

A Comparative Analysis of Integrated Reporting in Ten Countries

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Abstract

The first integrated reports were published in the early 2000's by corporate pioneers determined to provide information that would improve their shareholders' and stakeholders' understanding of the company. The International Integrated Reporting Framework was released in December 2013 to provide organizations with guidance on the content of an integrated report. This paper explores that extent to which companies around the world are using the framework to prepare their reports and whether country-to-country differences exist in the content and quality of integrated reports. The authors selected five companies from each of the following countries: Brazil, France, Germany, Italy, Japan, The Netherlands, South Africa, South Korea, United Kingdom, and the United States for the study. A 0-3 scale was used to evaluate five areas of disclosure—Materiality, Risks and opportunities, Strategy and resource allocation, Performance, and Outlook. We found that countries could be fairly clearly grouped into three categories of qualities of disclosure: High (Germany, the Netherlands, and South Africa), Medium (France, Italy, South Korea, and the United Kingdom), and Low (Brazil, Japan, and the United States). We provide some preliminary views on the reasons for these differences.

Keywords: integrated reporting, materiality, outlook, performance, risks and opportunities, strategy and resource allocation

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The First Integrated Report

Novozymes,¹ a Danish maker of industrial enzymes and microorganisms made history in 2002 when the company published its Annual Report. The last paragraph of a 698-word CEO Statement by Steen Riisgaard, then President and CEO, read:

Three bottom lines for future annual reports

This year and in future years Novozymes publishes a combined annual report with information on the areas that we believe to be most important for the majority of our stakeholders. This report is an integrated financial, environmental and social report that also focuses on knowledge and the economic significance of our business. Our decision to bring everything together in one report is a natural consequence of business and sustainability moving ever closer together, and of various stakeholders asking for a wider overview of the business. We have chosen to keep the printed report relatively short and publish more detailed information on CD-ROM and on the Internet. We plan to expand this in-depth reporting for specific target groups in the coming years. Happy reading!

Mr. Riisgaard's letter introduced what is generally acknowledged² to be the world's first integrated report.³

The Development of Integrated Reporting

Following in the footsteps of Novozymes, Natura Cosmetics (2003), and Novo Nordisk (2004), BASF issued its first integrated report in 2007. In 2008, 10 companies (AkzoNobel, Alstom, Aviva, BT, FMO, HSBC, Novartis, Philips, United Technologies, and Van Gansewinkel Groep) declared that they had published an integrated report. American Electric Power, Anglo Platinum, Rabobank, and TNT Logistics joined the ranks of companies publishing integrated reports in 2009.⁴

Novozymes and the other early adopters of integrated reporting had neither generally accepted standards, nor a common framework, to guide the preparation of their integrated reports. Every report was unique in the way it reflected each organization's thinking about what content would best improve their shareholders' and stakeholders' understanding of the company.

¹ Novozymes is a global leader in bioinnovation, producing a wide range of industrial enzymes and microorganisms. The company is headquartered in Bagsværd, just outside of Copenhagen, Denmark. Novozymes fact sheet. Accessed October 23, 2018, https://www.novozymes.com/en/news#tab=All_News&allnews=1.

² Robert G. Eccles and Michael P. Krzus. "A Chronology of Integrated Reporting." Harvard Business School Note 411-049, September 2010. Revised August 2011.

³ Annual Report. The Novozymes Report 2002. Accessed October 23, 2018, http://www.zonebourse.com/NOVOZYMES-447531/pdf/8355/NOVOZYMES_Rapport-annuel.pdf.

⁴ Eccles and Krzus. Chronology of Integrated Reporting.

On August 2, 2010, The Prince's Accounting for Sustainability (A4S) Project and Global Reporting Initiative (GRI) announced the formation of the International Integrated Reporting Committee.⁵ The organization was renamed as the International Integrated Reporting Council (IIRC) in November 2011. The IIRC is a global coalition of regulators, investors, companies, standard setters, the accounting profession, and NGOs currently engaged in the promulgation and refinement of The International <IR>⁶ Framework” (<IR> Framework).⁷

The <IR> Framework, published in December 2013, states that an integrated report explains “how an organization’s strategy, governance, performance and prospects lead to the creation of value over the short, medium, and long term.”⁸ The integrated report is targeted at “providers of financial capital,”⁹ i.e., current and potential equity and debt holders, however, the <IR> Framework notes that “an integrated report benefits all stakeholders.”¹⁰

In addition to guidance on how to apply the <IR> Framework, the 37-page document addresses three critical components of an integrated report—The Capitals, Guiding Principles, and Content Elements.

*The Capitals*¹¹

The Capitals are collections of value that are increased, decreased, or transformed through the activities of the organization. Brief descriptions of the six capitals follow.

Financial: Funds that are available to an organization.

Manufactured: Fabricated physical objects.

Intellectual: Knowledge-based intangibles.

Human: People and their competencies, capabilities, and experience.

Social and relationship: The connections an organization has with its stakeholders.

⁵ The Prince's Accounting for Sustainability Project and the Global Reporting Initiative, “Formation of the International Integrated Reporting Committee (IIRC),” news release, August 2, 2010. Accessed October 23, 2018, <http://integratedreporting.org/wp-content/uploads/2011/03/Press-Release1.pdf>.

⁶ The International Integrated Reporting Council frequently uses the abbreviation “<IR>” instead the words “integrated reporting.” <IR> is used in the title of the framework and on their website and in other documents.

⁷ International Integrated Reporting Council. International <IR> Framework. Accessed October 24, 2018 <https://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf>.

⁸ Ibid, 7.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid, 11-12.

Natural: Renewable and non-renewable environmental resources.

*Guiding Principles*¹²

The Guiding Principles represent the foundational concepts for preparing an integrated report.

Strategic focus and future orientation: “An integrated report should provide insight into an organization’s strategy and how it relates to the organization’s ability to create value in the short, medium, and long term and to its use of and effects on the capitals.”

Connectivity of information: “An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization’s ability to create value over time.”

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

Materiality: “An integrated report should disclose information about matters that substantively affect the organization’s ability to create value over the short, medium and long term.”

Conciseness: “An integrated report should be concise.”

Reliability and completeness: “An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.”

Consistency and comparability:

“The information in an integrated report should be presented:

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

*Content Elements*¹³

¹² Ibid, 16-23.

¹³ Ibid, 24-32.

The <IR> Framework presents the Content Elements as questions that an organization should answer, followed by recommended disclosures. The high-level questions related to each Content Element follow.

Organizational overview and external environment: “What does the organization do and what are the circumstances under which it operates?”

Governance: “How does the organization’s governance structure support its ability to create value in the short, medium and long term?”

Business model: “What is the organization’s business model?”

Risks and opportunities: “What are the specific risks and opportunities that affect the organization’s ability to create value over the short, medium and long term, and how is the organization dealing with them?”

Strategy and resource allocation: “Where does the organization want to go and how does it intend to get there?”

Performance: “To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?”

Outlook: “What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?”

Basis of preparation and presentation: “How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?”

The State of Integrated Reporting Today

The authors have not found a website or other data source that provides accurate information about the number of companies world-wide that have adopted integrated reporting.

An interactive map on the IIRC website¹⁴ describes the state of integrated reporting adoption in 10 countries: Australia, Brazil, India, Japan, Malaysia, New Zealand, Singapore, South Africa,

¹⁴ The interactive maps include “pins” that display country information when a user clicks on the pin. International Integrated Reporting Council. Accessed October 23, 2018, <https://integratedreporting.org/when-advocate-for-global-adoption/find-out-what-is-happening-in-your-region/>.

United Kingdom, and United States. In addition, the European Union (EU) listing identifies six countries: France, Germany, Italy, Netherlands, Switzerland, Turkey, and United Kingdom.

The IIRC website links to the home page of the Integrated Reporting U.S. Community.¹⁵ This is the only website that identifies the specific organizations that prepare a self-declared integrated report. Information for Brazil notes that “over 100 companies” are preparing integrated reports. These companies are listed on the B3 (formerly BM&FBOVESPA) stock exchange in São Paulo. B3 listing guidance encourages companies to produce integrated reports using a “report or explain” principle.¹⁶ The 375¹⁷ South Africa companies listed on the Johannesburg Stock Exchange (JSE) prepare integrated reports in accordance with JSE listing requirements.¹⁸ The information for Japan notes that over 300 companies are adopting integrated reporting; however, the number of companies that actually adopted integrated reporting was not disclosed.¹⁹

The two largest capital markets in the world, the United States and China, illustrate the challenges to widespread global adoption of integrated reporting. As of October 2018, only 28 United States’ companies²⁰ prepared an integrated report and the People’s Republic of China is not referenced in the IIRC’s map.

Evaluating Integrated Reports

Approach and Methodology

The authors analyzed 50 integrated reports that were published as being for the year ended December 31, 2017 or for fiscal years ending in up to September 2018. With the assistance of country experts, five companies were selected from each of the following countries; Brazil, France, Germany, Italy, Japan, The Netherlands, South Africa, South Korea, United Kingdom, and the United States (Table 1). All reports were published in English by a publicly traded (listed) company and were available as a downloadable PDF.

Table 1 Reports Reviewed

¹⁵ <IR> U.S. Community. Accessed October 24, 2018, <https://iruscommunity.org/directory-united-states-integrated-reports>.

¹⁶ International Integrated Reporting Council. Find out what is happening in your region.

¹⁷ As of June 2018, there were 375 companies listed on the Johannesburg Stock Exchange. CEIC. Accessed October 24, 2018, <https://www.ceicdata.com/en/south-africa/johannesburg-stock-exchange-number-of-companies/no-of-listed-companies-jse>.

¹⁸ Johannesburg Stock Exchange. Accessed October 24, 2018, <https://www.jse.co.za/about/sustainability/regulator-influencer-advocate>.

¹⁹ International Integrated Reporting Council. “Find out what is happening in your region.”

²⁰ <IR> U.S. Community.

Company	Global Industry Classification Standard ²¹ Sector	Website
Brazil		
Banco Itaú	Financials	https://www.itaubr.com.br/relacoes-com-investidores/default.aspx?linguagem=en
Fibria	Materials	https://ir.fibria.com.br
Grupo CCR	Industrials	http://en.grupoccr.com.br
Light	Utilities	http://ri.light.com.br/en
Natura	Consumer Staples	https://www.natura.com/choose-your-country/
France		
Atos	Information Technology	https://atos.net/en/
Société Générale	Financials	https://www.societegenerale.com/en/home
Suez	Utilities	https://www.suez.com/en
Véolia	Utilities	https://www.veolia.com/en
Valéo	Consumer Discretionary	https://www.valeo.com/en/
Germany		
BASF	Materials	https://www.basf.com/global/en.html
EnBW	Utilities	https://www.enbw.com/index_en.html
MunichRe	Financials	https://www.munichre.com/en/homepage/index.html
SAP	Information Technology	https://www.sap.com/index.html
Siemens	Industrials	https://new.siemens.com/global/en.html
Italy		
Atlantia	Industrials	http://www.atlantia.it/en
Enel	Utilities	https://www.enel.com
Eni	Energy	https://www.eni.com/en/IT/home.page
Generali Group	Financials	https://www.generali.com
UniCredit	Financials	https://unicredit.it
Japan		
Ajinomoto	Consumer Staples	https://www.ajinomoto.com/en/
Chugai Pharmaceutical	Health Care	https://www.chugai-pharm.co.jp/english/
Daiwa House	Consumer Discretionary	https://www.daiwahouse.com/English/
Konica Minolta	Health Care (Technology)	https://www.konicaminolta.com/us-en/index.html
Omron	Health Care (Technology)	https://www.omron.com
Netherlands		
ABN AMRO	Financials	https://www.abnamro.com/en/index.html
Aegon	Financials	https://www.aegon.com/home/
AkzoNobel	Materials	https://www.akzonobel.com/en
KPN	Communication Services	https://www.kpn.com/algemeen/english.htm
Philips	Health Care	https://www.philips.com/global
South Africa		
Gold Fields	Materials	https://www.goldfields.com
Kumba Iron Ore	Materials	https://www.angloamericankumba.com
Nedbank	Financials	https://www.nedbank.co.za/content/nedbank/desktop/gt/en/aboutus.html
Redefine Properties	Real Estate	https://www.redefine.co.za

²¹ The Global Industry Classification Standard (GICS) is a standardized classification system for equities developed jointly by Morgan Stanley Capital International (MSCI) and Standard & Poor's in 1999. MSCI. Accessed October 26, 2018, <https://www.msci.com/gics>, accessed October 26, 2018. Also, see MSCI. Global Industry Classification Standard (GICS). Accessed October 26, 2018, <https://www.msci.com/documents/1296102/11185224/GICS+Sector+definitions+Sept+2018.pdf/afc87e7b-bbfe-c492-82af-69400ee19e4f>.

