndlovu (2011:332) describe “green washing” as attempts by companies to present the image of a socially responsible corporate citizen without any real changes to their business approach.

This begs the question whether sustainability, social and environmental disclosures will drive any change in the way the company is managed. The International Accounting Standards (IAS) includes IFRS 7, a standard which prescribes disclosure requirements about the nature and extent of risks arising from financial instruments. Although this is limited to disclosures about credit risk, liquidity risk and market risk and how these risks are managed, it is related to the International <IR> Framework disclosure requirements as these affect an organisation’s quality and affordability of relevant (available) capitals in the short, medium and long term. Van Bommel (2014) argues that integrated reporting is said to go beyond traditional accounting and sustainability disclosures, which were situated in the financial and sustainability community respectively. A feature of integrated reporting is that it traverses precisely these two worlds or communities with their respective traditions, and also combines short-term and long-term thinking, strategy and governance as well as numbers and figures, adding multiple layers of complexity, fragmentation and pluralism (Van Bommel, 2014:1161). Based on KPMG (2010:3) integrated reporting is evolutionary and will globally transform corporate reporting in the future. According to Van Staden and Wild (2013), integrated reporting is intended to replace the annual report. The concept of integrated reporting is clearly growing. In 2010, only 14 per cent of global reports published in the GRI’s sustainability disclosure database were self-declared as integrated by reporting organisations. This number rose to 20 per cent in 2011 (Hughen *et al.*, 2014:60).

The aim of integrated reporting is to contribute to the clear and concise communication of how an organisation applies its resources to create value in the short, medium and long term (IIRC, 2015). The IIRC (2015) goes on to say that integrated reports are intended to serve an information purpose, to help businesses think holistically about their strategy and plans, to make informed decisions and to manage key risks to build investor and stakeholder confidence and improve future performance. Integrated reporting requires a new approach to disclosing information to stakeholders. According to Roth (2014:63) the framework advocates disclosing a company's resources and relationships from six different perspectives which is described as 'capitals' in the framework. The resources or 'capitals' relate to financial funds available, assets available for use in production, intellectual assets, people, stakeholder relations and the availability of natural resources to support past, current and future prosperity. Based on the IIRC (2013:30), the International <IR> Framework aims to improve the quality of information available to providers of financial capital, promote a more cohesive and efficient approach to corporate reporting, and enhance accountability and stewardship for the broad base of capitals.

De Villiers *et al.* (2014:1047) explain that King III (IoDSA, 2009) requires companies to commit to the principle of integrated thinking by linking and disclosing strategic, governance and sustainability considerations. Based on Stent and Dowler (2015) the incorporation of King III (IoDSA, 2009) into the Johannesburg Stock Exchange (JSE) listing requirements resulted in all JSE listed companies being required to issue an integrated report for financial years commencing on or after 1 March 2010 on a 'comply or explain' basis. According to the GIM (2012:17) this has been acclaimed as an internationally pioneering decision.

### **The International Integrated Reporting <IR> Framework**

The International Integrated Reporting Council (IIRC), as a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs, published the International <IR> Framework in December 2013 to provide principles-based guidance for the disclosure of corporate information (IIRC, 2013:1). The International <IR> Framework advocates integrated thinking within organisations

and focuses on the ability of an organisation to create value in the short, medium and long term. This framework also identifies specific information that needs to be disclosed in the integrated report.

“An integrated report should answer the question: What are the specific risks and opportunities that affect the organization’s ability to create value over the short-, medium- and long term and how is the organization dealing with them?” (IIRC, 2015:28). The disclosure of risks and opportunities influencing value creation is elevated as a specific content element within the International <IR> Framework. Based on the IIRC (2015:28) disclosures of risks and opportunities should among other things include: what are the specific risks and opportunities that affect the organisation’s ability to create value; risks and opportunities that affect the availability, quality and affordability of relevant capitals; specific external sources of risk; specific internal sources of risk; organisation’s assessment of the likelihood that the risk or opportunity will come to fruition and the magnitude of its effect if it does; steps being taken to mitigate or manage key risks; and the organisation’s approach to any real risks that are fundamental to the on-going ability of the organisation to create value and that could have extreme consequences. The requirements of the content element are regarded as valuable proxy for disclosure guidelines.

### **4.3. LITERATURE REVIEW**

While sustainability reporting aims to provide social, environmental and economic information to a wide range of stakeholders, integrated reporting seeks to present information related to broad risk evaluation and potential future value growth thus appealing to capital providers and potential investors (De Villiers *et al.*, 2014:1059). Atkins and Maroun (2015:215) found that institutional investors’ reaction to integrated reporting also agreed with the assertion that integrated reporting would signal the beginning of a comprehensive reporting philosophy and an integrated approach to thinking about business activities. Haller and Van Staden (2014:1206) identified the ultimate aim of integrated reporting as integrated thinking. Armbester *et al.* (2011:28) noted that integrated reports are expected to encourage companies to consider risks, adopt sustainable business practices and create a more sustainable society.

Coetzee and Lubbe (2013:1) found that South African companies in the private sector were regarded as mostly risk mature before the introduction of integrated reporting. According to Kotze *et al.* (2015:104), organisations are now moving towards a broader view of risk management, which has been linked to strategy. De Villiers *et al.* (2014:1044) note that critics of sustainability reporting claim that disclosures in sustainability reports are often a symbolic attempt to connect with the concept of sustainability while continuing with business as usual. Integrated reporting is expected to advance real change in the way organisations operate. According to Stubbs and Higgins (2014), integrated reporting enables companies to make better financial and non-financial decisions, it improves resource allocation decisions, breaks down operational and reporting silos and leads to improved systems and processes. Understanding whether integrated reporting has improved *integrated thinking* between strategy, risks and opportunities is important when designing processes. Brown and Dillard (2014:1136) observe that through improved internal processes, integrated reporting may help organisations to identify eco-efficiency gains, improve productivity and enhance brand loyalty towards the organisation.

De Klerk and De Villiers (2012) found that shareholders increasingly require companies to disclose more information about the company's corporate responsibility. This is required because shareholders believe that companies should be held accountable for their environmental stewardship and to help shareholders with their analysis of the company and decision-making. This extends to the *disclosure* of risk and opportunities as stakeholders need to assess whether the company will be able to create value in the future to make informed decisions. According to Plourd (2009:68–69), the importance of risk management is now more important than issues such as long-term and short-term financing constraints. Companies cannot disclose the existence of a risk management strategy and regard this as sufficient, because companies need to engage actively in risk management practices. Risk management is a key area of consideration for analysts reading annual reports. Company managers should evaluate risk disclosures on a regular basis within annual reports, and disclosures within annual reports should incorporate the discussion of actual risk experiences (Abraham & Shrivs, 2014:95). According to Jagongo and Mutswenje (2014:100), investors' decision-making is influenced by among other things the company's ability to minimise risk.



It is to be expected that risk-related disclosures will be improved if companies adhere to the content element 'risk and opportunities' included in the International <IR> Framework. This should improve investors' ability to make informed decisions, but the disclosure of risks in the companies' annual reporting is not new or an advent of integrated reporting. With the collapse of large established enterprises, nationally and internationally over the last two decades, it became apparent that a more balanced organisational perspective should be used by organisations and stakeholders to evaluate the holistic performance of the enterprise. This gave rise to the 'triple bottom line' effect, where organisations take cognisance of the importance of financial achievement in addition to the importance of their social and environmental influence and performance (Smit, 2011:24). Sustainability reporting was also said to have appealed to a broad range of stakeholders and was sufficiently flexible to include industrial, market, civic and green aspects under the umbrella of sustainability (Van Bommel, 2014). Based on research by De Villiers *et al.* (2014:1044), the early development of integrated reporting policies and practices appears to have largely been informed and driven by the need for social and environmental reporting. It is noteworthy that integrated reporting has been criticised for a strong investor bias, with no attempt to open up substantive discussion on important – and contentious – issues around corporate accountability or sustainability (Brown & Dillard, 2014:1133). It is uncertain how the disclosure of risks and opportunities has changed since the introduction of integrated reporting.

Companies can benefit if they adhere to the content element 'risks and opportunities' in the International <IR> Framework. According to Roth (2014:65), improved communications is one aspect of risk management, and reporting specific risks can help an organisation improve its reputation. Steyn (2014b:163) noted that the inclusion of future-looking information in the integrated report is perceived to pose a degree of challenge for organisations in respect of business confidentiality. This creates a conflict as the benefit of adherence to the International <IR> Framework and improving the company's reputation has to be weighed against the risk of sharing strategic information and information providing a competitive advantage in the public domain. With static mandated reporting, those disclosing the information decide what stakeholders need to know, and they may do this without ever consulting those stakeholders (Madsen, 2009). No person and no organisation are

ever completely transparent and inasmuch as reason is bounded it follows that acts of transparency will be at the same time both revealing and concealing (Madsen, 2009). Flower (2015:16) indicates that companies are not required to give information that could cause competitive harm. A requirement to give such information was included in the IIRC published Consultation Draft, titled “Towards Integrated Reporting: Communicating Value in the 21<sup>st</sup> Century”, but was not included in the International <IR> Framework. Assessing whether the top 100 JSE-listed companies disclose risks and opportunities in accordance with the International <IR> Framework is important for companies to better understand integrated reporting norms when allocating resources and preparing financial information for disclosure outside the organisation. Stakeholders, investors and analysts will gain insight by knowing the level of compliance to the content element for ‘risks and opportunities’ included in the International <IR> Framework.

Previous research by Stent and Dowler (2015) on an analysis of four New Zealand organisations has indicated that in general terms, when considering all the guiding principles of the International <IR> Framework, a relatively small gap exists between integrated reporting requirements and current best practice reporting processes in New Zealand. While this appears to be a relatively small gap, systems thinking principles indicate that these deficiencies may be critical to sustainability and financial stability, the stated aims of integrated reporting (Stent & Dowler, 2015:92). An Australian study of 23 interviews across 15 organisations found that, while the organisations that are producing some form of integrated report are changing their processes and structures, or at least talking about it, their adoption of integrated reporting has not necessarily stimulated innovations in disclosure mechanisms. This study did not uncover radical, transformative change to reporting processes, but rather incremental changes to processes and structures that previously supported sustainability reporting (Stubbs & Higgins, 2014).

The international community will be interested to know the level of adherence to the International <IR> Framework with regard to the disclosure of risks and opportunities by JSE-listed companies. Integrated reporting is prevalent as South Africa is leading the way for formal integrated reporting disclosures with advocacy for the trend to be followed. Integrated reporting is a relatively new area of policy and practice. Both

public policy and organisational practices in this area are developing rapidly. As a rapidly developing regulatory arena, studying integrated reporting provides an opportunity to study many aspects of the development of accounting regulation over a much shorter period than has typically been the case for financial accounting standards (De Villiers *et al.*, 2014:1043).

This study contributes to the literature by assessing the effect of integrated reporting on management's ability to integrate thinking towards strategy, risk and opportunity. In addition, this study extends prior work on risk disclosure quality with the application of a longitudinal approach to assess the extent of risk reporting after the introduction of integrated reporting compared to annual reports without the requirement to publish an integrated report. While most previous studies have described disclosure practices, the study on which this article reports adopted a normative approach to assess disclosures regarding 'risk and opportunities' over five years with the International <IR> Framework disclosure guidelines related to 'risk and opportunities' as proxy.

#### **4.4. RESEARCH METHODOLOGY**

The research methodology included a review of the current available literature and a concurrent mixed method research which encompassed both aspects of an epistemological approach. Positivism was applied to acquire quantitative data through an electronic web-based questionnaire, and an interpretative approach was followed to gather qualitative data based on an assessment of reporting disclosures regarding risks and opportunities. The study was done over a period of time to sensibly reach the purpose.

Firstly a self-administered web-based questionnaire was sent to high-level implementers of the integrated reporting requirements at companies listed on the JSE. This survey assessed the perceived changes to integrated thinking regarding strategy, risk and opportunity as a result of integrated reporting two years after its mandatory introduction for all JSE-listed companies.

In addition, a data analysis was done by comparing a sample of integrated reports published in 2014 or 2015 to the same companies' 2010 annual reports to assess whether there had been changes in the disclosure of risks and opportunities. This was done five years into the South African integrated reporting regime to gain a clear understanding of reporting norms and the application of the International <IR> Framework.

#### **4.1. QUESTIONNAIRE**

##### *Description of the population and sampling*

In South Africa, the requirement to publish an integrated report is limited to companies listed on the JSE, therefore the population used for the purpose of this research started with the 347 entities listed on the Main Board of the JSE in 2012, as per the June–September 2012 Profiles Stock Exchange Handbook (Profile Media, 2012). The population was adjusted for group structures (20 companies) where companies that form part of a group structure were consolidated into a single entity for the purposes of the survey. Twelve listings were also removed from the population because of secondary listings, delisting or schemes of arrangement that had been entered into after the publication of the handbook. It was established that 273 of the remaining 315 companies had issued an integrated report in full or partial compliance with the requirements of King III. Forty-two companies did not have an integrated report published in the public domain, or only issued an annual report and sustainability report by 31 December 2012. These were also removed from the population to ensure that respondents were experienced in the publishing of an integrated report. After the abovementioned changes, the population was established at 273 companies. The population of 273 companies was deemed manageable and all these companies were targeted in the survey with no sampling necessary.

##### *Description of the questionnaire*

A self-administered web-based questionnaire aimed at top management (CEOs, CFOs and other high-level implementers) of the integrated reporting requirements at

companies listed on the JSE was compiled. This survey assessed the perceived effect of integrated reporting requirements on certain elements of risk management within the organisation. A 5-point Likert scale, ranging from 'strongly agree' (1) to 'strongly disagree' (5) was used to rank respondents' perceptions regarding statements in the survey. The survey consisted of Section A and Section B. Only five of these questions were used for the purposes of this study. The remaining sections are covered in a separate research report (Steyn, 2014b). Respondents were also be given the opportunity to include specific comments after each construct within the survey.

Since the concept of integrated reporting is new, and the practical outcome of these requirements is unknown, the questionnaire was designed to address wide-ranging aspects rather than the in-depth aspects that are associated with more established concepts where there has been previous research on the subject matter. The survey was analysed by a statistician to ensure that the research objectives had been met. The survey was also validated by a trial of the electronic survey completed by five colleagues who were experienced researchers to ensure that the constructs were clear, the web-based design was fully functional and the survey was easy to use.

#### *Survey process and administration*

The database for the 273 eligible listed companies was compiled and these companies were contacted based on the contact details supplied in the JSE Handbook (Profile Media, 2012). The purpose was to identify the CEO or CFO of the company or, alternatively, the person responsible for the overall implementation of integrated reporting in the company. An email with the link to the electronic survey was sent to the appropriate person identified in the company. This was followed up by reminder emails sent at seven-day intervals, as well as telephonic reminders, requesting respondents to complete the questionnaire. The electronic responses were recorded in a secure database during the period November and December 2012. Incomplete responses and all fields submitted for capturing in the database were removed from the data prior to performing the statistical analysis. After removing the data of 28 incomplete surveys, the relevant response rate was found to be 18 per cent, based on 50 fully completed surveys. This response rate was

deemed to be acceptable for the purposes of this study. A substantial disparity in response rates exists between studies in behavioural sciences and commercial or business surveys (Baruch, 1999:421). According to Denison and Mishra (1995), a 21 per cent response from CEO-level respondents is deemed to be a typical response for a mail survey sent to a large sample of companies. In a recent study comparing response rates of the same survey based on a mail survey and web-based survey, the mail survey reported a 26 per cent response rate compared to an 11 per cent response rate for the web-based survey (Hardigan *et al.*, 2011:383). A similar online survey, conducted with the participation of executives of FTSE 100 and FSSE All-Share companies during 2013, reported a response rate of 17 per cent (Varenova *et al.*, 2013). In comparison with similar business mail surveys directed at the same target audience and a recent comparable online survey directed at the same audience, the response rate of 18 per cent compares favourably.

#### **4.1.1. LIMITATIONS OF THE QUESTIONNAIRE RESULTS**

Descriptive statistical analysis was used to analyse the collected data. Comments received from respondents were also collated and summarised. The statistician did not validate the survey by any statistical methods other than the pre-trial of the survey, due to the limited amount of data. This is regarded as a potential limitation of the study. Another limitation is that the industries represented by the respondents to the survey were not entirely representative of the spread of industries across the JSE, with a bias for 'basic resources' and 'industrial goods'. It is noteworthy that a significant proportion of the respondents represented companies that were large listed companies with a market capitalisation of between R10 million and R364 million in 2012. Furthermore, a disproportionate number of respondent companies were Socially Responsible Investment (SRI) Index Constituents. Therefore, in a number of respects, the respondents may not have been representative of all companies listed on the JSE.

#### 4.1.2. RESULTS OF THE QUESTIONNAIRE

This article reports on the results of questions included in section B of the questionnaire. Sections A, C and D are addressed in another study (Steyn, 2014b) and information regarding company profiles, response rates and limitations may be similar.

