

IRC of SA Comment Submission to the Value Reporting Foundation (VRF) on the Prototype Integrated Thinking Principles

28 April 2022 - Comment submission via the online questionnaire on the VRF website

GENERAL COMMENTS

RELATIONSHIP BETWEEN INTEGRATED REPORTING AND INTEGRATED THINKING

Q1. Integrated reporting and Integrated Thinking have gone hand-in-hand since the release of the International <IR> Framework in 2013. Integrated Thinking is defined in the <IR> Framework as 'the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects'. Furthermore, Integrated Thinking leads to 'integrated decision-making and actions that consider the creation, preservation or erosion of value over the short, medium and long term'. **Would you agree that Integrated Thinking supports the integrated reporting process within your organization and leads to better decision making?**

Yes	No	Undecided	No response
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Explanation

Integrated Thinking is the basis of the integrated reporting process. An organisation will find it harder to truly report in an integrated manner if its business is not run accordingly.

The desire to achieve integration in an organisation has to start at the top. The governing body (board) decides to issue an integrated report according to the *International <IR> Framework* (<IR> Framework). This then pushes down throughout the organisation and everyone must start thinking on an integrated basis as contemplated in the <IR> Framework. Without this leadership from the top, Integrated Thinking risks becoming a journey without a destination.

Of the many organisations preparing integrated reports, we contend that it will be rare to find one that has not benefitted or had any difference to the way it does business. Indeed, it has been said the integration of operations and functions has improved the way the organisation is run, and that they feel more in control operationally and functionally.

We have observed that organisations who actively cultivate and facilitate Integrated Thinking tend to have deeper conversations on the trade-offs to be made, more informed decision-making and a more comprehensive understanding of the consequences over time of those decisions. Integrated Thinking helps organisations operate in a more unified and integrated manner, rather than in silos, and this effect is magnified when the organisation is galvanised by a unifying purpose. By assisting organisations to better understand how they create, preserve or erode value on the six capitals over time, Integrated Thinking can facilitate a fundamental shift in how businesses operate.

We highlight the feedback from some large organisations in South Africa who have prepared integrated reports for the past 12 years: They have said that their application of

the *International <IR> Framework* (<IR> Framework) has significantly assisted in embedding Integrated Thinking in their operations and has facilitated the necessary mindset change away from short-term financial to six capitals over time. They cite this as one of the major internal benefits of preparing integrated reports.

When Integrated Thinking is supported by integrated internal reporting processes, the preparation of the integrated report is more seamless because the integrated internal reports (e.g. management and board committee packs) aid the content of the external reports. The IRC of South Africa’s 2021 paper, *Aligning Internal and External Integrated Reporting: An Information Paper*, highlighted the importance of internal reporting to deepen Integrated Thinking. “The more that Integrated Thinking is embedded into an organization’s activities, the more naturally will the connectivity of information flow into the management reporting, analysis and decision-making at all levels. It also leads to better integration of the information systems that support internal and external reporting and communication, including preparation of the integrated report.” (page 6)¹.

Integrated reporting leads an organisation to more reflection and analysis, which further promotes Integrated Thinking because the iterative process can identify the gaps. Integrated reporting and thinking become interconnected parts of a responsible approach to managing a business in a connected world and engaging with stakeholders. Conversely, when companies do not embrace and embed Integrated Thinking their understanding of the process of value creation, preservation or erosion can be more limited, which in turn, can impact decision-making in the business. These organisations may see the integrated reporting process as separate to ongoing business management and strategy and this can reflect as boilerplate or tick box reporting. A study by the South African Institute of Chartered Accountants (SAICA) in 2021, *Integrated Thinking: The Exploration and Development of the Concept of Integrated Thinking*² showed that report greenwashing was a key challenge and barrier to Integrated Thinking in organisations.