Company	Global Industry Classification Standard ²¹ Sector	Website
Vodacom	Communication Services	https://www.vodacom.co.za
South Korea		
DGB Financial Group	Financials	https://www.dgb.co.kr/com_ebz_dfg_main_en.jsp
POSCO	Industrials	http://www.posco.com/homepage/docs/eng6/jsp/s91a000000li.jsp
Samsung Life	Financials	http://www.samsunglife.com/companyeng/
SK Chemicals	Materials	https://www.skchemicals.com/main.do
SK Telecom	Communication Services	https://www.sktelecom.com/index_en.html
United Kingdom		
BT Group	Communication Services	https://www.btplc.com
HSBC	Financials	https://www.hsbc.com
Marks & Spencer	Consumer Discretionary	https://www.marksandspencer.com
Unilever	Consumer Staples	https://www.unilever.com
United Utilities	Utilities	https://www.unitedutilities.com
United States		
ArcelorMittal USA	Materials	https://usa.arcelormittal.com
Clorox	Consumer Staples	https://www.thecloroxcompany.com
GE	Industrials	https://www.ge.com
Intel	Information Technology	https://www.intel.com/content/www/us/en/homepage.html
Southwest Airlines	Industrials	http://www.southwestairlinesinvestorrelations.com

The analysis process began with identifying the specific <IR> Framework²² Guiding Principles and Content Elements that would be used to evaluate integrated report content for this project. We selected Materiality, a Guiding Principle, a subject that has been of deep interest to the coauthors for several years.²³ Four Content Elements—Risks and opportunities, Strategy and resource allocation, Performance, and Outlook—were also selected. These Content Elements require an organization to provide information in the context of the company’s ability to create value over time. This perspective was also expressed in the CECP Strategic Investor Initiative (SII) Investor Letter to CEOs,²⁴ the Focusing Capital on the Long Term (today known as FCLTGlobal) paper, “Straight talk for the long term: How to improve the investor-corporate

²² International Integrated Reporting Council. International <IR> Framework.

²³ Eccles, Krzus, and Ribot. Chapter 5, “Materiality” and Chapter 6, “The Sustainable Value Matrix” in *The Integrated Reporting Movement*, 119-146 and 147-190. Robert G. Eccles, Michael P. Krzus, and Sydney Ribot. “Models of Best Practice in Integrated Reporting 2015.” Spring. *Journal of Applied Corporate Finance* 27, no. 2 (2015).

²⁴ CECP Strategic Investor Initiative Advisory Board Investor Subcommittee, *CEO Investor Forum: Investor Letter to Presenting Companies*, February 2018.

dialogue,”²⁵ and a content framework for long-term plans created by SII and KKS Advisors²⁶. Combining all of this guidance provided more explicit criteria for evaluating the quality of explanations about a company’s ability to create value over the short, medium, and long term (Table 2).

Table 2 Assessment Criteria

Criteria	Reference
<i>Materiality</i>	
Does the materiality discussion in the integrated report:	
Describe the process used to identify relevant matters	<IR> Framework, Section 3D, paragraphs 3.18 and 3.21-3.23.
Identify the framework or frameworks (e.g., SASB, GRI, other) used during the materiality assessment	CECP Strategic Investor Initiative, Investor Letter to CEOs, February 2018, question No. 2.
Explain how prioritization of risks and opportunities was done?	<IR> Framework, Section 3D, paragraphs 3.18 and 3.28.

²⁵ Focusing Capital on the Long Term. *Straight talk for the long term: How to improve the investor-corporate dialogue*, March 2015. Accessed February 9, 2019, https://www.fcltglobal.org/docs/default-source/default-document-library/straight-talk-for-the-long-term_summary-vfo2263494db5326c50be1cff000423a91.pdf?sfvrsn=5651258c_2. This paper introduced the 10 elements of a long-term strategy. The ten elements are: 1. Express a clear statement of purpose, mission, and vision. 2. Explain how the company’s business model creates long-term value by identifying key value drivers at the reporting unit level. 3. State management’s view of the market, major trends impacting the market, potential for growth, the company’s relative positioning, and underlying assumptions (e.g., macroeconomic factors). 4. Highlight sources of competitive advantage such as talent, access to resources, or other assets that enable the company to execute its strategy and win in the marketplace, clearly substantiated by fact. 5. Disclose strategic goals ultimately tied to drivers of value creation (e.g., returns on invested capital, organic revenue growth) in the context of current and future market trends, and the company’s competitive advantage. 6. Lay out a detailed execution roadmap that defines short-, medium-, and long-term actions linked to key milestones and strategic goals targeted at long-term value creation. 7. Provide medium- and long-term metrics and targets that indicate the company’s ability to deliver on its strategy, such as customer satisfaction over time, brand strength, and product pipeline investment and returns. Explain how the selected metrics will be measured and tracked consistently. 8. Explain how capital and non-capital investments, including the mix of resource allocation, will yield sustained competitive advantage and the creation of long-term value. 9. Provide an overview of risks and their mitigation plans, including sustainability challenges (e.g., environmental, social, and governance issues). 10. Articulate how executive and director compensation tie to long-term value creation and strategic goals. The paper explains, “Companies may have concerns about releasing information. We believe they should release information about these 10 elements to investors in order to clearly articulate the strategy, explain why it is likely to produce the desired results, and generate a dialogue with investors around the strategy. Regardless of what is publicly disseminated, developing a clear understanding of all 10 elements will help companies craft compelling long-term strategies.” Also see, Barton, Dominic; Bailey, Jonathan; and Zoffer, Joshua. “Rising to the challenge of short-termism,” FCLTGlobal, September 2016. Accessed October 26, 2018, <https://www.fcltglobal.org/research/publications/rising-to-the-challenge-of-short-termism>.

²⁶ Sakis Kotsantonis, Christina Rehnberg, George Serafeim, Brian Tomlinson, and Bronagh Ward. “The Economic Significance of Long-Term Plans.” CECP Strategic Investor Initiative and KKS Advisors, November 2018. Accessed January 23, 2019, <http://cecp.co/wp-content/uploads/2018/11/Economic-Significance-Final-Report.pdf>. This paper introduced nine themes and 22 underlying issues for a long-term plan. The themes and issues are 1. Financial Performance: Capital efficiency and profitability, Leverage, and Revenue Growth. 2. Capital Allocation: Capital allocation plan, M&A discipline, R&D investment and CAPEX, and Excess cash. 3. Trends: Markets trends and Mega-trends. 4. Competitive Positioning: Long-term value drivers, Medium-term value drivers, and Short-term value drivers. 5. Risks and Opportunities: Assessment of financially material ESG issues, Risk management, and Opportunities. 6. Corporate Governance: Executive compensation, Board composition, Role of board, and Shareholder engagement. 7. Corporate Purpose: What is the purpose and is it aligned with long-term strategy? 8. Human Capital: How is human capital managed over the long-term? and 9. Strategic Partnerships: Value of strategic partnerships / improving the operational ecosystem.

Criteria	Reference
Describe the role of the board of directors in identifying and prioritizing material matters?	<IR> Framework, Section 4B, paragraph 4.9. CECP SII, Investor Letter to CEOs, question no. 7.
Identify all entities (e.g., subsidiaries, joint ventures, investment) included in the assessment of material issues?	<IR> Framework, Section 3D, paragraph 3.30.
<i>Risks and opportunities</i>	
Does the discussion of risks and opportunities in the integrated report:	
Provide an overview of material risks and opportunities, including environmental and social challenges and megatrends?	<IR> Framework, Section 4D, paragraph 4.25. CECP SII, Investor Letter to CEOs, question no. 1.
Identify the sources of material risks and opportunities, e.g., competition, technology, legal, regulatory, financial markets?	<IR> Framework, Section 4D, paragraph 4.25.
Discuss the organization's assessment of the likelihood that material risks or opportunities will come to fruition?	<IR> Framework, Section 4D, paragraph 4.25.
Describe the organization's plans to mitigate or manage key risks or create value from key opportunities?	<IR> Framework, Section 4D, paragraph 4.25.
Identify how these risks and opportunities might influence corporate strategy, business model, execution plans, key performance indicators?	<IR> Framework, Section 4D, paragraph 4.25.
<i>Strategy and resource allocation</i>	
Does the discussion of strategy and resource allocation in the integrated report:	
Identify the organization's short (e.g., ≤ 2 years), medium (e.g., 2-7 years), and long term (e.g., >7 years) strategic goals?	<IR> Framework, Section 4D, paragraph 4.28.
Explain how those goals are linked to value drivers (e.g., ROIC and organic revenue growth)?	<IR> Framework, Section 4D, paragraph 4.25. FCLTGlobal, Rising to the challenge of short termism, September 2016.
Explain how the organization will measure whether or not it has met goals and objectives for the short, medium, and long term?	<IR> Framework, Section 4D, paragraph 4.25.
Identify sources of competitive advantage, for example, human, intellectual, financial, and natural capital, that enable the company to execute its strategy?	<IR> Framework, Section 4D, paragraph 4.29.
<i>Performance</i>	
Does the discussion of performance in the integrated report:	
Disclose quantitative indicators used to measure success with respect to meeting targets, managing risks, and leveraging opportunities?	<IR> Framework, Section 4F, paragraph 4.31.
Describe organization's material positive and negative effects on the capitals?	<IR> Framework, Section 4F, paragraph 4.31.
Discuss how the organization has responded to key stakeholders' legitimate needs and interests?	<IR> Framework, Section 4F, paragraph 4.31.
Explain the linkages current performance and the organization's short, medium, and long term strategic goals?	<IR> Framework, Section 4F, paragraph 4.31.
<i>Outlook</i>	
Does the discussion of outlook in the integrated report:	
Discuss the organization's expectations about the external environment that it is likely to face in the short, medium, and long term?	<IR> Framework, Section 4G, paragraph 4.35.
How those expectations about the external environment are likely to affect the organization?	<IR> Framework, Section 4G, paragraph 4.35.
Describe how the organization is currently equipped to respond to the critical challenges and uncertainties that are likely to arise?	<IR> Framework, Section 4G, paragraph 4.35.
Explain how changes in the external environment could affect achievement of strategic objectives?	<IR> Framework, Section 4G, paragraph 4.37.
Explain how changes in the external environment could impact the availability, quality and affordability of capitals the organization uses (e.g., the continued availability of skilled labor or natural resources)?	<IR> Framework, Section 4G, paragraph 4.37.

Topics were scored based on the following scale:

0 = No relevant disclosures

1 = Boilerplate or cursory discussion

2 = Discussion of topics is focused primarily on current period performance

3 = Topics are discussed in the context of short, medium, and long term

The maximum score per report across all factors is 69 points, that is, 23 factors scored at 3 points each. A reasonable effort was made to ensure that scoring was as objective as possible; however, some degree of subjectivity was inevitable. As a consistency check, co-authors Krzus and Solano selected and scored the same five reports. They compared their scores for each factor and found that the scores were consistent with only minor variations.