##### *Profile of participating companies*

Respondents were categorised into 14 main industry classifications, which are set out in Table 1 below. The responses were widely spread across various industry categories of the target population, namely listed companies on the JSE Main Board. The total number of companies in each category of the target population has been included below to ensure that the responses received are a reasonable representation of the overall spread of industries across the target population. Although the categories, Basic Resources (Mining, Forestry, Chemicals, Oil and Gas) and Financial Services Property, comprised 23 and 11 per cent of the total target population respectively, these industries were only represented by 16 and two per cent of the total number of responses respectively. These categories were, therefore, under-represented in the results. However, there was over-representation of the industry category, Consumer Goods Other, which represented three per cent of the total listed companies on the JSE, as per Profile's Stock Exchange Handbook, June–September 2012, as 16 per cent of the responses were received from this industry category. Although these under- and over-representations in some categories should be mentioned as a potential limitation of the study, the variances reported were not expected to have a significant influence on the overall conclusions of the study.

**Table 1:** Main industry classifications represented in the results

Industry categories	Responses		JSE main board listings	
	No. of companies	(%)	No. of companies	(%)
Basic Resources (Mining, Forestry, Chemicals, Oil and Gas)	8	16	81	23
Consumer Goods, Foods & Beverage	4	8	18	5
Consumer Goods Other	8	16	9	3
Consumer Travel, Gambling and Leisure	2	4	12	3
Consumer Media	1	2	8	2
Consumer Services	2	4	25	7
Financial Services Banking, Venture and Development Capital	6	12	34	10
Financial Services Property	1	2	39	11
Financial Services Insurance and Other	2	4	21	6
Industrial Construction	1	2	20	6
Industrial Goods	10	20	51	15
Healthcare	2	4	9	3
Telecoms	2	4	5	1
Technology Computer	1	2	15	4
Total (N = 50)	50	100	347	100

### *Company size and SRI status*

As per the market capitalisation ranking done in the June–September 2012 JSE Profile's Stock Exchange Handbook (Profile Media, 2012) of the 50 participating companies, 27 were respondents were ranked in the top 80 companies from 347 companies listed on the JSE Main Board. Therefore, a significant proportion (54 per cent) of the participating companies was significant in size as measured by market capitalisation. The market capitalisation of the participating companies as at 2 December 2011, is set out in Table 2. The extent to which listed companies in the FTSE/JSE All Share Index incorporate sustainability indicators into their measurement and reporting systems and practices is measured by the JSE on the basis of the SRI Index Criteria. The SRI Index serves as a tool to enable investors to assess companies on a broader basis, also providing an aspiration sustainability benchmark as the first of its kind in an emerging economy. To be selected for inclusion in the SRI Index, companies must achieve a minimum overall score measured against predetermined criteria (Hinson & Ndlovu, 2011:342). Companies complying with the criteria are listed after the annual review as SRI Constituents. The SRI status of the companies is set out in Table 2. The number of SRI



constituents (48 per cent of respondents) was substantial. This increases the significance of the results because SRI constituents are able to evaluate the effect of integrated reporting requirements as a further step in advancing sustainable business practices from the perspective of an organisational environment where a measurable degree of sustainable business practices currently prevails.

**Table 2:** Market capitalisation of participating companies

Market capitalisation (R million)	Company size		SRI status		
	No. of companies	(%) of companies	SRI constituent companies	Non-SRI constituent companies	Total no. of companies
Below 9	23	46	3	20	23
10–24 (Top 80)	9	18	6	3	9
25–49 (Top 45)	11	22	9	2	11
50–74 (Top 27)	2	4	1	1	2
75–99 (Top 20)	1	2	1	0	1
Above 100 (Top 15)	4	8	4	0	4
Total (N = 50)	50	100	24	26	50

### *Experience of companies in preparing integrated reports*

The experience of companies in preparing integrated reports, as measured by the number of integrated reports they have issued, is set out in Table 3. The majority of companies (76 per cent) had issued at least two integrated reports by January 2012. This is significant from the perspective that a substantial portion of the companies demonstrated a reasonable degree of experience in the preparation of integrated reports, which supports the quality of the results.

**Table 3:** Number of integrated reports issued by company

No. of reports issued	Frequency	(%)	Valid (%)	Cumulative (%)
One report issued	12	24	24.0	24
Two reports issued	27	54	54	78
More than two reports issued	11	22	22	100
Total (N = 50)	50	100	100	100

### *Results of the research questions in the questionnaire*

Table 4 below summarises the results of the web-based questionnaire, which was sent to high-level implementers of integrated reporting at JSE-listed companies. The table indicates respondents' level of agreement with statements relating to the role of integrated reporting in advancing the integration of risks and opportunities into the strategic planning process and strategic objectives within their organisation.

**Table 4:** Level of agreement from respondents

Statement	Mean	Agree and strongly agree (%)	Neutral (%)	Disagree and strongly disagree (%)	Total (%)
Integrated reporting increases organisational focus on integrating risks into overall strategic objectives	2.16	82	2	16	100%
Integrated reporting encourages managers to consider the linkages and interdependencies between strategy, risk and opportunities	2.2	78	6	16	100%
Integrated reporting advances closer alignment between strategy and key risk indicators (KRIs)	2.38	66	12	22	100%
Integrated reporting improves root cause analysis and risk assessment	2.72	48	20	32	100%
Transparent disclosure of risks and KRIs in the integrated report advances organisational culture by embedding risk management into the strategic planning process	2.72	64	20	16	100%

The results provide primary data as defined by Mouton (2011:144).

A significant majority (82 per cent) of respondents agreed that integrated reporting improved the integration of risks into overall strategic objectives.

While 78 per cent of respondents agreed that integrated reporting improved integrated thinking and management's ability to link strategy, risks and opportunities and that they now better understood how the organisation's strategy, risks and opportunities are dependent of one another.

Of the respondents, 66 per cent agreed that the organisation's strategies and KRIs are now more aligned due to the implementation of integrated reporting.

Of the respondents, 48 per cent agreed that integrated reporting improved the root cause analysis and risk assessment. Integrated reporting relates to the disclosure of information and it could be concluded that those charged with the responsibility for the implementation of integrated reporting will not necessarily delve deeper into the data with which they are provided to add sustainable value with regard to the root cause analysis of risks facing the organisation or the assessment of such risks. This should be read in conjunction with the results of the second part of this study, which found that risk assessments are seldom disclosed. As previously noted, companies may be reluctant to disclose sensitive information or information that will reduce their competitive advantage, but positive change in risk assessments due to integrated reporting can only be driven by improved disclosures.

Of the respondents, 64 per cent believed that the transparent disclosure of risks and KRIs in the integrated report, positively contributed to an organisational culture where risk management is embedded in the strategic planning process. Specific commentary noted that behaviour can only be changed by legislation if the subjects can derive real value from the application of integrated reporting or the consequences of non-compliance can be policed effectively. One respondent also noted that internal risk assessments and what is reported in the integrated report could be far apart, as companies will be hesitant to disclose their direct shortcomings in the integrated report.

The next part of the study related to the disclosure of risk and opportunities per the International <IR> Framework. Understanding the extent to which risks and opportunities are disclosed is important to support the above findings that extensive disclosures has advanced the linkage between strategy, risks and opportunities and other elements of risk management.

## **4.2. DATA ANALYSIS AND APPLICATION OF THE CHECKLIST**

A second empirical study was done with an interpretative qualitative data analysis. This part of the study provided some primary data, but focused especially on existing data as defined by Mouton (2011:144). Data was hand-collected from the annual reports of 18 of the top 100 JSE-listed companies. The latest available integrated

reports as at 30 September 2015 were analysed and compared to the same companies' 2010 annual report. Disclosures regarding risks and opportunities were measured against the required disclosures included under the content element 'risk and opportunities' in the International <IR> Framework published by the IIRC (2013:28). This contributed to the reliability of the research.

Content analysis was also carried out to search these data sources for evidence that there has been a change in the disclosure of risks, opportunities, mitigating action plans (to reduce risks) and the assessment of risk. The reports were read and key terms including synonyms were searched. An *a priori* coding approach as defined by Nieuwenhuis (2013:107) was followed, and results were verified and recorded using Excel on an expanded version of the checklist to support the reliability and validity of the analysis.

#### *Profile of participating companies*

Ernst and Young (EY) Excellence in Integrated Reporting Awards (EY, 2015) annually ranks the integrated reports of the top 100 companies listed on the JSE. These companies were selected based on their market capitalisation as at 31 December 2014, which was the last trading day of that year. For the purpose of this study, companies were randomly selected from each of the categories within the EY Excellence in Integrated Reporting Awards (EY, 2015). The selection also ensured that an equal number of companies were analysed from each of the JSE main industry categories (Table 5).

**Table 5:** Integrated reports selected for analysis

Main JSE listing industry category	Categories per the EY Excellence in Integrated Reporting Awards 2015					Total
	Top 10	Excellent	Good	Average	Progress to made	
Resources	2	1	3	–	–	6
Financials	1	1	1	1	2	6
Industrials	1	1	-	2	2	6
Total	4	3	4	3	4	18

#### 4.2.1. LIMITATIONS OF THE ANALYSIS

The JSE top 100 companies were determined based on market capitalisation as at 31 December 2014. The list of the top 100 JSE-listed companies changes annually due to corporate activity and market capitalisation, which placed a limitation on this research study. The data was hand-collected, which placed a possible limitation on the study. The study also focused on companies' annual reports published in 2010 compared to the most recent corresponding integrated report as at 30 September 2015. The study therefore focused on two years of published information and provided a snapshot which could be different from other years.

#### 4.2.2. RESULTS OF THE DATA ANALYSIS

Table 6 below provides the results of the data analysis and summarises changes in the disclosure of risk and opportunities by a sample of JSE top 100 companies over five years. The International <IR> Framework disclosure guidelines related to 'risk and opportunities' were used as proxy.

**Table 6:** Results of the data analysis

Included under the content element 'risk and opportunities' (IIRC, 2013:28)	Positive improvement made in disclosure from 2010 annual report to latest available integrated report as at 30 September 2015	Integrated reports that provide complete and comprehensive disclosures per the International <IR> Framework (disclosure requirement implemented)
"What are the specific risks and opportunities that affect the organisation's ability to create value over the short-term and how is the organisation dealing with them?"	11%	100%

<b>Included under the content element 'risk and opportunities' (IIRC, 2013:28)</b>	<b>Positive improvement made in disclosure from 2010 annual report to latest available integrated report as at 30 September 2015</b>	<b>Integrated reports that provide complete and comprehensive disclosures per the International &lt;IR&gt; Framework (disclosure requirement implemented)</b>
"What are the specific risks and opportunities that affect the organisation's ability to create value over the medium-term and how is the organisation dealing with them?"	28%	89%
"What are the specific risks and opportunities that affect the organisation's ability to create value over the long-term and how is the organisation dealing with them?"	39%	72%
"Key risks and opportunities that are specific to the organisation, including those that relate to the organisation's effects on and the continued availability, quality and affordability of, relevant capitals in the short, medium and long term."	33%	78%
"Specific external sources of risks and opportunities, including aspects of the legal, commercial, social, environmental and political context that affect the organisation's ability to create value in the short, medium or long term."	11%	83%
"Internal sources of risk and opportunity, including how the organisation differentiates itself in the market place."	17%	72%
"Internal sources of risk and opportunity, including the extent to which the business model relies on revenue generation after the initial point of sale."	0%	72%
"Internal sources of risk and opportunity, including how the organisation approaches the need to innovate."	22%	78%
"Internal sources of risk and opportunity, including how the business model has been designed to adapt to change."	33%	83%

<b>Included under the content element 'risk and opportunities' (IIRC, 2013:28)</b>	<b>Positive improvement made in disclosure from 2010 annual report to latest available integrated report as at 30 September 2015</b>	<b>Integrated reports that provide complete and comprehensive disclosures per the International &lt;IR&gt; Framework (disclosure requirement implemented)</b>
"Contribution made to the organisation's long-term success by initiatives such as process improvement, employee training and relationship management."	0%	89%
"The organisation's assessment of the likelihood that the risk or opportunity will come to fruition and the magnitude of its effect if it does."	11%	17%
"The specific steps being taken to mitigate or manage key risks or to create value from key opportunities including strategic objectives, strategies, policies, targets and KPIs."	28%	83%
"The organisation's approach to any real risks that is fundamental to the ongoing ability of the organisation to create value and which could have extreme consequences."	39%	89%

Based on the findings, it can be concluded that integrated reporting has had an effect on the disclosure of risk and opportunities by the JSE top 100 companies; however, the results do not provide compelling evidence of significant change. All results should be read in conjunction with the percentage of companies that complied with the disclosure requirements per the International <IR> Framework. Changes in disclosure are mostly related to: the disclosure of specific risks and opportunities that affect the organisation's ability to create value over the long term and how the organisation is dealing with them (39 per cent improvement); risks and opportunities that affect the continued availability, quality and affordability of relevant capitals (33 per cent improvement); internal sources of risk and opportunity, including how the business model has been designed to adapt to change (33 per cent improvement); and the disclosure of the organisation's approach to any real risks that are fundamental to the on-going ability of the organisation to create value

and which could have extreme consequences. The results also show that there has been no change in the disclosure of the sources of risk and opportunity, but it should be noted that almost three in every four companies disclose this information. A significant number of companies (89 per cent) are disclosing information about the company's contribution towards long-term success by initiatives such as employee training, but there is no evidence to indicate that integrated reporting has influenced any change in these disclosures. It can be concluded that integrated reporting has brought about change in the disclosure of risk and opportunities facing organisations. This appears to be in some contrast to a previous Australian study where Stubbs and Higgins (2014) found that the adoption of integrated reporting has not necessarily stimulated innovations in disclosure mechanisms. However, that study focused on the disclosure process instead of actual disclosures.

In addition, the data analysis showed that a significant majority of companies were complying with all the disclosure guidelines in the International <IR> Framework for the content element 'risk and opportunities', except for the disclosure of the assessment of risks. Companies refrain from disclosing risk assessments for specific risks and fail to clearly disclose their assessment of the likelihood that risks will occur and what the effect will be if risks come to fruition. This supports the results from one of the five questions in the questionnaire analysed in the first part of this study that only 48 per cent of respondents believed that integrated reporting enhanced root cause analysis and risk assessment. The application of the other content element requirements regarding the disclosure of risks and opportunities was widespread (72–100 per cent). This correlates with the New Zealand study by Stent and Dowler (2015) which found that a relatively small gap exists between traditional annual reports and integrated reporting requirements. Their study was broader than the disclosure of risk and opportunities, but it is noteworthy that the researchers conclude that disclosure deficiencies may be critical to sustainability and financial stability, the stated aims of integrated reporting. The findings in the second part of this study support the findings in the first part of the study that the improved disclosure of risks and opportunities due to integrated reporting has advanced the linkage between risk, strategy and opportunities and other elements of risk management.



### 4.3. CONCLUSION

There is some disagreement on whether integrated reporting has achieved its objectives to advance integrated thinking within business practices, support decision-making, enhance accountability and improve corporate reporting. At the heart of integrated reporting, according to the International <IR> Framework, is an emphasis on integrated thinking. This extends to an integration of strategy, risks and opportunity. The purpose of this study was firstly to assess whether integrated reporting has had an effect on the integration of risks and opportunities into the strategic thinking within JSE-listed companies. Responses from the web-based questionnaire aimed at high-level implementers of integrated reporting suggest clear changes in the organisational behaviour regarding integrated thinking towards strategy, risk and opportunities. It can be concluded that integrated reporting advances the organisational culture towards risk management as well as the alignment of strategy and key risk indicators.

The disclosure of risks and opportunities is one of the content elements included in the International <IR> Framework. This study also aimed to apply a longitudinal approach to determine whether integrated reporting has changed the way in which the top 100 companies listed on the JSE disclose risk and opportunities and whether these companies adhere to the guidelines of the International <IR> Framework regarding the disclosure of risks and opportunities facing the company. Based on the content analysis it can be concluded that a significant majority of companies are complying with all the integrated reporting guidelines for the content element 'risk and opportunities' (IIRC, 2013:28), except for the disclosure of the assessment of risks. The results of the content analysis also showed that there has been an expansion in the disclosure of risk and opportunities although the results of the content analysis did not provide compelling evidence that integrated reporting has significantly changed the way in which the top 100 JSE-listed companies disclose risks and opportunities. Indicative changes are limited to the disclosure of specific risks and opportunities, the organisation's approach to any real risks, internal sources of risk and opportunity, including how the business model has been designed to adapt to change and disclosure of key risks and opportunities with an

effect on, and the continued availability, quality and affordability of relevant capitals in the short, medium and long term.

The originality of this study was that it applied two connected and mutually supportive empirical research studies to show that, although disclosures of risk and opportunities facing the organisation have not significantly changed, there has been a change towards integrated thinking and the linking of strategy, risk and opportunities due to integrated reporting. The study contributes to the body of literature and extends prior work to provide a better understanding of the true value of integrated reporting. This is important for companies to understand the sources of information for improved disclosure, to understand stakeholder needs better and to allocate the required resources to ensure the comprehensive application of integrated reporting. The quality of integrated reports and the level of adherence to the International <IR> Framework are important for investors and analysts assessing companies and investment opportunities. The implication of this contribution is that another benefit to integrated reporting has been identified to advance its application.

Further research could be conducted to establish whether there is a need for tools and software to streamline the process of linking strategy, risk and opportunity to enhance integrated thinking. There is also a research opportunity to establish why companies fail to disclose their assessment of specific risks. From an investor's point of view, it could be valuable to know whether institutional investors think that a superior integrated report could improve a company's share price.