LINKAGE WITH THE INTERNATIONAL <IR> FRAMEWORK

The IIRC’s merger with SASB to create the Value Reporting Foundation has enabled an agreement to be reached with the IFRS Foundation that all the VRF’s resources, including the <IR> Framework and Integrated Thinking Principles, will be used to drive connectivity between the IASB and newly formed ISSB and develop the overarching conceptual basis for comprehensive corporate reporting. On page 4 of the prototype Integrated Thinking Principles, it is stated that ‘The Principles are closely aligned with both the <IR> Framework and the process of integrated reporting by an organization.’

Q2. Do you agree with this statement? Do you think that the Principles are sufficiently linked to the International <IR> Framework? Please explain.

Yes	No	Undecided	No response
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¹ <https://integratedreportingsa.org/ircsa/wp-content/uploads/2021/12/Aligning-internal-and-external-Information-Paper-2021.pdf>

² <https://saicawebprstorage.blob.core.windows.net/uploads/resources/THE-CONCEPT-OF-INTEGRATED-THINKING.pdf>

Explanation

We strongly disagree that there is close alignment to the <IR> Framework and express our concern at the misalignment. Our view is that the Integrated Thinking Principles (Principles) should use the exact terms and wording of the <IR> Framework and where needed build and extend on this base. Integrated Thinking is one of the three fundamental concepts of the <IR> Framework (the other two being the six capitals and the process of value creation, preservation or erosion) and it is confusing that there is misalignment.

We urge the VRF to appreciate, now that its SASB standards are to be included in the standards released by the International Sustainability Standards Board (ISSB), that its remaining two resources - the <IR> Framework and the new Integrated Thinking Principles - are inherently linked and there is no room for confusion with unnecessary differences. We do not believe that the two neatly coexist in the current format and the misalignment will detract from their credibility and use.

Suggestions

- By first intent there should be alignment with the concepts, Guiding Principles and Content Elements of the <IR> Framework, thereafter new work can be added to this baseline, provided there is no conflict. Once the Principles are aligned with the <IR> Framework they should be cross-referenced to the <IR> Framework to show the linkage.
- As a notable example of the confusing misalignment, four of the six Principles are the <IR> Framework's Content Elements (which are the information areas of the integrated report). And further, their descriptions are different to the <IR> Framework. The logic and reasoning for this is unclear. We suggest that Content Elements should not be treated as 'principles'. The <IR> Framework already offers a sound approach for embedding Integrated Thinking and hence a useful basis for the development of Integrated Thinking Principles and tools.

AUDIENCE

On page 4 of the prototype Integrated Thinking Principles, it is stated that their intended audience 'is the executive team and senior leadership of an organization, such as the board, CEO, CFO and senior management team'. **Q3. Do you agree with the proposed intended audience? Please explain.**

Yes	No	Undecided	No response
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Explanation

While we agree with the proposed audience, we also suggest the inclusion of staff.

The Principles aim to provide a structured approach to embedding Integrated Thinking and it makes sense for the target audience to be those who are charged with decision-making. However, to be truly integrated, the audience should start with leadership but from there be available to a more integrated and inclusive audience. It is not enough to say, as stated in the Principles, that it “should be instilled in the company culture and inform all decisions taken by an organization” because Integrated Thinking involves an active mindset shift throughout the organisation.

Suggestions

- Expand the intended audience to include staff.

STRUCTURE

The prototype Integrated Thinking Principles are structured on three levels: Level 1 – The Principles, Level 2 – Assessment, Level 3 – Operationalizing the Principles (p. 6).

Q4. Do you expect that this proposed approach to embedding Integrated Thinking into an organization is capable of being easily operationalized or adopted? Please explain.

Yes	No	Undecided	No response
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Explanation

We do not believe the Principles can be easily operationalized or adopted. Our primary concern is that they do not align to the <IR> Framework, which is already used by thousands of organisations in many different countries around the world.

Assuming that there is alignment in the final version of the Principles, then the approach adopted of testing the Principles at different levels in the organisation is workable, because each level should understand their unique role in contributing to Integrated Thinking. The Principles can serve as a guide to be consulted by organisations for useful practices if they are positioned as working in tandem with the <IR> Framework - which means alignment is necessary. This alignment will support the organisations already producing integrated reports.

