

Integrated reporting:

How an organisation creates value over time



An integrated report is a concise communication about how an organisation'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.

Nowadays, readers of financial statements not only focus on financial information but also consider non-financial information to measure the organisation's value.

An Integrated report enables reader to better understand the cause, and effect relationships between, for example, financial and sustainability performance. Integrated reporting serves as a platform to furnish more detailed data than what is available only on paper or other electronic mode.

Framework

The primary purpose of an integrated report is to explain how an organisation creates value over time. It therefore contains information, both financial and other, that is material to value creation.

An integrated report also benefits all stakeholders interested in an organisation's ability to create value over time, including providers of financial capital, employees, customers, suppliers, business partners, local communities, legislators, regulators and policymakers.

1 Relationship with other information

- An integrated report is intended to be more than a summary of information in other communications (for example, financial statements, sustainability reports, analyst calls or information on a website);
- An integrated report may be prepared in response to existing compliance requirements;
- An integrated report may either be 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 organisation's financial statements;
- 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 the link will depend on the form of the integrated report (for example, 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).

2 Value creation for the organisation and others

- An integrated report explains how an organisation's value is:
 - influenced by external environment;
 - created through relationships with stakeholders;
 - dependant on various resources (society at large).
- The best way to explain to financial capital providers how an organisation creates value over time is through a combination of quantitative and qualitative information, which is where the six capitals come in.
- The Framework categorises the six capitals like financial, manufactured, intellectual, human, social and relationship, and natural, through which an organization can check whether resources and relationships are appropriately used to create value.
- The capitals are categories and described in the Framework as follows:



Financial

Funding comes from investors, institutional lenders to run the business and generate returns.



Human

People, management and leadership – are key to growth of the business and increases shareholders returns.



Social and relationship

Relationship with customers, country government, regulators, employees, investors, other organization and media.



Intellectual

Brand values, innovative products, innovative capacity. Reputation also plays key role in growth of business.



Manufactured

Business structures and operational process provides mechanism to run the company such as IT software, systems, structures.