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## **CHAPTER 5**

### **SUMMARY AND CONCLUSION**

#### **5.1. INTRODUCTION**

This chapter summarises the essence and principles of the research study. The objectives of the study highlighted in Chapter 1 are addressed, while limitations, contributions and future research opportunities are discussed and assessed. The research indicated that annual reporting has evolved and the requirement for JSE listed companies to publish integrated reports has been heralded. Integrated reporting provides a holistic view of the company to illustrate its ability to create value in the short, medium and long term. At the heart of integrated reporting is integrated thinking.

The field of study focused on JSE listed companies as they were the first in the world to be required to draft mandatory integrated reports on a 'comply or explain' basis following the incorporation of King III requirements into the JSE Listings Requirements.

#### **5.2. RESEARCH SUMMARY**

Integrated reporting is said to go beyond traditional reporting as it combines accounting and sustainability disclosures with an emphasis on integrated thinking. Integrated reporting aims to communicate the company's broad risk evaluation and potential for future growth, but just as importantly requires integrated thinking on a range of factors to be embedded into the company's operations. The International <IR> Framework also provides content elements to guide disclosures. The disclosure of 'risk and opportunities' is one of the content elements.

In view of the above this study's first objective (1.5.1) was to assess the perceived impact of integrated reporting on the ability of JSE listed companies to link strategy, risk and opportunities and to promote integrated thinking.

To refresh the reader, five research questions were formulated to resolve the first research objective, namely:

- Has integrated reporting increased organisational focus on integrating risks into overall strategic objectives?
- Has integrated reporting encourages managers to consider the linkages and interdependencies between strategy, risk and opportunities?
- Has integrated reporting advanced the closer alignment between strategy and Key Risk Indicators (KRI's)?
- Has integrated reporting improved root cause analysis and risk assessment?
- Has the transparent disclosure of risks and KRIs in the integrated report advanced organisational culture by embedding risk management into the strategic planning process?

The second objective (1.5.2) of this study was to assess if there had been changes in the disclosure of risk and opportunities. In an effort to resolve this research questions, the following questions can be formulated:

- Has the introduction of mandatory compliance to the International Integrated Reporting <IR> Framework as published by IIRC (2013:28) changed the way in which the top 100 JSE listed companies disclose risks and opportunities?
- Do the top 100 JSE listed companies disclose risks and opportunities facing the company in accordance with the content element 'risks and opportunities' included in the International <IR> Framework?

### **5.2.1. LITERARY RESEARCH SUMMARY**

Chapter 1 provides background and a literature review to the study. It elaborates on the shift towards integrated reporting and analyses reporting requirements per the International <IR> Framework. It identifies integrated thinking between strategy, risk and opportunity as a key concept of integrated reporting. It also discusses the content elements guiding disclosures per the International <IR> Framework and notes the importance for companies to disclose risk and opportunities that will affect the company's ability to create value in the future.

Chapter 2 provides information on the types of research, research methodology and research design. A web based questionnaire is identified as an appropriate research method to address the first research objective and a content analysis of integrated reports is identified as an appropriate research method to address the second research objective.

Chapter 3 provides an overview of the International <IR> Framework. The framework provides a basis for this study as the effect of integrated reporting on integrated thinking between strategy, risk and opportunities is assessed. The framework also includes content elements which provide guidelines for 'risk and opportunities'. This was used as the basis to assess the influence of integrated reporting on the disclosure of risks and opportunities.

### **5.2.2. EMPIRICAL RESEARCH SUMMARY**

Chapter 4 includes the results of the two empirical studies sampled in the form of a research article. The article summarises the foundation of the study as set out in chapter one and two and includes the results of the research.

To reach the first objective of the study, a self-administered web-based questionnaire was sent to high-level implementers of the integrated reporting requirements at companies listed on the JSE. The first objective has been reached by answering the five supporting research questions as exhibited in Table 4 and discussed in the article. This survey assessed the perceived changes to integrated thinking regarding strategy, risk and opportunity as a result of integrated reporting two years after its mandatory introduction for all JSE listed companies. The majority of respondents agreed that integrated reporting improved integrated thinking between strategy, risks and opportunities.

To reach the second objective, a second empirical study was done with an interpretative qualitative data analysis. Data was hand-collected by comparing a sample of integrated reports published in 2014 or 2015 to the same companies' 2010 annual reports to assess if there have been changes in the disclosure of risks and

opportunities. The second objective has been reached by answering the two supporting research questions as indicated in Table 6 and discussed in the article. Disclosures regarding risks and opportunities were measured against the required disclosures included under the content element 'risk and opportunities' in the International <IR> Framework published by the IIRC (2013:28). Based on the findings it can be concluded that integrated reporting has had an effect on the disclosure of risk and opportunities by the JSE top 100 companies; however the results do not provide compelling evidence of significant change. In addition, the data analysis shows that a significant majority of companies are complying with the disclosure guidelines in the International <IR> Framework for the content element 'risk and opportunities', except for the disclosure of the assessment of risks. Based on this evidence JSE listed companies could do more to disclose their assessment of significant risks in their integrated reports.

### **5.2.3. CONCLUDING DISCUSSION**

The originality of this study is that it applied two connected and mutually supportive empirical research studies to show that a large majority of JSE listed companies comply with the disclosure guidelines of the content element 'risk and opportunities' included in the International <IR> Framework. In addition, it can be concluded that although disclosures of risk and opportunities facing the organisation has not significantly changed due to integrated reporting there has been a change towards integrated thinking. It can be concluded that integrated reporting advances the organisational culture towards risk management as well as the alignment of strategy and key risk indicators. The study contributes to the body of literature and extends prior work to provide a better understanding of the true value of integrated reporting. This is important for companies to understand the sources of information for improved disclosure, to better understand stakeholder needs and to allocate the required resources to ensure the comprehensive application of integrated reporting. The quality of integrated reports and the level of adherence to the disclosure guidelines in the International <IR> Framework are important for investors and analysts assessing companies and investment opportunities. The implication of this

contribution is that another benefit to integrated reporting has been identified to advance its application.

### **5.3. LIMITATIONS OF THE STUDY**

There are some limitations regarding the web-based questionnaire. The statistician did not validate the survey by any statistical methods, other than the pre-trial of the survey, due to the limited amount of data. Another limitation is that the industries represented by the respondents to the survey are not entirely representative of the spread of industries across the JSE, with a bias for 'basic resources' and 'industrial goods'. Furthermore, a disproportionate number of respondent companies are Socially Responsible Investment (SRI) Index Constituents. This means the sample is not representative of the entire JSE in a number of ways.

The results of the data analysis are limited to some extent. The list of the top 100 JSE listed companies changes annually due to corporate activity and market capitalisation. The study also focused on companies' annual reports published in 2010 compared to the most recent corresponding integrated report as at 30 September 2015. It therefore focused on a single year of published information and provides a snapshot which could be different from another year

### **5.4. FUTURE RESEARCH**

The body of research around integrated reporting is fast expanding; however some further research opportunities exist. Research could be conducted to establish whether there is a need for tools and software to streamline the process of linking strategy, risk and opportunity to enhance integrated thinking. There is also a research opportunity to establish why companies fail to disclose their assessment of specific risks. From an investor's point of view it could be valuable to know if institutional investors think that a superior integrated report could increase a company's share price.

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## ANNEXURE A: LANGUAGE CERTIFICATE

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### DECLARATION

I hereby certify that the thesis by **J MOOLMAN** was properly language edited but without viewing the final version.

The track changes function was used and the author was responsible for accepting the editor's changes and for finalising the reference list.

Title of thesis:

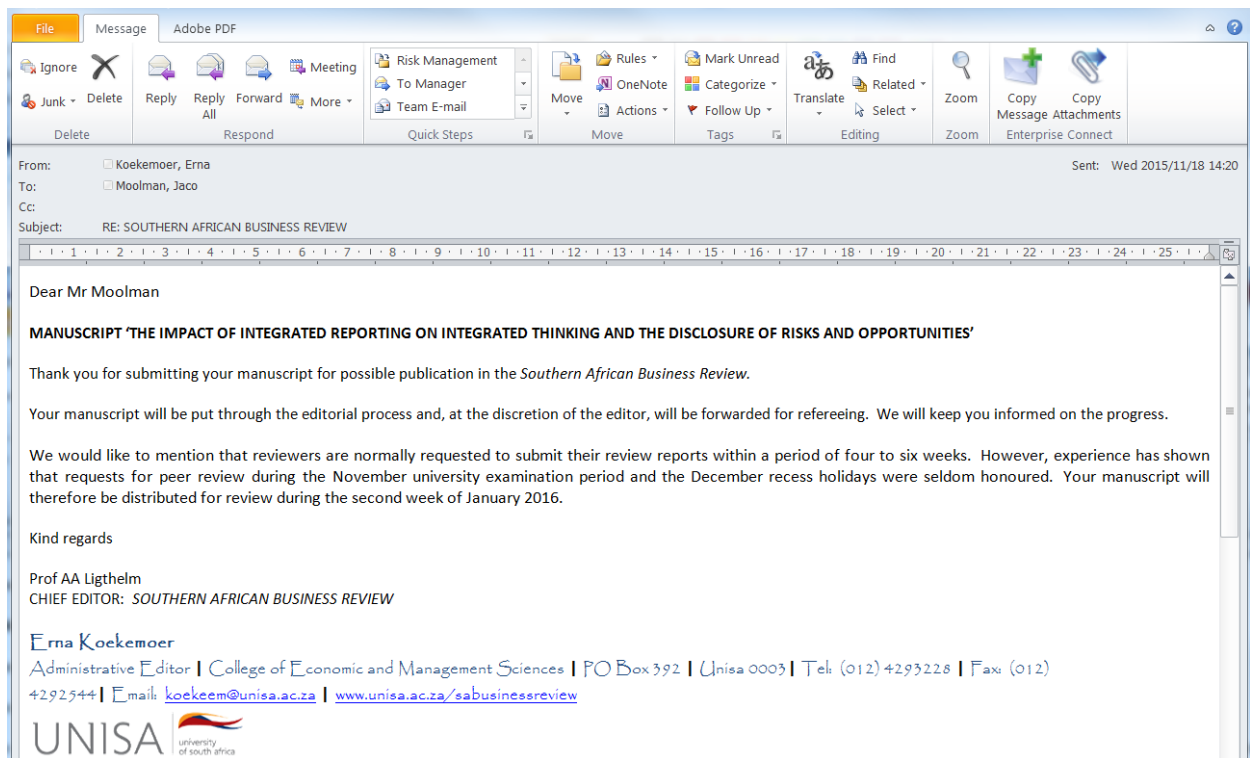
**THE IMPACT OF INTEGRATED REPORTING ON RISK MANAGEMENT AND STRATEGIC DECISION-MAKING FOR JSE-LISTED COMPANIES**



JACKIE VILJOEN  
Strand  
South Africa  
03 December 2015



## ANNEXURE B: CONFIRMATION OF ARTICLE SUBMISSION TO SA BUSINESS REVIEW



## **ANNEXURE C: SA BUSINESS REVIEW - JOURNAL SUBMISSION GUIDELINES**

### **Guidelines for contributors**

The Southern African Business Review is a refereed and accredited journal of the College of Economic and Management Sciences of the University of South Africa. The *Southern African Business Review* is an open access journal and as of 2008, published in electronic form only.

### **Nature of contributions**

The *Southern African Business Review* serves as a vehicle for the publication and dissemination of research in the fields of the economic and management sciences. Research contributions should conform to high standards of scholarly research inquiry. The following should at least be addressed: purpose/objective of the article, sound conceptualisation/theoretical foundation, statement of the research problem or hypothesis, research methodology (where applicable), analysis/discussion of research findings (where applicable) and conclusion.

### **Guidelines for manuscripts**

1. Articles should preferably not exceed 7 500 words including tables, figures and graphs, using the font Times New Roman (12 point) and 1.5 line spacing. Authors should ensure that the contents of very short articles are substantial enough to warrant publication.
2. All tables, illustrations and figures should be incorporated in the body of the manuscript. The editor reserves the right to refuse publication of any submission for which the artwork is not of an acceptable standard.
3. Since the Southern African Business Review follows a policy of blind peer review, the first page of the text proper should carry the title of the article, but not the name(s) of the author(s).
4. A separate page should carry the title of the article, its author(s) and relevant biographical information, including full name, academic title, current position and institution (where appropriate). Postal and e-mail addresses should also be provided.
5. The article should be preceded by a single paragraph abstract of the article, not exceeding 200 words. The abstract should not form part of the text. A list of as many key words as possible should be submitted per article for cataloguing purposes.
6. The reference technique should be according to the Harvard method. For a practical example, see a recent issue of the Southern African Business Review. Recent issues are available at <http://www.unisa.ac.za/sabusinessreview>

## **Submission and review process**

1. Manuscripts for the review process should be submitted by e-mail in MS Word to the address below.
2. Manuscripts will be submitted to independent reviewers. A policy of double blind peer review is followed. The editor will make the final decision whether to publish an article.
3. If approved subject to revision, the manuscript will be returned to the author(s) who will make the necessary alternations/corrections. The final copy of the manuscript will then be returned to the editors. This copy should be submitted in MS Word by e-mail.
4. It is required that all authors have their draft articles reviewed for language proficiency before submitting them to the editors. Sometimes excellent submissions have to be drastically amended or even rejected because of linguistic ineptitude. The editors reserve the right to make minor editorial adjustments without consulting the author. The use of abbreviations should be avoided as far as possible.
5. Footnotes should be avoided. Endnotes may be use, which should be consecutively numbered and listed at the end of the text, before the list of references.
6. Publication fees of R1 500 are payable on the acceptance of the article. The author(s) will receive written acknowledgement of acceptance accompanied by an invoice for publication fees.

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## ANNEXURE D: WEB-BASED QUESTIONNAIRE

Figure 1.5: Email requesting participants to complete the web-based questionnaire

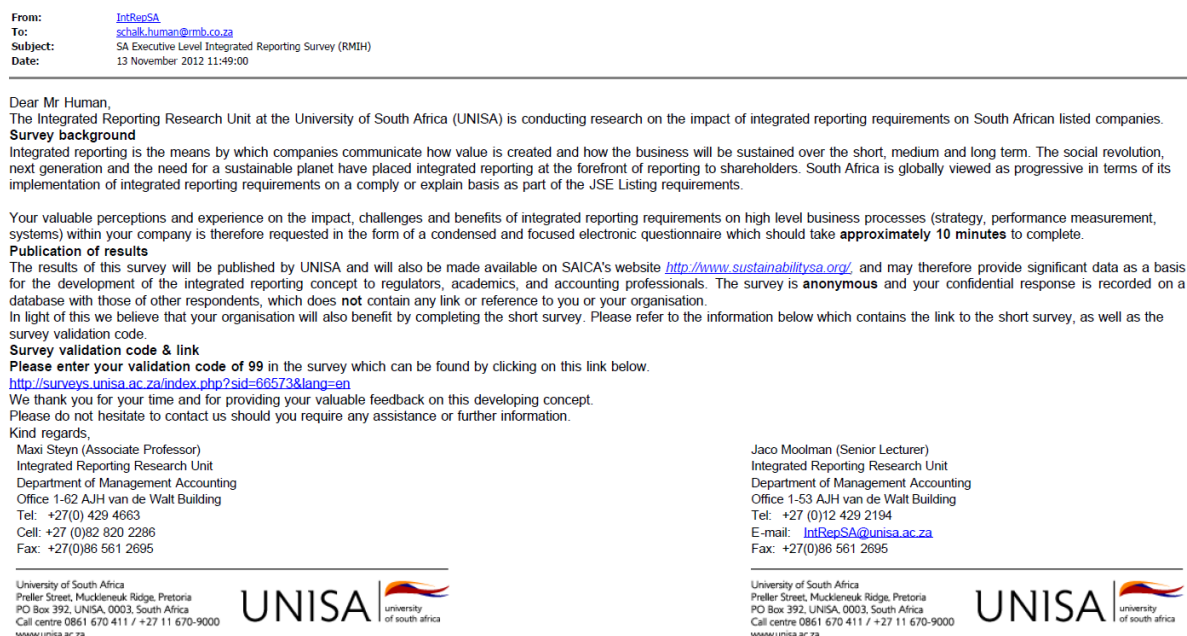


Figure 1.6: Cover page of the web-based questionnaire

## The impact of integrated reporting requirements on listed companies

Dear Sir/Madam

It is an established well researched fact that corporate reporting influences corporate behaviour, and implementing the integrated reporting requirements may in many instances require some organisational adjustments. South African listed companies as global leaders in this field are able to provide valuable feedback in respect of their experience in implementing this requirement, specifically relating to potential benefits realised and challenges encountered which may prove a valuable contribution in the continued global debate on the potential benefits of both integrated thinking and integrated reporting as a developing concepts.

All answers will be treated as **strictly confidential** and will be used for statistical and research purposes only.

Please note that no compensation is paid for participating in this survey.