Suggestions

- Consider phrasing Levels 2 and 3 to not only ensure organisations understand how to interrogate and operationalize the Principles, but also with the leeway to apply them as examples and and/or key considerations tailored to their unique organizations.

LEVEL 1 – THE PRINCIPLES

Level 1 of the prototype Integrated Thinking Principles illustrates the six Principles, namely Purpose, Strategy, Risks and Opportunities, Culture, Governance, and Performance, as well as underlying questions to gauge how they have been embedded into the organization (pp. 7-10). **Q5. Do you agree with these proposed six Principles? Do they capture the essential elements leadership and management teams need to embrace to create value? Please explain.**

Yes	No	Undecided	No response
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Explanation

We do not agree because the Principles do not align with the <IR> Framework. Most of the Principles address the Content Elements of the <IR> Framework, which are information areas of the report rather than principles. Further, the Principles give different descriptors to what is used in the <IR> Framework.

Suggestions

- We strongly suggest that the Principles are brought into alignment with the <IR> Framework.
- Consider Communication as a principle of Integrated Thinking, ensuring consistent and holistic messaging to all target audiences.
- Consider treating Culture and Stakeholders as two separate principles.

Q6. Do the questions for the Principles on Level 1 (pp. 8-10) sufficiently reflect them? Please explain.

Yes	No	Undecided	No response
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Explanation

Further to our previous responses. The questions could be explained more concisely and, in a format, allowing for the user to link each Principle more easily to the next level discussions. Further, some of the posed questions may not offer enough evidence or interrogation for the governing body to feel comfortable that Integrated Thinking is being embraced and embedded in the organisation.

Suggestions

- Explain that value creation, preservation or erosion over the short, medium and long term is a key concept across descriptions and forward-looking information. This concept identifies the inputs used from the six capitals (which can pose risks to the organisation) and explains the resulting outcomes/ impacts on the six capitals over the short, medium and long term (which can also pose risks to the organisation).
- Culture usually relates to how the organization and its staff ‘behave’. Hence, consider a separate principle for stakeholders.
- The <IR> Framework uses the term “those charged with governance”, and not “board”.

LEVEL 2 – ASSESSMENT

Level 2 of the prototype Integrated Thinking Principles refers to statements that further enable an assessment of the degree of maturity of the Principles within an organization (pp. 11-13). **Q7. Do you agree with the proposed statements? Do they allow an initial high-level assessment of the extent of Integrated Thinking within an organization for each of the six Principles? Please explain.**

Yes	No	Undecided	No response
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Explanation

Further to our previous responses. While the high-level presentation gives direction and accommodates differences for different industries and unique operating environments, they can also result in organisations answering yes to most of the questions.

Suggestions

- Replace the term “material issues” with “material matters” as used in the <IR> Framework.
- Page 13 refers to short and long-term value; it should be “short, medium and long-term value” as used in the <IR> Framework.
- Consider including under Risk and Opportunities: We routinely, within the risk appetite approved by those charged with governance, assess the impact of the external and internal environment against the...
- Under Risk and Opportunities, assess the impact the business has on the six capitals to understand the organisation’s sustainability impact.
- Include a code in L2 under Governance. For instance, our organisation applies Corporate Governance Code XX (King IV, UK Combined Code, ISO 37 000 etc).
- The King IV Code of Governance has some very useful practice recommendations, which could be helpful in considering the completeness of the level 2 assessment.

LEVEL 3 – OPERATIONALIZING THE PRINCIPLES

Level 3 of the prototype Integrated Thinking Principles describes the management practices and processes associated with the implementation and operationalization of the Principles (pp. 14-16). **Q8. Do you agree with the key management practices and processes? Do you think that they are sufficiently complete and appropriately grouped under each Principle? Please explain.**

Yes	No	Undecided	No response
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Explanation

Further to our previous responses. The Level 3 practices and processes could also include high-level examples and/or key considerations in describing the Principle.

