

# *Implementing Integrated Reporting*

*PwC's practical guide for  
a new business language*

*July 2015*



**pwc**

*'Despite an increase in the volume and frequency of information made available by companies, access to more data for public equity investors has not necessarily translated into more comprehensive insight into companies. Integrated reporting addresses this problem by encouraging companies to integrate both their financial and ESG performance into one report that includes only the most salient or material metrics.'*

Al Gore and David Bloom, *A Manifesto for Sustainable Capitalism*<sup>a</sup>

*'Financial capital is disproportionate in the way in which a company is valued. Social and environmental impacts are not recognised to the extent they need to be in investment and capital allocation decisions. Integrated Reporting is also about giving credit where credit is due. A company that leaves the environment and the community better off than when it started should have this reflected in its true value proposition.'*

Peter Bakker, Chairman World Business Council for Sustainable Development and Vice-President IIRC<sup>b</sup>

*'BM&FBOVESPA (Brazilian stock exchange) is recommending that companies state whether they publish a regular integrated sustainability report and where it is available, or explain why not. BM&FBOVESPA believes that this report-or-explain initiative will encourage the adoption of sustainability reporting by a steadily growing number of listed companies.'*

BM&FBOVESPA, *Brazilian Stock Exchange*<sup>c</sup>

*'The imperative to build a long-term business model that takes cognisance of the impacts, risks and opportunities in relation to the environmental, social and economic contexts within which an organisation operates, is increasingly becoming part of the licence to operate for companies the world over. Investors also progressively recognise that they can no longer ignore these elements when performing fundamental analysis, and evidence is mounting that companies who integrate broader sustainability considerations into their value proposition, clearly position themselves for better performance in the longer term. JSE (Johannesburg Stock Exchange) maintains a 'report-or-explain basis' when dealing with integrated reporting.'*

JSE, *Johannesburg Stock Exchange*<sup>d</sup>

*'Corporate reporting is of the utmost importance to investors. Long-term investors are already well known to look beyond the financial facts and figures only. Integrated reporting is a logical and necessary next step in corporate reporting, as environmental, social and governance information already is critical for assessing the performance and prospects of companies, and for the important stewardship role that investors both want and need to exercise.'*

EUMEDION, *The corporate governance platform for institutional investors*<sup>e</sup>

*'The European Commission welcomes the adoption by the Council of the Directive on disclosure of non-financial and diversity information by large companies and groups. Companies concerned will disclose information on policies, risks and outcomes as regards environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery issues, and diversity on boards of directors. Even though this directive does not link directly to integrated reporting, the EU does monitor with great interest the evolution of the integrated reporting concept.'*

European Commission<sup>f</sup>

a <http://genfound.org/media/pdf-wsj-manifesto-sustainable-capitalism-14-12-11.pdf>

b <http://www.wbcd.org/Pages/eNews/eNewsDetails.aspx?ID=15508&NoSearchContextKey=true>

c <http://www.bmfbovespa.com.br/en-us/markets/download/EC-017-2011-Relate-ou-Explicite-Ingles.pdf>

d <https://www.jse.co.za/about/sustainability>

e <http://www.eumedion.nl/nl/public/kennisbank/speerpuntenbrief/speerpuntenbrief-2015.pdf>

f [http://europa.eu/rapid/press-release\\_STATEMENT-14-291\\_en.htm](http://europa.eu/rapid/press-release_STATEMENT-14-291_en.htm) & [http://europa.eu/rapid/press-release\\_MEMO-14-301\\_en.htm](http://europa.eu/rapid/press-release_MEMO-14-301_en.htm)

## Foreword from Paul Fitzsimon, PwC Head of Reporting and Chief Accountant



Today's businesses are operating in a world of significant change. Increasingly, we are seeing a trend towards more and more information being supplied by business, driven by a number of factors including:

- The availability of big data to a degree not seen before – as Google's Eric Schmidt put it: "We create as much information in two days now as we did from the dawn of man through to today"
- Resource constraints
- The push from an ever wider stakeholder group for greater accountability.

We're seeing CEOs from across the globe seize this as an opportunity. In a recent PwC survey, 75% of CEOs told us that measuring and reporting the total impact of their company's activities across social, environmental, fiscal and economic dimensions contributes to the long-term success of their organisation.<sup>1</sup> We asked investors what they thought about this widening of emphasis from the traditional financial reporting models. We were told clearly that annual report disclosures about strategy, risks, opportunities *and other value drivers* can have a direct impact on a company's cost of capital. Only 11% thought otherwise.<sup>2</sup> To me, all of this promises an interesting, if challenging, future for reporting.

At PwC we have for some time now been working on more holistic reporting models. In 1999, we introduced the Value Reporting Framework which became a spark for the debate that has evolved to the concept of *integrated reporting*. The drivers behind integrated reporting – a focus on value creation across resources or capitals (such as financial, manufactured, human, social, intellectual and environmental) – continue to align with our own long-term vision for thriving and self-sustaining economies.

Integrated reporting, as a response to accounting for broader stakeholder value and longer-term consideration, is inspiring many reporters around the globe to move from the theoretical concept to practical implementation. I think it's important that this journey continues to be market-led. As an

example of how the concepts of integrated reporting are capturing imaginations, in 2015 130 Japanese companies have produced self-declared integrated reports, as have over 10% of the UK's FTSE 100. We are also keeping a close eye on the experiences coming out of South Africa and Brazil, where integrated reporting is part of the listing requirements.

What's emerging from this experimentation? Many organisations are finding that a fundamental change in reporting requires much more than a focus on the end report. It requires a deeper understanding of all the building blocks of the business value creation process. How does the outcome of the stakeholder dialogue link to strategy and risk? How does it connect to value drivers and performance and ultimately to impact? And does the impact reflect key messages from stakeholders? It is my belief that for companies to achieve the holy grail of *connectivity*, a fundamental internal change is required, in the form of integrated management information. This is why I am so pleased to be introducing our practical guide to implementing integrated reporting. This guide has at its core:

- A focus on materiality and value creation to improve your management team's understanding and assessment of your business' value drivers
- An emphasis on building a deep understanding of connectivity within your business
- The creation of an integrated dashboard for your business decision makers, enabled by information technology.

I hope this publication will both help you to get started and support your ongoing journey. It provides a roadmap drawn from our experiences across the globe as strategy, business management and reporting advisers. I hope it both stimulates debate for your management teams and clarifies the stages needed for a fundamental internal change. I welcome your feedback as your journey progresses.

**Paul Fitzsimon**  
PwC Head of Reporting and Chief Accountant

<sup>1</sup> PwC 17th Annual CEO survey.

<sup>2</sup> PwC (2014). Corporate performance: *What do investors want to know? Powerful stories through integrated reporting.*

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# 1 Executive summary

There is mounting evidence to suggest a positive link between the reporting and management of pre-financial factors (such as environmental, social and governance issues) and operational/financial performance. At the same time, company boards are increasingly coming under pressure to explain in their corporate reporting how they are developing longer-term, sustainable businesses – and how well they are performing against longer-term goals.

Many are responding through integrated reporting – a way not only to communicate business performance, but also to create more connectivity across different parts of the business. Integrated reporting involves a new way of ‘integrated thinking’, where management take strategic decisions based on a broad range of performance data.

We believe that integrated reporting can help businesses achieve a better dialogue with investors and other stakeholders, and so support the growth of more stable, thriving economies (see the business case for integrated reporting in chapter 2). Additionally – and for some businesses this may be the primary incentive – we believe integrated reporting will drive intelligence for more connected internal decision making.

## **Practical guidance need**

Making the leap from traditional annual financial reports to a fully integrated report is challenging. While a number of frameworks have been developed, there is little practical guidance to help management teams implement integrated reporting in a way tailored to their organisation. With this publication, we aim to help management focus their attention initially on how they create value for stakeholders, how they monitor and manage that value creation process, and how they ultimately report their performance externally.

Our guidance is based on a roadmap we have developed for managing and measuring the broader value drivers that form the basis of integrated reporting.

## **The PwC roadmap**

Our roadmap (chapter 3) identifies three fundamental foundations that should underpin your organisation’s efforts towards integrated reporting:

- **Materiality analysis**  
Understanding material issues for your business, based on investor and other stakeholders’ input
- **Value creation**  
Understanding how your particular organisation creates value for all its major stakeholders
- **Impact evaluation**  
Monitoring the indicators that capture the impact of your strategy and operations, and using them to report your value creation story to investors and other stakeholders.

Based on these foundations, our roadmap sets out five stages (chapter 4) to introduce and embed integrated reporting in your organisation:



**Look at the outside world and engage with your stakeholders**



**Determine your stakeholder value proposition and refresh your strategy**



**Align your internal processes to your strategy**



**Develop your integrated dashboard**



**Integrate your reporting for more effective and complete investor dialogue**



In this guidance document, each of the five stages is broken down into a number of key steps and considerations. For example, in stage 1 we explain how you can engage effectively with stakeholders to identify issues material to your organisation's future success. In stage 2, we outline how you can capture your particular organisation's value creation process, typically in the form of an infographic. Stage 3 looks at the management information, risk and performance indicators you need for integrated reporting, and the potential impact on your processes. Stage 4 identifies four steps for developing the integrated dashboard that brings together all the relevant management information you will need. Last but not least, stage 5 ties all previous work together, looking at how to go about writing an integrated report that fairly and fully represents your organisation's unique value creation story.

For each stage we offer practical insights based on our experience working with clients as they experiment with integrated reporting. We also outline the benefits you can expect to gain along the way.

### ***A cycle of continuous improvement***

The process of introducing and embedding integrated reporting in your organisation is an iterative one. Refinements and adjustments will be made during the process. It also has a circular, ongoing nature: it begins with stakeholder dialogue and ends with your annual reporting – which itself should stimulate further stakeholder dialogue.

### ***What do we mean by integrated reporting?***

Integrated reporting is the means by which the broader value drivers of a business are managed internally and then communicated to investors and other stakeholders. It involves a widening of focus from traditional models, which look mainly at financial and manufactured resources. It also involves a more connected approach, i.e. understanding how

the other resources a business uses (for example, human, social and relationship, and natural) interact and impact on the financials and each other. It requires a forward-looking stance where all these interrelated factors are considered at a strategic level. We refer to these other resources as pre-financials.

A number of initiatives have begun to explore frameworks for more holistic reporting. Much useful work has been done by organisations such as the International Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB). We do not examine the individual frameworks in this guidance.

When we refer to integrated reporting, this includes two matters – both the internal business management (which is sometimes referred to as integrated thinking) and the external periodic report.

### ***Who is this practical guidance for?***

This guidance is for anyone looking to implement a more holistic business management system or integrated reporting. Management teams setting out on the journey will find practical advice and steps to follow. Those already on the journey can use it to assess their current approach and support future enhancement. Our roadmap is formulated as a continuous improvement process. You can step in at any time, whether you are starting your first integrated report or want to improve your current reporting process.