There are 22 questions in this survey

### Consent

**I hereby consent to participate in this survey, and understand that I may withdraw from the process at any given point in time prior to completion \***

Please choose only one of the following:

- ☐ Yes  
☐ No

**Figure 1.7: Questions 27-28 included in web-based questionnaire**

**17**  
**The impact of integrated reporting requirements on strategy formulation: Integrating risks and opportunities aspects into strategic objectives**

**Integrated thinking and integrated reporting requirements requires visible integration of strategy, risks and opportunities with social, environmental and economic, and financial issues. Please indicate to what extent you personally agree or disagree with the following statements about with regard to the value of integrated reporting in advancing the integration of risks and opportunities into the strategic planning process and strategic objectives within your organisation.**

*The following statement relates to questions 27-30.*

**IR requirements and/or the IR compilation process positively contributes towards:**  
 \*

Please choose the appropriate response for each item:

	Strongly agree	Agree	Unsure	Disagree	Strongly disagree
27. Improved focus on integrating risks into overall organisational strategic objectives.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
28. Management's greater consideration of the linkages and interdependencies between strategy, risks and opportunities.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**Figure 1.8: Questions 29-31 included in web-based questionnaire**

29. Closer

---

<http://surveys.unisa.ac.za/admin/admin.php?action=showprintablesurvey&sid=66573> 2013/04/26

LimeSurvey - The impact of integrated reporting requirements on listed companies Page 15 of 21

alignment between strategy and KRI's (Key Risk Indicators).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
30. Improved root cause analysis and risk assessment.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
31. The transparent disclosure of risks and KRI's (key risk indicators) in the integrated report, positively contributes to an organisational culture where risk management is embedded in the strategic planning process.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## **ANNEXURE E: EXTENDED RESULTS OF THE DATA ANALYSIS**

The information below details the results of the qualitative data analysis. The latest available integrated reports as at 30 September 2015 were analysed and compared to the same company's 2010 annual report. Disclosures regarding risks and opportunities were measured against the required disclosures included under the content element 'risk and opportunities' in the International <IR> Framework content element published by the IIRC (2013:28).

ANNEXURE B: EXTENDED RESULTS OF THE DATA ANALYSIS

Content Element - 4.D. Risks and opportunities (disclosure guidelines from the International Integrated Reporting Framework <IR>)

		1		2		3		4		5	
		Gold Fields		Sasol		AngloGold Ashanti		BHP Billiton		Lonmin plc	
		2010	2014	2010	2014	2010	2014	2010	2015	2010	2014
4,23	An integrated report should answer the question:										
	What are the specific risks and opportunities that affect the organization's ability to create value over the <b>short</b> term and how is the organization dealing with them?	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	What are the specific risks and opportunities that affect the organization's ability to create value over the <b>medium</b> and how is the organization dealing with them?	✓	✓	✓	✓	X	✓	✓	✓	✓	✓
	What are the specific risks and opportunities that affect the organization's ability to create value over the <b>long</b> and how is the organization dealing with them?	✓	✓	✓	✓	X	✓	✓	✓	✓	✓
4,24	An integrated report identifies the key risks and opportunities that are specific to the organization,										
	including the organization's effects on, and the continued availability, quality and affordability of, relevant capitals in the short, medium and long term.	X	✓	X	✓	✓	✓	✓	✓	✓	✓
4,25	The specific source of risks and opportunities, which can be internal, external or, commonly, a mix of the two.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	External sources include those stemming from the external environment, as discussed in paragraphs 4.6. - 4.7.										
	Significant factors affecting the external environment include aspects of the legal, commercial, social, environmental and political context that affect the organization's ability to create value in the short, medium or long term. They can affect the organization directly or indirectly (e.g., by influencing the availability, quality and affordability of a capital that the organization uses or affects).	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Internal sources include those stemming from the organization's business										
	How the organization differentiates itself in the market place (e.g., through product differentiation, market segmentation, delivery channels and marketing)	✓	✓	✓	✓	X	X	X	X	✓	X
	Internal sources of risk and opportunity including the extent to which the business model relies on revenue generation after the initial point of sale.(e.g., extended warranty arrangements or network usage charges)	X	X	✓	✓	N/A	N/A	N/A	N/A	N/A	N/A
	How the organization approaches the need to innovate.	✓	✓	✓	✓	X	✓	X	X	✓	✓
	How the business model has been designed to adapt to change.	✓	✓	✓	✓	X	✓	X	X	✓	✓
	When material, an integrated report discusses the contribution made to the organization's long term success by initiatives such as process improvement, employee training and relationships management.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
4,25	The organization's assessment of the likelihood that the risk or opportunity will come to fruition and the magnitude of its effect if it does. This includes consideration of the specific circumstances that would cause the risk or opportunity to come to fruition. Such disclosure will invariably involve a degree of uncertainty.	X	✓	X	X	X	✓	X	X	X	X
4,25	The specific steps being taken to mitigate or manage key risks or to create value from key opportunities, including the identification of the associated strategic objectives, strategies, policies, targets and KPIs.	X	✓	✓	✓	✓	✓	X	✓	✓	✓
4,26.	The organization's approach to any real risks (whether they be in the short, medium or long term) that are fundamental to the ongoing ability of the organization to create value and that could have extreme consequences is ordinarily included in an integrated report, even when the probability of their occurrence might be considered quite small.	X	✓	✓	✓	X	✓	X	✓	✓	✓

Keys:	Rating of the companies per the 2015 EY Excellence in Integrated Reporting Awards
	Top 10 (4 companies)
	Excellent (3 companies)
	Good (4 companies)
	Average (3 companies)
	Improvement to be made (4)

✓	Complied with the specific disclosure requirements per <IR>
X	Did not comply with the specific disclosure requirements per <IR>

ANNEXURE B: EXTENDED RESULTS OF THE DATA ANALYSIS

Content Element - 4.D. Risks and opportunities (disclosure guidelines from the International Integrated Reporting Framework <IR>)

		6		7		8		9		10	
		Impala Platinum		Standard Bank		Nedbank		Sanlam		FirstRand	
		2010	2014	2010	2014	2010	2014	2010	2014	2010	2015
4,23	An integrated report should answer the question:										
	What are the specific risks and opportunities that affect the organization's ability to create value over the <b>short</b> term and how is the organization dealing with them?	X	✓	✓	✓	X	✓	✓	✓	✓	✓
	What are the specific risks and opportunities that affect the organization's ability to create value over the <b>medium</b> and how is the organization dealing with them?	X	✓	✓	✓	X	✓	✓	✓	X	✓
	What are the specific risks and opportunities that affect the organization's ability to create value over the <b>long</b> and how is the organization dealing with them?	X	✓	X	X	X	✓	X	X	X	✓
4,24	An integrated report identifies the key risks and opportunities that are specific to the organization,										
	including the organization's effects on, and the continued availability, quality and affordability of, relevant capitals in the short, medium and long term.	X	X	✓	✓	X	✓	✓	✓	X	✓
4,25	The specific source of risks and opportunities, which can be internal, external or, commonly, a mix of the two.	X	✓	✓	✓	X	✓	✓	✓	X	✓
	External sources include those stemming from the external environment, as discussed in paragraphs 4.6. - 4.7.										
	Significant factors affecting the external environment include aspects of the legal, commercial, social, environmental and political context that affect the organization's ability to create value in the short, medium or long term. They can affect the organization directly or indirectly (e.g., by influencing the availability, quality and affordability of a capital that the organization uses or affects).	X	✓	✓	✓	X	✓	✓	X	X	✓
	Internal sources include those stemming from the organization's business										
	How the organization differentiates itself in the market place (e.g., through product differentiation, market segmentation, delivery channels and marketing)	X	✓	✓	✓	X	✓	✓	✓	X	X
	Internal sources of risk and opportunity including the extent to which the business model relies on revenue generation after the initial point of sale.(e.g., extended warranty arrangements or network usage charges)	N/A	N/A	✓	X	X	✓	✓	✓	X	✓
	How the organization approaches the need to innovate.	✓	✓	✓	✓	X	✓	✓	✓	X	✓
	How the business model has been designed to adapt to change.	X	✓	X	✓	X	✓	✓	✓	X	✓
	When material, an integrated report discusses the contribution made to the organization's long term success by initiatives such as process improvement, employee training and relationships management.	✓	✓	✓	✓	✓	✓	✓	✓	X	X
4,25	The organization's assessment of the likelihood that the risk or opportunity will come to fruition and the magnitude of its effect if it does. This includes consideration of the specific circumstances that would cause the risk or opportunity to come to fruition. Such disclosure will invariably involve a degree of uncertainty.	X	X	X	X	X	X	X	X	X	X
4,25	The specific steps being taken to mitigate or manage key risks or to create value from key opportunities, including the identification of the associated strategic objectives, strategies, policies, targets and KPIs.	X	✓	✓	✓	X	✓	✓	✓	X	X
4,26.	The organization's approach to any real risks (whether they be in the short, medium or long term) that are fundamental to the ongoing ability of the organization to create value and that could have extreme consequences is ordinarily included in an integrated report, even when the probability of their occurrence might be considered quite small.	X	✓	✓	✓	X	✓	✓	✓	X	✓

Keys:	Rating of the companies per the 2015 EY Excellence in Integrated Reporting Awards
	Top 10 (4 companies)
	Excellent (3 companies)
	Good (4 companies)
	Average (3 companies)
	Improvement to be made (4)

✓	Complied with the specific disclosure requirements per <IR>
X	Did not comply with the specific disclosure requirements per <IR>



ANNEXURE B: EXTENDED RESULTS OF THE DATA ANALYSIS

Content Element - 4.D. Risks and opportunities (disclosure guidelines from the International Integrated Reporting Framework <IR>)

		11		12		13		14		15	
		RMB Holdings		PSG Group		Truworths		Vodacom		Steinhoff	
		2010	2014	2010	2014	2010	2014	2010	2014	2010	2014
4,23	An integrated report should answer the question:										
	What are the specific risks and opportunities that affect the organization's ability to create value over the <b>short</b> term and how is the organization dealing with them?	✓	X	✓	✓	✓	✓	X	✓	✓	✓
	What are the specific risks and opportunities that affect the organization's ability to create value over the <b>medium</b> and how is the organization dealing with them?	✓	X	X	✓	✓	✓	✓	✓	✓	✓
	What are the specific risks and opportunities that affect the organization's ability to create value over the <b>long</b> and how is the organization dealing with them?	X	X	X	X	✓	✓	X	✓	✓	✓
4,24	An integrated report identifies the key risks and opportunities that are specific to the organization,										
	including the organization's effects on, and the continued availability, quality and affordability of, relevant capitals in the short, medium and long term.	✓	✓	X	X	X	✓	✓	✓	X	✓
4,25	The specific source of risks and opportunities, which can be internal, external or, commonly, a mix of the two.	✓	X	✓	✓	✓	✓	X	✓	✓	✓
	External sources include those stemming from the external environment, as discussed in paragraphs 4.6. - 4.7.										
	Significant factors affecting the external environment include aspects of the legal, commercial, social, environmental and political context that affect the organization's ability to create value in the short, medium or long term. They can affect the organization directly or indirectly (e.g., by influencing the availability, quality and affordability of a capital that the organization uses or affects).	✓	X	✓	✓	✓	✓	X	✓	✓	✓
	Internal sources include those stemming from the organization's business										
	How the organization differentiates itself in the market place (e.g., through product differentiation, market segmentation, delivery channels and marketing)	X	X	X	✓	✓	✓	✓	✓	✓	✓
	Internal sources of risk and opportunity including the extent to which the business model relies on revenue generation after the initial point of sale.(e.g., extended warranty arrangements or network usage charges)	X	X	✓	X	✓	✓	✓	✓	✓	✓
	How the organization approaches the need to innovate.	X	X	X	X	✓	✓	✓	✓	✓	✓
	How the business model has been designed to adapt to change.	X	X	X	X	✓	✓	✓	✓	✓	✓
	When material, an integrated report discusses the contribution made to the organization's long term success by initiatives such as process improvement, employee training and relationships management.	X	X	✓	✓	✓	✓	✓	✓	✓	✓
4,25	The organization's assessment of the likelihood that the risk or opportunity will come to fruition and the magnitude of its effect if it does. This includes consideration of the specific circumstances that would cause the risk or opportunity to come to fruition. Such disclosure will invariably involve a degree of uncertainty.	X	X	X	X	✓	X	X	X	X	X
4,25	The specific steps being taken to mitigate or manage key risks or to create value from key opportunities, including the identification of the associated strategic objectives, strategies, policies, targets and KPIs.	✓	X	X	X	✓	✓	X	✓	✓	✓
4,26.	The organization's approach to any real risks (whether they be in the short, medium or long term) that are fundamental to the ongoing ability of the organization to create value and that could have extreme consequences is ordinarily included in an integrated report, even when the probability of their occurrence might be considered quite small.	✓	X	X	X	✓	✓	✓	✓	X	✓

Keys:	Rating of the companies per the 2015 EY Excellence in Integrated Reporting Awards
	Top 10 (4 companies)
	Excellent (3 companies)
	Good (4 companies)
	Average (3 companies)
	Improvement to be made (4)

✓	Complied with the specific disclosure requirements per <IR>
X	Did not comply with the specific disclosure requirements per <IR>

ANNEXURE B: EXTENDED RESULTS OF THE DATA ANALYSIS

Content Element - 4.D. Risks and opportunities (disclosure guidelines from the International Integrated Reporting Framework <IR>)

		16		17		18		Comparative improvement		
		Mr Price		Shoprite		Famous Brands		Improve-ment	Decline	Result
		2010	2014	2010	2014	2010	2014			
4,23	An integrated report should answer the question:									
	What are the specific risks and opportunities that affect the organization's ability to create value over the <b>short</b> term and how is the organization dealing with them?	✓	✓	✓	✓	✓	✓	3	1	11%
	What are the specific risks and opportunities that affect the organization's ability to create value over the <b>medium</b> and how is the organization dealing with them?	X	✓	X	X	✓	✓	6	1	28%
	What are the specific risks and opportunities that affect the organization's ability to create value over the <b>long</b> and how is the organization dealing with them?	X	✓	X	X	X	✓	7	0	39%
4,24	An integrated report identifies the key risks and opportunities that are specific to the organization,									
	including the organization's effects on, and the continued availability, quality and affordability of, relevant capitals in the short, medium and long term.	X	X	X	X	✓	✓	6		33%
4,25	The specific source of risks and opportunities, which can be internal, external or, commonly, a mix of the two.	✓	✓	✓	✓	✓	✓	6		33%
	External sources include those stemming from the external environment, as discussed in paragraphs 4.6. - 4.7.									
	Significant factors affecting the external environment include aspects of the legal, commercial, social, environmental and political context that affect the organization's ability to create value in the short, medium or long term. They can affect the organization directly or indirectly (e.g., by influencing the availability, quality and affordability of a capital that the organization uses or affects).	✓	✓	X	X	✓	✓	3	1	11%
	Internal sources include those stemming from the organization's business									
	How the organization differentiates itself in the market place (e.g., through product differentiation, market segmentation, delivery channels and marketing)	✓	✓	✓	✓	X	✓	4	1	17%
	Internal sources of risk and opportunity including the extent to which the business model relies on revenue generation after the initial point of sale.(e.g., extended warranty arrangements or network usage charges)	✓	✓	X	X	X	X	2	2	0%
	How the organization approaches the need to innovate.	✓	✓	X	X	X	✓	4		22%
	How the business model has been designed to adapt to change.	✓	✓	✓	✓	X	✓	6		33%
	When material, an integrated report discusses the contribution made to the organization's long term success by initiatives such as process improvement, employee training and relationships management.	✓	✓	✓	✓	✓	✓	0		0%
4,25	The organization's assessment of the likelihood that the risk or opportunity will come to fruition and the magnitude of its effect if it does. This includes consideration of the specific circumstances that would cause the risk or opportunity to come to fruition. Such disclosure will invariably involve a degree of uncertainty.	X	X	X	X	X	✓	3	1	11%
4,25	The specific steps being taken to mitigate or manage key risks or to create value from key opportunities, including the identification of the associated strategic objectives, strategies, policies, targets and KPIs.	✓	✓	✓	✓	X	✓	6	1	28%
4,26.	The organization's approach to any real risks (whether they be in the short, medium or long term) that are fundamental to the ongoing ability of the organization to create value and that could have extreme consequences is ordinarily included in an integrated report, even when the probability of their occurrence might be considered quite small.	X	✓	X	X	X	✓	8	1	39%

Keys:	Rating of the companies per the 2015 EY Excellence in Integrated Reporting Awards
	Top 10 (4 companies)
	Excellent (3 companies)
	Good (4 companies)
	Average (3 companies)
	Improvement to be made (4)

✓	Complied with the specific disclosure requirements per <IR>
X	Did not complies with the specific disclosure requirements per <IR>

## **ANNEXURE F LIST OF ABBREVIATIONS**

<IR>	Integrated Reporting
ACCA	Association of Chartered Certified Accountants
CDSP	Carbon Disclosure Project
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIMA	Chartered Institute of Management Accountants
CSR	Corporate Social Responsibility
FASB	Financial Accounting Standards Board
FTSE	Financial Times Stock Exchange
G4	Global Reporting Initiative's Guidelines for Sustainability Reporting
GIM	Generation Investment Management
GRI	Global Reporting Initiative
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard
IIRC	International Integrated Reporting Committee
JSE	Johannesburg Stock Exchange
KRIs	Key Risk Indicators
NGOs	Non-Governmental Organisation
PMI	Project Management Institute
SRI	Socially Responsible Investment
UNGC	United Nations Global Compact
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute

## **ANNEXURE G: THE INTERNATIONAL INTEGRATED REPORTING FRAMEWORK**

# THE INTERNATIONAL <IR> FRAMEWORK



INTEGRATED REPORTING <IR>

# ABOUT THE IIRC

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting.