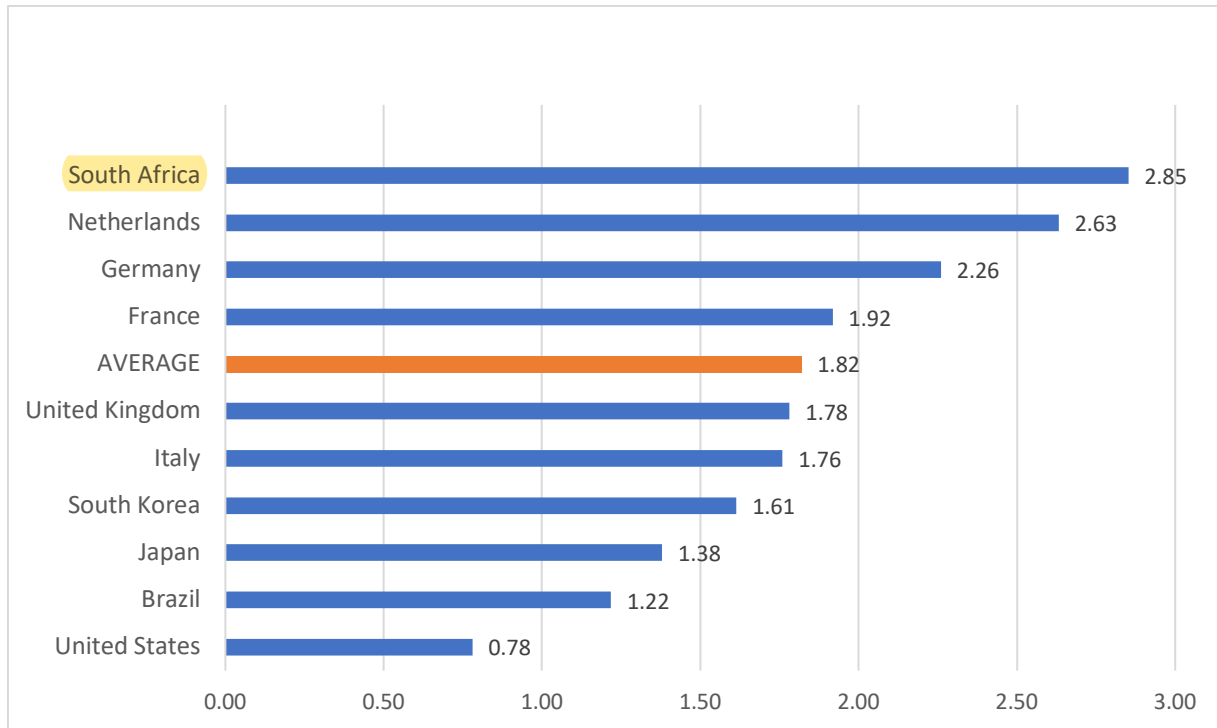
Report Quality

The <IR> Framework was published in December 2013, which gave us hope that this analysis would find that the quality of integrated reports had improved since our 2014 in-depth study.²⁷ However, the mixed results within each topic and range of country scores disappointed us.

Integrated reports published by companies in South Africa, The Netherlands, and Germany were generally well done (Figure 1). The average score for integrated reports issued by South African companies was 2.85. For companies in The Netherlands the average score was 2.63, while the average for German companies was 2.26. Two South African companies—Nedbank and Vodacom—received perfect scores for their report content.

Figure 1 Average Report Score by Country

²⁷ Eccles, Robert G., Michael P. Krzus, and Sydney Ribot. Chapter 7, “Report Quality” in *The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality*. New York: John Wiley & Sons, Inc., 2014, 191-224.



The companies representing the four countries in the middle tier of report quality—France (1.92), United Kingdom (1.78), Italy (1.76), and South Korea (1.61)—were a mix of organizations that had high scores on many questions offset by those who produced integrated reports in name only. The average scores of the three countries in the bottom tier were, from lowest to highest, 0.78 (United States), 1.22 (Brazil), and 1.38 (Japan).

It is easy to assert that the quality of integrated reports in South Africa is attributable to the listing requirements of the JSE. However, this explanation is simplistic. Rather, a number of other factors account for their quality. As Leigh Roberts, chief executive officer and the chairman of the working group of the Integrated Reporting Committee of South Africa (IRC),²⁸ explained:

²⁸ The IRC is a voluntary association not for gain in South Africa, founded in May 2010. The role of the IRC as a national body is to provide direction on matters relating to integrated reporting and integrated thinking in South Africa through technical information and guidance, conferences and other activities. Our organisational members are among the leading professional and industry bodies in South Africa. The founding members are the Association for Savings & Investment South Africa (ASISA), the Institute of Directors in Southern Africa (IoDSA), the JSE Ltd, and the South African Institute of Chartered Accountants (SAICA). Subsequently, other organisations joined the IRC: Auditor-General South Africa (AGSA); Banking Association South Africa (BASA), Chartered Secretaries Southern Africa (CSSA), Council of Retirement Funds for South Africa (Batseta), Government Employees Pension Fund (GEPP), Institute of Internal Auditors South Africa (IIA SA), Financial Sector Conduct Authority (FSCA), Chartered Institute of Management Accountants South Africa (CIMA SA) and the South African Institute of Professional Accountants (SAIPA). Each organisational member nominates a representative to sit on the IRC and there are also a number of individual honorary members. In April 2017 the IRC welcomed corporate members, a new category of membership. The 2018/19 corporate members are: Discovery Ltd, Ernst & Young (EY), Eskom Holdings SOC Ltd, Government Employees Medical Scheme (GEMS), Ince (Pty) Ltd, Liberty Holdings Ltd, Magnific Corporate Reporting, Nampak Products Ltd, Nedbank Ltd, PwC, Redefine Properties Ltd, Royal Bafokeng

King III contained the principle that “the board should appreciate that strategy, risk, performance, and sustainability are inseparable” and recommended that companies prepare an integrated report to reflect this. As the principles of King III were included in the Listings Requirements of the Johannesburg Stock Exchange (JSE), listed companies were required to prepare an integrated report or explain why they were not doing so. King III did not, however, elaborate on how this report should be structured or the content it should contain. This led to the birth of the Integrated Reporting Committee (IRC) of South Africa, a multiorganizational, voluntary, national body that has brought together accountants, company secretaries, internal auditors, directors, institutional investors, the JSE, companies, and others with an interest in corporate reporting. The IRC developed a framework for an integrated report in 2011, which was used as a starting point for the development of the International Integrated Reporting Council’s (IIRC) International <IR> Framework, released in December 2013.

Companies listed on the JSE released their first integrated reports in 2010/2011; today, it is a common practice that has spread to the public and nonprofit sectors. Today, South African organizations follow the best practice guidance of the framework under the overarching corporate governance principles and recommended practices of the recently released King IV Code.²⁹

The South African experience includes measures to support integrated reporting that can be more easily replicated than legislation and regulation.³⁰ The IRC established a Working Group

Platinum Ltd, Sasfin Holdings Ltd and SNG Grant Thornton. In 2017, as part of the re-structure to accommodate the growing number of members, the IRC formed a board. The members of the board are: Professor Mervyn King (chairman), Professor Suresh Kana (deputy chairman), Leigh Roberts (CEO), Graeme Brookes (JSE), Loshni Naidoo (SAICA), Sunette Mulder (ASISA) and Parmi Natesan (IODSA). In May 2018 the IRC members voted Larissa Clark (EY) and Stephen Sadie (CSSA) to the board to fulfil the two annual rotating positions. The IRC secretariat is run by Sandy van Esch and Michiel Engelbrecht is responsible for business development. The IRC has a Working Group comprising individuals who have expertise and experience in integrated reporting and related fields. This website aims to be an information hub on integrated reporting in South Africa. It offers the available guidance on integrated reporting in South Africa, technical Information Papers, the latest integrated reporting awards in South Africa, and the latest research reports and surveys of the integrated reports of organisations in South Africa. Accessed January 2, 2019, <https://integratedreportingsa.org/about/about-the-irc-of-sa/>.

²⁹ Leigh Georgia Roberts. “Integrated Reporting: The South African Experience.” The CPA Journal, July 28, 2017. Accessed January 2, 2019, <https://www.cpajournal.com/2017/07/28/integrated-reporting-south-african-experience/>.

³⁰ A paper by Daniel Kinderman observed that challenges arise and compromises are made even when circumstances and events have created a favorable environment for regulatory action. “This paper examines an important case of upward regulatory harmonization, the European Union’s non-financial disclosure Directive 2014/95/EU, which requires large firms to report on their social, environmental, and human rights impacts. In spite of favorable circumstances, the Directive’s opponents watered down the Commission’s proposal during the course of the negotiations. Upward regulatory harmonization is difficult because of the adjustment costs it imposes on the private sector. The paper provides an in-depth analysis of countries’ positions in the negotiations.” “The challenges of upward regulatory harmonization: The case of sustainability reporting in the European Union.” Wiley Online Library, Regulation and Governance (2019). Accessed February 27, 2019, <https://onlinelibrary.wiley.com/doi/abs/10.1111/rego.12240>.

comprised of individuals who are experts in integrated reporting and related fields. The IRC Working Group website is an information hub that includes information papers such as “Preparing an Integrated Report—A Starter’s Guide,” “Guidance on Materiality,” and “Reporting on Outcomes.” Guides on frequently asked questions and research reports and surveys of the integrated reports of South African organization are also available.³¹

Materiality

Materiality is one of the Guiding Principles of integrated reporting. It is the conceptual foundation not only for integrated reporting, but also for all corporate reporting. As co-authors Eccles and Krzus wrote in 2014, “materiality is binary. A fact is either material, in which case it should be reported, or it is not material, in which case it does not need to be reported.”³²

The <IR>Framework section, Disclosure of material matters states, “...the organization should consider providing... key information, such as,

- an explanation of the matter and its effect on the organization’s strategy, business model or the capitals
- relevant interactions and interdependencies providing an understanding of causes and effects
- the organization’s view on the matter
- actions to manage the matter and how effective they have been
- the extent of the organization’s control over the matter
- quantitative and qualitative disclosures, including comparative information for prior periods and targets for future periods”³³

The average materiality score for all companies in our sample was 1.87 (Figure 2).³⁴ There was a great deal of variation in the average by country—a range of 0.72 (United States) from the lowest to 2.68 (South Africa).

Figure 2 Average Materiality Score by Country

³¹ Integrated Reporting Committee of South Africa. Working Group. Accessed January 2, 2019, <https://integratedreportingsa.org/about/irc-working-group/>.

³² Eccles, Krzus, and Ribot. Chapter 5, “Materiality” in *The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality*, 119-145.

³³ International Integrated Reporting Council. International <IR> Framework.

³⁴ The average materiality score of 1.87 indicates that there was no improvement in the quality of disclosures from 2014, when the average score was 1.90. Eccles, Krzus, and Ribot. Chapter 7, “Report Quality” in *The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality*.

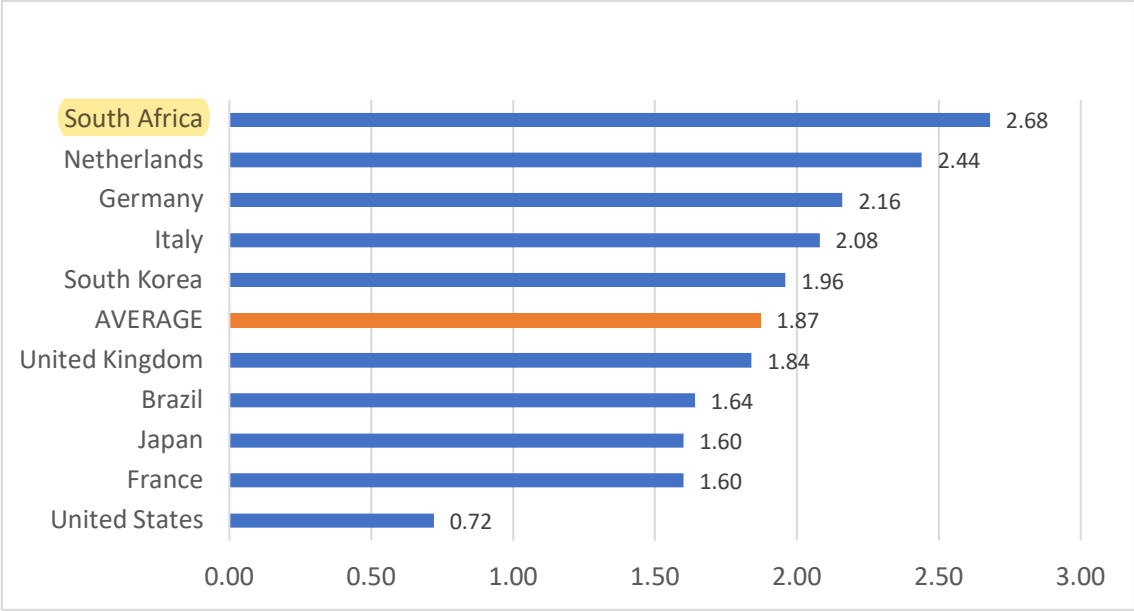


Table 3 Average Materiality Score by Question

Materiality Criteria	Average Score
Does the materiality discussion in the integrated report:	
1. Describe the process used to identify relevant matters?	2.1
2. Identify the framework or frameworks (e.g., SASB, GRI, other) used during the materiality assessment?	2.1
3. Explain how prioritization of risks and opportunities was done?	1.8
4. Describe the role of the board of directors in identifying and prioritizing material matters?	2.0
5. Identify all entities (e.g., subsidiaries, joint ventures, investment) included in the assessment of material issues?	1.3

Three companies—Kumba Iron Ore, Nedbank, and Vodacom—received a perfect score of 3.0 for Materiality. Other high performing companies (scores of 2.5 or higher) included Aegon, BT Group, Light, Philips, SAP, and United Utilities. Two companies—HSBC and Intel—received a score of zero for Materiality.