The guide will also provide the 'how to' for companies seeing a move by their regulators towards more holistic reporting, e.g. in the form of the EU directive on non-financial disclosure, the Strategic Report (UK) and the International Integrated Reporting Framework issued by the IIRC.

## 2 The business case for integrated reporting

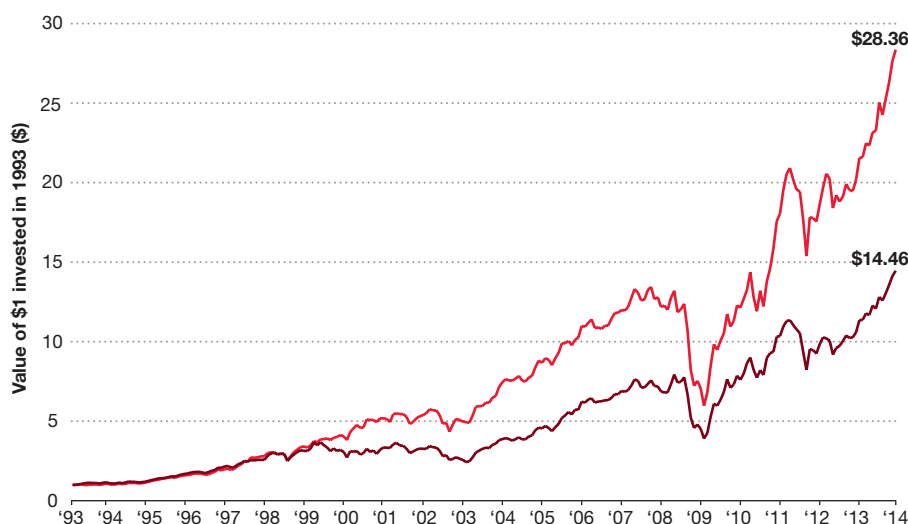
*In this chapter we look at the research into the correlation between more holistic reporting and operational as well as investment performance.*

Integrated reporting connects the internal management of a business' value drivers to its financial performance, and so creates a shared business language for management and investors. This new and shared business language enables a better and more robust dialogue with investors, which can deliver real benefits for companies and investors. Almost 75% of CEOs say that measuring and reporting the total impact of their company's activities across social, environmental, fiscal and economic dimensions contributes to the long-term success of their organisation.<sup>3</sup>

Academic research focused on sustainability reporting (covering environmental, social and governance performance, or ESG for short) backs up this finding. Even without the potentially enhanced strategic focus and connectivity enabled by integrated reporting, ESG reporting is associated with positive impacts on operational performance and risk management, leading to a reduced cost of capital. In other words, managing broader value drivers (both your financial and pre-financial performance) is in the best interests of shareholders.<sup>4</sup>

Evidence supporting the link between ESG performance and stock returns is found in a recent set of studies<sup>5</sup> from Harvard Business School. A value-weighted portfolio of 'high sustainability' companies outperformed their 'low sustainability' counterparts by 4.8% p.a. on a risk-adjusted basis over the 20-year period studied. A more recent study<sup>6</sup> considered these companies' ESG performance only in relation to their material issues as identified by the Sustainability Accounting Standards Board. The results were striking: the study shows that it's the material issues that matter. Firms with high performance on material issues, and concurrently low performance on immaterial issues, show the best future stock performance.

**Figure 1:** The impact of good management of material ESG issues on investment performance



The figure shows the evolution of \$1 invested in a portfolio of firms with high performance on material sustainability issues (red line) versus competitor firms with low performance on material sustainability issues. Materiality of sustainability issues is industry-specific and it is defined by the Sustainability Accounting Standards Board.

Source: Mo Khan, George Serafeim and Aaron Yoon. *Corporate Sustainability: First Evidence on Materiality*. HBS working paper, 2014 quoted in Serafeim (2014). *Turning a Profit While Doing Good: Aligning Sustainability with Corporate Performance*. Harvard Business School.

<sup>3</sup> PwC 17th Annual CEO survey.

<sup>4</sup> Clark, Feiner and Viehs (2014). From the *Stockholder to the Stakeholder: how sustainability can drive financial outperformance*.

<sup>5</sup> Robert G. Eccles, Ioannis Ioannou, George Serafeim (2011). 'The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance.' *Harvard Business Review*.

<sup>6</sup> Mo Khan, George Serafeim and Aaron Yoon (2014). *Corporate Sustainability: First Evidence on Materiality*. HBS working paper quoted in Serafeim (2014). *Harvard Business School*.



**Figure 2: Business benefits from integrated reporting**

Direct value	
<b>Cost reduction</b> <ul style="list-style-type: none"> <li>Eco-efficiency cost savings</li> <li>Reduced cost of compliance</li> <li>Reduced procurement costs</li> </ul>	<b>Revenue growth</b> <ul style="list-style-type: none"> <li>Business model innovation</li> <li>Product innovation</li> <li>New revenue streams</li> </ul>
Indirect value	
<b>Risk management</b> <ul style="list-style-type: none"> <li>Reduced cost of capital</li> <li>Reduced reputational, operational, supply chain or regulatory risk</li> <li>Reduced dependency on scarce resources</li> </ul>	<b>Brand and intangibles</b> <ul style="list-style-type: none"> <li>Brand enhancement</li> <li>Employee engagement, attraction and retention</li> <li>Improved market access or licence to operate</li> <li>Improved security and quality of supply</li> </ul>

Evidence has now also started to emerge to support the value of integrated reporting and demonstrate how it can lead to a better investor dialogue. A PwC survey shows that investment professionals believe the principles behind integrated reporting can enhance their investment analysis.<sup>7</sup> Academic studies find that issuing an integrated report will positively influence the valuation of a company<sup>8</sup> and make it more likely to attract a longer-term investor base.<sup>9</sup>

Further research shows that companies that have already started on the integrated reporting journey demonstrate:

- Better understanding of business opportunities and risks (65%)
- Improvements in decision making (79%)
- More collaborative thinking about targets and goals by the board and strategy departments (78%).<sup>10</sup>

### Acting on the evidence

As the evidence for the positive effects of integrated thinking and reporting mounts, more businesses are starting to consider how they can introduce the approach into their management processes. We have already worked with many businesses in this area. Our experience and insights have resulted in the roadmap we now present to help others progress along their integrated reporting journey.

<sup>7</sup> PwC (2014). *Corporate performance: What do investors want to know? Powerful stories through integrated reporting.*

<sup>8</sup> Arnold, Bassen and Frank (2012). *Integrating CSR reports into financial statements: An experimental study.* Working paper.

<sup>9</sup> Serafeim (2013). *Integrated reporting and investor clientele.* Harvard Business School.

<sup>10</sup> Blacksun (2014). *Realizing the benefits, the impact of integrated reporting.*



# 3 Our roadmap for integrated reporting

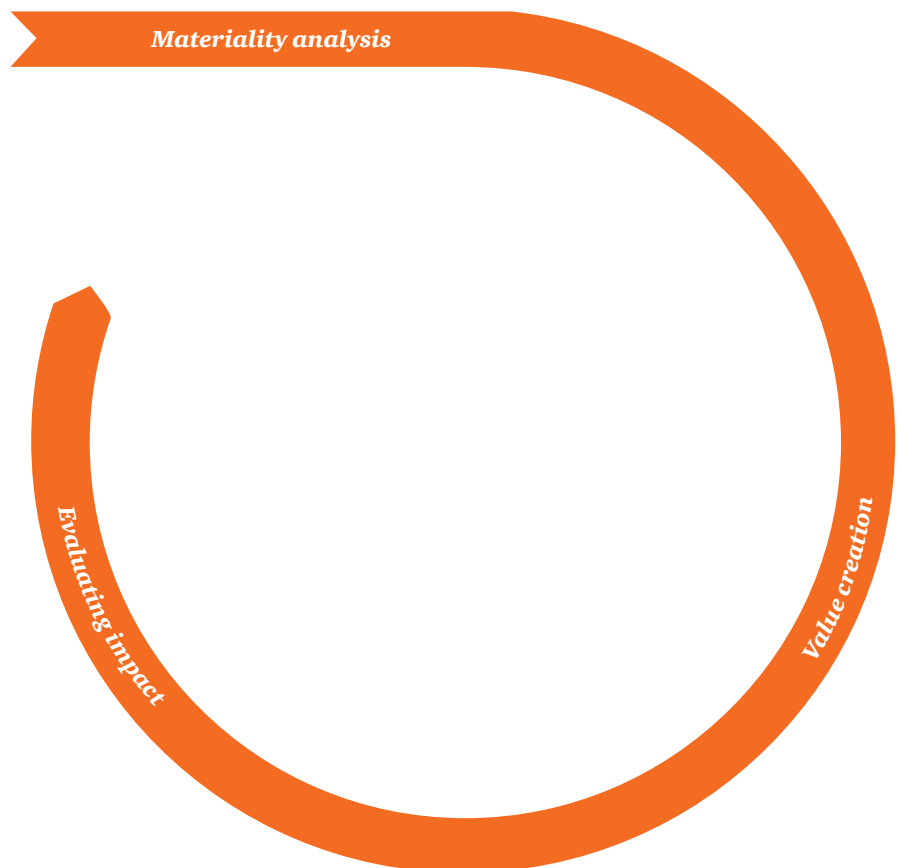
*Our roadmap is based on three fundamental foundations which we explain in this chapter: materiality, value and impact.*

## **The business challenge**

With any new concept, attention is often focused on the intended output. In the case of integrated reporting, this can result in a disproportionate focus of energies on the end product – the ‘integrated report’ – without similar time and resources spent on assessing and improving more holistic business management approaches – sometimes also referred to as ‘integrated thinking’.

While many organisations have improved the quality of their reporting, a communication gap still exists between reporter and investor<sup>11</sup> and other stakeholders. We believe every organisation will reach its own ‘tipping point’ – a stage where further improvement requires fundamental change. Simply redesigning the reporting structure or adding some new content won’t be enough. Businesses that fully embrace the concept of integrated thinking and reporting can hope to achieve higher quality investor dialogue.

**Figure 3:** A roadmap for managing and measuring broader value drivers: the fundamental foundations



<sup>11</sup> PwC (2014). *Corporate performance: What do investors want to know?*

### A better investor dialogue

Corporate reporting encourages better investor dialogue in two ways:

**1. The quality of corporate reporting affects investor perceptions and confidence**

In our survey of investors 80% said the perception of a company's reporting impacts their perception of its management. Further, 82% said they felt more confident in their own analysis when companies presented information clearly and concisely.

**2. Higher quality corporate reporting helps investors to understand how management have identified and are managing drivers of value in the business.**

In our survey only 11% of investors didn't believe that disclosures in an annual report about strategy, risks, opportunities and other value drivers could have a direct impact on the company's cost of capital.

### The starting point: materiality, value and impact

From our experience we know that boards are increasingly seeing the importance of engaging in holistic discussions when reaching decisions, taking into account a broad set of financial and pre-financial value drivers. However, these discussions are rarely supported with integrated management information. Where information is available in the organisation, reporting systems and processes are not always able to deliver it in an integrated and easily accessible manner. Integrating these value drivers throughout the whole organisation and value chain can be even more challenging.