The International <IR> Framework has been developed to meet this need and provide a foundation for the future.

Further information about the IIRC can be found on its website [www.theiirc.org](http://www.theiirc.org), including:

- The background to the IIRC's creation
- Its mission, vision and objectives
- Its structure and membership, and the membership of groups who have contributed to the development of this Framework
- Its due process.

The IIRC does not accept responsibility for loss caused to any person who acts, or refrains from acting, in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

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# ABOUT INTEGRATED REPORTING

The IIRC's long term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by Integrated Reporting (<IR>) as the corporate reporting norm. The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability.

<IR> aims to:

- Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital
- Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time
- Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies
- Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.

<IR> is consistent with numerous developments in corporate reporting taking place within national jurisdictions across the world. It is intended that the International <IR> Framework, which provides principles-based guidance for companies and other organizations wishing to prepare an integrated report, will accelerate these individual initiatives and provide impetus to greater innovation in corporate reporting globally to unlock the benefits of <IR>, including the increased efficiency of the reporting process itself.

It is anticipated that, over time, <IR> will become the corporate reporting norm. No longer will an organization produce numerous, disconnected and static communications. This will be delivered by the process of integrated thinking, and the application of principles such as connectivity of information.

<IR> is consistent with developments in financial and other reporting, but an integrated report also differs from other reports and communications in a number of ways. In particular, it focuses on the ability of an organization to create value in the short, medium and long term, and in so doing it:

- Has a combined emphasis on conciseness, strategic focus and future orientation, the connectivity of information and the capitals and their interdependencies
- Emphasizes the importance of integrated thinking within the organization.

Integrated thinking is the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term.

Integrated thinking takes into account the connectivity and interdependencies between the range of factors that affect an organization's ability to create value over time, including:

- The capitals that the organization uses or affects, and the critical interdependencies, including trade-offs, between them
- The capacity of the organization to respond to key stakeholders' legitimate needs and interests
- How the organization tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces
- The organization's activities, performance (financial and other) and outcomes in terms of the capitals – past, present and future.

The more that integrated thinking is embedded into an organization's activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision-making. It also leads to better integration of the information systems that support internal and external reporting and communication, including preparation of the integrated report.

EXECUTIVE SUMMARY	6
PART I – INTRODUCTION	6
1. USING THE FRAMEWORK	7
A Integrated report defined	7
B Objective of the Framework	7
C Purpose and users of an integrated report	7
D A principles-based approach	7
E Form of report and relationship with other information	8
F Application of the Framework	8
G Responsibility for an integrated report	9
2. FUNDAMENTAL CONCEPTS	10
A Introduction	10
B Value creation for the organization and for others	10
C The capitals	11
D The value creation process	13
PART II – THE INTEGRATED REPORT	15
3. GUIDING PRINCIPLES	16
A Strategic focus and future orientation	16
B Connectivity of information	16
C Stakeholder relationships	17
D Materiality	18
E Conciseness	21
F Reliability and completeness	21
G Consistency and comparability	22
4. CONTENT ELEMENTS	24
A Organizational overview and external environment	24
B Governance	25
C Business model	25
D Risks and opportunities	27
E Strategy and resource allocation	27
F Performance	28
G Outlook	28
H Basis of preparation and presentation	29
I General reporting guidance	30
GLOSSARY	33
APPENDIX – SUMMARY OF REQUIREMENTS	34



Integrated Reporting (<IR>) promotes a more cohesive and efficient approach to corporate reporting and aims to improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.

The IIRC's long term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by <IR> as the corporate reporting norm.

## AN INTEGRATED REPORT

The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time. An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.

The International <IR> Framework (the Framework) takes a principles-based approach. The intent is to strike an appropriate balance between flexibility and prescription that recognizes the wide variation in individual circumstances of different organizations while enabling a sufficient degree of comparability across organizations to meet relevant information needs. It does not prescribe specific key performance indicators, measurement methods, or the disclosure of individual matters, but does include a small number of requirements that are to be applied before an integrated report can be said to be in accordance with the Framework.

An integrated report may be prepared in response to existing compliance requirements, and may be either a standalone report or be included as a distinguishable, prominent and accessible part of another report or communication. It should include, transitionally on a comply or explain basis, a statement by those charged with governance accepting responsibility for the report.

## FUNDAMENTAL CONCEPTS

An integrated report aims to provide insight about the resources and relationships used and affected by an organization – these are collectively referred to as “the capitals” in this Framework. It also seeks to explain how the organization interacts with the external environment and the capitals to create value over the short, medium and long term.

The capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organization. They are categorized in this Framework as financial, manufactured, intellectual, human, social and relationship, and natural capital, although organizations preparing an integrated report are not required to adopt this categorization or to structure their report along the lines of the capitals.

The ability of an organization to create value for itself enables financial returns to the providers of financial capital. This is interrelated with the value the organization creates for stakeholders and society at large through a wide range of activities, interactions and relationships. When these are material to the organization's ability to create value for itself, they are included in the integrated report.

## THE FRAMEWORK

The purpose of this Framework is to establish Guiding Principles and Content Elements that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them. The Framework:

- Identifies information to be included in an integrated report for use in assessing the organization's ability to create value; it does not set benchmarks for such things as the quality of an organization's strategy or the level of its performance
- Is written primarily in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations.

## GUIDING PRINCIPLES

The following Guiding Principles underpin the preparation of an integrated report, informing the content of the report and how information is presented:

- *Strategic focus and future orientation:* An integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term, and to its use of and effects on the capitals
- *Connectivity of information:* An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time
- *Stakeholder relationships:* An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests
- *Materiality:* An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term
- *Conciseness:* An integrated report should be concise
- *Reliability and completeness:* An integrated report should include all material matters, both positive and negative, in a balanced way and without material error
- *Consistency and comparability:* The information in an integrated report should be presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time.

## CONTENT ELEMENTS

An integrated report includes eight Content Elements that are fundamentally linked to each other and are not mutually exclusive:

- *Organizational overview and external environment:* What does the organization do and what are the circumstances under which it operates?
- *Governance:* How does the organization's governance structure support its ability to create value in the short, medium and long term?
- *Business model:* What is the organization's business model?
- *Risks and opportunities:* What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?
- *Strategy and resource allocation:* Where does the organization want to go and how does it intend to get there?
- *Performance:* To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
- *Outlook:* What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
- *Basis of presentation:* How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?

# PART I

## INTRODUCTION

## 1A Integrated report defined

- 1.1 An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.
- 1.2 An integrated report should be prepared in accordance with this Framework.

## 1B Objective of the Framework

- 1.3 The purpose of this Framework is to establish Guiding Principles and Content Elements that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them.
- 1.4 This Framework is written primarily in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations.
- 1.5 This Framework identifies information to be included in an integrated report for use in assessing an organization's ability to create value; it does not set benchmarks for such things as the quality of an organization's strategy or the level of its performance.
- 1.6 In this Framework, reference to the creation of value:
  - Includes instances when value is preserved and when it is diminished (see paragraph [2.14](#))
  - Relates to value creation over time (i.e., over the short, medium and long term).

## 1C Purpose and users of an integrated report

- 1.7 The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time. It therefore contains relevant information, both financial and other.

- 1.8 An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.

## 1D A principles-based approach

- 1.9 This Framework is principles-based. The intent of the principles-based approach is to strike an appropriate balance between flexibility and prescription that recognizes the wide variation in individual circumstances of different organizations while enabling a sufficient degree of comparability across organizations to meet relevant information needs.
- 1.10 This Framework does not prescribe specific key performance indicators (KPIs), measurement methods or the disclosure of individual matters. Those responsible for the preparation and presentation of the integrated report therefore need to exercise judgement, given the specific circumstances of the organization, to determine:
  - Which matters are material
  - How they are disclosed, including the application of generally accepted measurement and disclosure methods as appropriate. When information in an integrated report is similar to, or based on other information published by the organization, it is prepared on the same basis as, or is easily reconcilable with, that other information.

## 1. USING THE FRAMEWORK CONTINUED

### Quantitative and qualitative information

1.11 Quantitative indicators, such as KPIs and monetized metrics, and the context in which they are provided can be very helpful in explaining how an organization creates value and how it uses and affects various capitals. While quantitative indicators are included in an integrated report whenever it is practicable and relevant to do so:

- The ability of the organization to create value can best be reported on through a combination of quantitative and qualitative information (see also paragraph 3.8 regarding the connectivity of quantitative and qualitative information).
- It is not the purpose of an integrated report to quantify or monetize the value of the organization at a point in time, the value it creates over a period, or its uses of or effects on all the capitals. (See also paragraph 4.53 for common characteristics of suitable quantitative indicators.)

### 1E Form of report and relationship with other information

1.12 *An integrated report should be a designated, identifiable communication.*

1.13 An integrated report is intended to be more than a summary of information in other communications (e.g., financial statements, a sustainability report, analyst calls, or on a website); rather, it makes explicit the connectivity of information to communicate how value is created over time.

1.14 An integrated report may be prepared in response to existing compliance requirements. For example, an organization may be required by local law to prepare a management commentary or other report that provides context for its financial statements. If that report is also prepared in accordance with this Framework it can be considered an integrated report. If the report is required to include specified information beyond that required by this Framework, the report can still be considered an integrated report if that other information does not obscure the concise information required by this Framework.

1.15 An integrated report may be either a standalone report or be included as a distinguishable, prominent and accessible part of another report or communication. For example, it may be included at the front of a report that also includes the organization's financial statements.

1.16 An integrated report can provide an "entry point" to more detailed information outside the designated communication, to which it may be linked. The form of link will depend on the form of the integrated report (e.g., for a paper-based report, links may involve attaching other information as an appendix; for a web-based report, it may involve hyperlinking to that other information).

### 1F Application of the Framework

1.17 *Any communication claiming to be an integrated report and referencing the Framework should apply all the requirements identified in bold italic type unless:*

- *The unavailability of reliable information or specific legal prohibitions results in an inability to disclose material information*
- *Disclosure of material information would cause significant competitive harm. (See paragraph 3.51.)*

1.18 *In the case of the unavailability of reliable information or specific legal prohibitions, an integrated report should:*

- *Indicate the nature of the information that has been omitted*
- *Explain the reason why it has been omitted*
- *In the case of the unavailability of data, identify the steps being taken to obtain the information and the expected time frame for doing so.*

### Guidance

1.19 Text in this Framework that is not in bold italic type provides guidance to assist in applying the requirements. It is not necessary for an integrated report to include all matters referred to in the guidance.

## 1. USING THE FRAMEWORK CONTINUED

### 1G Responsibility for an integrated report

1.20 *An integrated report should include a statement from those charged with governance that includes:*

- *An acknowledgement of their responsibility to ensure the integrity of the integrated report*
- *An acknowledgement that they have applied their collective mind to the preparation and presentation of the integrated report*
- *Their opinion or conclusion about whether the integrated report is presented in accordance with this Framework*

*or, if it does not include such a statement, it should explain:*

- *What role those charged with governance played in its preparation and presentation*
- *What steps are being taken to include such a statement in future reports*
- *The time frame for doing so, which should be no later than the organization's third integrated report that references this Framework.*

## 2. FUNDAMENTAL CONCEPTS



- 2.1 The fundamental concepts in this chapter underpin and reinforce the requirements and guidance in the Framework.

### 2A Introduction

- 2.2 An integrated report explains how an organization creates value over time. Value is not created by or within an organization alone. It is:

- Influenced by the external environment
- Created through relationships with stakeholders
- Dependent on various resources.

- 2.3 An integrated report therefore aims to provide insight about:

- The external environment that affects an organization
- The resources and the relationships used and affected by the organization, which are referred to collectively in this Framework as the capitals and are categorized in [Section 2C](#) as financial, manufactured, intellectual, human, social and relationship, and natural
- How the organization interacts with the external environment and the capitals to create value over the short, medium and long term.

### 2B Value creation for the organization and for others

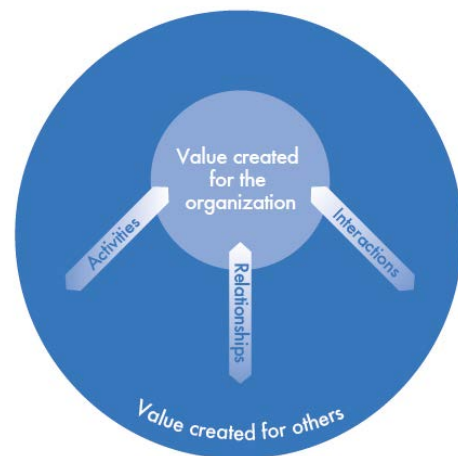
- 2.4 Value created by an organization over time manifests itself in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs. That value has two interrelated aspects – value created for:

- The organization itself, which enables financial returns to the providers of financial capital
- Others (i.e., stakeholders and society at large).

- 2.5 Providers of financial capital are interested in the value an organization creates for itself. They are also interested in the value an organization creates for others when it affects the ability of the organization to create value for itself, or relates to a stated objective of the organization (e.g., an explicit social purpose) that affects their assessments.

- 2.6 The ability of an organization to create value for itself is linked to the value it creates for others. As illustrated in Figure 1, this happens through a wide range of activities, interactions and relationships in addition to those, such as sales to customers, that are directly associated with changes in financial capital. These include, for example, the effects of the organization's business activities and outputs on customer satisfaction, suppliers' willingness to trade with the organization and the terms and conditions upon which they do so, the initiatives that business partners agree to undertake with the organization, the organization's reputation, conditions imposed on the organization's social licence to operate, and the imposition of supply chain conditions or legal requirements.

Figure 1: Value created for the organization and for others:



- 2.7 When these interactions, activities, and relationships are material to the organization's ability to create value for itself, they are included in the integrated report. This includes taking account of the extent to which effects on the capitals have been externalized (i.e., the costs or other effects on capitals that are not owned by the organization).



## 2. FUNDAMENTAL CONCEPTS CONTINUED

- 2.8 Externalities may be positive or negative (i.e., they may result in a net increase or decrease to the value embodied in the capitals). Externalities may ultimately increase or decrease value created for the organization; therefore providers of financial capital need information about material externalities to assess their effects and allocate resources accordingly.
- 2.9 Because value is created over different time horizons and for different stakeholders through different capitals, it is unlikely to be created through the maximization of one capital while disregarding the others. For example, the maximization of financial capital (e.g., profit) at the expense of human capital (e.g., through inappropriate human resource policies and practices) is unlikely to maximize value for the organization in the longer term.

### 2C The capitals

#### The stock and flow of capitals

- 2.10 All organizations depend on various forms of capital for their success. In this Framework, the capitals comprise financial, manufactured, intellectual, human, social and relationship, and natural, although as discussed in paragraphs [2.17–2.19](#), organizations preparing an integrated report are not required to adopt this categorization.
- 2.11 The capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organization. For example, an organization's financial capital is increased when it makes a profit, and the quality of its human capital is improved when employees become better trained.
- 2.12 The overall stock of capitals is not fixed over time. There is a constant flow between and within the capitals as they are increased, decreased or transformed. For example, when an organization improves its human capital through employee training, the related training costs reduce its financial capital. The effect is that financial capital has been transformed into human capital. Although this example is simple and presented only from the organization's
- perspective<sup>1</sup>, it demonstrates the continuous interaction and transformation between the capitals, albeit with varying rates and outcomes.
- 2.13 Many activities cause increases, decreases or transformations that are far more complex than the above example and involve a broader mix of capitals or of components within a capital (e.g., the use of water to grow crops that are fed to farm animals, all of which are components of natural capital).
- 2.14 Although organizations aim to create value overall, this can involve the diminution of value stored in some capitals, resulting in a net decrease to the overall stock of capitals. In many cases, whether the net effect is an increase or decrease (or neither, i.e., when value is preserved) will depend on the perspective chosen; as in the above example, employees and employers might value training differently. In this Framework, the term value creation includes instances when the overall stock of capitals is unchanged or decreased (i.e., when value is preserved or diminished).

#### Categories and descriptions of the capitals

- 2.15 For the purpose of this Framework, the capitals are categorized and described as follows:
- *Financial capital* – The pool of funds that is:
    - available to an organization for use in the production of goods or the provision of services
    - obtained through financing, such as debt, equity or grants, or generated through operations or investments
  - *Manufactured capital* – Manufactured physical objects (as distinct from natural physical objects) that are available to an organization for use in the production of goods or the provision of services, including:
    - buildings
    - equipment

<sup>1</sup> Other perspectives include the increase to the trainer's financial capital due to the payment received from the employer, and the increase to social capital that may occur if employees use newly acquired skills to contribute to community organizations (see also paragraph [4.56](#) regarding complexity, interdependencies and trade-offs).



- infrastructure (such as roads, ports, bridges, and waste and water treatment plants)

Manufactured capital is often created by other organizations, but includes assets manufactured by the reporting organization for sale or when they are retained for its own use.