Suggestions

- Governance: Consider referring to the policies in place.
- Governance: Trade-offs are referred to in Level 2 but could also be included here.
- Risks and opportunities: Consider referring to the mitigating measures in place to manage impacts.
- Risk and Opportunities: Consider re-phrasing as: We have identified the material external and internal issues; and including: When operational risks materialise or significant losses are suffered, we do root cause analysis to understand what needs to be fixed/improved.
- Risk and Opportunities: Amend strategy or governance to address risks and opportunities where the organisation has a negative impact on the six capitals.
- Outlook has not been considered, which is an important element in the strategy process.
- Consider including some practical examples - not just theory - to make it more meaningful to the audience.
- Assurance of an integrated report is still evolving and is yet to be widespread. In the meanwhile, consideration could be given to processes in place to ensure the reliability and credibility of an integrated report. As the <IR> Framework states: "Reliability... is enhanced by mechanisms such as robust internal control and reporting systems, stakeholder engagement, internal audit or similar functions, and independent, external assurance. Maintaining an audit trail when preparing an integrated report helps senior management and those charged with governance review the report and exercise judgement in deciding whether information is sufficiently reliable to be included." (page 46)

STYLE and TERMINOLOGY

Q9. Do you agree with the proposed style of the prototype Integrated Thinking Principles? Please explain.

Yes	No	Undecided	No response
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Explanation

As previously stated, we believe the Principles and the terminology used in the prototype should be in alignment with the <IR> Framework.

Q10. Do you agree with the proposed terms and definitions included in the Glossary? Please explain.

Yes	No	Undecided	No response
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Explanation

As per our previous responses, there are discrepancies to the definitions used in the <IR> Framework, for example: “value creation, preservation or erosion” and “key stakeholders”. We suggest that the prototype aligns 100% to the <IR> Framework and this then serves as a base to which other work can be added.

Suggestions

- There is no acknowledgement that an organization can create, preserve or erode value in the six capitals over time. The acknowledgement of value preservation and erosion was emphasised in the revised <IR> Framework of 2021 to highlight the need for balanced and transparent reporting.
- The term “investors” typically does not include providers of debt; could use the broader term of “providers of financial capital”.
- The Glossary defines the following terms, and we question the need: “Business partners”, “Creating value today, sustaining value tomorrow”, “Critical success factors”, “Customers” and “Efficient”.
- “Business processes”: This term should align to the <IR> Framework’s terminology of “business activities”.
- “Value creation, preservation or erosion”: This definition should align with the <IR> Framework.
- “KPIs”: Consider changing this to the “financial and non-financial”. Our concern here is the view that sustainability and finance are separate when they are inextricably linked. For example, safety is not a financial KPI but poor safety performance has a human capital cost and a financial cost.

- “Key stakeholders”: Consider changing to: Those stakeholders who have a legitimate and significant interest in the organization, have or can have a significant impact on the organization and/or and are affected by its operations. These can include, among others, investors, funders, employees, customers/clients, suppliers, local communities, NGOs (such as environmental groups) and host governments.
- Add a definition for Material and materiality.
- Include a hyperlink to the <IR> Framework.

OPEN FEEDBACK

Q11. Please provide any other comments not already addressed by your responses to Questions 1-10.

Explanation

Overall concern

Ideally, any principles of Integrated Thinking will be centred on what should be in an organisation to embed Integrated Thinking, which will then naturally lead to better integrated reporting.

The Principles prototype has come after the <IR> Framework, which was released in 2013 and updated in 2021. The <IR> Framework is already used by thousands of organisations across the world to prepare their integrated reports. Through the process of producing these reports, organisations have naturally embraced Integrated Thinking in their businesses. We believe the Principles should align with the <IR> Framework. The Principles should make the integrated reporting process easier for organisations, rather than confuse with a mismatch of terms and ideas.

Demand for the Principles and supplementary guide

It is unclear as to how the Principles will be used, or indeed their purpose, following the VRF’s consolidation into the IFRS Foundation in June 2022.

It is stated that the Principles will be supplemented with further detail, “supplemented by a detailed methodological guide on how to embed them into the day-to-day processes and practices of an organization” – we question the need for this given the misalignment to the <IR> Framework and the uncertainty over their use.

Ends