How can organisations manage their steps on the road towards integrated reporting? How can they manage and measure their drivers of value more effectively, and use this to improve internal and external reporting?

Our solution is contained in a roadmap based on **three fundamental foundations**. These should underpin all your organisation's efforts towards integrated reporting. The three foundations are:

- 1. Materiality analysis**
- 2. Value creation**
- 3. Impact evaluation**

**Materiality analysis** is vital to our roadmap.

The importance of materiality is widely accepted, being included in the reporting models of the Global Reporting Initiative and the IIRC's International Integrated Reporting Framework, as well as financial reporting models. However, definitions of materiality vary, as do the processes that lie behind the materiality analysis.

We believe that to implement integrated reporting, businesses must develop processes for listening to investors and other stakeholders. This helps management to gain insights into material issues and to understand where value can be created. This outside-in perspective aids management in developing a more holistic view of their business and its operating context. A growing number of organisations already understand the value of a more direct dialogue with their stakeholders and are taking steps to achieve it. In this way they also gain greater understanding of how external stakeholders perceive the impact the business is having, both in financial and other terms.

The concept of **value creation** is the second key component of our roadmap. Your organisation should have a qualitative understanding of how value is created for its stakeholders. In our view, value creation is a circular process which depends on seven connected building blocks: stakeholders, their key messages, risk, strategy, value drivers (what activities influence the achievement of strategic objectives), performance and impact.

Value creation is an iterative process: value creation cannot be defined without robust outcomes from stakeholder dialogue, while you need an understanding of value creation to achieve an effective dialogue. Further, your understanding of value creation will change as the impact of management decisions is being evaluated and measured.

**Evaluating impact** forms the third foundation of our roadmap. This is first achieved by translating the value creation process into management information systems and processes, so that the organisation can monitor performance and make informed decisions – we call this the 'integrated dashboard'. This integrated dashboard includes connected and broader information on stakeholders, key material matters, risks, strategic objectives, value drivers, KPIs, targets and impacts. It helps companies to manage their impact by evaluating it systematically, though management teams may need to accept that not all data used will be 100% accurate and assured at the start.



#### Note on data measurement and reliability

##### The right KPIs

Identifying KPIs that reveal a company's connected impact on the world around it, and the resulting trade-offs (for example, where maximising financial returns would damage the environment), is an evolving practice. We currently lack robust, standardised methodologies for measuring impact. Each impact can often require a different methodology; primary data is often lacking, and a lot of creativity is required. For the time being, management teams may have to accept these imperfections, understanding that investors would rather have imperfect information than none. This feels uncomfortable in the context of traditional financial reporting, but we see the absence of reporting in key areas necessary for an understanding of a company's performance as a bigger problem. Investors agree. They have told us they prefer to receive information that may not reach 100% accuracy than to receive none at all. They also accept the inherent limitations of certain information sets.

##### Today's assurance model doesn't always fit

Today's assurance model doesn't necessarily fit evolving corporate reporting models, particularly the developing focus on broader, more forward-looking and more holistic information. We propose a new approach focused on providing insight into various aspects of an organisation's reporting. This would let stakeholders look behind what is reported to see where an organisation is positioned on its reporting journey. We are testing this with investors and clients.

The next stage involves developing your external reporting to investors and other stakeholders. Maintaining connectivity along the way is often difficult. For example, does performance managed by KPIs have a positive correlation with impact? Does actual impact, if it can be evaluated, connect back to your stakeholder dialogue, i.e. can the organisation report an impact that actually addresses the outcomes of the stakeholder dialogue?

Having set out our roadmap for integrated reporting, we now focus on how to implement it in practice. In the next chapter we identify the five key stages through which organisations can progress in order to deliver more holistic thinking and reporting. We also highlight the specific benefits that can be gained along the way.

# 4 Five stages towards integrated reporting

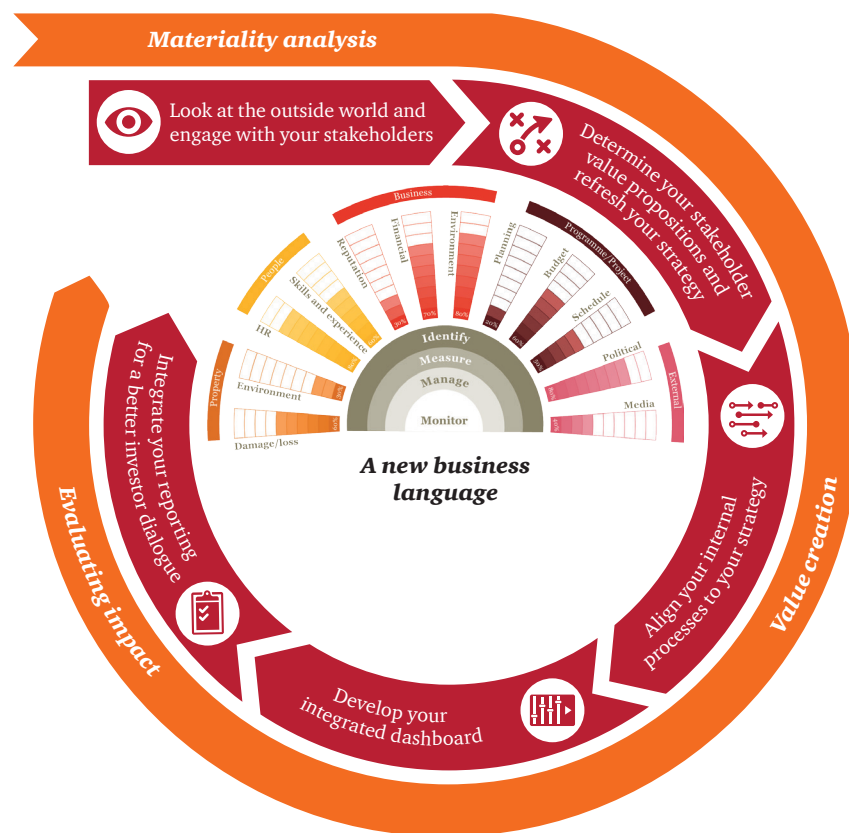
*In this chapter we expand on the three fundamental foundations of our roadmap for implementing integrated reporting.*






We do this by outlining **five stages**, broken down into a number of practical steps.

Our proposed stages and steps shouldn't be read as a set of prescriptive tasks, nor should achieving the benefits of integrated reporting and thinking be approached as a compliance exercise. Each organisation will need to tailor our guidance to their specific situation and remain focused on their own assessment of value and their value creation process.

Each stage is centred around a number of guiding questions designed to structure and stimulate the thinking process for management teams. Our approach supports a continuous improvement process and promises concrete benefits, not only at the end of the road, but also at the end of each stage.

**Figure 4:** PwC's roadmap for integrated reporting



Stages on the journey	Guiding questions	The cumulative benefits to your reporting
 <p><b>Stage 1</b> Look at the outside world and engage with your stakeholders</p>	<ul style="list-style-type: none"> <li>• Have you identified and prioritised your stakeholders and assessed how you engage with them?</li> <li>• Have you considered the business opportunities and risks arising from megatrends?</li> <li>• How well do you understand your competitive position in the market?</li> <li>• How do you assess materiality?</li> </ul>	<ul style="list-style-type: none"> <li>• Stakeholder engagement process</li> <li>• Value chain map</li> <li>• Analysis of operational context and competitors</li> <li>• Materiality matrix</li> </ul>
 <p><b>Stage 2</b> Determine your stakeholder value proposition and refresh your strategy</p>	<ul style="list-style-type: none"> <li>• How do you define value for your stakeholders?</li> <li>• How do you create value for your stakeholders?</li> <li>• Is your strategy resilient for the short, medium and long term?</li> <li>• Should you refresh your strategy and goals to reflect all your material issues?</li> </ul>	<ul style="list-style-type: none"> <li>• Definition of value</li> <li>• Improved risk reporting</li> <li>• Value creation process</li> </ul>
 <p><b>Stage 3</b> Align your internal processes to your strategy</p>	<ul style="list-style-type: none"> <li>• How does your organisational culture and behaviour support delivery of your strategic objectives?</li> <li>• Is your integrated management information enabled by systems and processes?</li> <li>• Can you link your strategic objectives to your suite of management information?</li> </ul>	<ul style="list-style-type: none"> <li>• Value drivers</li> <li>• Qualitative disclosures of connectivity</li> <li>• Insight into cultural alignment</li> <li>• Relevant KPIs</li> </ul> <p><i>The first three stages enable reporting disclosures as highlighted as well as contributing to the overall operational benefits listed below.</i></p>
 <p><b>Stage 4</b> Develop your integrated dashboard</p>	<ul style="list-style-type: none"> <li>• Can you communicate to the rest of your organisation how your strategy delivers value to stakeholders?</li> <li>• Can you ensure that your management information provides holistic insight to the board and other decision makers?</li> <li>• Do you make decisions based on holistic management information?</li> <li>• Do you have the right data to drive your decisions?</li> <li>• How do you evaluate your impact and is it incorporated into your dashboard?</li> </ul>	<ul style="list-style-type: none"> <li>• Connected insights into (predictive) relationships between stakeholder value and impact</li> <li>• The integrated dashboard breaks down silos between different departments, clarifying how each department contributes to business benefits</li> <li>• Reduced reporting burden as the integrated dashboard combines several (pre-existing) reports into one overarching report with factual (vs. intuitional) stakeholder value</li> <li>• Communication tool (internal and external) on how the organisation creates the value that stakeholders are looking for</li> <li>• Aligned internal and external reporting, improving the efficiency of external reporting processes at the end of the year</li> <li>• Measurement of impact: Total Impact Measurement and Management <a href="http://www.pwc.com/totalimpact">www.pwc.com/totalimpact</a></li> </ul>
 <p><b>Stage 5</b> Integrate your reporting for a better investor dialogue</p>	<ul style="list-style-type: none"> <li>• Within your existing reporting process, have you nominated a multidisciplinary steering group?</li> <li>• Has the board provided the steering group with a clear vision? What story is to be told?</li> <li>• Have you nominated one responsible writer?</li> <li>• Have you started on a blank page and determined the scope and boundaries?</li> <li>• Are you using the connectivity matrix (see figure 12) as the storyline?</li> <li>• Is there a clear communication plan for how to improve the use of the annual report within your investor dialogue?</li> </ul>	<ul style="list-style-type: none"> <li>• External reporting becomes more valuable for your investor dialogue, and for the dialogue with other stakeholders</li> <li>• Your external reporting becomes the solid basis for continuous and fundamental improvement of your reporting and alignment of internal and external reporting</li> </ul>