- *Intellectual capital* – Organizational, knowledge-based intangibles, including:
  - intellectual property, such as patents, copyrights, software, rights and licences
  - “organizational capital” such as tacit knowledge, systems, procedures and protocols
- *Human capital* – People’s competencies, capabilities and experience, and their motivations to innovate, including their:
  - alignment with and support for an organization’s governance framework, risk management approach, and ethical values
  - ability to understand, develop and implement an organization’s strategy
  - loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate
- *Social and relationship capital* – The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being. Social and relationship capital includes:
  - shared norms, and common values and behaviours
  - key stakeholder relationships, and the trust and willingness to engage that an organization has developed and strives to build and protect with external stakeholders
  - intangibles associated with the brand and reputation that an organization has developed

- an organization’s social licence to operate
- *Natural capital* – All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization. It includes:
  - air, water, land, minerals and forests
  - biodiversity and eco-system health.

2.16 Not all capitals are equally relevant or applicable to all organizations. While most organizations interact with all capitals to some extent, these interactions might be relatively minor or so indirect that they are not sufficiently important to include in the integrated report.

### Role of the capitals in the Framework

2.17 This Framework does not require an integrated report to adopt the categories identified above or to be structured along the lines of the capitals. Rather, the primary reasons for including the capitals in this Framework are to serve:

- As part of the theoretical underpinning for the concept of value creation (see [Section 2B](#))
- As a guideline for ensuring organizations consider all the forms of capital they use or affect.

2.18 Organizations may categorize the capitals differently. For example, relationships with external stakeholders and the intangibles associated with brand and reputation (both identified as part of social and relationship capital in paragraph 2.15), might be considered by some organizations to be separate capitals, part of other capitals or cutting across a number of individual capitals. Similarly, some organizations define intellectual capital as comprising what they identify as human, “structural” and “relational” capitals.

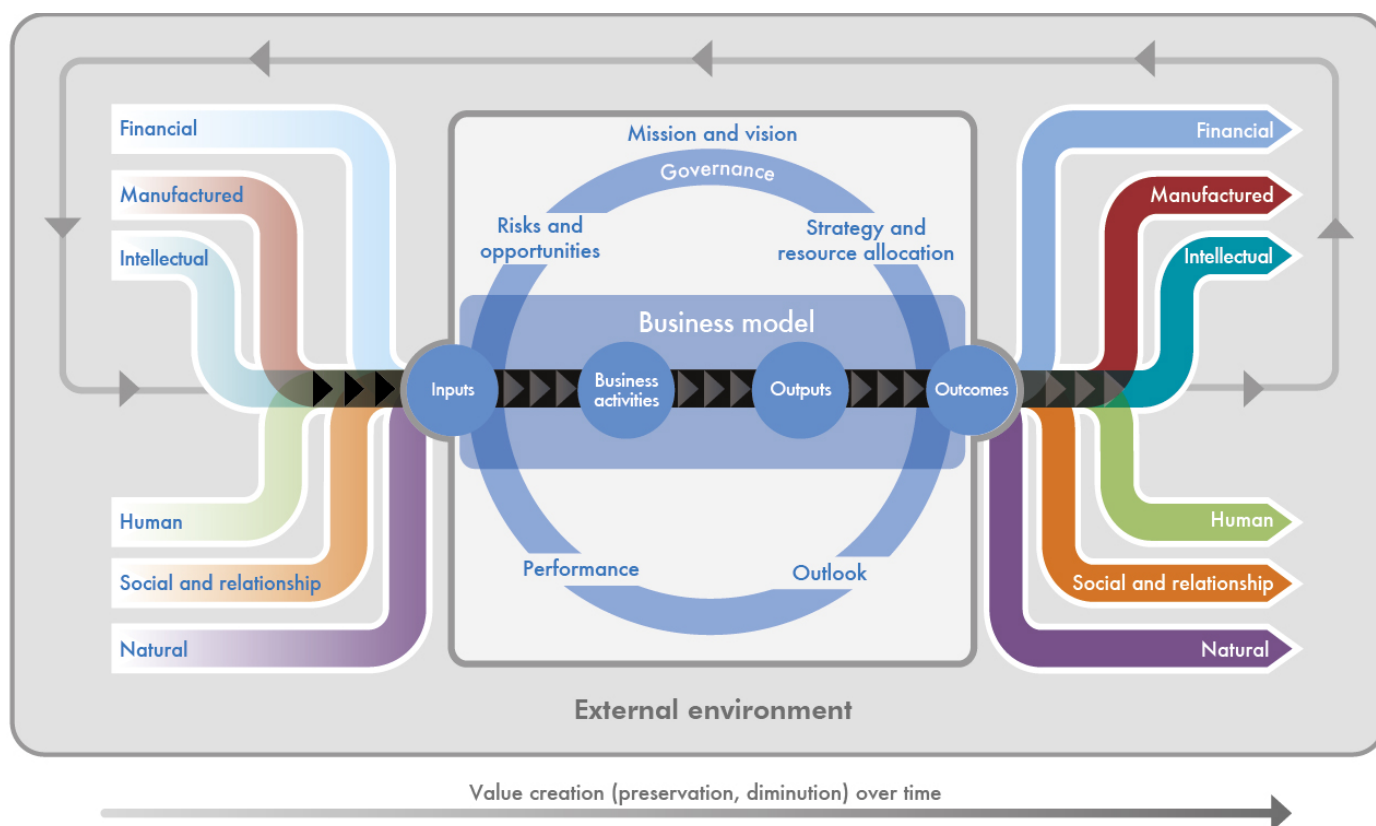
2.19 Regardless of how an organization categorizes the capitals for its own purposes, the categories identified in paragraph 2.15 are to be used as a guideline to ensure the organization does not overlook a capital that it uses or affects.

## 2. FUNDAMENTAL CONCEPTS CONTINUED

### 2D The value creation process

- 2.20 The value creation process is depicted in Figure 2. It is explained briefly in the following paragraphs, which also identify how the components of Figure 2 (underlined in the text) align with the Content Elements in [Chapter 4](#).
- 2.21 The external environment, including economic conditions, technological change, societal issues and environmental challenges, sets the context within which the organization operates. The mission and vision encompass the whole organization, identifying its purpose and intention in clear, concise terms. (See Content Element [4A Organizational overview and external environment](#).)
- 2.22 Those charged with governance are responsible for creating an appropriate oversight structure to support the ability of the organization to create value. (See Content Element [4B Governance](#).)
- 2.23 At the core of the organization is its business model, which draws on various capitals as inputs and, through its business activities, converts them to outputs (products, services, by-products and waste). The organization's activities and its outputs lead to outcomes in terms of effects on the capitals. The capacity of the business model to adapt to changes (e.g., in the availability, quality and affordability of inputs) can affect the organization's longer term viability. (See Content Element [4C Business model](#).)
- 2.24 Business activities include the planning, design and manufacture of products or the deployment of specialized skills and knowledge in the provision of services. Encouraging a culture of innovation is often a key business activity in terms of generating new products and services that anticipate customer demand, introducing efficiencies and better use of technology, substituting inputs to minimize adverse social or environmental effects, and finding alternative uses for outputs.

Figure 2: The value creation process:



## 2. FUNDAMENTAL CONCEPTS CONTINUED

- 2.25 Outcomes are the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs.
- 2.26 Continuous monitoring and analysis of the external environment in the context of the organization's mission and vision identifies risks and opportunities relevant to the organization, its strategy and its business model. (See Content Element [4D Risks and opportunities.](#))
- 2.27 The organization's strategy identifies how it intends to mitigate or manage risks and maximize opportunities. It sets out strategic objectives and strategies to achieve them, which are implemented through resource allocation plans. (See Content Element [4E Strategy and resource allocation.](#))
- 2.28 The organization needs information about its performance, which involves setting up measurement and monitoring systems to provide information for decision-making. (See Content Element [4F Performance.](#))
- 2.29 The value creation process is not static; regular review of each component and its interactions with other components, and a focus on the organization's outlook, lead to revision and refinement to improve all the components. (See Content Element [4G Outlook.](#))

## PART II

# THE INTEGRATED REPORT

# 3. GUIDING PRINCIPLES



3.1 The following Guiding Principles underpin the preparation and presentation of an integrated report, informing the content of the report and how information is presented:

- A Strategic focus and future orientation
- B Connectivity of information
- C Stakeholder relationships
- D Materiality
- E Conciseness
- F Reliability and completeness
- G Consistency and comparability

3.2 These Guiding Principles are applied individually and collectively for the purpose of preparing and presenting an integrated report; accordingly, judgement is needed in applying them, particularly when there is an apparent tension between them (e.g., between conciseness and completeness).

## 3A Strategic focus and future orientation

3.3 *An integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term and to its use of and effects on the capitals.*

3.4 Applying this Guiding Principle is not limited to the Content Elements [4E Strategy and resource allocation](#) and [4G Outlook](#). It guides the selection and presentation of other content, and may include, for example:

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

3.5 Adopting a strategic focus and future orientation (see also paragraphs [3.52–3.53](#)) includes clearly articulating how the continued availability, quality and affordability of significant capitals contribute to the organization's ability to achieve its strategic objectives in the future and create value.

## 3B Connectivity of information

3.6 *An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time.*

3.7 The more that integrated thinking is embedded into an organization's activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision-making, and subsequently into the integrated report.

3.8 The key forms of connectivity of information include the connectivity between:

- *The Content Elements.* The integrated report connects the Content Elements into a total picture that reflects the dynamic and systemic interactions of the organization's activities as a whole. For example:
  - an analysis of existing resource allocation, and how the organization will combine resources or make further investment to achieve its targeted performance
  - information about how the organization's strategy is tailored when, for instance, new risks and opportunities are identified or past performance is not as expected
  - linking the organization's strategy and business model with changes in its external environment, such as increases or decreases in the pace of technological change, evolving societal expectations, and resource shortages as planetary limits are approached.

### 3. GUIDING PRINCIPLES CONTINUED

- *The past, present and future.* An analysis by the organization of its activities in the past-to-present period can provide useful information to assess the plausibility of what has been reported concerning the present-to-future period. The explanation of the past-to-present period can also be useful in analyzing current capabilities and the quality of management.
  - *The capitals.* This includes the interdependencies and trade-offs between the capitals, and how changes in their availability, quality and affordability affect the ability of the organization to create value.
  - *Financial information and other information.* For example, the implications for:
    - expected revenue growth or market share of research and development policies, technology/know-how or investment in human resources
    - cost reduction or new business opportunities of environmental policies, energy efficiency, cooperation with local communities or technologies to tackle social issues
    - revenue and profit growth of long term customer relationships, customer satisfaction or reputation.
  - *Quantitative and qualitative information.* Both qualitative and quantitative information are necessary for an integrated report to properly represent the organization's ability to create value as each provides context for the other. Including KPIs as part of a narrative explanation can be an effective way to connect quantitative and qualitative information.
  - *Management information, board information and information reported externally.* For example, as noted in paragraph 4.53, it is important for the quantitative indicators in an integrated report to be consistent with the indicators used internally by those charged with governance.
  - *Information in the integrated report, information in the organization's other communications, and information from other sources.* This recognizes that all communications from the organization need to be consistent, and that information the organization provides is not read in isolation but combined with information from other sources when making assessments.
- 3.9 The connectivity of information and the overall usefulness of an integrated report is enhanced when it is logically structured, well presented, written in clear, understandable and jargon-free language, and includes effective navigation devices, such as clearly delineated (but linked) sections and cross-referencing. In this context, information and communication technology can be used to improve the ability to search, access, combine, connect, customize, re-use or analyse information.
- ### 3C Stakeholder relationships
- 3.10 *An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.*
- 3.11 This Guiding Principle reflects the importance of relationships with key stakeholders because, as noted in paragraph 2.2, value is not created by or within an organization alone, but is created through relationships with others. It does not mean that an integrated report should attempt to satisfy the information needs of all stakeholders.
- 3.12 Stakeholders provide useful insights about matters that are important to them, including economic, environmental and social issues that also affect the ability of the organization to create value. These insights can assist the organization to:
- Understand how stakeholders perceive value
  - Identify trends that might not yet have come to general attention, but which are rising in significance

### 3. GUIDING PRINCIPLES CONTINUED

- Identify material matters, including risks and opportunities
  - Develop and evaluate strategy
  - Manage risks
  - Implement activities, including strategic and accountable responses to material matters.
- 3.13 Engagement with stakeholders occurs regularly in the ordinary course of business (e.g., day-to-day liaison with customers and suppliers or broader ongoing engagement as part of strategic planning and risk assessment). It might also be undertaken for a particular purpose (e.g., engagement with a local community when planning a factory extension). The more integrated thinking is embedded in the business, the more likely it is that a fuller consideration of key stakeholders' legitimate needs and interests is incorporated as an ordinary part of conducting business.
- 3.14 An integrated report enhances transparency and accountability, which are essential in building trust and resilience, by disclosing how key stakeholders' legitimate needs and interests are understood, taken into account and responded to through decisions, actions and performance, as well as ongoing communication.
- 3.15 Accountability is closely associated with the concept of stewardship and the responsibility of an organization to care for, or use responsibly, the capitals that its activities and outputs affect. When the capitals are owned by the organization, a stewardship responsibility is imposed on management and those charged with governance via their legal responsibilities to the organization.
- 3.16 When the capitals are owned by others or not owned at all, stewardship responsibilities may be imposed by law or regulation (e.g., through a contract with the owners, or through labour laws or environmental protection regulations). When there is no legal stewardship responsibility, the organization may have an ethical responsibility to accept, or choose to accept stewardship responsibilities and be guided in doing so by stakeholder expectations.

### 3D Materiality

- 3.17 *An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term.*

#### The materiality determination process

- 3.18 The materiality determination process for the purpose of preparing and presenting an integrated report involves:
- Identifying relevant matters based on their ability to affect value creation as discussed in Section 2B (see paragraphs [3.21–3.23](#))
  - Evaluating the importance of relevant matters in terms of their known or potential effect on value creation (see paragraphs [3.24–3.27](#))
  - Prioritizing the matters based on their relative importance (see paragraph [3.28](#))
  - Determining the information to disclose about material matters (see paragraph [3.29](#)).
- 3.19 This process applies to both positive and negative matters, including risks and opportunities and favourable and unfavourable performance or prospects. It also applies to both financial and other information. Such matters may have direct implications for the organization itself or may affect the capitals owned by or available to others.
- 3.20 To be most effective, the materiality determination process is integrated into the organization's management processes and includes regular engagement with providers of financial capital and others to ensure the integrated report meets its primary purpose as noted in paragraph [1.7](#).

#### Identifying relevant matters

- 3.21 Relevant matters are those that have, or may have, an effect on the organization's ability to create value. This is determined by considering their effect on the organization's strategy, governance, performance or prospects.



### 3. GUIDING PRINCIPLES CONTINUED

- 3.22 Ordinarily, matters related to value creation that are discussed at meetings of those charged with governance are considered relevant. An understanding of the perspectives of key stakeholders is critical to identifying relevant matters.
- 3.23 Matters that might be relatively easy to address in the short term but which may, if left unchecked, become more damaging or difficult to address in the medium or long term need to be included in the population of relevant matters. Matters are not excluded on the basis that the organization does not wish to address them or does not know how to deal with them.

#### Evaluating importance

- 3.24 Not all relevant matters will be considered material. To be included in an integrated report, a matter also needs to be sufficiently important in terms of its known or potential effect on value creation. This involves evaluating the magnitude of the matter's effect and, if it is uncertain whether the matter will occur, its likelihood of occurrence.
- 3.25 Magnitude is evaluated by considering whether the matter's effect on strategy, governance, performance or prospects is such that it has the potential to substantively influence value creation over time. This requires judgement and will depend on the nature of the matter in question. Matters may be considered material either individually or in the aggregate.
- 3.26 Evaluating the magnitude of a matter's effect does not imply that the effect needs to be quantified. Depending on the nature of the matter, a qualitative evaluation might be more appropriate.
- 3.27 In evaluating the magnitude of effect, the organization considers:
- Quantitative and qualitative factors
  - Financial, operational, strategic, reputational and regulatory perspectives
  - Area of the effect, be it internal or external
  - Time frame.

#### Prioritizing important matters

- 3.28 Once the population of important matters is identified, they are prioritized based on their magnitude. This helps to focus on the most important matters when determining how they are reported.

#### Determining information to disclose

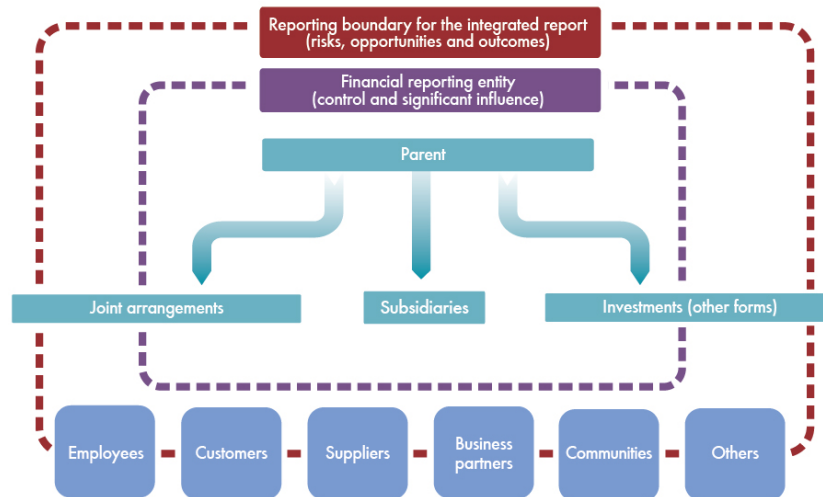
- 3.29 Judgement is applied in determining the information to disclose about material matters. This requires consideration from different perspectives, both internal and external, and is assisted by regular engagement with providers of financial capital and others to ensure the integrated report meets its primary purpose as noted in paragraph [1.7](#). (See also paragraphs [4.50–4.52](#).)