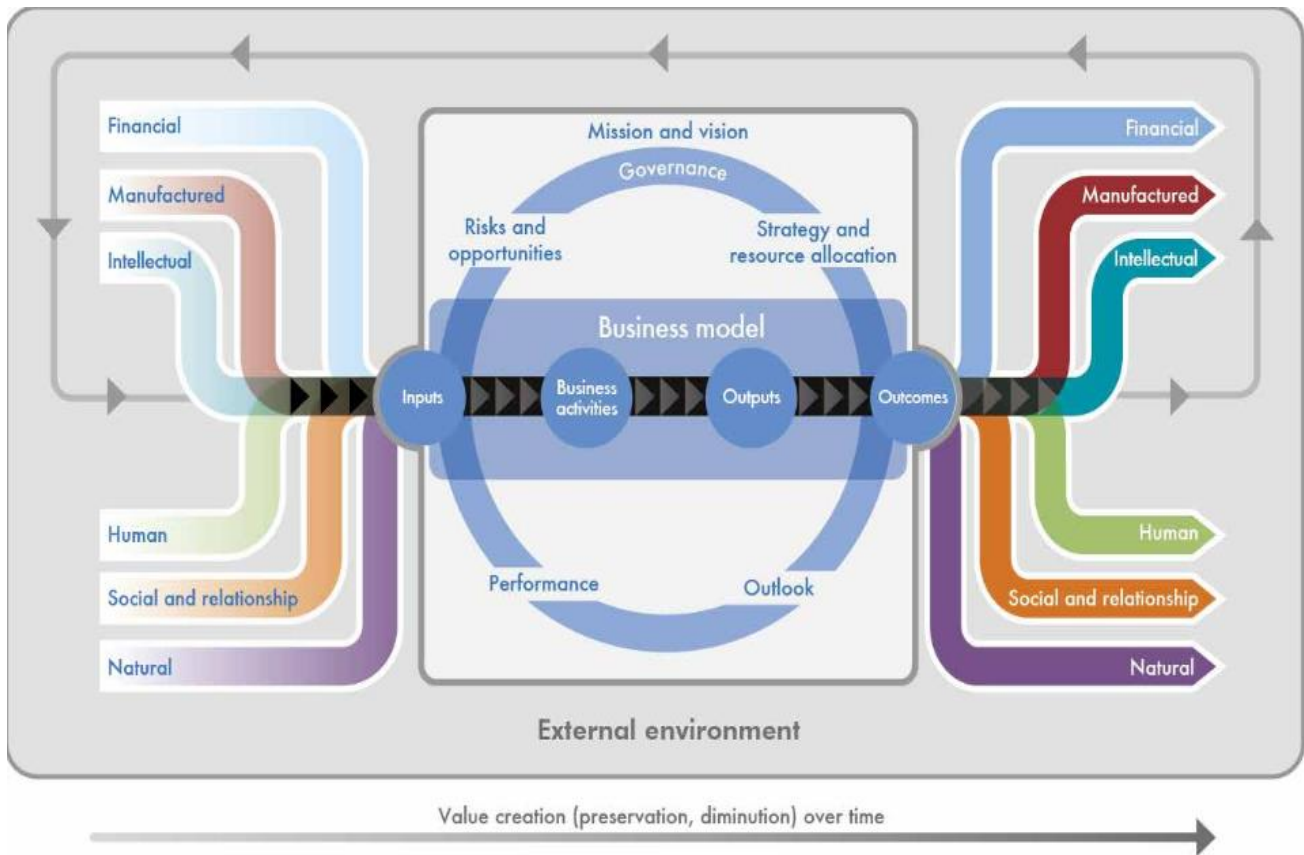
Natural

Company's impact on environment or adoption of social development goals.

Value creation process

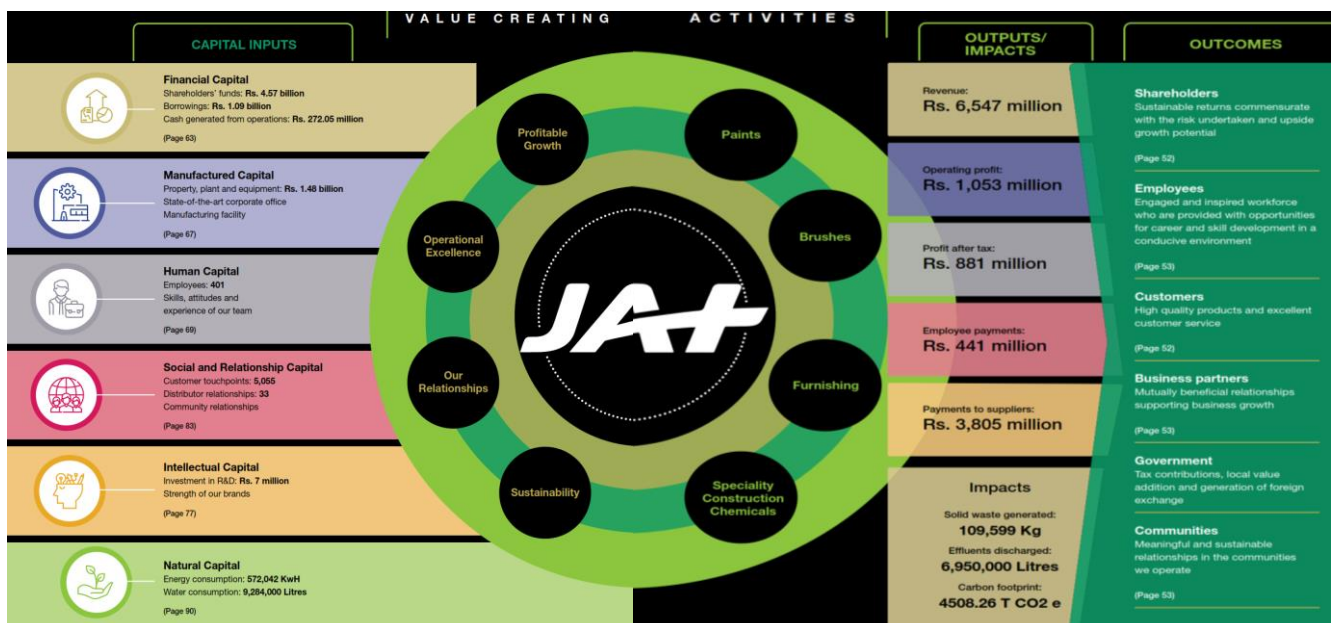
Organisation's business model which draws on various capitals inputs and, through its business activities, converts them into outputs (products, services, by-product and waste).