# Stage 1: Look at the outside world and engage with your stakeholders

## Guiding questions

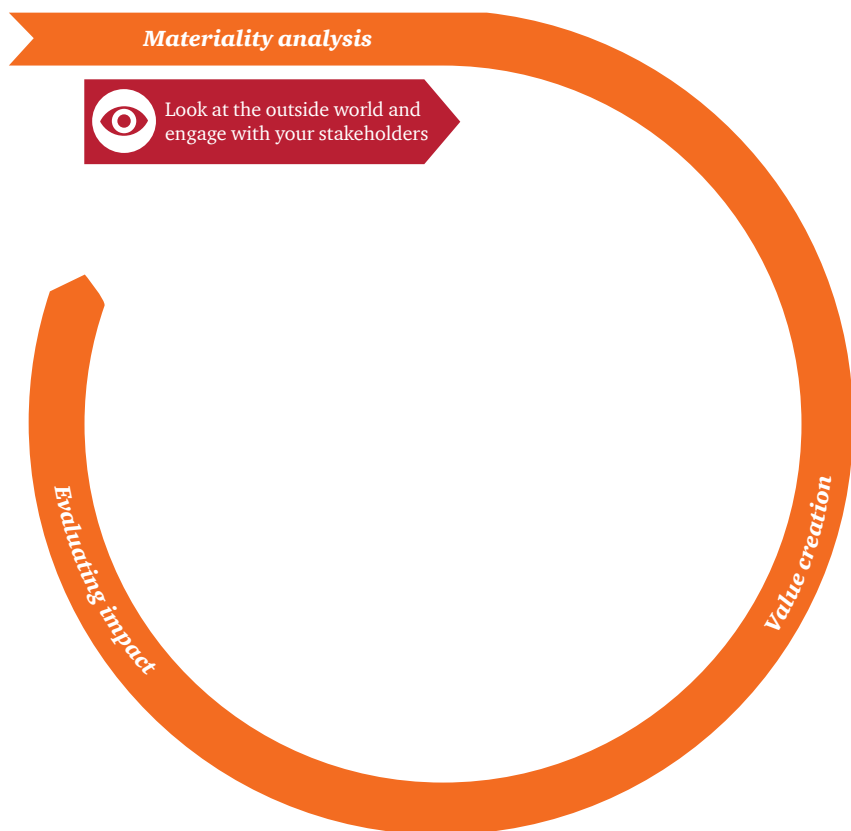
- Have you identified and prioritised your stakeholders and assessed how you engage with them?
- Have you considered the business opportunities and risks arising from megatrends?
- How well do you understand your competitive position in the market?
- How do you assess materiality?

Your organisation cannot function independently of the stakeholder environment in which it operates. Investors are interested in multiple stakeholder interests that represent important sources of risk and opportunity for the company. Their perception of the quality of management is influenced by how management are seen to deal with the complex mix of loyal customers, motivated employees, strong business partners, constructive dialogue with communities, government and regulators, and broader societal trust.

Your business also depends on spotting and responding to megatrends – long-term macro-level shifts in the external landscape. These could include factors such as changing demographics, rapid urbanisation, shifting economic power, technological change, resource scarcity and climate change.<sup>12</sup> These shifts can pose risks, but they can also provide opportunities if they are identified, assessed and managed effectively, and used to create competitive advantage. Risks and opportunities will also arise from the impact of these trends on your customers, competitors and the other players in your value chain.

<sup>12</sup> PwC (2014) Megatrends <http://www.pwc.co.uk/issues/megatrends/>

Figure 5: PwC’s roadmap for integrated reporting, stage 1



**To develop a holistic understanding of the strategic risks and opportunities** arising from the changing external environment, stakeholder views, competitive position and global megatrends, the key steps are as follows:

1. Establish a programme of systematic engagement with investors and other stakeholders (internal and external), which is embedded in your governance. In our view, best practice is to integrate your annual stakeholder dialogue and materiality analysis in

your reporting manual, so that it becomes part of the formal reporting process and instructions. Your programme should include establishing a project team and ensuring that the analysis of your competitive position and impact of megatrends is acted upon, for example as part of your strategy process.

2. Based on desktop research, create ‘the comprehensive list’ of issues that may be relevant to your organisation and its stakeholders. In our experience, such lists may include some 40 to 70 issues, or

even more. The comprehensive list is mainly derived from external sources to maintain the outside-in perspective. Such sources could include sector and industry reports, media, publications from government and supervisory authorities, Global Reporting Initiative (GRI) lists, Sustainability Accounting Standards Board (SASB) publications, etc.

3. Use your desktop research as the basis for more holistic analysis of the operational context, competitors' analysis and megatrends. There are many good examples of how companies report on operational context (see below).
4. The project team reduces the comprehensive list to 'the long list' of some 20 to 30 issues. This process should eliminate issues that are highly unlikely to be material, so making the stakeholder dialogue more relevant.
5. Identify your key stakeholders and why they are key. Allocate a weighting factor, usually between one and two, to each stakeholder, reflecting the weight that your management agrees should be allocated to their views in the final consolidation of all results. Establish the method of engagement with each stakeholder. Will it be a survey, a round table or workshop, or an interview? Discuss your list of key stakeholders, their respective weights, and the engagement method with the executive board.
6. Submit the long list to each key stakeholder, asking them to identify three to five principal issues they believe are important to the long-term success of your organisation. Ask each stakeholder to indicate whether impact is restricted to the organisation itself or extends into the value or supply chain. Ask each stakeholder to score the issues from one to three or one to five. In case of interviews, make sure you have taken a template with you to capture the results.
7. Consolidate all the results by adding all the points given, including the weights, to each issue on the long list. Each issue will then have a value indicating its importance to stakeholders or their interests – providing the y-coordinates in subsequent analysis (see point 9).
8. The project team considers the impact of each long list item on the organisation or its strategy, presenting this as a proposal for the executive board to discuss and adapt. The values allocated to each item become the x-coordinates for use in subsequent analysis.

9. The project team uses the x- and y-coordinates to create a graphical 'cloud' of relevant issues, across the value chain (so outside of traditional financial reporting boundaries) in a materiality matrix. The x-axis represents the impact on the strategy or organisation, as determined by the board. The y-axis represents the impact on stakeholders or their interest.

10. Finally, discuss and analyse what issues can be considered to be material. In our view, best practice is to identify the top six to 12 as the material matters. There are many good examples of how this final materiality matrix can be presented (see below).

### **Where do you stand at the end of stage 1?**

Based on your structured dialogue with key stakeholders, you now have better insight into the areas where your organisation can create most value. Those are also the areas where most value can potentially be destroyed. In the next stage we build on these insights by gaining a better understanding of *how* your organisation creates value.

Completing stage 1 also brings benefits for your external reporting by providing relevant content. These benefits are highlighted in the table below, along with references to other companies' external reports that contain similar content.

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#### **Benefits to your reporting:**

- Stakeholder engagement process
  - Analysis of operational context and competitors
  - Materiality matrix
- 

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#### **Inspiring examples:**

##### **Stakeholder engagement**

AmorePacific	CSR report 2013	Pages 73–74
AU Optronics	CSR report 2013	Page 15
Tieto	CSR report 2014	Pages 11–13
Woolworths	Annual report 2013	Pages 25–27

##### **Competitor analysis**

Deutsche Post DHL	Annual report 2013	Pages 24–30
Sacyr Vallehermoso	Annual report 2013	Pages 38–39
Swisscom	Annual report 2014	Pages 39–42

##### **Materiality matrix**

Aegon	Annual review 2014	Page 15
AGCO	CSR report 2012	Page 8

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## Stage 2: Determine your stakeholder value proposition and refresh your strategy

### Guiding questions

- How do you define value for your stakeholders?
- How do you create value for your stakeholders?
- Is your strategy resilient for the short, medium and long term?
- Should you refresh your strategy and goals to reflect all your material issues?

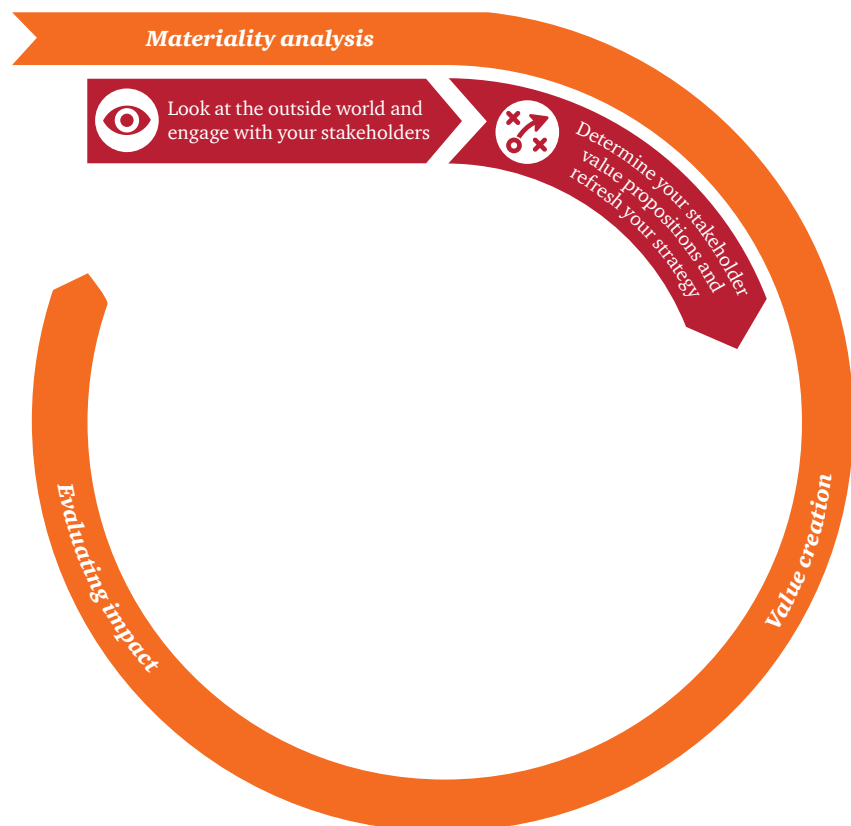
Implementing integrated reporting may not necessarily lead you to refine your organisation's strategy. Nevertheless, stakeholder responsiveness should be reflected in your strategy and business model – and this can often require a refreshing of strategy.

In the previous stage you identified the key areas where you believe – based on your stakeholder dialogue – that you can potentially create the most value. But *how* do you create value? What are your stakeholder propositions? And what risks do you face that could potentially destroy the most value? In this stage you consider those questions and so develop a better picture of your organisation's value creation process.

### Step 1: Defining value – the opportunities

To determine your stakeholder value proposition you first have to define value for each key stakeholder group. The materiality matrix resulting from your stakeholder engagement process (described in stage 1) should be used as the basis for defining these value propositions. Some examples of value propositions are as follows:

Figure 6: PwC's roadmap for integrated reporting, stage 2



- The material matter related to shareholders and providers of financial capital can be economic performance: your strategic response (i.e. your stakeholder value proposition) may be innovation in chosen markets.
- For employees the material matter may be personal development. Your value proposition (i.e. the promise

you make in your strategy) could be: 'We value the talent in all our people'. Naturally this promise then has to be operationalised further in policies, programmes and actions.

- Customers may ask for environmental stewardship. Your value proposition may be: 'We double our impact and half our footprint by 2020'.