#### Reporting boundary

- 3.30 Key to the materiality determination process is the concept of the reporting boundary. Determining the boundary for an integrated report has two aspects:
- The financial reporting entity (i.e., the boundary used for financial reporting purposes)
  - Risks, opportunities and outcomes attributable to or associated with other entities/stakeholders beyond the financial reporting entity that have a significant effect on the ability of the financial reporting entity to create value.
- 3.31 The financial reporting entity is central to the reporting boundary because:
- It is the financial reporting entity in which providers of financial capital invest and therefore need information about
  - Using the financial reporting entity enables the information in the financial statements to serve as an anchor or point of reference to which the other information in an integrated report can be related.



Figure 3: Entities/stakeholders considered in determining the reporting boundary:



3.32 Figure 3 depicts the entities/stakeholders that are considered in determining the reporting boundary

#### Financial reporting entity

3.33 The financial reporting entity identifies which subsidiaries', joint ventures' and associates' transactions and related events are included in the organization's financial report. The financial reporting entity is determined according to applicable financial reporting standards which revolve around the concepts of control or significant influence.

#### Risks, opportunities and outcomes

3.34 The second aspect of determining the reporting boundary is to identify those risks, opportunities and outcomes attributable to or associated with entities/stakeholders beyond the financial reporting entity that have a significant effect on the ability of the financial reporting entity to create value. These other entities/stakeholders might be "related parties" for the purpose of financial reporting, but will ordinarily extend further.

3.35 The purpose of looking beyond the financial reporting boundary is to identify *risks, opportunities and outcomes* that materially affect the organization's ability to create value. The entities/stakeholders within this portion of the reporting boundary are not related to the financial reporting entity by virtue of control or significant influence, but rather by the nature and proximity of the risks, opportunities and outcomes. For example, if aspects of the labour practices in the organization's industry are material to the ability of the organization to create value, then disclosure in the integrated report might include information about those aspects as they relate to suppliers' labour practices.

### 3. GUIDING PRINCIPLES CONTINUED

#### 3E Conciseness

- 3.36 *An integrated report should be concise.*
- 3.37 An integrated report includes sufficient context to understand the organization's strategy, governance, performance and prospects without being burdened with less relevant information.
- 3.38 The organization seeks a balance in its integrated report between conciseness and the other Guiding Principles, in particular completeness and comparability. In achieving conciseness, an integrated report:
- Applies the materiality determination process described in [Section 3D](#)
  - Follows a logical structure and includes internal cross-references as appropriate to limit repetition
  - May link to more detailed information, information that does not change frequently (e.g., a listing of subsidiaries), or external sources (e.g., assumptions about future economic conditions on a government website)
  - Expresses concepts clearly and in as few words as possible
  - Favours plain language over the use of jargon or highly technical terminology
  - Avoids highly generic disclosures, often referred to as "boilerplate", that are not specific to the organization.

#### 3F Reliability and completeness

- 3.39 *An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.*

##### Reliability

- 3.40 The reliability of information is affected by its balance and freedom from material error. Reliability (which is often referred to as faithful representation) is enhanced by mechanisms such as robust internal control and reporting systems, stakeholder engagement, internal audit or similar functions, and independent, external assurance.
- 3.41 Those charged with governance have ultimate responsibility for how the organization's strategy, governance, performance and prospects lead to value creation over time. They are responsible for ensuring that there is effective leadership and decision-making regarding the preparation and presentation of an integrated report, including the identification and oversight of the employees actively involved in the process.
- 3.42 Maintaining an audit trail when preparing an integrated report helps senior management and those charged with governance review the report and exercise judgement in deciding whether information is sufficiently reliable to be included. It might be appropriate in some cases (e.g., with respect to future-oriented information) for an integrated report to describe the mechanisms employed to ensure reliability.
- 3.43 Paragraph [1.18](#) identifies relevant disclosures when material information is omitted because of the unavailability of reliable data.

##### Balance

- 3.44 A balanced integrated report has no bias in the selection or presentation of information. Information in the report is not slanted, weighted, emphasized, de-emphasized, combined, offset or otherwise manipulated to change the probability that it will be received either favourably or unfavourably.

### 3. GUIDING PRINCIPLES CONTINUED

3.45 Important methods to ensure balance include:

- Selection of presentation formats that are not likely to unduly or inappropriately influence assessments made on the basis of the integrated report
- Giving equal consideration to both increases and decreases in the capitals, both strengths and weaknesses of the organization, both positive and negative performance, etc.
- Reporting against previously reported targets, forecasts, projections and expectations.

#### *Freedom from material error*

3.46 Freedom from material error does not imply that the information is perfectly accurate in all respects. It does imply that:

- Processes and controls have been applied to reduce to an acceptably low level the risk that reported information contains a material misstatement
- When information includes estimates, this is clearly communicated, and the nature and limitations of the estimation process are explained.

#### *Completeness*

3.47 A complete integrated report includes all material information, both positive and negative. To help ensure that all material information has been identified, consideration is given to what organizations in the same industry are reporting on because certain matters within an industry are likely to be material to all organizations in that industry.

3.48 Determining completeness includes considering the extent of information disclosed and its level of specificity or preciseness. This might involve considering potential concerns regarding cost/benefit, competitive advantage and future-oriented information, each of which is discussed below.

#### *Cost/benefit*

3.49 Information included in an integrated report is, by nature, central to managing the business. Accordingly, if a matter is important to managing

the business, cost should not be a factor in failing to obtain critical information to appropriately assess and manage the matter.

3.50 An organization may evaluate cost and benefits when determining the extent, level of specificity, and preciseness of information necessary for an integrated report to meet its primary purpose, but may not refrain entirely from making any disclosure about a material matter on the basis of cost.

#### *Competitive advantage*

3.51 In including information about material matters dealing with competitive advantage (e.g., critical strategies), an organization considers how to describe the essence of the matter without identifying specific information that might cause a significant loss of competitive advantage. Accordingly, the organization considers what advantage a competitor could actually gain from information in an integrated report, and balances this against the need for the integrated report to achieve its primary purpose as noted in paragraph [1.7](#).

#### *Future-oriented information*

3.52 Legal or regulatory requirements may apply to certain future-oriented information in some jurisdictions, covering for example:

- The types of disclosures that may be made
- Whether cautionary statements may be required or permitted to highlight uncertainty regarding achievability
- An obligation to publicly update such information.

3.53 Future-oriented information is by nature more uncertain than historical information. Uncertainty is not, however, a reason in itself to exclude such information. (See also paragraph [4.50](#) regarding disclosures about uncertainty.)

### 3. GUIDING PRINCIPLES CONTINUED

#### 3G Consistency and comparability

3.54 *The information in an integrated report should be presented:*

- *On a basis that is consistent over time*
- *In a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time.*

##### Consistency

3.55 Reporting policies are followed consistently from one period to the next unless a change is needed to improve the quality of information reported. This includes reporting the same KPIs if they continue to be material across reporting periods. When a significant change has been made, the organization explains the reason for the change, describing (and quantifying if practicable and material) its effect.

##### Comparability

3.56 The specific information in an integrated report will, necessarily, vary from one organization to another because each organization creates value in its own unique way. Nonetheless, addressing the questions relating to the Content Elements, which apply to all organizations, helps ensure a suitable level of comparability between organizations.

3.57 Other powerful tools for enhancing comparability (in both an integrated report itself and any detailed information that it links to) can include:

- Using benchmark data, such as industry or regional benchmarks
- Presenting information in the form of ratios (e.g., research expenditure as a percentage of sales, or carbon intensity measures such as emissions per unit of output)
- Reporting quantitative indicators commonly used by other organizations with similar activities, particularly when standardized definitions are stipulated by an independent organization (e.g., an industry body). Such indicators are not, however, included in an integrated report unless they are relevant to the individual circumstances of, and are used internally by, the organization.

## 4. CONTENT ELEMENTS



4.1 An integrated report includes the following eight Content Elements, answering the question posed below for each:

- A Organizational overview and external environment
- B Governance
- C Business model
- D Risks and opportunities
- E Strategy and resource allocation
- F Performance
- G Outlook
- H Basis of preparation and presentation and in doing so, takes account of:
- I General reporting guidance

4.2 The Content Elements are fundamentally linked to each other and are not mutually exclusive. The order of the Content Elements as listed here is not the only way they could be sequenced; accordingly, the Content Elements are not intended to serve as a standard structure for an integrated report with information about them appearing in a set sequence or as isolated, standalone sections. Rather, information in an integrated report is presented in a way that makes the connections between the Content Elements apparent (see [Section 3B](#)).

4.3 The content of an organization's integrated report will depend on the individual circumstances of the organization. The Content Elements are therefore stated in the form of questions rather than as checklists of specific disclosures. Accordingly, judgement needs to be exercised in applying the Guiding Principles to determine what information is reported, as well as how it is reported, as discussed below.

### 4A Organizational overview and external environment

4.4 *An integrated report should answer the question: What does the organization do and what are the circumstances under which it operates?*

4.5 An integrated report identifies the organization's mission and vision, and provides essential context by identifying matters such as:

- The organization's:
  - culture, ethics and values
  - ownership and operating structure
  - principal activities and markets
  - competitive landscape and market positioning (considering factors such as the threat of new competition and substitute products or services, the bargaining power of customers and suppliers, and the intensity of competitive rivalry)
  - position within the value chain
- Key quantitative information (e.g., the number of employees, revenue and number of countries in which the organization operates), highlighting, in particular, significant changes from prior periods
- Significant factors affecting the external environment and the organization's response.

### External environment

4.6 Significant factors affecting the external environment include aspects of the legal, commercial, social, environmental and political context that affect the organization's ability to create value in the short, medium or long term. They can affect the organization directly or indirectly (e.g., by influencing the availability, quality and affordability of a capital that the organization uses or affects).

4.7 These factors occur in the context of the particular organization, in the context of its industry or region, and in the wider social or planetary context. They may include, for example:

- The legitimate needs and interests of key stakeholders
- Macro and micro economic conditions, such as economic stability, globalization, and industry trends
- Market forces, such as the relative strengths and weaknesses of competitors and customer demand

## 4. CONTENT ELEMENTS CONTINUED

- The speed and effect of technological change
- Societal issues, such as population and demographic changes, human rights, health, poverty, collective values and educational systems
- Environmental challenges, such as climate change, the loss of ecosystems, and resource shortages as planetary limits are approached
- The legislative and regulatory environment in which the organization operates
- The political environment in countries where the organization operates and other countries that may affect the ability of the organization to implement its strategy.

### 4B Governance

- 4.8 *An integrated report should answer the question: How does the organization's governance structure support its ability to create value in the short, medium and long term?*
- 4.9 An integrated report provides insight about how such matters as the following are linked to its ability to create value:
- The organization's leadership structure, including the skills and diversity (e.g., range of backgrounds, gender, competence and experience) of those charged with governance and whether regulatory requirements influence the design of the governance structure
  - Specific processes used to make strategic decisions and to establish and monitor the culture of the organization, including its attitude to risk and mechanisms for addressing integrity and ethical issues
  - Particular actions those charged with governance have taken to influence and monitor the strategic direction of the organization and its approach to risk management
  - How the organization's culture, ethics and values are reflected in its use of and effects on the capitals, including its relationships with key stakeholders

- Whether the organization is implementing governance practices that exceed legal requirements
- The responsibility those charged with governance take for promoting and enabling innovation
- How remuneration and incentives are linked to value creation in the short, medium and long term, including how they are linked to the organization's use of and effects on the capitals.

### 4C Business model

- 4.10 *An integrated report should answer the question: What is the organization's business model?*
- 4.11 An organization's business model is its system of transforming inputs, through its business activities, into outputs and outcomes that aims to fulfil the organization's strategic purposes and create value over the short, medium and long term.
- 4.12 An integrated report describes the business model, including key:
- Inputs (see paragraphs [4.14–4.15](#))
  - Business activities (see paragraphs [4.16–4.17](#))
  - Outputs (see paragraph [4.18](#))
  - Outcomes (see paragraphs [4.19–4.20](#)).
- 4.13 Features that can enhance the effectiveness and readability of the description of the business model include:
- Explicit identification of the key elements of the business model
  - A simple diagram highlighting key elements, supported by a clear explanation of the relevance of those elements to the organization
  - Narrative flow that is logical given the particular circumstances of the organization
  - Identification of critical stakeholder and other (e.g., raw material) dependencies and important factors affecting the external environment

## 4. CONTENT ELEMENTS CONTINUED

- Connection to information covered by other Content Elements, such as strategy, risks and opportunities, and performance (including KPIs and financial considerations, like cost containment and revenues).

### Inputs

- 4.14 An integrated report shows how key inputs relate to the capitals on which the organization depends, or that provide a source of differentiation for the organization, to the extent they are material to understanding the robustness and resilience of the business model.
- 4.15 An integrated report does not attempt to provide an exhaustive list of all inputs. Rather, the focus is on those that have a material bearing on the ability to create value in the short, medium and long term, whether or not the capitals from which they are derived are owned by the organization. It may also include a discussion of the nature and magnitude of the significant trade-offs that influence the selection of inputs (see paragraph [4.56](#)).

### Business activities

- 4.16 An integrated report describes key business activities. This can include:
- How the organization differentiates itself in the market place (e.g., through product differentiation, market segmentation, delivery channels and marketing)
  - The extent to which the business model relies on revenue generation after the initial point of sale (e.g., extended warranty arrangements or network usage charges)
  - How the organization approaches the need to innovate
  - How the business model has been designed to adapt to change.
- 4.17 When material, an integrated report discusses the contribution made to the organization's long term success by initiatives such as process improvement, employee training and relationships management.

### Outputs

- 4.18 An integrated report identifies an organization's key products and services. There might be other outputs, such as by-products and waste (including emissions), that need to be discussed within the business model disclosure depending on their materiality.

### Outcomes

- 4.19 An integrated report describes key outcomes, including:
- Both internal outcomes (e.g., employee morale, organizational reputation, revenue and cash flows) and external outcomes (e.g., customer satisfaction, tax payments, brand loyalty, and social and environmental effects)
  - Both positive outcomes (i.e., those that result in a net increase in the capitals and thereby create value) and negative outcomes (i.e., those that result in a net decrease in the capitals and thereby diminish value).
- 4.20 Identifying and describing outcomes, particularly external outcomes, requires an organization to consider the capitals more broadly than those that are owned or controlled by the organization. For example, it may require disclosure of the effects on capitals up and down the value chain (e.g., carbon emissions caused by products the organization manufactures and labour practices of key suppliers). (See also paragraphs [3.30–3.35](#) regarding determination of the reporting boundary.)

### Organizations with multiple business models

- 4.21 Some organizations employ more than one business model (e.g., when operating in different market segments). Disaggregating the organization into its material constituent operations and associated business models is important to an effective explanation of how the organization operates. This requires a distinct consideration of each material business model as well as commentary on the extent of connectivity between the business models (such as the existence of synergistic benefits) unless the organization is run as an investment management business (in which case, it may be



## 4. CONTENT ELEMENTS CONTINUED

appropriate to focus on the investment management business model, rather than the business models of individual investments).

- 4.22 The integrated report of an organization with multiple businesses often needs to balance disclosure with the need to reduce complexity; however, material information should not be omitted. Aligning external reporting with internal reporting by considering the top level of information that is regularly reported to those charged with governance is ordinarily appropriate.

### 4D Risks and opportunities

- 4.23 *An integrated report should answer the question: What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?*
- 4.24 An integrated report identifies the key risks and opportunities that are specific to the organization, including those that relate to the organization's effects on, and the continued availability, quality and affordability of, relevant capitals in the short, medium and long term.
- 4.25 This can include identifying:
- The specific source of risks and opportunities, which can be internal, external or, commonly, a mix of the two. External sources include those stemming from the external environment, as discussed in paragraphs [4.6–4.7](#). Internal sources include those stemming from the organization's business activities, as discussed in paragraphs [4.16–4.17](#).
  - The organization's assessment of the likelihood that the risk or opportunity will come to fruition and the magnitude of its effect if it does. This includes consideration of the specific circumstances that would cause the risk or opportunity to come to fruition. Such disclosure will invariably involve a degree of uncertainty. (See also paragraph [4.50](#) regarding disclosures about uncertainty.)

- The specific steps being taken to mitigate or manage key risks or to create value from key opportunities, including the identification of the associated strategic objectives, strategies, policies, targets and KPIs.

- 4.26 Considering the Guiding Principle, *Materiality*, the organization's approach to any real risks (whether they be in the short, medium or long term) that are fundamental to the ongoing ability of the organization to create value and that could have extreme consequences is ordinarily included in an integrated report, even when the probability of their occurrence might be considered quite small.