The poorest overall disclosures were about the report boundary, that is, the identification of entities included in the assessment of material issues. Twenty-one companies did not provide any information on this topic and seven companies scored a one.

Nedbank and Materiality

Nedbank, one of the companies that received a perfect score in this category, had one of the best materiality discussions. The company addressed materiality in the “Risks and Opportunities in our Operating Environment” section of their integrated report. A four-step process map (Figure 3) was used to identify and prioritize material issue with text boxes to briefly explain each step.

For example, the text box for the “Rank” process explains how prioritization is accomplished and notes the board’s oversight role:

Rank the issues identified according to greatest relevance in the current operating context and highest potential to impact significantly on the viability of our business and relationships with stakeholders. While this is a collaborative effort, our Group Executive Committee assumes responsibility for approval of the material matters before their endorsement by the Group Transformation, Social and Ethics Committee, and finally, the Nedbank Group Limited board.³⁵

³⁵ The authors have a deep interest in the role of the board with respect to the company’s determination of materiality. Coauthors Eccles and Krzus introduced the Statement of Significant Audiences and Materiality in their second book, *“The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality.”* The Statement would be issued by the board of directors. It identifies the company’s significant audiences, for example, shareholders, debt holders, employee, NGOs, customers. It also identifies which issues are material to which audiences. “Determining the relative importance of different providers of financial capital and different stakeholders is ultimately a responsibility of the board. What does this mean in operational terms? We suggest that annually the board issue, as part of the company’s integrated report, a forward-looking “Statement of Significant Audiences and Materiality.” This statement will inform management, providers of financial capital, and all other stakeholders of the audiences the board believes are important to the survival of the corporation. While management can play a significant role in preparing this statement, it is ultimately a statement of the board, somewhat analogous to the annual financial audit. While management is deeply involved in the audit and, in the United States, the chief executive officer and chief financial officer must personally sign off on the adequacy of a company’s internal control systems, it is the Audit Committee of the board that selects and engages the audit firm and signs off on the scope of the audit. The difference is that the audit statement is ultimately a responsibility of the board—not management.” Eccles, Robert G.; Krzus, Michael P.; and Ribot, Sydney. “Materiality,” chap. 5 in *The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality*. New York: John Wiley & Sons, Inc., 2014. Coauthor Eccles and Tim Youmans, a significant contributor to Chapter 5 of *The Integrated Reporting Movement*, have further developed the idea of The Statement of Significant Audiences and Materiality since 2014. See the following. MIT Sloan Management Review. “Restoring Trust After a Scandal,” blog entry by Eccles, Robert G. and Youmans, Tim, October 23, 2017, <https://sloanreview.mit.edu/article/restoring-trust-after-a-scandal/>, accessed March 19, 2018. Eccles, Robert G. and Youmans, Tim. “Materiality and the Role of the Board of Directors,” ICGN Yearbook 2016, 40-41, http://www.roberteccles.com/docs/BobEcclesTimYoumans_materiality_and_the_role_of_the_board.pdf, accessed March 19, 2018. This article originally appeared in the ICGN Yearbook 2016, which available to ICGN members only <https://www.icgn.org/information/yearbook>. MIT Sloan Management Review, Big Idea: Sustainability. “The Board That Embraced Stakeholders Beyond Shareholders,” blog entry by Eccles, Robert G. and Youmans, Tim,” June 9, 2016, <https://sloanreview.mit.edu/article/the-board-that-embraced-stakeholders-beyond-shareholders/>, accessed March 7, 2018. Eccles, Robert G. and Youmans, Tim. “Materiality in Corporate Governance: The Statement of Significant Audiences and Materiality.” Spring. *Journal of Applied Corporate Finance* 28, no. 2 (2016), <http://onlinelibrary.wiley.com/doi/10.1111/jacf.12173/abstract>, accessed March 7, 2018. Forbes.com. “Why It’s Time For Boards To Take A Stand On Sustainability,” blog entry by Robert G. Eccles, March 30, 2016, <https://www.forbes.com/sites/bobeccles/2016/03/30/why-its-time-for-boards-to-take-a-stand-on-sustainability/#6921d5983280>, accessed March 19, 2018. MIT Sloan Management Review, Big Idea: Sustainability. “Why Boards Must Look Beyond Shareholders,” blog entry by Eccles, Robert G. and Youmans, Tim, September 3, 2015, <https://sloanreview.mit.edu/article/why-boards-must-look-beyond-shareholders/>, accessed March 14, 2018. Finally, the American Bar Association issued a letter “analyzing the viability of an Annual Board Statement of Significant Audiences and Materiality.” American Bar Association, Task Force on Sustainable Development. “Information For the United States Concerning Legal Perspective on an Annual ‘Statement of Significant Audiences and Materiality.’” https://www.americanbar.org/content/dam/aba/administrative/environment_energy_resources/resources/usa_legal_memo.authcheckdam.pdf, accessed through a Google search for the paper’s title, March 8, 2018.

This section flows into the company's discussion of specific risks and opportunities which includes an overview of risks and opportunities, sources of risks, an assessment of the likelihood that risks will come to fruition, mitigation plans, and potential effects on business model and strategy.

Figure 3 Nedbank Materiality Process Map

RISK AND OPPORTUNITIES IN OUR OPERATING ENVIRONMENT

Our material matters are evident in our key risks and opportunities and represent the issues that have the most impact on our ability to create value. These change over time as new trends and developments shape the macro environment and our stakeholders' needs evolve. We determine our material matters through the following process:



OUR MATERIAL MATTERS

Material matter



Volatile and uncertain socioeconomic environment characterised by slower growth and rising inequality



As a financial services provider, we are deeply connected to and interdependent on the macroeconomic environment. Our ability to create value is dependent on key economic drivers, our response to them and their impact on our stakeholders. Our current forecast is for SA, where we currently generate more than 90% of our earnings, to remain in a mild-stress environment although the outlook is more positive than for the previous year as a result of improved levels of consumer and business confidence.

POLITICAL AND POLICY DEVELOPMENTS

The African National Congress (ANC) has elected Mr Cyril Ramaphosa as its new leader and he has subsequently been elected as President of the Republic of SA. Business and investors will be looking for decisive action to improve political leadership and accountability, to tackle corruption, to improve governance at state-owned enterprises, to restore fiscal sustainability through the least growth-sapping combination of tax and expenditure measures, and finally, to address economic policy and legislative uncertainties. Greater clarity on government's current and future economic policies should enable private companies to price risk more accurately, thereby facilitating some recovery in fixed-investment activity. This normally leads to increased transactional activity and stronger corporate credit growth, which will benefit Nedbank in view of our wholesale-biased model. Business and consumer confidence should also improve from the very weak levels experienced in 2017.

GDP GROWTH

Our economic forecasts suggest that SA's recovery will be modest and gradual over the next three years. Faster growth is forecast for the rest of Africa, driving the development of financial markets in the medium to long term. Stronger economic growth is normally associated with employment gains and rising household incomes, which increase consumer spending and therefore grow retail banking. Sustained economic growth eventually exhausts existing capacity, prompting both the private and public sector to add new production capacity through increased investment, which results in increased bank lending activity.

Risks and opportunities

Risks and opportunities is one the Content Elements in the <IR> Framework.³⁶ The integrated report discussion of the topics should answer the question: “What are the specific risks and opportunities that affect the organization’s ability to create value over the short, medium and long term, and how is the organization dealing with them?”

At a high level, the report should identify “the key risks and opportunities that are specific to the organization, including those that relate to the organization’s effects on, and the continued availability, quality and affordability of, relevant capitals in the short, medium and long term.”

The average score for Risks and opportunities was 1.89.³⁷ There was a great deal of variation in the average by country (Figure 4)—a range of 0.48 from the lowest (United States) to 3.0 (South Africa).

Figure 4 Average Risks and Opportunities Score by Country

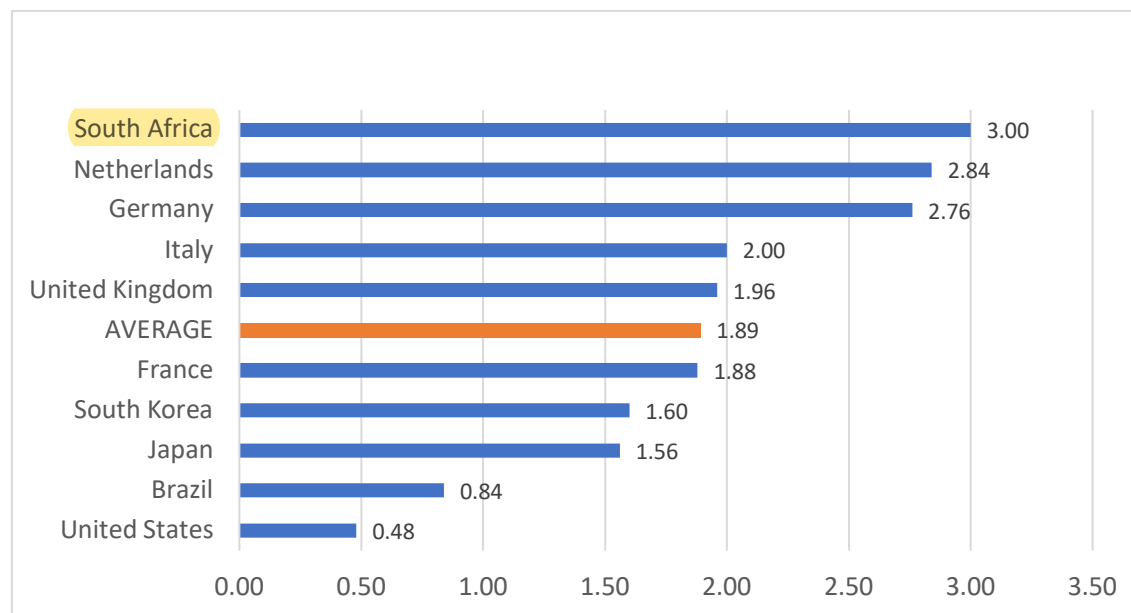


Table 4 Average Risks and opportunities Score by Question

Risks and opportunities Criteria	Average Score
Does the discussion of risks and opportunities in the integrated report:	

³⁶ International Integrated Reporting Council. International <IR> Framework.

³⁷ The average risks and opportunities score of 1.89 is a decline in the quality of disclosures from 2014, when the average score was 2.03. Eccles, Krzus, and Ribot. Chapter 7, “Report Quality” in *The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality*.

Risks and opportunities Criteria	Average Score
1. Provide an overview of material risks and opportunities, including environmental and social challenges and megatrends?	2.4
2. Identify the sources of material risks and opportunities, e.g., competition, technology, legal, regulatory, financial markets?	2.2
3. Discuss the organization's assessment of the likelihood that material risks or opportunities will come to fruition?	1.1
4. Describe the organization's plans to mitigate or manage key risks or create value from key opportunities?	2.0
5. Identify how these risks and opportunities might influence corporate strategy, business model, execution plans, key performance indicators?	1.8

Ten companies— Aegon, AkzoNobel, EnBW, Gold Fields, Kumba Iron Ore, MunichRe, Nedbank, Redefine Properties, SAP, and Vodacom—received a perfect score of 3.0 for Risks and opportunities. Other high performing companies (scores of 2.5 or higher) included ABN AMRO, Anjinmoto, Daiwa House, Enel, Generali, KPN, Philips, United Utilities and Veolia. Three companies— ArcelorMittal USA, Light, and Omron—received a score of zero for Risks and opportunities.

Companies had the most difficulty with providing an assessment of the likelihood that material risks or opportunities would come to fruition. Twenty-three companies scored a zero and seven received one point.