In this context value is always a ‘co-creation’ – developed through relationships with others. Therefore the examination of the value creation process requires a solid analysis of all relevant interdependencies. In other words, you can’t expect to make one intuitive step from material matters to stakeholder value proposition and impact. Defining the value creation process is an iterative process, and so you shouldn’t try to define the whole process at this stage. Instead, focus on representing your initial understanding, perhaps in the form of a qualitative infographic (see suggested examples at the end of this chapter).

### Step 2: Defining value – the risks

The material matters you have identified indicate where most value can be created, but also where most value can be destroyed.

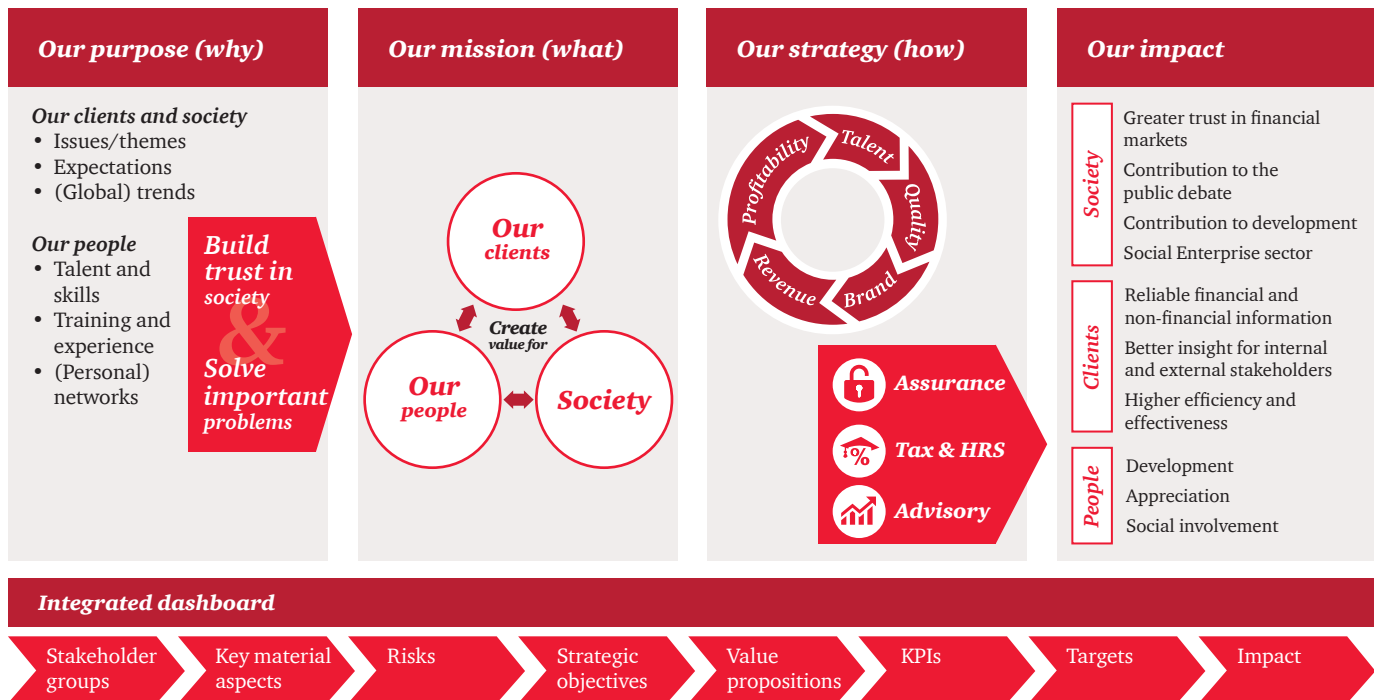
The material matters should therefore be connected to risk and embedded in your organisation’s regular risk assessment process. Your risk function should help to identify risks that relate to your material matters. Here are a few examples:

- If the success of your business model relies on well-educated, trained and motivated staff, demographic change is a significant risk to resourcing the business model.

- Scarcity of qualified personnel in general might result in higher staff turnover, leading to increased recruitment costs, lower productivity and a loss of intellectual capital.
- If your customers expect protection of biodiversity in the supply chain or respect for human rights, non-compliance of your suppliers with your suppliers’ code of conduct may damage your business reputation.
- Demands from the public and politicians in the area of regulatory compliance or executive remuneration may – if not adequately addressed – destroy social capital.

As already noted, in order to capture these potentially significant risks of destroying value, organisations should consider how to embed material matters in their risk assessment procedures. In our experience, it has so far proved difficult for organisations to embed materiality (see the **fundamental foundations** for a discussion of materiality in integrated reporting in chapter 4) in the regular risk assessment process. Even so, aim for continuous improvement by making material matters an integral part of regular risk assessment and reporting.

**Figure 7:** Value creation process of PwC Netherlands



**Step 3: Developing the value creation process**

Your organisation should now have an understanding of the link between material matters and opportunities and risks. The impact of material matters on your opportunities and risks should be part of the value creation analysis. This brings us to the next step, the capturing or representation of the value creation process.

As stated above, this requires a thorough understanding of interdependencies. But in this step, your main purpose is to develop a first qualitative understanding of what value you could (and wish to) create. In our experience, a good way to do this is through an infographic, describing the links from stakeholders to strategy and ultimately impact.

We identify the following elements:

- Input from your key stakeholders, representing the input capitals
- The material matters
- The related risks
- The strategic pillars, addressing the material risks and opportunities
- The value drivers – the activities you want to excel at for successful execution of strategy
- The output/outcome indicators, i.e. the key indicators related to your management information (against targets)
- The outcome/impact, i.e. the value you wish to create for your stakeholders, thus closing the loop with the start of your value creation process.

Figure 7 offers one example of how the value creation process can be shown in an infographic. We provide references to more at the end of this chapter.

As you progress along the roadmap and gain a better understanding of all connectivities, your understanding of the value creation process will improve, as will your ability to represent it accurately. In our experience, it may take a few versions before the board will intuitively recognise your representation. Value creation is about distinguishing your organisation from others and focusing on your uniqueness, which will then be of value for your stakeholders (e.g. clients who are willing to pay for innovative products and services).

### Where do you stand at the end of stage 2?

By the end of stage 2 you have gained a clearer understanding of how you create value for your stakeholders and the risks you face. You have also captured this understanding in a model of your value creation process. It may take two or three years before your model is sufficiently robust, validated by your stakeholders and further refined on the basis of data analytics. But you will have begun a continuous improvement and learning process in your organisation. This work lays the foundation for the next stage, where we focus on how to align management information with strategy and develop a meaningful performance management system.

Completing stage 2 also brings benefits for your external reporting by providing relevant content. These benefits are set out in the table below, along with relevant examples from other companies' external reports.

#### Benefits to your reporting:

- Definition of value
- Improved risk reporting
- Value creation process

#### Inspiring examples:

Improved risk reporting (including future viability)		
Adidas	Annual report 2013	Pages 159–179
Deutsche Telekom	Annual report 2013	Pages 138–141
Fresnillo	Annual report 2013	Pages 42–45
Gas Natural	CSR report 2013	Pages 78–82
Gold Fields	Annual report 2013	Pages 31, 58, 60
Inditex	Annual report 2013	Pages 38–39 (future viability)
Munich Airport	Annual report 2013	Pages 120–125
NS	Annual report 2013	Page 61
Philips	Annual report 2012	Page 11
Swiss Re	Annual report 2012	Pages 49–51
Value creation process		
AkzoNobel	Annual report 2013	Pages 2–3
Anglo American Platinum	Annual report 2013	Pages 20–21
Enagas	Annual report 2013	Pages 20–21
Inditex	Annual report 2013	Pages 36–37
Interserve	Annual report 2013	Pages 10–11
KPN	Integrated report 2014	Page 17
Randstad	Annual report 2012	Pages 22–23





## Stage 3: Align your internal processes to your strategy

### Guiding questions

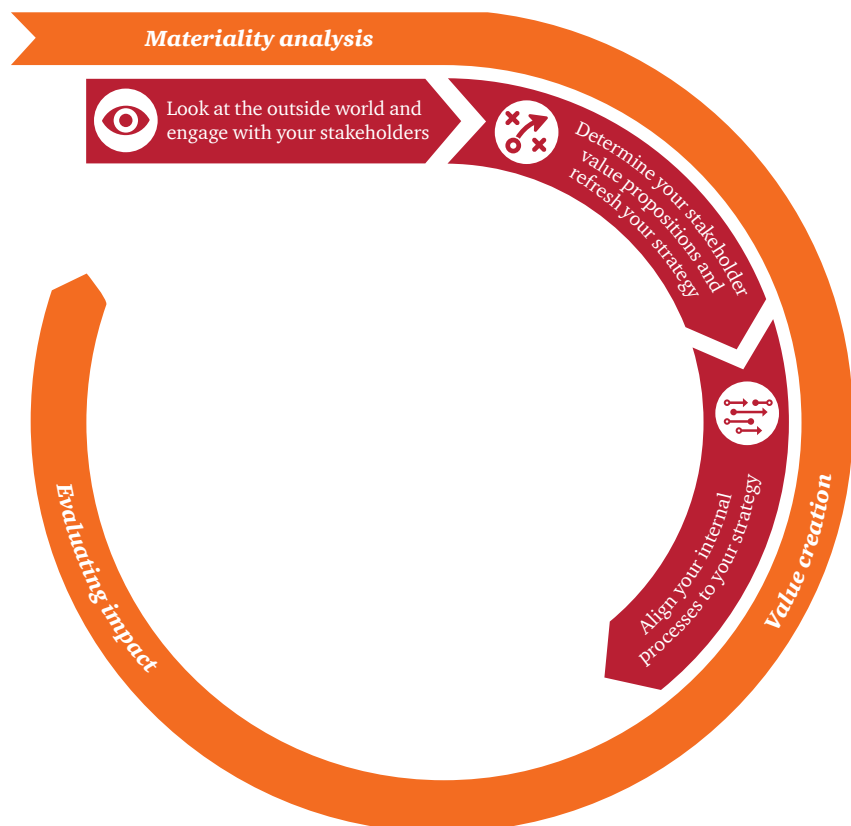
- How does your organisational culture and behaviour support delivery of your strategic objectives?
- Is your integrated management information enabled by systems and processes?
- Can you link all your strategic objectives to your suite of management information?

Integrated management information aligned with your organisation's sustainable strategy is the foundation of integrated reporting. But what do we mean by integrated management information? We define it as follows: a well-balanced and connected set of financial and pre-financial key performance indicators (KPIs), aligned with value drivers and embedded in systems, processes and supporting culture, which are used in governing your organisation.