The value creation process is depicted in below and illustrates how the six capitals and the business model of the organisation are interconnected.



Value creation process is not static; regular review of each component and its interactions with other components, and a focus on the organisation's outlook, lead to revision and refinement to improve all the components.

Example for value creation process:



Key considerations

1 When gathering the information your organisation wishes to disclose publicly, make use of your existing reporting process and governance

- Establish a multidisciplinary group of people who monitor all departments and have vision of what the annual report should contain
- Avoiding compliance mentality
- Compare your reporting contents and format of report with your peers
- Nominate people who can collect the right data and remain responsible for quality
- Discuss the reporting process with your auditors and assurance, if require

2 Nominate one responsible report writer

3 Start with blank page when planning your report content

- Take a fresh approach and avoid copying and pasting information from previous year reports or peers

Example table of contents for an integrated report:

| | |
|---|--|
| 1 | External environment: stakeholder dialogue |
| 2 | Opportunities and risks |
| 3 | Strategy and resource allocation: inputs |
| 4 | Business model: value creation and business activities |
| 5 | Performance: outputs and outcomes |
| 6 | Governance |
| 7 | Future outlook |

4 Connect the reporting contents

- Show connectivity from stakeholders engagement for value creation process from beginning to end and its outcome.

5 Determine the scope and boundaries of your report

- Scope and boundaries are not only relevant for compliance with reporting guidelines, but also for making sure that the report remains relevant and concise
- Review scope and boundaries at the start and remove unnecessary contents
- Ensure that material matters are included in the scope and boundaries

6 Evaluate the process

Integrated reporting is a continuous improvement process, therefore, evaluate your integrated reporting process, as follows:

- Evaluation by the authorized people should take place at pre-defined milestones to capture lessons learnt, conclude whether ambitions have been realised, and discuss whether that influences future ambitions.
- Evaluation should include ambitions to further develop IT solutions to align management reporting and external reporting, and to embed integrated management information in an integrated report
- The evaluation process should include feedback from investors and other stakeholders on how they perceive your report, and whether the new language of integrated reporting is understood and contributes to a better stakeholder dialogue.
- Show the reflection moment through business case i.e. the benefits of integrated reporting and share the same with Board of Directors.

7 Improve your reporting in three years

- As noted, integrated reporting involves a continuous improvement process, which requires time and resources. Therefore, prepare a project plan to prioritise your ambitions for a three-year period.

Benefits to the organisation

Some of the benefits of integrated reporting include :

1 Overarching

- Greater focus on value creation and preservation
- Increased focus and awareness of senior management through a better articulation of an organisation's strategy and business model, and consistency of messaging to the market
- changed focus from viewing corporate reporting as a regulatory burden or compliance exercise, to a way of attracting long term investors.

2 Internal practical advantage

- connects different functions and business units by integrating thinking across the organisation
- improves internal processes through integration and the removal of content duplication within and across reports, as well as decluttering and simplifying reporting
- eliminates inefficiencies and duplication of work, which are common side effects of a 'siloed' reporting approach
- removes the issue of 'time lags' between multiple reports
- ensures consistent verification of report content to market.

3 Stakeholder benefits

- more effective stakeholder communication, such as to investors, governance advisers and proxy advisers (if a listed company), as well as employees
- highlights to all stakeholders the extent to which financial performance for investors can impose unintended consequences on other stakeholders.

Mr Japheth Katto, the Capital Markets Authority chief executive officer, said mere reporting the financials of a company, turnover, costs and dividends paid is no longer adequate because the world has become more sophisticated and stakeholders are demanding more than just information about a profit or loss. "Stakeholders need to know how the community is benefiting or is being involved and as such, human rights and environmental issues have to be integrated in reporting,"

Tullow Oil chief executive officer, "said due to the changing dynamics globally, companies need to move from the traditional model of reporting and start communicating their financial story to stakeholders in the most transparent way."

JAT Holding's Chairman, "said we continue to adopt a long term and multi-stakeholder approach towards value creation. We are aware that our employees are the driving force behind the Group's continued success and drive on-going efforts to enhance the employee value proposition through offering opportunities for skills and career progression."

Key contacts

Grant Thornton is focused on working alongside our clients to support them through today's challenges and tomorrow's opportunities.

If you would like a conversation with our experts on "how your organisation creates value over time" and help in preparing an integrated report for your organisation, please contact:



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