SAP and Risks and opportunities

SAP's discussion of risks and opportunities is one of the most comprehensive that we encountered during our research.³⁸ A 17-page section, Risk Management and Risks, includes a summary of all risk factors, with each risk having a one or two word description of probability of occurrence, potential impact, risk level, and evolution or trend in comparison to the prior year (Figure 5).

Figure 5 SAP Probability of Risk Occurrence

³⁸ SAP. SAP Integrated Report 2017. "Risk Management and Risks," 116-136. Accessed January 23, 2019, <https://www.sap.com/integrated-reports/2017/en.html>.

Overview of Risk Factors (Aggregated Statement for 2017)

	Probability	Impact	Risk Level	Evolution¹⁾
Economic, Political, Social, and Regulatory Risks				
Global Economic and Political Environment	<i>likely</i>	<i>business-critical</i>	<i>high</i>	→
International Laws and Regulations	<i>likely</i>	<i>business-critical</i>	<i>high</i>	↗
Legal and IP	<i>likely</i>	<i>business-critical</i>	<i>high</i>	→
Data Protection and Privacy	<i>unlikely</i>	<i>business-critical</i>	<i>medium</i>	→
Corporate Governance and Compliance Risks				
Unauthorized Disclosure of Information	<i>remote</i>	<i>business-critical</i>	<i>medium</i>	→
Ethical Behavior	<i>likely</i>	<i>business-critical</i>	<i>high</i>	↗
Environment and Sustainability	<i>unlikely</i>	<i>moderate</i>	<i>low</i>	→
Financial Risks				
Sales and Revenue Conditions	<i>unlikely</i>	<i>moderate</i>	<i>low</i>	→
Liquidity	<i>remote</i>	<i>major</i>	<i>low</i>	→
Management Use of Estimates	<i>unlikely</i>	<i>moderate</i>	<i>low</i>	→
Accounting Pronouncements	<i>unlikely</i>	<i>major</i>	<i>medium</i>	→
Currency, Interest Rate, and Share Price Fluctuations	<i>remote</i>	<i>major</i>	<i>low</i>	→

In addition, SAP discusses each risk in detail. Risk factors are defined, drivers of risks are identified, and measures to address and mitigate the risks are described. SAP also addresses the potential impacts of each risk on their business model and strategy (Figure 6).

Figure 6 SAP Risk Mitigation Plans

could have a business-critical impact on our operations, financial position, profit, and cash flows. However, we estimate the probability of occurrence of this risk to be unlikely. We classify this risk as a medium risk.

Corporate Governance and Compliance Risks

Our controls and efforts to prevent the unauthorized disclosure of confidential information might not be effective.

Confidential information and internal information related to topics such as our strategy, new technologies, mergers and acquisitions, unpublished financial results, customer data, or personal data, could be disclosed prematurely or inadvertently and subsequently lead to market misperception and volatility.

Such disclosure could lead to risks in the following areas, among others:

- Disclosure of confidential information and intellectual property, defective products, production downtimes, supply shortages, and compromised data (including personal data) through, for example, inappropriate usage of social media by employees
- Requirement to notify multiple regulatory agencies and comply with applicable regulatory requirements and, where appropriate, the data owner

Any one or more of these events could have an adverse effect on our market position and lead to fines and penalties. In addition, this could have an adverse effect on our business, reputation, financial position, profit, and cash flows.

SAP has established measures to address and mitigate the described risks and adverse effects to the greatest extent possible, such as:

- Mandatory compliance baseline training for all employees (security awareness, data privacy and data protection, compliance, and communication)
- Social engineering tests
- Standards for safe internal and external communication
- Technical security features in our IT hardware and communication channels, such as mandatory encryption of sensitive data
- All security groups have been combined organizationally into one global security unit to strengthen the security capabilities
- Continuous adoption of internal security measures

We cannot exclude the possibility that if the risk were to occur, it could have a business-critical impact on our operations, financial position, profit, and cash flows. However, we estimate the probability of occurrence of this risk to be remote. We classify this risk as a medium risk.

standards due to intentional and fraudulent employee behavior could seriously harm our business, financial position, profit, and reputation.

SAP's leadership position in the global market is founded on the long-term and sustainable trust of our stakeholders worldwide. Our overarching approach is one of corporate transparency, open communication with financial markets, and adherence to recognized standards of business integrity. The SAP Code of Business Conduct, adopted by the Executive Board on January 29, 2003, and updated as necessary since then, memorialized and supplemented the already existing guidelines and expectations for the business behavior practiced at SAP.

However, we might for instance encounter the following risks associated with:

- Non-compliance with our integrity standards and violation of compliance related rules, regulations, and legal requirements including, but not limited to, anticorruption and bribery legislation in Germany, the U.S. Foreign Corrupt Practices Act, the UK Bribery Act, and other local laws prohibiting corrupt payments by employees, vendors, distributors, or agents
- Unethical and fraudulent behavior of individual employees or partners leading to criminal charges, fines, and claims by injured parties also considering the ongoing investigations for example in South Africa, the Middle East, and North Africa
- Collusion with external third parties, for example providing assistance in securing contracts
- Fraud and corruption together with operational difficulties, especially in countries with a high Corruption Perceptions Index
- Impact on business activities in regulated industries such as public sector, healthcare, banking, or insurance

Any one or more of these events could have an adverse effect on our business, reputation, financial position, share price, profit, and cash flows.

In 2017, SAP encountered situations that required clear messaging and strong action on non-compliance in the context of ethical behavior with the potential to harm our business. In South Africa, SAP is investigating its dealings with the public sector. For more information relating to the alleged anti-bribery law violations noted above, see the Notes to the Consolidated Financial Statements, *Note (23)*.

SAP has established measures to address and mitigate the described risks and adverse effects to the greatest extent possible, such as:

- Comprehensive compliance management system (CMS) based on the three pillars of prevention, detection, and reaction

The strategy and resource allocation section of an integrated report should answer the following question: Where does the organization want to go and how does it intend to get there?

Paragraph 4.28 of the <IR> Framework explains that the integrated report should identify:

- The organization’s short, medium and long term strategic objectives
- The strategies it has in place, or intends to implement, to achieve those strategic objectives
- The resource allocation plans it has to implement its strategy
- How it will measure achievements and target outcomes for the short, medium and long term

The average country score for strategy and resource allocation was 1.85 (Figure 7).³⁹ Individual country scores ranged from 1.05 (United States) to 2.90 (The Netherlands).

Figure 7 Average Strategy and resource allocation Score by Country

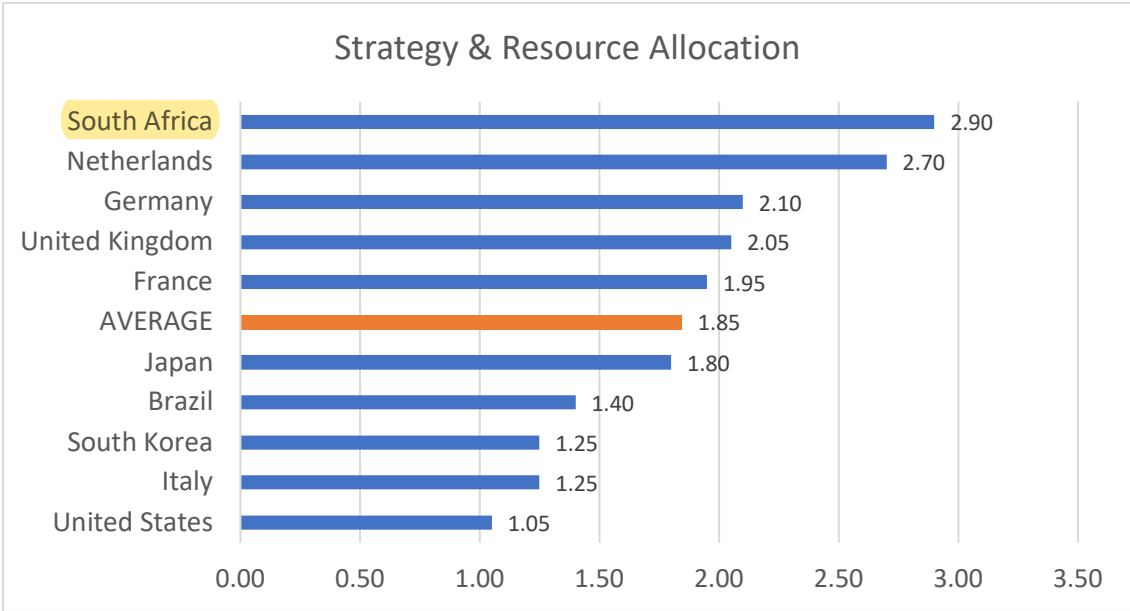


Table 5 Average Strategy and resource allocation Score by Question

Strategy and resource allocation Criteria	Average Score
Does the discussion of strategy and resource allocation in the integrated report:	

³⁹ The average strategy and resource allocation score of 1.85 indicates a decline in the quality of disclosures from 2014, when the average score was 2.08. Eccles, Krzus, and Ribot. Chapter 7, “Report Quality” in *The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality*.

Strategy and resource allocation Criteria		Average Score
1.	Identify the organization's short (e.g., ≤ 2 years), medium (e.g., 2-7 years), and long term (e.g., >7 years) strategic goals?	1.9
2.	Explain how those goals are linked to value drivers (e.g., ROIC and organic revenue growth)?	1.5
3.	Explain how the organization will measure whether or not it has met goals and objectives for the short, medium, and long term?	2.0
4.	Identify sources of competitive advantage, for example, human, intellectual, financial, and natural capital, that enable the company to execute its strategy?	1.9

Ten companies— ABN AMRO, KPN, Kumba Iron Ore, Nedbank, Philips, Redefine Properties, Suez, United Utilities, Valéo, and Vodacom—received a perfect score of 3.0 for Strategy and resource allocation. Other high performing companies (scores of 2.5 or higher) included Anjinmoto, BASF, Daiwa House, EnBW, Fibria, Gold Fields, Natura, SAP, and SK Telecom. Posco was the only company to receive a score of zero for Strategy and resource allocation.

The question on explaining how goals are linked to value drivers (KPIs) had the lowest average score in this group of questions. Fourteen companies received a zero and 10 scored a one.

United Utilities and Strategy and resource allocation

United Utilities, a United Kingdom water and waste water company listed on the London Stock Exchange, does an exemplary job of contextualizing and summarizing information through the use of graphs, score cards, charts, and both succinct narratives for context as well as more thorough explanations and case studies. It received an overall score of 2.75 with a perfect score in the Strategy and resource allocation section of our analysis.

It is important to note that, from the beginning, the report⁴⁰ demonstrates thoroughness and careful consideration starting from its table of contents. For example, the Strategic Report section contains the following categories: What we do; How we create value; How we measure our performance; and, How we manage risks. Each section walks the reader from a summarized strategy with the use of tables and graphs and into more detailed breakdowns of its processes.

United Utilities uses graphics as their primary response to addressing two key points in the <IR> Framework objectives for Strategy and resource allocation. The company identifies its high level strategic objectives (Figure 8) and how it plans to measure progress towards meeting those objectives (Figure 9).

Figure 8 United Utilities Our Purpose and Strategy

⁴⁰ United Utilities. Annual Report and Financial Statements for the year ended 31 March 2017. Accessed January 23, 2019, <https://www.unitedutilities.com/corporate/investors/reports-and-results/annual-reports/>.

Our purpose and strategy

Our purpose is to provide great service to our customers and communities in the North West, creating long-term value for all of our stakeholders.

Our vision is to be the best UK water and wastewater company.

Our strategy

We will realise our vision by delivering:

The best service to customers

At the lowest sustainable cost

In a responsible manner

We use these three strategic themes as a framework to measure each aspect of our performance, with each of our operational key performance indicators and risks closely linked to one of them or, often, to more than one, such is the interconnectivity of our business.

➔ Read more about [Our key performance indicators](#) on pages 38 to 40

➔ Read more about [How we manage risk](#) on pages 54 to 57

Our core values

Our core values provide the cultural framework within which we are working towards achieving our vision, and we encourage our employees to live these values in everything they do in their daily work:

Customer focus

Everything we do is about our customers, not us. We put customers at the heart of everything we do so that we can give them our best service.

This means in addition to supplying the seven million people and 200,000 businesses in our region with clean water and treating their wastewater every day, we constantly look for ways to improve our customer contacts, to keep bills down, and to give extra help to those vulnerable customers who need it most.