The first step is to align your strategy with management information, KPIs and value drivers. This is generally referred to as 'performance management' or preferably 'integrated risk and performance management'. Within performance management the organisation aims to:

- Align KPIs with strategy and reduce the volume and complexity of management reports
- Reduce budgeting cycle time and increase its added value
- Automate planning, reporting and analytical reporting
- Control operational performance,

Figure 8: PwC's roadmap for integrated reporting, stage 3



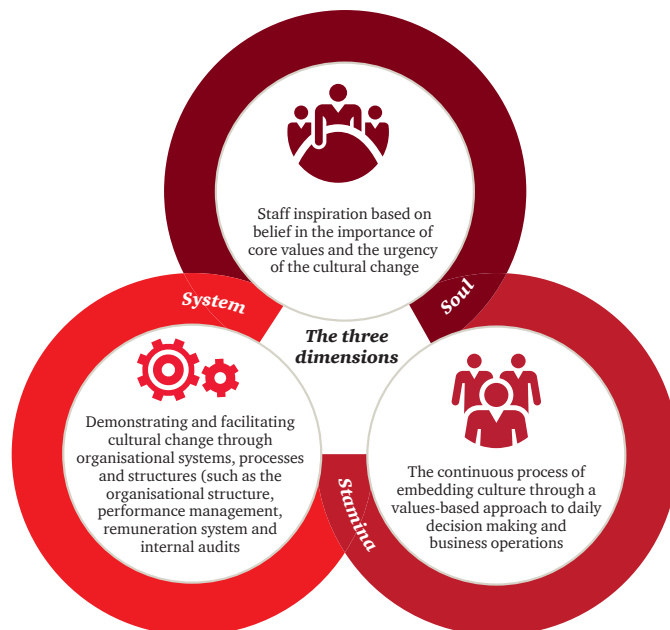
e.g. work in progress, throughput times, in real time

- Improve data integrity and increase transparency in management reports
- Align resource allocation with the strategy
- Create insight into the added value for stakeholders
- Measure and manage the effectiveness of implemented projects

### Culture and behaviour

Your organisation should aim to develop a purpose-driven culture that values the needs of stakeholders. Leaders in the organisation need to motivate and mobilise employees and display an ongoing desire to receive and act on internal and external feedback to support delivery of strategic objectives. Success requires a conscious and continual effort by everyone to embed values and behaviour in line with stakeholder expectations.

**Figure 9:** The three leadership dimensions in culture change



Key steps for embedding your desired culture are as follows:

**1. Go back to first principles**

Start by clearly defining the culture and behaviours needed for the delivery of your strategy. Consider this question: To what extent do we currently consider stakeholder interests in our behaviour, systems and decisions?

**2. Identify, and understand, the ‘moments that matter’**

Identify the critical decisions and interactions (‘moments that matter’) that win or lose business, and therefore contribute to sustainable profitability. Target specific behaviour that is demonstrated during these key moments of stakeholder interaction.

**3. Inspire employees: Soul**

As illustrated in Figure 9, ‘soul’ is one of three leadership dimensions you need to address in order to achieve culture change.

- a. Appeal to employees’ intrinsic motivation to act in the interest of stakeholders.
- b. Create a framework that offers guidance to employees in making personal choices about stakeholder-centric value creation and how to deal with ethical dilemmas.
- c. Lead by example.

**4. Provide the right conditions for employees to act in the interests of stakeholders: System**

You need to align your organisation’s systems with your desired culture, and ensure that senior management have the capability and tenacity to change what may be very engrained in the organisation, such as approaches to performance management, remuneration and internal audit.

**5. Embed stakeholder needs into business operations: Stamina**

What do others expect? Do I recognise leaders’ priorities in their management approach? Are (supervisory) board members really focused on stakeholders’ interests? The creation of public and social value must be evident in the explicit decisions made by management and employees. Leaders can embody a desired culture by acting as role models for the necessary values and behaviour.

**6. Use behavioural indicators to drive change**

Key behavioural indicators (KBIs) define the desirable behaviour employees need to demonstrate in order to be successful within the organisation.

### Systems and processes

Systems and processes are, naturally, a crucial link in the execution of strategy and ultimately the value you create. Integrated reporting requires the scope of management information to be extended from financials to pre-financials. In most organisations the control environment around pre-financials is still immature, which can raise doubts about information quality. Even though most internal control frameworks should be able to encompass pre-financials, real world experience shows that this doesn't necessarily happen. We see organisations making progress by:

- Ensuring that the CFO and finance function take responsibility for the quality of all pre-financials with clear allocation of roles and responsibilities between finance and the data owners (governance)
- Establishing a steering group that cuts across business operations and includes those controllers whose remit has been the pre-financials
- Gaining a more explicit understanding of how your current internal control framework can be applied to pre-financial information.

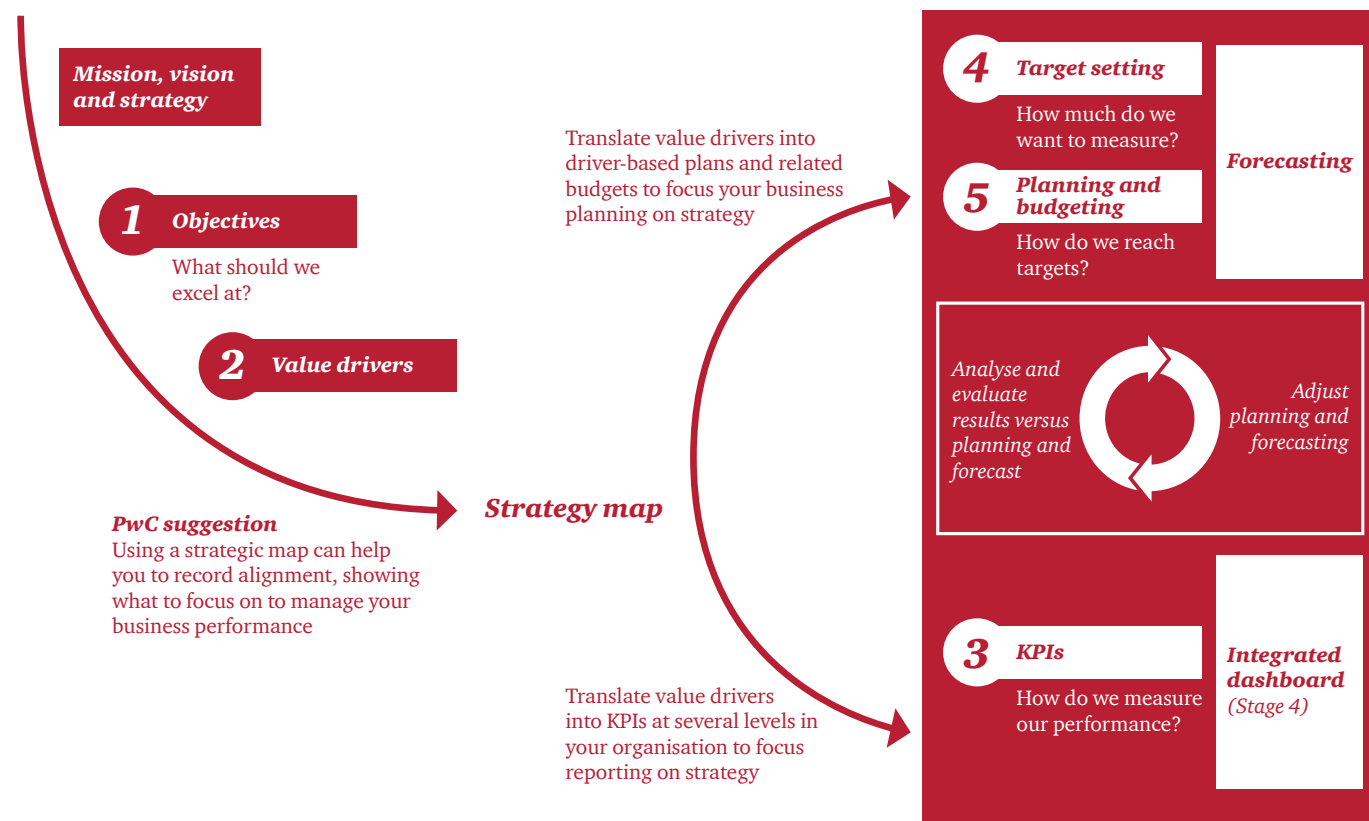
You also need to consider how the pre-financials can be integrated into your existing framework. You could try:

- Establishing feedback mechanisms between data consumers and data owners
- Starting to provide assurance over the pre-financials.

### Align your strategy with your management information

The success of your strategy is reflected in pre-financial and financial results in terms of output or outcome/impact. The results are monitored through (key) performance indicators – which clearly need to reflect your business strategy. This sounds simple, but it can be challenging to align your strategy firstly to value drivers, and then to KPIs appropriate for providing management information. Many businesses use standard KPIs without truly aligning these with their organisation's specific strategy. Effective performance management is about achieving this alignment, as illustrated in Figure 10.

Figure 10: Alignment of strategy



In order to translate your strategy into relevant management information (KPIs), Figure 10 outlines a number of steps to complete.

### 1. Objectives

Clearly understand your organisation's strategic objectives (discussed in the previous stage).

### 2. Value drivers

Consider what activities the business should excel at to deliver on its strategic objectives.

### 3. KPIs

Think about how much you want to measure – and whether it can be measured. Remember your aim – selecting metrics which are aligned to strategic goals and which will tell you what is really happening in the business. Therefore it is important to:

- Have a clear view of the strategic goals and how these can be measured
- Find a balance between pre-financial and financial KPIs
- Use leading (forecast) and lagging (past performance) KPIs
- Make sure your KPIs provide intelligent, connected information that is still easily understandable and relevant for people in the entire organisation.

### 4. Target setting

Your KPIs are also used to set targets and objectives for teams and individuals, against which performance is measured.

### 5. Planning and budgeting

In order to achieve its targets, the organisation should develop and implement action plans.

When completing these steps, you shouldn't have to invent new methodologies for pre-financials. The challenge is more about finding a way to connect strategy people, finance people and sustainability people. This involves taking the time to learn each other's language and making clear, mutual commitments.

## Where do you stand at the end of stage 3?

In stage 1 you analysed where you can possibly create the most value. You then translated that into stakeholder value propositions. By completing stage 3 you have seen how to align management information with strategy and develop a meaningful performance management system.

One challenge for company boards is to avoid information overload. It is not unusual for executive and non-executive directors to receive 15 to 25 different sets of financial and pre-financial information. The next stage focuses on providing decision makers with a balanced set of connected management information in order to meet the promise of integrated reporting – better-informed decision making.

Completing stage 3 has also provided tangible content for your external reporting. We set this out in the table below, with examples of how other companies have reported such content externally.