### 4E Strategy and resource allocation

- 4.27 *An integrated report should answer the question: Where does the organization want to go and how does it intend to get there?*
- 4.28 An integrated report ordinarily identifies:
- The organization's short, medium and long term strategic objectives
  - The strategies it has in place, or intends to implement, to achieve those strategic objectives
  - The resource allocation plans it has to implement its strategy
  - How it will measure achievements and target outcomes for the short, medium and long term.
- 4.29 This can include describing:
- The linkage between the organization's strategy and resource allocation plans, and the information covered by other Content Elements, including how its strategy and resource allocation plans:
    - relate to the organization's business model, and what changes to that business model might be necessary to implement chosen strategies to provide an understanding of the organization's ability to adapt to change
    - are influenced by/respond to the external environment and the identified risks and opportunities



## 4. CONTENT ELEMENTS CONTINUED

- affect the capitals, and the risk management arrangements related to those capitals
- What differentiates the organization to give it competitive advantage and enable it to create value, such as:
  - the role of innovation
  - how the organization develops and exploits intellectual capital
  - the extent to which environmental and social considerations have been embedded into the organization's strategy to give it a competitive advantage
- Key features and findings of stakeholder engagement that were used in formulating its strategy and resource allocation plans.

### 4F Performance

- 4.30 *An integrated report should answer the question: To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?*
- 4.31 An integrated report contains qualitative and quantitative information about performance that may include matters such as:
- Quantitative indicators with respect to targets and risks and opportunities, explaining their significance, their implications, and the methods and assumptions used in compiling them
  - The organization's effects (both positive and negative) on the capitals, including material effects on capitals up and down the value chain
  - The state of key stakeholder relationships and how the organization has responded to key stakeholders' legitimate needs and interests
  - The linkages between past and current performance, and between current performance and the organization's outlook.
- 4.32 KPIs that combine financial measures with other components (e.g., the ratio of greenhouse gas emissions to sales) or narrative that explains the

financial implications of significant effects on other capitals and other causal relationships (e.g., expected revenue growth resulting from efforts to enhance human capital) may be used to demonstrate the connectivity of financial performance with performance regarding other capitals. In some cases, this may also include monetizing certain effects on the capitals (e.g., carbon emissions and water use).

- 4.33 It may be relevant for the discussion of performance to include instances where regulations have a significant effect on performance (e.g., a constraint on revenues as a result of regulatory rate setting) or the organization's non-compliance with laws or regulations may significantly affect its operations.

### 4G Outlook

- 4.34 *An integrated report should answer the question: What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?*
- 4.35 An integrated report ordinarily highlights anticipated changes over time and provides information, built on sound and transparent analysis, about:
- The organization's expectations about the external environment the organization is likely to face in the short, medium and long term
  - How that will affect the organization
  - How the organization is currently equipped to respond to the critical challenges and uncertainties that are likely to arise.
- 4.36 Care is needed to ensure the organization's stated expectations, aspirations and intentions are grounded in reality. They need to be commensurate with the ability of the organization to deliver on the opportunities available to it (including the availability, quality and affordability of appropriate capitals), and a realistic appraisal of the organization's competitive landscape and market positioning, and the risks it faces.

## 4. CONTENT ELEMENTS CONTINUED

- 4.37 The discussion of the potential implications, including implications for future financial performance, ordinarily includes discussion of:
- The external environment, and risks and opportunities, with an analysis of how these could affect the achievement of strategic objectives
  - The availability, quality and affordability of capitals the organization uses or affects (e.g., the continued availability of skilled labour or natural resources), including how key relationships are managed and why they are important to the organization's ability to create value over time.
- 4.38 An integrated report may also provide lead indicators, KPIs or objectives, relevant information from recognized external sources, and sensitivity analyses. If forecasts or projections are included in reporting the organization's outlook, a summary of related assumptions is useful. Comparisons of actual performance to previously identified targets further enables evaluation of the current outlook.
- 4.39 Disclosures about an organization's outlook in an integrated report are made taking into account the legal or regulatory requirements to which the organization is subject.

### 4H Basis of preparation and presentation

- 4.40 *An integrated report should answer the question: How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?*
- 4.41 An integrated report describes its basis of preparation and presentation, including:
- A summary of the organization's materiality determination process (see paragraph [4.42](#))
  - A description of the reporting boundary and how it has been determined (see paragraphs [4.43–4.46](#))
  - A summary of the significant frameworks and methods used to quantify or evaluate material matters (see paragraphs [4.47–4.48](#)).

### Summary of materiality determination process

- 4.42 An integrated report includes a summary of the organization's materiality determination process and key judgements (see paragraphs [3.18–3.20](#)). This may include:
- Brief description of the process used to identify relevant matters, evaluate their importance and narrow them down to material matters
  - Identification of the role of those charged with governance and key personnel in the identification and prioritization of material matters.

A link to where a more detailed description of the materiality determination process can be found may also be included.

### Reporting boundary

- 4.43 An integrated report identifies its reporting boundary and explains how it has been determined (see paragraphs [3.30–3.35](#)).
- 4.44 Material risks, opportunities and outcomes attributable to or associated with entities that are included in the financial reporting entity, are reported on in the organization's integrated report.
- 4.45 Risks, opportunities and outcomes attributable to or associated with other entities/stakeholders are reported on in an integrated report to the extent they materially affect the ability of the financial reporting entity to create value.
- 4.46 Practical issues might limit the nature and extent of information that can be presented in an integrated report. For example:
- The availability of reliable data with respect to entities the financial reporting entity does not control
  - The inherent inability to identify all risks, opportunities and outcomes that will materially affect the ability of the financial reporting entity to create value, particularly in the long term.

It may be appropriate to disclose such limitations, and actions being taken to overcome them, in an integrated report.

## 4. CONTENT ELEMENTS CONTINUED

### Summary of significant frameworks and methods

4.47 An integrated report includes a summary of the significant frameworks and methods used to quantify or evaluate material matters included in the report (e.g., the applicable financial reporting standards used for compiling financial information, a company-defined formula for measuring customer satisfaction, or an industry-based framework for evaluating risks). More detailed explanations might be provided in other communications.

4.48 As noted in paragraph 1.10, when information in an integrated report is similar to or based on other information published by the organization, it is prepared on the same basis as, or is easily reconcilable with, that other information. For example, when a KPI covers a similar topic to, or is based on information published in the organization's financial statements or sustainability report, it is prepared on the same basis, and for the same period, as that other information.

### 4I General reporting guidance

4.49 The following general reporting matters are relevant to various Content Elements:

- Disclosure of material matters (see paragraphs 4.50–4.53)
- Disclosures about the capitals (see paragraphs 4.54–4.55)
- Time frames for short, medium and long term (see paragraphs 4.57–4.59)
- Aggregation and disaggregation (see paragraphs 4.60–4.62).

### Disclosure of material matters

4.50 Taking the nature of a material matter into consideration, the organization considers providing:

- Key information, such as:
  - an explanation of the matter and its effect on the organization's strategy, business model or the capitals

- relevant interactions and interdependencies providing an understanding of causes and effects
- the organization's view on the matter
- actions to manage the matter and how effective they have been
- the extent of the organization's control over the matter
- quantitative and qualitative disclosures, including comparative information for prior periods and targets for future periods

- If there is uncertainty surrounding a matter, disclosures about the uncertainty, such as:
  - an explanation of the uncertainty
  - the range of possible outcomes, associated assumptions, and how the information could change if the assumptions do not occur as described
  - the volatility, certainty range or confidence interval associated with the information provided

- If key information about the matter is considered indeterminable, disclosure of that fact and the reason for it
- If significant loss of competitive advantage would result, disclosures of a general nature about the matter, rather than specific details (see paragraph 3.51).

4.51 Depending on the nature of a matter, it may be appropriate to present it on its own in the integrated report or throughout in conjunction with different Content Elements.

4.52 Care is needed to avoid generic disclosures. Information is only included when it is of practical use in achieving the primary purpose of an integrated report as noted in paragraph 1.7. This requires that disclosures be specific to the circumstances of the organization. Accordingly, the bulleted lists of examples and considerations with respect to each Content Element are not meant to be checklists of disclosures.

## 4. CONTENT ELEMENTS CONTINUED

### *Characteristics of quantitative indicators*

4.53 Quantitative indicators, such as KPIs, can help increase comparability and are particularly helpful in expressing and reporting against targets. Common characteristics of suitable quantitative indicators may include that they are:

- Relevant to the circumstances of the organization
- Consistent with indicators used internally by those charged with governance
- Connected (e.g., they display connectivity between financial and other information)
- Focused on the matters identified by the organization's materiality determination process
- Presented with the corresponding targets, forecasts or projections for two or more future periods
- Presented for multiple periods (e.g., three or more periods) to provide an appreciation of trends
- Presented against previously reported targets, forecasts or projections for the purpose of accountability
- Consistent with generally accepted industry or regional benchmarks to provide a basis for comparison
- Reported consistently over successive periods, regardless of whether the resulting trends and comparisons are favourable or unfavourable
- Presented with qualitative information to provide context and improve meaningfulness. Relevant qualitative information includes an explanation of:
  - measurement methods and underlying assumptions
  - the reasons for significant variations from targets, trends or benchmarks, and why they are or are not expected to reoccur.

### *Disclosures about the capitals*

4.54 Disclosures about the capitals, or a component of a capital:

- Are determined by their effects on the organization's ability to create value over time, rather than whether or not they are owned by the organization
- Include the factors that affect their availability, quality and affordability and the organization's expectations of its ability to produce flows from them to meet future demand. This is particularly relevant with respect to capitals that are in limited supply, are non-renewable, and can affect the long term viability of an organization's business model.

4.55 When it is not practicable or meaningful to quantify significant movements in the capitals, qualitative disclosures are made to explain changes in the availability, quality or affordability of capitals as business inputs and how the organization increases, decreases or transforms them. It is not, however, necessary to quantify or describe the movements between each of the capitals for every matter disclosed.

### *Complexity, interdependencies and trade-offs*

4.56 This Framework does not require an integrated report to provide an exhaustive account of all the complex interdependencies between the capitals such that an organization's net impact on the global stock of capitals could be tallied. It is important, however, that an integrated report disclose the interdependencies that are considered in determining its reporting boundary, and the important trade-offs that influence value creation over time, including trade-offs:

- Between capitals or between components of a capital (e.g., creating employment through an activity that negatively affects the environment)
- Over time (e.g., choosing one course of action when another course would result in superior capital increment but not until a later period)
- Between capitals owned by the organization and those owned by others or not at all.

## 4. CONTENT ELEMENTS CONTINUED

### Time frames for short, medium and long term

- 4.57 The future time dimension to be considered in preparing and presenting an integrated report will typically be longer than for some other forms of reporting. The length of each time frame for short, medium and long term is decided by the organization with reference to its business and investment cycles, its strategies, and its key stakeholders' legitimate needs and interests. Accordingly, there is no set answer for establishing the length for each term.
- 4.58 Time frames differ by:
- Industry or sector (e.g., strategic objectives in the automobile industry typically cover two model-cycle terms, spanning between eight and ten years, whereas within the technology industry, time frames might be significantly shorter)
  - The nature of outcomes (e.g., some issues affecting natural or social and relationship capitals can be very long term in nature).
- 4.59 The length of each reporting time frame and the reason for such length might affect the nature of information disclosed in an integrated report. For example, because longer term matters are more likely to be more affected by uncertainty, information about them may be more likely to be qualitative in nature, whereas information about shorter term matters may be better suited to quantification, or even monetization. However, it is not necessary to disclose the effects of a matter for each time frame.

### Aggregation and disaggregation

- 4.60 Each organization determines the level of aggregation (e.g., by country, subsidiary, division, or site) at which to present information that is appropriate to its circumstances. This includes balancing the effort required to disaggregate (or aggregate) information against any added meaningfulness of information reported on a disaggregated (or aggregated) basis.
- 4.61 In some circumstances, aggregation of information can result in a significant loss of meaning and can also fail to highlight particularly strong or poor performance in specific areas. On the other hand, unnecessary disaggregation can result in clutter that adversely affects the ease of understanding the information.
- 4.62 The organization disaggregates (or aggregates) information to an appropriate level considering, in particular, how senior management and those charged with governance manage and oversee the organization and its operations. This commonly results in presenting information based on the business or geographical segments used for financial reporting purposes. (See also paragraphs [4.21–4.22](#) regarding organizations with multiple business models.)

For the purpose of this Framework, unless stated otherwise, the following terms have the meanings attributed below:

1. *Business model*: An organization's system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the organization's strategic purposes and create value over the short, medium and long term.
2. *Capitals*: Stocks of value on which all organizations depend for their success as inputs to their business model, and which are increased, decreased or transformed through the organization's business activities and outputs. The capitals are categorized in this Framework as financial, manufactured, intellectual, human, social and relationship, and natural.
3. *Content Elements*: The categories of information required to be included in an integrated report; the Content Elements, which are fundamentally linked to each other and are not mutually exclusive, are stated in the form of questions to be answered in a way that makes the relationships between them apparent.
4. *Guiding Principles*: The principles that underpin the preparation and presentation of an integrated report, informing the content of the report and how information is presented.
5. *Inputs*: The capitals (resources and relationships) that the organization draws upon for its business activities.
6. *Integrated report*: A concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.
7. *Integrated Reporting (<IR>)*: A process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation.
8. *Integrated thinking*: The active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term.
9. *Material/materiality*: A matter is material if it could substantively affect the organization's ability to create value in the short, medium or long term.
10. *Outcomes*: The internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs.
11. *Outputs*: An organization's products and services, and any by-products and waste.
12. *Performance*: An organization's achievements relative to its strategic objectives, and its outcomes in terms of its effects on the capitals.
13. *Providers of financial capital*: Equity and debt holders and others who provide financial capital, both existing and potential, including lenders and other creditors. This includes the ultimate beneficiaries of investments, collective asset owners, and asset or fund managers.
14. *Reporting boundary*: The boundary within which matters are considered relevant for inclusion in an organization's integrated report.
15. *Stakeholders*: Those groups or individuals that can reasonably be expected to be significantly affected by an organization's business activities, outputs or outcomes, or whose actions can reasonably be expected to significantly affect the ability of the organization to create value over time. Stakeholders may include providers of financial capital, employees, customers, suppliers, business partners, local communities, NGOs, environmental groups, legislators, regulators, and policy-makers.
16. *Strategy*: Strategic objectives together with the strategies to achieve them.
17. *Those charged with governance*: The person(s) or organization(s) (e.g., the board of directors or a corporate trustee) with responsibility for overseeing the strategic direction of an organization and its obligations with respect to accountability and stewardship.
18. *Value Creation*: The process that results in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs.



# APPENDIX - SUMMARY OF REQUIREMENTS <IR>

## USING THE FRAMEWORK

### *Form of report and relationship with other information*

- 1.12 An integrated report should be a designated, identifiable communication.

### *Application of the Framework*

- 1.17 Any communication claiming to be an integrated report and referencing the Framework should apply all the requirements identified in bold italic type unless:

- The unavailability of reliable information or specific legal prohibitions results in an inability to disclose material information
- Disclosure of material information would cause significant competitive harm.

- 1.18 In the case of the unavailability of reliable information or specific legal prohibitions, an integrated report should:

- Indicate the nature of the information that has been omitted
- Explain the reason why it has been omitted
- In the case of the unavailability of data, identify the steps being taken to obtain the information and the expected time frame for doing so.

### *Responsibility for an integrated report*

- 1.20 An integrated report should include a statement from those charged with governance that includes:

- An acknowledgement of their responsibility to ensure the integrity of the integrated report
- An acknowledgement that they have applied their collective mind to the preparation and presentation of the integrated report
- Their opinion or conclusion about whether the integrated report is presented in accordance with this Framework

or, if it does not include such a statement, it should explain:

- What role those charged with governance

played in its preparation and presentation

- What steps are being taken to include such a statement in future reports
- The time frame for doing so, which should be no later than the organization's third integrated report that references this Framework.

## GUIDING PRINCIPLES

### *Strategic focus and future orientation*

- 3.3 An integrated report should provide insight into the organization's strategy, and how that relates to its ability to create value in the short, medium and long term and to its use of and effects on the capitals.

### *Connectivity of information*

- 3.6 An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time.

### *Stakeholder relationships*

- 3.10 An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.

### *Materiality*

- 3.17 An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term.

### *Conciseness*

- 3.36 An integrated report should be concise.

### *Reliability and completeness*

- 3.39 An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.

## APPENDIX - SUMMARY OF REQUIREMENTS CONTINUED

### *Consistency and comparability*

- 3.54 The information in an integrated report should be presented:
- On a basis that is consistent over time
  - In a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time.

## CONTENT ELEMENTS

### *Organizational overview and external environment*

- 4.4 An integrated report should answer the question: What does the organization do and what are the circumstances under which it operates?

### *Governance*

- 4.8 An integrated report should answer the question: How does the organization's governance structure support its ability to create value in the short, medium and long term?

### *Business model*

- 4.10 An integrated report should answer the question: What is the organization's business model?

### *Risks and opportunities*

- 4.23 An integrated report should answer the question: What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?

### *Strategy and resource allocation*

- 4.27 An integrated report should answer the question: Where does the organization want to go and how does it intend to get there?

### *Performance*

- 4.30 An integrated report should answer the question: To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?

### *Outlook*

- 4.34 An integrated report should answer the question: What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?

### *Basis of preparation and presentation*

- 4.40 An integrated report should answer the question: How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?



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