Customer focus means putting customers first now, and also building a resilient and sustainable network to prepare for future generations.

Innovation

The world doesn't stand still and neither do we. We will continue to innovate to make our services better, safer, faster and cheaper. We're always searching for new and better ways of working, adapting our service to suit the needs of our region's diverse population.

Only by making the best use of new processes and technologies can we ensure we are prepared for a growing population and extreme weather, to ensure we continue to deliver the lowest sustainable cost in an ever-changing world.

One example of innovation that spans our entire business is our Systems Thinking operational approach.

➔ Read more about [Innovation across our entire business](#) on page 29

Integrity

We make promises knowingly and keep them.

We behave responsibly towards all of our stakeholders, including:

- › Our customers;
- › The communities we operate in;
- › Our employees;
- › Our suppliers;
- › Our shareholders; and
- › The environment.

➔ Read more about [Our stakeholder engagement](#) on pages 30 to 33

Throughout this report we show how our vision, strategy and values enable us to fulfil our purpose.

Figure 9 United Utilities Strategic Themes

How we measure our performance

Our key performance indicators (KPIs)

To help measure progress on how well we are delivering the outcomes described in our business model and adding value for all our stakeholders, we focus on a range of financial and operational KPIs, encompassing the important areas of customer service and environmental performance, as well as financial indicators. We set KPIs for the five-year regulatory period, and they remain the same as last year. Our executive bonuses and long-term incentives are closely aligned to our financial and operational performance KPIs, as highlighted in the remuneration report on pages 94 to 115.

Operational KPIs

Strategic theme	KPI	Definition
The best service to customers	Wholesale outcome delivery incentive (ODI) composite	Net reward/(penalty) accrued across United Utilities' 19 wholesale financial ODIs, more detail of which can be found on page 41.
	Service incentive mechanism – qualitative	Ofwat-derived index based on quarterly customer satisfaction surveys, measuring the absolute and relative performance of the 18 water companies. Each company receives a score in the range of zero to five, with five being the best attainable score.
	Service incentive mechanism – quantitative	Ofwat-derived composite index based on the number of customer contacts, assessed by type, measuring the absolute and relative performance of the 18 water companies. Each company receives a SIM point total, where the lowest score represents the best performance.
At the lowest sustainable cost	Totex outperformance	Progress to date on delivering our promises to customers within the cumulative 2015–20 wholesale totex final determination allowance.
	Financing outperformance	Progress to date on financing expenditure outperformance secured versus Ofwat's industry allowed cost of debt of 2.59 per cent real over the 2015–20 period.
	Household retail cost to serve	Cost to serve in our household retail business compared with Ofwat's revenue allowance.
In a responsible manner	Leakage – average annual leakage	Average annual water leakage from our network quantified in megalitres (Ml) per day.
	Environment Agency performance assessment	Composite assessment produced by the Environment Agency, measuring the absolute and relative performance of the 10 water and wastewater companies across a broad range of areas, including pollution.
	Dow Jones Sustainability Index rating	Independent rating awarded using sustainability metrics covering economic, environmental, social and governance performance.

Performance

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

More specific guidance states that an “integrated report contains qualitative and quantitative information about performance that may include matters such as:

- Quantitative indicators with respect to targets and risks and opportunities, explaining their significance, their implications, and the methods and assumptions used in compiling them
- The organization’s effects (both positive and negative) on the capitals, including material effects on capitals up and down the value chain
- The state of key stakeholder relationships and how the organization has responded to key stakeholders’ legitimate needs and interests
- The linkages between past and current performance, and between current performance and the organization’s outlook.”

The average country score for Performance was 1.79.⁴¹ South Africa (2.80) and The Netherlands (2.70) had the highest overall scores. There was slightly less variation in the average score for this category—a range of 1.10 from the lowest (Japan) to 2.80—than was found in the other topics (Figure 10).

Figure 10 Average Performance Score by Country

⁴¹ The average performance score of 1.79 indicates a decline in the quality of disclosures from 2014, when the average score was 2.20. Eccles, Krzus, and Ribot. Chapter 7, “Report Quality” in *The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality*.

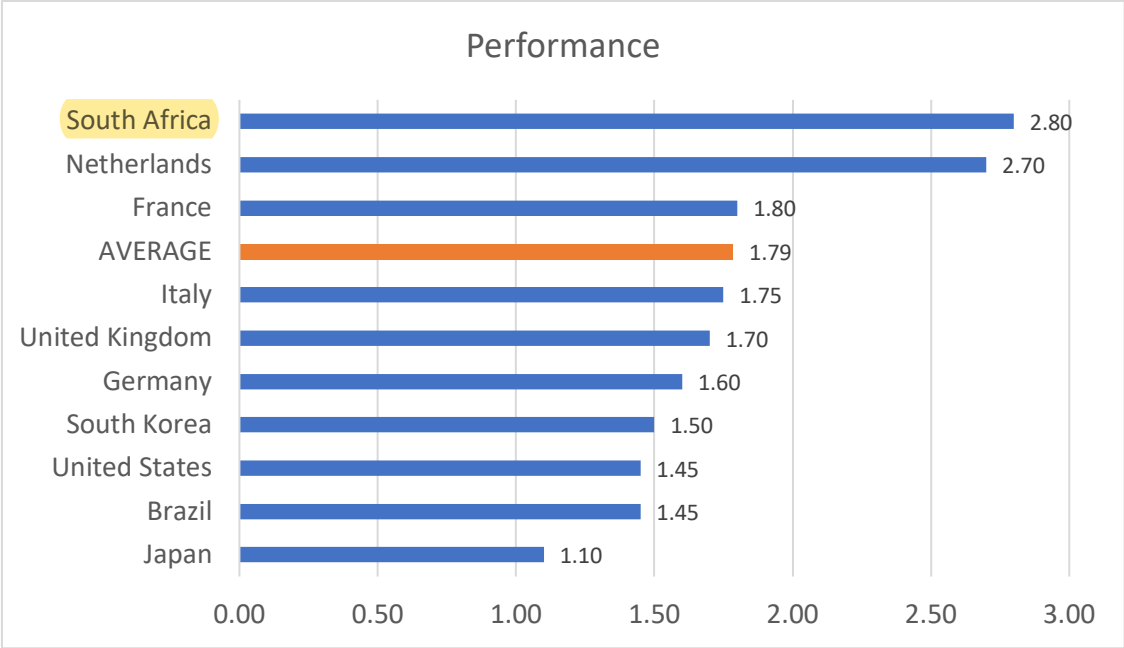


Table 6 discloses the range of scores for each question.

Table 6 Average Performance Score by Question

Performance Criteria	Average Score
Does the discussion of performance in the integrated report:	
1. Disclose quantitative indicators used to measure success with respect to meeting targets, managing risks, and leveraging opportunities?	2.2
2. Describe organization’s material positive and negative effects on the capitals?	1.3
3. Discuss how the organization has responded to key stakeholders’ legitimate needs and interests?	2.1
4. Explain the linkages current performance and the organization’s short, medium, and long term strategic goals?	1.6

Seven companies— ABN AMRO, KPN, Natura, Nedbank, Redefine Properties, Valéo, and Vodacom—received a perfect score of 3.0 for Performance. Other high performing companies (scores of 2.5 or higher) included Aegon, BASF, GE, Gold Fields, Philips, and United Utilities. Konica was the only company to receive a score of zero for Performance.

Explaining the organization’s positive and negative effects on the capitals proved to be the most difficult question in the Performance section. Twenty companies scored a zero and another six received a score of one.

Natura and Performance

As mentioned in the beginning of the chapter, Natura⁴² started its <IR> journey in 2003, and this is readily apparent from the quality of the report. The company received an overall score of 2.51 and a perfect score in the Performance section of our analysis. The section on material topics and Sustainable Development Goals (SDGs) (Figure 11) has quantitative indicators linked to its goals and targets for the long-term (Figure 12).

Figure 11 Natura quantitative and qualitative indicators linking historical and current performance with strategic targets

GRI 301-2

Recycled materials used in product manufacture (%)

Material	2015	2016	2017	Vision commitment for 2020
Post-consumer recycled material incorporated into finished product packaging – Brazil ¹	2.9%	4.3%	4.6%	10%
Recyclable ² material in finished product packaging – Brazil	50%	51%	50%	74%

¹ Percentage of post-consumer recycled material mass in relation to total mass of packaging materials, weighted by the quantity billed. ² Percentage of recyclable material mass in relation to total mass of packaging materials, weighted by the quantity billed.

GRI 301-2

Eco-efficient packaging as a proportion of items billed (%)

	2015	2016	2017	Vision commitment for 2020
Brazil	26%	20%	21%	40%
International Operations	23.7%	20.8%	21.5%	-

GRI 417-1

Origin of material and product certification¹ (%)

	2015	2016	2017
Material of renewable vegetable origin	83.0%	83.0%	81%
Material of natural vegetable origin	6.6%	5.6%	5.6%
Material with certification of origin ²	13.0%	13.0%	13.1%











¹ Calculated on dry base of raw materials present in product formulation. ² The percentage of material with certification of origin increased because the number of certified inputs employed in the body care and perfumery categories grew.

Figure 12 Natura SDG Performance Targets

⁴² Natura. 2017 report. Accessed January 23, 2019, <https://naturaeco.com/report-natura-eco-en-v1.pdf>.

Detailing of Sustainability Vision ambitions

● on target or already achieved
 ● on schedule
 ● behind schedule

Topic	Ambition for 2020	Related SDG	2017 Performance	Status
Integrated management	<p>Management model</p> <p>To implement the valuation of socioenvironmental externalities, taking into account the positive and negative impacts of the extended value chain (from the extraction of raw materials to the disposal of products) for the Natura brand.</p>	   	<p>We have made significant progress with the EP&L model. In 2017, we calculated the results for 2014 to 2016 based on a methodology that accounts for the environmental impacts generated throughout the Natura value chain. We also advanced in incorporating social topics into the calculations, assessing the social and environmental impacts generated by the Natura carbon offsetting projects. We face the challenge of implementing the EP&L in management and of building a model for the valuation of social impacts throughout our value chain by 2020.</p>	●
Brands	<p>The environmental and social footprints of all Natura brand products will be disclosed, as will all the respective improvement commitments.</p>		<p>We disclose the impacts of products bought by consumers. Currently under review, the transparency strategy will include the definition of the methodologies to calculate product footprints from 2018. The challenge for the company is to implant a balance sheet of its footprint for disclosure to consumers by 2020.</p>	●
Government and society	<p>Stimulate public discussion and debate around our material topics based on the review of the materiality matrix elaborated in 2014.</p>	 	<p>We have worked with a series of civil society organizations, companies, government entities, among others, to promote an agenda for the common good which also drives innovation and evolution in Natura strategies.</p>	●
Ethics and transparency	<p>For the Natura brand, to implant full transparency in the provision of information about products and the company's progress towards its Sustainability Vision.</p>		<p>The evolution and updating of the Sustainability Vision was postponed as a question of strategic priority. The review is being undertaken in 2018. Regarding transparency in relation to products, the social and environmental footprint strategy will provide greater clarity about our choices. In 2017, diverse positions assumed by the company, such as bans on certain ingredients and on animal testing, were presented to consumers on our website. In 2018, the strategy will evolve to ensure achievement of the 2020 ambition.</p>	●
Governance for sustainability	<p>Implant a Consulting Council comprising external specialists to assess the company's progress and to help develop strategy.</p>	 	<p>In function of the company's strategy and the recent expansion of the group, this ambition will be reviewed in 2018.</p>	●

Only a handful of organizations openly disclose their negative impacts on the capitals. On the contrary, Natura includes a section titled “Our Challenges” where it explains its major impacts on the capitals and larger, strategic missteps. For example, page 12 of the report explains:

“In comparison with 2012, the base year for our commitment to reduce relative greenhouse gas (GHG) emissions, the reduction in 2017 was 0.5%. The goal set forth in our Sustainability Vision establishes a 33% reduction in the relative indicator (emissions versus products billed) by 2020. In spite of the diverse initiatives aimed at reducing our emissions, there was a 2% increase in Natura’s absolute emissions in 2017, compared with 2016. The annual growth in relative emissions was 0.8%. This result reflects our sales mix during the year, which included items generating higher emissions, as well as sales growth in our International Operations, which intensified product transportation to these countries.”