#### Benefits to your reporting:

- Value drivers
- Qualitative disclosures of connectivity
- Insight into cultural alignment
- Relevant KPIs

#### Inspiring examples:

##### Value drivers and business model

British Land Company PLC	Annual report 2014	Pages 14–15
Interserve PLC	Annual report 2013	Pages 10–11

##### Relevant KPIs

Bayer	Annual report 2014	Pages 50–51
DBS	Annual report 2013	Pages 24–27
EnbW	Annual report 2013	Pages 24–25
MTN Group Limited	Integrated report 2013	Pages 54–57
SABMiller	Annual report 2013	Pages 15–17
Unilever	Annual report 2014	Pages 7, 11



## Stage 4: Develop your integrated dashboard

### Guiding questions

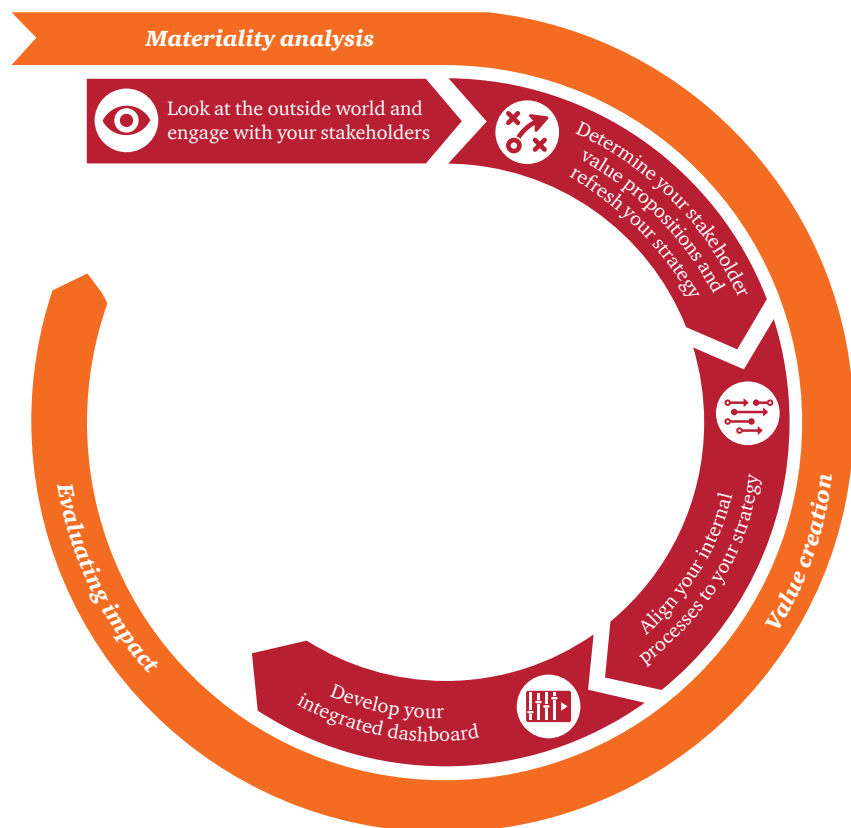
- Can you communicate to the rest of your organisation how your strategy delivers value to stakeholders?
- Can you ensure that your management information provides holistic insight to the board and other decision makers?
- Do you make decisions based on holistic management information?
- Do you have the right data to drive your decisions?
- How do you evaluate your impact and is it incorporated into your dashboard?

### An integrated dashboard for connected insight into stakeholder value

The integrated dashboard is a tailor-made, organisation-specific tool developed by PwC to monitor stakeholder value with a set of relevant management information. It demonstrates how the organisation's strategy makes an impact and creates value for its key stakeholders, reflecting the organisation's dialogue with the outside world and its mission and vision.

Most organisations have lots of different silo-based management reports and dashboards, but lack one integrated view showing the linkages between the different elements. Another weakness is that current reporting is still focused on input and output indicators instead of impact indicators (management information that tells you something about the value you create for your stakeholders).

Figure 11: PwC's roadmap for integrated reporting, stage 4



The integrated dashboard broadens your reporting scope to include the entire value chain, focusing on stakeholder value. It is an umbrella tool, bringing together information from different source systems.

In order to bring that information together, you need a connectivity matrix (see Figure 12). This should depict the value creation process from

beginning to end, showing how different elements are connected. An interface can then be used to combine all relevant data from different sources and systems. In this way, management gain access to dynamic information, and are able to see past performance and projected future trends for topics of most importance to stakeholders.



Set out below is a simplified example of a connectivity matrix on which the integrated dashboard is founded. It illustrates the building blocks to consider. The content of your organisation's dashboard will need to be tailored to its specific circumstances.

**Figure 12: Example connectivity matrix**

	<b>Stakeholder groups</b>	<b>Key material matters</b>	<b>Risks</b>	<b>Strategic objectives</b>	<b>Value drivers</b>	<b>KPIs</b>	<b>Targets</b>	<b>Impact</b>
<b>Explanation</b>	The internal and external stakeholders of the organisation, categorised into groups	Matters that are relevant for your stakeholders, identified through a materiality analysis	Risks that could prevent the organisation from performing on the material aspects	The strategic objectives should cover the material matters	The drivers of value which ensure strategy execution and risk mitigation	Indicators to monitor progress on your strategy execution and risk mitigation	Future outlook with goals to achieve the strategy in the short and long term	Looking beyond inputs and outputs to outcomes and impacts – understanding your footprint
<b>Example</b>	<ul style="list-style-type: none"> <li>• Employees</li> <li>• Shareholders</li> <li>• Suppliers</li> <li>• Etc.</li> </ul>	Health and safety	Incidents and accidents	We have the best in industry safety culture	Working on awareness and an open culture	<ul style="list-style-type: none"> <li>• Lost time injuries</li> <li>• Fatal accidents</li> </ul>	Best in the industry on all indicators	All employees feel safe and highly engaged in safety
<b>Notes</b>	Stakeholders should be identified through a stakeholder mapping. Stakeholder engagement should take place through a structured, regular stakeholder dialogue. In many organisations this is still an ad hoc process.	The aim is to bring together aspects which are material for different stakeholder groups. Various frameworks are available that provide guidance.	While most organisations have a mature risk assessment, the risks identified may not be (directly or indirectly) related to the material themes. The existing risk assessment may need to be revisited.	The organisation's strategy is a response to, for example, a value proposition for stakeholders. It is a management decision and as such it need not cover all the material aspects, although best practice for long-term sustainability is to address all material aspects.		Ensure there is a balance between leading (input) and lagging (output) indicators, financial and non-financial indicators, internal and external indicators and process and impact indicators.	Targets should be set per indicator. Because all elements of the dashboard are connected, they can be directly linked to the material themes.	The dashboard includes quantitative impact information. Qualitative information is not included, but helps with the interpretation of quantitative information.

### The three fundamentals are the basis of the connectivity matrix

The three fundamental foundations of our roadmap underpin the connectivity matrix:

**Integrating the materiality analysis:** the connectivity matrix starts with your stakeholder dialogue and materiality analysis. It provides insight into how the material issues identified in that dialogue are reflected in your approach to risk and your strategy; and whether your impact reflects stakeholder needs.

**Showing your value creation:** the connectivity matrix mirrors your value creation process and enables you to gain a better understanding of how you create value for your stakeholders.

**Evaluating your impact:** the connectivity matrix presents management information that connects across financial and pre-financial factors and across individual departments – this enables you to evaluate and ultimately measure the net value you create for your stakeholders.

### Creating an integrated dashboard in four steps

Up till now we have developed a connectivity matrix, showing the foundations to fundamentally improve your reporting. The matrix enables you to gain a better understanding of connectivities and interdependencies in the organisation. Naturally, to enable better-informed decision making this matrix has to be operationalised in an integrated set of management information embedded in a reporting tool, i.e. an integrated dashboard.

As illustrated below, we set out four key steps for developing an integrated dashboard with a connectivity matrix at its heart:

1. Assess available information
2. Design the connectivity
3. Construct the dashboard
4. Implement in internal / external reporting

Figure 13: Steps to take for developing the integrated dashboard

Steps	1 Assess available information	2 Design the connectivity	3 Construct dashboard	4 Implement in internal/external reporting
Activities	<ul style="list-style-type: none"> <li>Define purpose, scope and (integrated) team</li> <li>Assess current dashboards in place</li> <li>Discuss user needs and (functional) requirements</li> <li>Assess available information on all elements and add to dashboard format</li> </ul>	<ul style="list-style-type: none"> <li>Determine the correlations between the elements</li> <li>Consider establishing existence of potential connections using data analytics</li> <li>Analyse the gaps and determine project plan to overcome gaps</li> </ul>	<ul style="list-style-type: none"> <li>Determine final look and feel of integrated dashboard</li> <li>Make data logistics connections to source systems</li> <li>Establish integrated dashboard</li> </ul>	<ul style="list-style-type: none"> <li>Implement instruction usage and adapt reporting manual</li> <li>Use integrated dashboard as foundation for board meetings</li> <li>Use the connectivity matrix in your external reporting</li> <li>Review and adapt</li> </ul>
Deliverables	Baseline assessment	Connectivity matrix	Integrated dashboard	Integrated decision making and reporting

Here are some practical tips, based on our experience:

- Define the purpose, scope and integrated team right at the start.
- When forming your integrated project team, make sure you include different parts of the organisation with expertise in stakeholder dialogue, risk, strategy, performance management and value drivers, and reporting. Also include econometricians experienced in data analysis.
- Discuss the objectives of the integrated dashboard based on its intended users and how you wish to cascade it throughout the organisation.
- Determine scope based on availability of data, maturity of the insight into value creation (impact may still be one step too far, outcome may already be feasible) and the outcome of the stakeholder dialogue (material matters).

Developing an integrated dashboard requires some hard work and takes time, but it's worth the effort. Our experience tells us that:

- The integrated dashboard project should be seen as a continuous improvement process. It is not a solution to be finished within a year.
- You should see concrete benefits for your external reporting in year one. The connectivity matrix, even without the dashboard, should be the backbone of your external reporting (see inspiring examples right). It will also help you to engage with your investors and other stakeholders, as it explains the value creation process in an insightful and intuitive manner.
- Outcomes (even without measured impacts) may provide important insights for decision makers using the tool.
- The board and other decision makers gain improved insight into the value you create for your stakeholders. For many decision makers, the clear benefit of combining all reporting lines in one overarching tool is itself a strong reason to pursue an integrated dashboard project.

### **Where do you stand at the end of stage 4?**

You have now developed an integrated set of management information directly linked to your value creation process, enabling you to manage your impact more effectively. This allows you to move onto stage 5 – the development of integrated external reporting that supports better investor dialogue.

Completing stage 4 also enables you to improve your reporting. Expected benefits are shown in the table right, which also provides references to relevant reports by other organisations.

#### **Benefits to your reporting:**

- Connected insights into (predictive) relationships between stakeholder value and impact
- The integrated dashboard breaks down silos between different departments, clarifying how each department contributes to business benefits
- Reduced reporting burden as the integrated dashboard combines several (pre-existing) reports into one overarching report with factual (vs intuitional) stakeholder value
- Communication tool (internal and external) on how the organisation creates the value that stakeholders are looking for
- Aligned internal and external reporting, improving the efficiency of external reporting processes at the end of the year
- Measurement of impact: Total Impact Measurement and Management ([www.pwc.com/totalimpact](http://www.pwc.com/totalimpact))

#### **Inspiring examples**

<b>Integrated strategy</b>		
Alliander	Annual report 2012	Pages 14–15
Gold Fields	Annual review 2013	Page 6
Rank Group	Annual report 2010	Page 13
Woolworths Holdings Ltd	Integrated report 2013	Pages 34–43
<b>Connectivity matrix</b>		
ASML	CSR report 2014	Page 18
Avis Europe plc	Annual report 2010	Pages 4–5
<b>Measurement of impact</b>		
PwC UK	CSR report 2014	Pages 32–41



## Stage 5: Integrate your reporting for a better investor dialogue

### Guiding questions

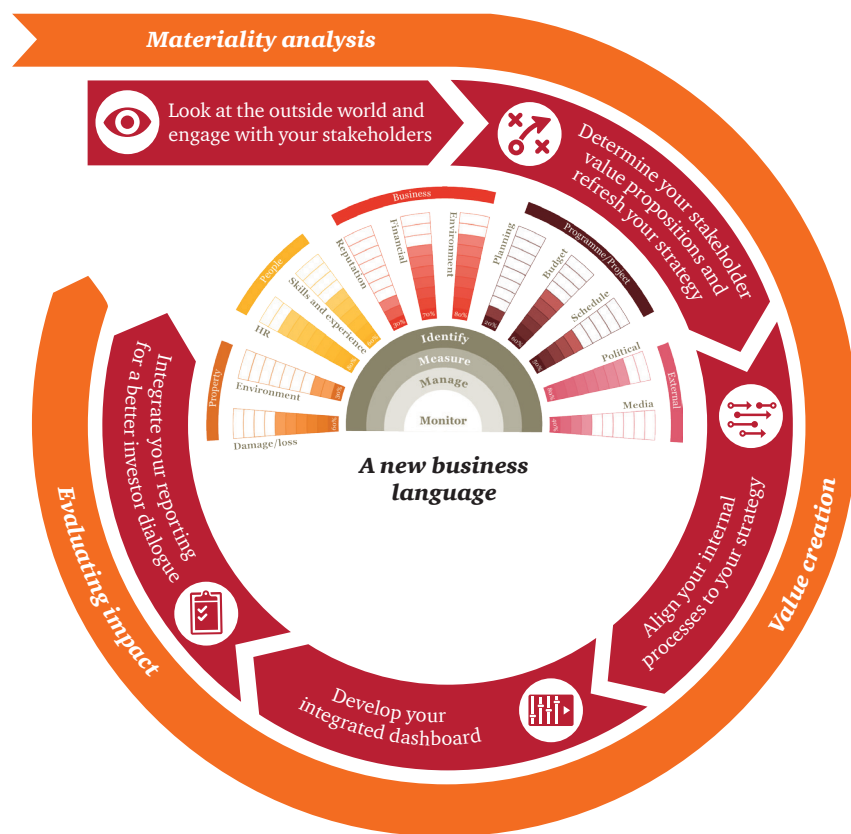
- Within your existing reporting process, have you nominated a multidisciplinary steering group?
- Has the board provided the steering group with a clear vision? What story is to be told?
- Have you nominated one responsible writer?
- Have you started on a blank page and determined the scope and boundaries?
- Are you using the connectivity matrix as the storyline?
- Is there a clear communication plan for how to improve the use of the annual report within your investor dialogue?

All the previous stages in this practical guide, even if not fully completed, may be seen as ‘homework’ or preparation for your external reporting. This preparatory work will help you make fundamental improvements in your external reporting and enable better investor dialogue.

This stage focuses on how to bring your previous activity and outputs together to develop your integrated report.

1. **When gathering the information your organisation wishes to disclose publicly, make use of your existing reporting process and governance.** The process of integrated reporting doesn’t require different reporting processes, but our experience suggests existing processes could be more effective:

Figure 14: PwC’s roadmap for integrated reporting, stage 5



- **Multidisciplinary steering group:** In your governance framework around the reporting process, make sure there is one steering group that provides – for the reporting project team – the vision of what the annual report should contain. The steering group should also assess whether milestones are being achieved during the writing and reporting process. Its membership should be multidisciplinary, e.g. including representatives from strategy, HR, internal audit, external communications, investor relations and reporting.
- **Avoiding a compliance mentality:** Integrated reporting will not realise tangible, sustainable benefits for the organisation (as discussed in chapter 3) if it



becomes a compliance exercise. So the steering group, on behalf of the board, must continue revisiting the three fundamentals that underpin each stage on the roadmap each reporting year.

- *Comparability with peers:* Periodically check whether the information you report is comparable with that issued by your peers. The true value of information lies in comparability. When organisations begin to develop integrated reports, this usually results in more entity-specific information. This is welcome, but you need to consider the risk of losing comparability with your peers.
- *Responsibility for reporting results:* Try to nominate data-owners in the organisation: individuals responsible for data collection and quality for each material matter. Leaving this responsibility with the project team can create too great a burden for them.
- *Quality and reliability of the data:* If you seek assurance over your report, discuss the reporting process with your auditor, both in terms of process and content (structure, scope and boundaries of the report). This helps to ensure the audit plan is aligned to your assurance needs, and that the new structure of the integrated report isn't in conflict with the assurance report.

## 2. Nominate **one** responsible writer.

Writing an integrated report requires a different mindset from writing a traditional annual report. Your writer will need coaching in how the connectivity matrix serves as a backbone for the report, i.e. how the matrix can be

converted into a clear and compelling story of your value creation process. Coach the writer throughout the process and make sure the steering group provides regular feedback.

## 3. Start with a blank page when planning your report content.

When writing an integrated report for the first time, take a fresh approach. Avoid copying and pasting information from previous years, and don't assume you have to follow the structure of previous reports. That said, information from previous years may still be useful.

When developing your content, take inspiration from best practice sources, e.g. databases of examples. Your own table of contents should follow the storyline of your connectivity matrix (see point 4), but it might look something like the example below.

*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. Use the connectivity matrix as the storyline for writing the report.

Integrated reporting is about showing connectivity, from stakeholder engagement to reporting on impact. But in our experience most 'integrated reports' still lack connectivity, e.g. between stakeholder engagement, strategy and risk, but also between various stakeholder value propositions and various impacts. Try to avoid this problem by basing your report's story on your connectivity matrix, working through its columns from left to right. In this way, the performance and impact (i.e. the value you create for stakeholders) reported at the end of your report should still link to the beginning of the value creation process: the key issues identified from the stakeholder dialogue.

#### 5. Determine the scope and boundaries of your report.

In preparing the report, make a distinction between scope and boundaries, the storyline and content of the 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.
- Scope and boundaries should be determined at the start, and then monitored by the steering group to avoid less relevant content creeping in. There is a risk of 'scope drift' because different parts of the organisation often have their own content wish list.
- Determine the scope and boundaries by reference to the material matters. Less relevant content could always be included in enclosures or on the website.
- For integrated reports, the boundaries of your report are likely to be broader than for your financial reports, extending beyond the legal ownership structure to include your value chain.

#### 6. Evaluate the process.

Integrated reporting is a continuous improvement process. When asked, CFOs and other executives will often say that a key benefit of annual reporting is that it builds in a 'reflection moment' for the organisation. You should therefore evaluate your integrated reporting process, as follows:

- Evaluation by the steering group should take place at pre-defined milestones to capture lessons learnt, conclude whether ambitions have been realised, and discuss whether that has an effect on future ambitions.

- Evaluation should include ambitions to further develop IT solutions to align management reporting and external reporting, and to embed the integrated management information in an integrated dashboard interface with underlying management systems and processes.
- 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 better stakeholder dialogue.
- The reflection moment should capture the business case, i.e. the benefits of integrated reporting. These outcomes should be shared with the board to ensure their permanent engagement. The board should also consider to what extent integrated reporting and integrated management information provides better insight into the organisation.

#### 7. Develop a three-year project plan for improving your reporting.

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.

#### **Where do you stand at the end of this stage?**

You have now started a continuous process to improve connectivity in your organisation. In this way you are on the road towards fundamentally integrating your reporting for a better investor dialogue, based on robust performance data.

The table below shows the benefits to your reporting that you could achieve by completing this final stage.

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#### **Benefits to your reporting:**

- Annual reporting becomes more valuable for your dialogue with investors, and also for the dialogue with other stakeholders;
  - Annual report becomes the solid basis for continuous and fundamental improvement of your reporting and alignment of internal and external reporting.
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#### **Examples**

Learning from the early adopters of integrated reporting – follow the link for PwC's review of the reports of organisations on the IR journey [www.pwc.com/en\\_GX/gx/audit-services/publications/assets/pwc-learning-from-early-adopters-of-integrated-reporting.pdf](http://www.pwc.com/en_GX/gx/audit-services/publications/assets/pwc-learning-from-early-adopters-of-integrated-reporting.pdf)

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# 5 Glossary

<b>Connectivity matrix</b>	This depicts the organisation's value creation process from beginning to end, showing how different elements are connected. See example on p. 25. The connectivity matrix is used when creating the integrated dashboard, and can also be used to provide the storyline when writing your integrated report.	<b>Integrated thinking</b>	An approach to management that applies the principles of integrated reporting, basing strategic decisions on a broad range of performance data linked to the way the business creates value for its stakeholders.
<b>Impact evaluation</b>	The third foundation of PwC's roadmap, impact evaluation refers to the process by which organisations use relevant management information to assess and manage the impact of strategic decisions on stakeholders. It includes the development of external integrated reporting.	<b>Materiality analysis</b>	The first of the three foundations of PwC's roadmap, the materiality analysis involves the process of listening to investors and other stakeholders to understand the issues they perceive to be material to the business and its prospects, and their perception of the impact the business is having (in financial and other terms).
<b>Integrated dashboard</b>	A tailor-made, organisation-specific tool developed by PwC to monitor stakeholder value with a set of relevant management information. It demonstrates how the organisation's strategy makes an impact and creates value for its prioritised stakeholders, reflecting its dialogue with the outside world and its mission and vision.	<b>Materiality matrix</b>	Created as a result of stakeholder engagement, the materiality matrix indicates the issues that are believed to be material to the business (and its future performance), based on the views of external investors and other stakeholders and the opinions of the board.
<b>Integrated reporting</b>	Integrated reporting is the means by which the broader value drivers of a business are managed internally and then communicated to investors and other stakeholders. It involves a widening of focus from traditional models which look mainly at financial and manufactured resources. It also involves a more connected approach, i.e. understanding how the other resources a business uses (e.g. human, social and relationship, and natural) interact and impact on the financials and each other. It requires a forward-looking stance where all these interrelated factors are considered at a strategic level. Our use of integrated reporting in this publication includes two matters – both the internal business management (which is sometimes referred to as integrated thinking) and the external periodic report.	<b>Pre-financials</b>	Resources that are not yet monetised but which in the longer term can have an impact on the financial results of an organisation. Examples include human and natural resources and relationships.
		<b>Value creation</b>	The second of the three foundations of PwC's roadmap, value creation refers to the process by which the organisation creates value for its stakeholders. It is a circular process that depends on seven connected building blocks: stakeholders, their key messages, risk, strategy, value drivers, performance and impact.
		<b>Value drivers</b>	The activities of the organisation that influence the achievement of strategic objectives and create value for stakeholders.
		<b>Value proposition</b>	A statement of how your organisation creates value for a specific stakeholder group.

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