Not only does Natura describe some of its most impactful activities but actively encourages other organizations to track and manage their negative impacts. For example, they are helping to

develop “socioenvironmental accounting” and currently keep track of their Environmental Profit and Loss (EP&L), as explained on page 35 of the report:

“EP&L (Environmental Profit and Loss) is a methodology that measures the positive and negative impacts of all the phases of production, commercialization and disposal of an organization’s products in monetary terms. Four years ago, we initiated a project to measure and disclose how our activities impact nature and, consequently, people’s well-being. Thus, Natura is part of a group of companies that is in the forefront of knowledge related to impact measurement worldwide. We intend to influence other organizations to engage in this movement so that they may evolve in their metrics and in managing their business chains. The calculation takes into account the volume of solid waste generated, land use, consumption and pollution of water, as well as emissions of greenhouse gases and other atmospheric pollutants.

... Our next step will be to implant a similar pioneering methodology focused on the social sphere. This means we will incorporate the valuation of our contributions and impacts on the social development of the communities with which Natura maintains relations, such as the generation of employment and the stimulation of entrepreneurship among employees and consultants, among others. Certain social aspects have already been taken into account in analyzing the co-benefits of the company’s Carbon Neutral Programme and these will now be extended to the entire Natura process and its value chain.”

Natura’s integrated report also contains a number of case studies and how it leverages universities, NGOs, and different stakeholders to achieve its goals. For example, page 47 reads:

“we are engaged in developing a shared territorial development management model in conjunction with local governments, communities and companies, the objective being to generate plans and targets for the regions. Natura’s engagement in the Territórios Prioritários para o Desenvolvimento de Negócios Sustentáveis (Priority Territories for the Development of Sustainable Businesses) takes the form of investments in entrepreneurship, education and social biodiversity production chains.”

There are a number of sections describing Natura’s engagement with stakeholders. This information is captured and categorized based on GRI and SDGs in a table on page 67 of the Natura report (Figure 13).

Figure 14 Natura Stakeholder Engagement Overview

Stakeholder engagement

GRI Standard	Disclosure	Page	Omission	Sustainable Development Goals
GRI 102: Standard disclosures 2017	102-40 List of stakeholder groups	62		
	102-41 Collective bargaining agreements	All employees are covered by collective agreements, which are coordinated by the Human Resources area and comply with the standards and limits set forth in local legislation.		8
	102-42 Identifying and selecting stakeholders	62		
	102-43 Approach to stakeholder engagement	Natura maintains ongoing dialogues in diverse forums with its stakeholder groups. One of these involves consumers, consultants and researchers, among others, in the co-creation programme aimed at generating ideas for innovation. Similarly, on an annual basis we evaluate the quality of these relations by means of satisfaction and loyalty surveys with our priority stakeholder groups: employees, Natura Consultants, suppliers, supplier communities and consumers. <i>Read more on pages 25, 53, 63, 96-97.</i>		
	102-44 Key topics and concerns raised	25, 53, 63, 96-97		

It is not easy to find an organization so willing to transparently report on its impacts and transparent commitment and actions to address them. Balancing the guiding principle of conciseness vs. completeness, Natura ends the analysis on page 82 and then provides a number of attachments for interested parties to find more detailed information on a range of financial and ESG topics. Finally, Natura also gives a higher level of reliability of its information by seeking third party assurance from KPMG.

Outlook

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

This section of the integrated report ordinarily highlights anticipated changes over time and provides information, built on sound and transparent analysis, about:

- The organization's expectations about the external environment the organization is likely to face in the short, medium and long term
- How that will affect the organization

- How the organization is currently equipped to respond to the critical challenges and uncertainties that are likely to arise.

The average score for Outlook was 1.70.⁴³ There was a great deal of variation in the average by company (Figure 14)—a range of 0.20 (United States) from the lowest to 2.88 (South Africa) for the highest.

Figure 14 Average Outlook Score by Country

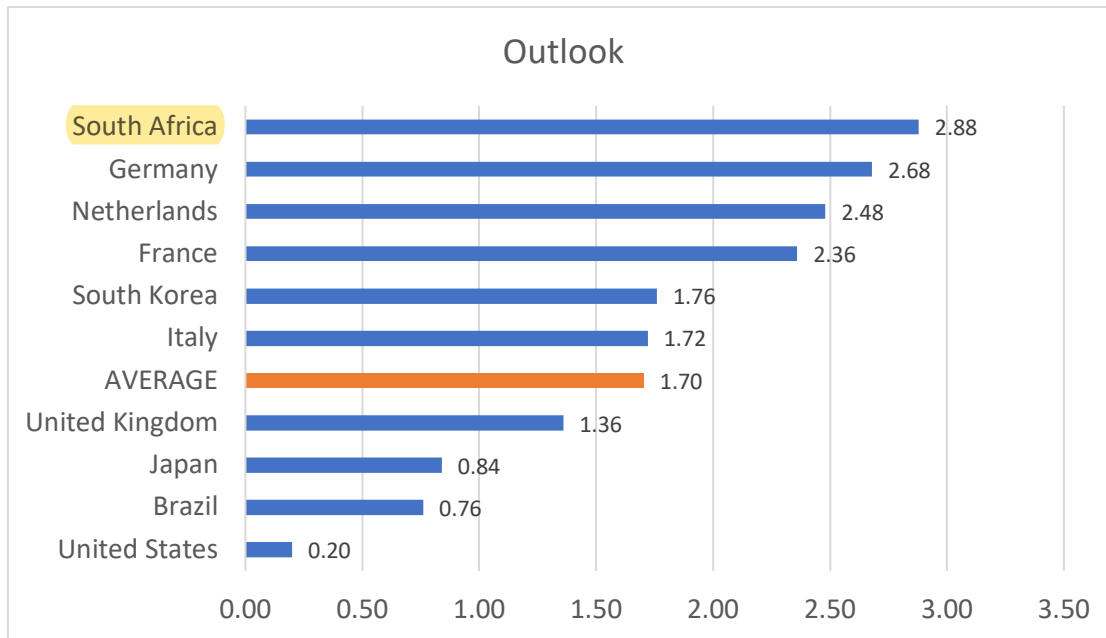


Table 7 Average Outlook Score by Question

Outlook Criteria	Average Score
Does the discussion of outlook in the integrated report:	
1. Discuss the organization’s expectations about the external environment that it is likely to face in the short, medium, and long term?	2.0
2. How those expectations about the external environment are likely to affect the organization?	1.9
3. Describe how the organization is currently equipped to respond to the critical challenges and uncertainties that are likely to arise?	1.9
4. Explain how changes in the external environment could affect achievement of strategic objectives?	1.4
5. Explain how changes in the external environment could impact the availability, quality and affordability of capitals the organization uses (e.g., the continued availability of skilled labor or natural resources)?	1.3

⁴³ The average outlook score of 1.70 indicates a decline in the quality of disclosures from 2014, when the average score was 1.93. Eccles, Krzus, and Ribot. Chapter 7, “Report Quality” in *The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality*.

Eight companies— AkzoNobel, ATOS, BASF, EnBW, KPN, Kumba Iron Ore, Nedbank, and Vodacom—received a perfect score of 3.0 for Outlook. Other high performing companies (scores of 2.5 or higher) included Gold Fields, Natura, Redefine Properties, Siemens, Unilever, and United Utilities. Nine companies—Atlantia, CCR, Konica, Light, Marks & Spencer, Omron, Posco, ArcelorMittal USA, and Intel—received a score of zero for Outlook.

The most difficult question in this section asked companies to describe how changes in the external environment impact the availability, quality, and affordability of the capitals used by the organization. Seventeen companies received a score of zero and eleven received a score of one.

We found parts of the <IR> Framework disclosure guidance in this section to be redundant when taken together with other Content Elements. For example, Risks and opportunities and Outlook both ask for a discussion of how risks/the external environment might affect the business model and strategy/organization. Or, both Risks and opportunities and Outlook seek identification of sources of material risks (e.g., competition, technology, etc.) and expectations about the external environment. It is possible that perceptions about legal exposure also contributes to the reluctance to discuss the future.

Atos and Outlook

One section of the Atos report, “Corporate Responsibility and Sustainability Challenges,” focused on the future in a unique way. We found the section to be visionary in its discussion of the following:

- People – A shared passion for technology
- Business & Innovation – New approaches to generating sustainable value for our customers
- Ethics & Governance – A culture of excellence based on compliance and responsibility
- Environment – Rising to the climate challenge

People, Business & Innovation, Ethics & Governance, and Environment discussed the challenges and trends related to each topic, explained the actions Atos had taken, and explored actions that might be taken by Atos in the future. Among the subjects covered by Business & Innovation included, but not limited to blockchain technology, quantum computing (Figure 15), the Internet of Things, big data, and digital healthcare.

Figure 15 Atos Harnessing the power of quantum

Harnessing the power of quantum

In 2017, Atos moved onto the frontline of quantum computing with the launch of the Atos Quantum Learning Machine (QLM), the world's most powerful quantum simulator. This technology is expected to support advancing research on improving energy supply, protecting the environment and contributing to nuclear safety.

This machine, capable of simulating up to 40 quantum bits (Qubits) in-memory, was installed at the Oak Ridge National Laboratory, the multi-program science and energy laboratory of the US Department of Energy, in 2017.

Researchers at the laboratory are now using the QLM to explore the potential of quantum computing to provide new methods for advancing scientific applications important to the Department of Energy, in the domains of physical science and the applied sciences.

Quantum computing, which is based on the mind-boggling properties of sub-atomic particles, is expected to take High Performance Computing to an entirely new level, supporting developments in areas such as pharmaceuticals and material sciences. To move forward on these issues, Atos plans to set up several partnerships with research centers and universities around the world.



21st century security solution

As the wave of global cyberattacks in 2017 demonstrated, today's organizations are facing cybersecurity challenges of an unprecedented scale and intensity.

To help customers respond to this threat and to protect sensitive data from attack, Atos has launched the Trustway Data Protection Suite. With this comprehensive data encryption platform, businesses can protect, securely manage and migrate sensitive data wherever it resides, whether on-premises or in virtual, public, private or hybrid Cloud environments.



Robert Vassoyan
Group Chief
Commercial Officer,
Atos

"The Digital Transformation Factory combines Atos' extensive experience and expertise in digital applications and infrastructures, electronic transactions and security technologies.

As the trusted business and technology partner of its clients, Atos provides a structured and effective approach to the core transformation challenges in customer experience, business reinvention, operational excellence and trust & compliance, empowering them to adapt and thrive in the digital age."



Secure lines for business calls

To help organizations protect their calls from unwanted intrusion. In 2017, to help Bull, the Atos technology brand, released Hoox for business, a solution that enables complete security across the entire mobile communications chain, from smartphone to applications to infrastructure.

The Hoox solution provides a secure environment for professionals on the move, with complete protection of confidential and strategic data and in full compliance with current regulations. Thanks to the end-to-end security of the solution, Hoox for business prevents interception and intrusion, even if the smartphone is lost or stolen.

Sport takes to the cloud

Digital innovation is changing the face of sport forever, enabling athletes to achieve ever higher levels of performance and helping billions of people increase their enjoyment of the world's greatest sporting events.

As the Worldwide IT partner for the Olympic and Paralympic Games, Atos is leading the way. The Olympic Winter Games PyeongChang 2018 were the first Olympics having all critical IT applications (Olympic Management System & Olympic Diffusion System) remotely managed and hosted on the Atos Canopy Orchestrated Hybrid Cloud, bringing real-time results to the world's media for all 15 disciplines and 102 events.

Atos will now re-use this Cloud-based platform to increase efficiency and flexibility, reduce costs and minimize the environmental footprint of the Olympic and Paralympic Games Tokyo 2020. Hosted in our carbon neutral datacenters, the Cloud platform is also contributing to minimizing the climate impacts of the games. Moreover, it allows worldwide remote accessibility to the venues for a wider audience of fans.



The Case of Danone S.A.

French experts in integrated reporting suggested that we review the integrated report published by Danone.⁴⁴ Unfortunately, we were able to find only an online version of the 2017 Danone Integrated Report. Web-based reports are (at least for us) difficult to review.

During our search of the Danone website, we also found a report titled, Annual Report 2017.⁴⁵ In reality, this is a progress report on Danone's transformation agenda. The letter from Emanuel Faber, Chairman and CEO explains; "People today have quite different expectations for brands. They pay more attention to what they eat and drink, how ingredients are sourced, and how food and beverages are produced, marketed and distributed. They are mindful of a brand's environmental and social practices, and they want to know the people behind the brand. Transparency is key."⁴⁶ In expressing a belief that changing societal expectations of all corporations will drive profound changes in business models and strategy, the board and management are making a statement it is in the long run best interest of Danone to integrate the profit motive with concerns for society and the planet.

Faber added, "Consumers are craving change. They expect large organizations like Danone to bring our scale of impact to change the world for the better. 'One Planet. One Health' is a rallying call to everyone to join the Food Revolution. And we aim to make that Revolution a reality for as many people as possible, across the world."

Danone's transformation process and the CEO's remarks are at the heart of the meaning of integrated reporting. Too many companies in our sample simply bound an existing financial report and a sustainability report into a single document or included one or more of the integrated reporting content elements in their sustainability report. That is not integrated reporting. Danone's actions demonstrate their understanding of the meaning of integrated reporting. An integrated report should provide the capital markets—and society as a whole—with information

⁴⁴ The About Us section of the Danone website states the following. "Dedicated to bringing health through food to as many people as possible, we are a leading global food & beverage company built on four businesses: Essential Dairy and Plant-Based Products, Waters, Early Life Nutrition and Medical Nutrition. At Danone, we aim to inspire healthier and more sustainable eating and drinking practices, in line with our vision - Danone, One Planet. One Health - which reflects a strong belief that the health of people and the health of the planet are interconnected. We deliberately concentrate on high-growth and health-focused categories, and commit to operating in an efficient, sustainable and responsible manner. This unique approach, historically defined as our Dual Project, enables us to create both shareholder and societal value. We hold ourselves to the highest standards, as reflected by our ambition to become one of the first multinationals certified as B Corp™. With products sold in over 120 markets, we generated sales of €24.7 billion in 2017. Our portfolio includes brands present worldwide (Activia, Actimel, Alpro, Danette, Danonino, Danio, evian, Volvic, Nutrilon/Aptamil, Nutricia) and in local markets (Aqua, Blédina, Cow & Gate, Bonafont, Horizon Organic, Mizone, Oikos, Prostokvashino, Silk, Vega)." Danone. Accessed December 26, 2018. <https://www.danone.com/about-danone.html>.

⁴⁵ Danone. Annual Report 2017. Accessed January 23, 2019, <http://iar2017.danone.com>.

⁴⁶ Danone, Annual Report 2017. Letter from the Chairman and CEO, Pages 8-11.

about how an organization's objective should be about "maximizing collective value to *current and future* shareholders, not just today's."⁴⁷ This guiding principles stands in stark contrast to those who would focus solely on "maximizing today's share price for today's shareholders."⁴⁸

This understanding is reinforced in a report section titled "Reconnecting People with the Food They Eat."⁴⁹

At Danone, we believe that each time we eat and drink, we can vote for the world we want to live in. This powerful idea is at the heart of the ongoing Food Revolution, a movement which is inspired by people who care about where their food comes from, how it was grown, how it arrived in their hands and how it impacts their health and the health of the planet. We call these people the food generation.

At Danone, we believe that global food and retail companies can play an important role in this revolution through a transformation of their business models, moving away from standardized food systems to new models based on local diets and leveraging local sourcing.

We believe a healthy body needs healthy food. And healthy food needs a healthy planet. All with healthy ecosystems and strong, resilient social structures. We believe in a food and water ecosystem that works in harmony with people, communities and the environment.

Our dream is to make the Danone logo a symbol of positive change to build a healthier world through food. With our company brand idea, we can bring together our mission, values, brands and social initiatives. The Danone company brand will allow us to turn our uniqueness into a driver of growth and add extra equity to our brands to build consumer trust."

Danone's Operational Framework expressed their vision. "Our portfolio of products offers both an array of healthier choices to be enjoyed on a daily basis and more specific nutritional solutions for every stage of life that we design and develop in a responsible way. We aim to contribute to a more sustainable food system by building efficient resource cycles throughout the whole food chain, from production to consumption. Every day, we embrace our commitment to encouraging healthier and more sustainable eating and drinking habits through our food

⁴⁷ Tim Koller, Marc Goedhart, and David Wessels. *Valuation: Measuring and Managing the Value of Companies*, 6th ed. (Hoboken, John Wiley & Sons, Inc., 2015), 4.

⁴⁸ *Ibid.*

⁴⁹ Danone. Annual Report 2017. "Our Vision: One Planet. One Health," 14.

categories, brands and services. Our Alimentation Tree (Figure 16) is the framework we use to help us organize the activities of our brands around this ambition.”

Figure 16 Danone Alimentation Tree Framework



The symbolism of the tree was explained as follows.

The leaves represent nine health priorities to which Danone contributes through its products and brands. We focus on healthy categories through dairy and plant-based products, waters, early life nutrition and advanced medical nutrition. In the past three years, we have improved the nutritional profile of more than 20% of our products so we can offer the best food and beverages.

The roots of the tree show the actions our brands can take to address environmental challenges, such as fighting climate change, preserving the water cycle, fostering sustainable agriculture, and developing responsible packaging.

The trunk illustrates how our Manifesto—or purpose-led —brands are the main vehicles to impact a greater number of people by providing unique food and beverages based on ingredients sourced in a sustainable way and tailored to local and specific needs. Every day, we strive to improve our brands to make sure that they bring value and have a positive impact on the health of both people and the planet.

The Danone Annual Report 2017 reminds us of a comment captured by coauthors Eccles and Krzus in their 2011 Harvard Business School case, “Novo Nordisk: A Commitment to Sustainability.” Kurt Anker Nielsen, then Chairman of the Audit Committee, said,

We have never ever said that we are conducting our business in accordance with the triple bottom line for other reasons than good business reasons. What does “good business reasons” mean? It means to preserve your license to operate. We want to make sure that customers value our products and continue to buy them. We want to make sure neighbors will not close down our factories, that society will not say no to the development of new products, and so on. We think we can best do that by being open and honest, and explaining what we’re doing. That’s the best way we can develop new products.⁵⁰

The Danone Annual Report 2017 makes it clear that the company wants to differentiate itself from other organizations around the world. Perhaps the people at Danone see themselves as being ahead of many of their peers. What will it take for other companies to keep pace with Danone’s drive to use their “scale of impact to change the world for the better.”⁵¹

⁵⁰ Robert G. Eccles and Michael P. Krzus. “Novo Nordisk: A Commitment to Sustainability.” Harvard Business School Case 412-053. Revised June 2013.

⁵¹ Danone Annual Report 2017, 14.

Comparative Analysis

As noted in the discussion of overall report quality, the countries could be fairly clearly grouped into three categories: High (Germany, the Netherlands, and South Africa), Medium (France, Italy, South Korea, and the United Kingdom), and Low (Brazil, Japan, and the United States). Given the diversity of countries within each category, much further analysis would have to be done to explain these differences in terms of geography since we would need to identify common geographical characteristics in very different countries, especially those with the lowest quality reports. Caution should also be applied in doing a comparative analysis given the small sample of reports in each country, although it is worth noting that five reports is a small percentage in some countries (e.g., Japan) and high in others (e.g., the United States)

However, it is interesting to note that although there are five European companies in our analysis, none of them fall into the Low category. This is not surprising given the greater commitment in transparency in Europe, driven by both cultural and regulatory factors, such as the Directive 2014/05/EU of the European Parliament and of the Council of 22 October 2014.⁵² But this does not explain why report quality is higher in Germany and the Netherlands. We also have no ready explanation for the differences between our two Asian countries, Japan and South Korea. While the growth in Japan has been rapid and the number of integrated reports is high, the overall quality is low. Translations into English reports is obviously not an explanation here but it could have been a hypothesis if both countries would have ranked in the Low category. Even then we would have doubted the veracity of this explanation since our scoring criteria are not sensitive to slight variations in language. It is also worth noting that the United Kingdom is in the Medium category even though the IIRC is based in London. This suggests that there are geographical factors in the United Kingdom that override the physical location of the IIRC.

There are also few insights to be gleaned from a comparative analysis across the specific scores. The Netherlands and South Africa are in the High category for all scores but Germany falls to Medium for Performance and Strategy and Resource Allocation. Italy rises to High for Materiality and France does for Outlook. Brazil and Japan rise to Medium for Materiality, leaving the United States as the only country ranked Low. Japan rises to Medium in Risks and Opportunities and Strategy and Resource Allocation. Italy and South Korea fall to Low in the latter.

And just as the Netherlands and South Africa are the only two countries ranked High across all scores, the United States is the only country ranked Low across all of them. In most cases, the

⁵² The full title of the directive is “Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.” European Union, EU Law, EUR-Lex. Accessed February 27, 2019, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095>.

score is dramatically low and much lower than the second lowest score. It is 0.72 for Materiality (vs. 1.60 for France and Japan), 0.48 for Risks and Opportunities (vs. 0.84 for Brazil), 1.05 for Strategy and Resource Allocation (vs. 1.25 for Italy and South Korea), and 0.20 for Outlook (vs. 1.76 for Brazil). The only score for which the United States is not ranked last is Performance (1.45 along with Brazil) where Japan (1.10) has the lowest score. We are not surprised by the results for the United States given its litigious environment and a strict, for the most part rules-based approach to disclosure. Even though an integrated report is not an official filing document, we suspect that United States companies are still approaching them from the perspective of their official 10-K filing. Conversations with United States companies over many years about why they are not pursuing integrated reporting supply anecdotal information supporting this hypothesis.

At the other end is South Africa, discussed substantially above. Here we simply add that South Africa is the only country where integrated is mandated on a “comply or explain” basis in a much more principles-based and less litigious reporting regime. Yet it is also worth noting that the differences in overall and specific scores between South Africa and the Netherlands are fairly small South Africa ranks first and the Netherlands second in every score except for Outlook where Germany is second at 2.68 and the Netherlands third at 2.48. This clearly suggests that legislation and regulation is not a necessary pre-requisite for integrated reporting. It can actually cut both ways, being positive in South Africa, negative in the United States, and neutral in the Netherlands.

An interesting and useful further research project would be to better understand the conditions supporting and inhibiting the quality of integrated reporting in these 10 countries. Obvious variables to consider are legislation and regulation, the perceived and real risks of litigation, investor demand, the fiduciary duty of board directors, and the stakeholder orientation of companies. From this analysis lessons could be learned about how to accelerate integrated reporting.

Conclusion and Recommendations

The quality of integrated reporting has not significantly improved since our last studies.⁵³ All companies surveyed from South Africa, The Netherlands, and Germany produced excellent integrated reports, as they have in the past. Most of the reports published by French and Italian companies were very good and showed improvement compared to prior years, while the United Kingdom had pockets of excellence in integrated reporting.

⁵³ Eccles, Krzus, and Ribot. Chapter 7, “Report Quality” in *The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality*. Eccles, Krzus, and Ribot. “Models of Best Practice in Integrated Reporting 2015.”

The wide gap in the quality of integrated reports around the world reveals much more than whether companies in one country adhere to the <IR> Framework Guiding Principles and Content Elements better than those in other countries. Given the absence of generally accepted and enforceable standards for integrated reporting, companies are free to self-declare that they have published an integrated report, even if in doing so they demonstrate a misunderstanding of the concept. Based on this fact we make the following three recommendations.

First, use the South African model to create a global task force to compile best practices at three geographic levels: global, regional, and country practices. This task force could also have sub-task forces that provide sector-specific best practices. A critical element of this task force will be the involvement of the investment community since it is the target for integrated reports and their information needs must be well understood.

Second, the IIRC should partner with both a data provider to maintain a global database of best practices and case studies, and with an app/software provider to provide the interface, be it a website or software product for accessibility, analysis, collaboration, and dissemination of resources with both geographic and sector relevance.

Third, the global task force and the IIRC should more explicitly recognize that integrated reporting is far more than producing a paper or electronic paper document, even though that is the basis of our analysis in this chapter. The most sophisticated integrated reporting companies are increasingly leveraging the Internet to provide information in much more flexible, user-friendly, and compelling ways. Understanding best practices for “reporting” vs. just “reports” is equally if not more important.

It is highly unlikely that many, if any, other countries will follow South Africa in mandating integrated reporting, at least in the short term. Thus, the best way to speed its adoption is for the corporate and investment communities to mobilize in order to drive adoption and improve the quality of integrated reporting for the benefit of both and society at large.