

3rd Colloquium Memorandum

Integrated Thinking and Doing an Integrated Report

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Message from the patron

Professor Mervyn King SC

The Good Governance Academy

I conceived the idea of the Good Governance Academy (GGA) and implemented it in March 2019, on the basis of Sustainable Development Goal 4, quality education, and Sustainable Development Goal 17, collaboration. The GGA aims to hold two colloquia per year on vital governance and business science issues which need to be covered and shared as a matter of public interest by institutions and business schools around the world.

In my various international capacities, I have spoken and lectured at many of these universities and business schools, in over 60 countries. During this time, I found that not every institution views the subjects in the business science cluster in the same way. It is these matters that the GGA will be discussing. The first colloquium discussed Value Creation in a Sustainable Manner, the second Effective Leadership and now, the third on Integrated Thinking and Doing an Integrated Report.

Following every colloquium we produce a precis of the event and distribute this precis through multiple international GGA supporting organizations. The precis of the second colloquium went to over 2.2 million people. This third colloquium was attended by over 800 people across 39 different countries, excluding the over 200 who viewed the live stream of the event. This precis will also be distributed by our support organizations to all their stakeholders.

The need for more than financial reporting

Sustainability reporting is one such area in which, I believe, not every institution is of the same mind. My view arose originally out of my background as chairman of the United Nations governance and oversight committee.



The International Federation of Accountants (IFAC) arranged a meeting at the United Nations headquarters in Geneva where a candid conversation was held. IFAC noted that it had become clear to them that to do an annual report consisting only of financial information

according to financial reporting standards was not sufficient for a Board of Directors to discharge their duty of accountability. Sustainability reporting started at the end of the 20th Century and I became chairman of the Global Reporting Initiative, which is still the major standards setter on sustainable reporting in the world.

The multitude of standards

Today we have many organizations setting standards for reporting across the world. These standards really fall into two great reporting clusters: the ESG cluster and the financial reporting cluster.

1. ESG - Environmental, Social, and Governance

The International Integrated Reporting Council (IIRC) started the Corporate Reporting Dialogue. The purpose of this dialogue was to create a platform for the providers of the major reporting frameworks to come together and endeavour to seek commonality, for example, one standard for sustainability reporting. This approach is gaining support.

2. Financial reporting

With respect to the financial reporting cluster, however, such moves to a common framework are not merely a case of dialogue. As example, for the Financial Accounting Standards Board (FASB) to come on board, an act of the Congress of the United States of America would be required to effect change. It is not a possibility for the convergence of standards in the foreseeable future in this cluster.

A clear understanding is required

In order to discharge its duty of Accountability, a board needs to apply its collective mind to take out that which is material and report it in clear, concise and understandable language because the financial reporting speak, such as IFRS, has become almost incomprehensible to the vast majority of stakeholders. Sustainability reporting with all its standards has become difficult to comprehend and, in fact, knowledge is being swamped by information.



Integrated Reporting is critical because it guides the Board's collective mind to clearly highlight the material matters being those matters which impact on the three critical dimensions for sustainable development – the economy, the environment and society.

Stakeholder needs, interests and expectations

In South Africa, we couldn't rely on the primacy of the shareholder governance model because of the fact that the majority of South African citizens had not been in the mainstream of the economy. We had to create a new model.

In South Africa's first corporate governance report, which assumed my name as Chairman, the King Report, we said that Boards should learn and understand what are the legitimate and reasonable needs, interests and expectations of the company's stakeholders and take all those into account but then make a decision in the best long-term interests of the company. Of course

there would be trade-offs between those needs, interests and expectations but Boards would deal with that by making decisions in the best interest of the health of the company.

This stakeholder-inclusive approach has become generally accepted in the world today – long-term sustainability depends on consideration of stakeholder needs, interests and expectations.

Coronanomics

Today we face a critical time - we are in a sea of double crises: an economic crisis and a pandemic. Our organizations are operating in this sea of, what I have termed, Coronanomics. Boards need to make decisions in adverse economic conditions, which are getting worse because of the regulations resulting from the pandemic, and the virus itself. In this Coronanomics environment, the highest imperative in the short term, at least, is survival.

Boards need to go further with this stakeholder-inclusive and company-centric thinking in this Coronanomics environment. Boards have to learn to also consider the hardships and tribulations the company's stakeholders have suffered and are suffering. Boards need to think on an integrated, collaborative, compromising basis. For companies to survive there have to be compromises between a company and its shareholders.

Integrated Thinking and Integrated Reporting

When the topic for this colloquium was decided, we didn't know of the Coronanomics situation – today we do, and integrated thinking has become more critical than ever.

We need our companies to survive because when the economy starts growing and thriving again, the nucleus of the company needs to be in place. If the company goes into liquidation now, the infrastructure would be sold at knock-down prices, human capital would be dispersed and it would be almost impossible to recreate the business of that company.

Survival is critical at this juncture in the history of South Africa and of the world. The importance of integrated thinking and doing an integrated report has become more important with Coronanomics.

Agenda and source materials

The colloquium was held by Zoom webinar on 20 May 2020.

The agenda was as follows:

- WELCOME and logistics – Ms Carolynn Chalmers (programme director)
- OPENING comments – Prof. Mervyn King
- INTEGRATED THINKING to create value in a sustainable manner – Prof. Fiona Robertson
- HOW TO do an integrated report – Ms Leigh Roberts
- THE CFO becoming a Chief Value Officer – Mr Mark Hoffman
- OUTLOOK as envisaged in the integrated reporting framework – Prof. Graham Terry
- PANEL discussion, questions and answers – facilitated by Ms Carolynn Chalmers
- CLOSING summation – Prof. Mervyn King

The live stream as well as the individual presentations are on our YouTube channel (please subscribe): <https://www.youtube.com/channel/UCMVLUWNCeyVSQK0n9HiNrxA>

The Good Governance Academy community contains all the presentations as well as the content from the prior colloquiums. Register for access on the GGA website (<https://www.goodgovernance.academy/>) and click on “COMMUNITY”.

The GGA Facebook Page: <https://www.facebook.com/TheGoodGovernanceAcademy/>

The GGA LinkedIn Page: <https://www.linkedin.com/company/14071752/admin/>

Integrated thinking to create value in a sustainable manner

Dr Fiona Robertson

In her presentation Dr Robertson explains the concept of Integrated Thinking and why she believes it is important for sustainable value creation. She believes that “unintegrated thinking” has caused the world we live in today and explains integrated thinking is not just important but also essential for future sustainable development. In her presentation she also explains what integrated thinking is and how it can be applied in practice and then concludes with the way forward in this regard.

Context - the times we live in

Dr Robertson believes that the times we live in is a result of “unintegrated thinking”. She explains that the world appears to be at a crossroads currently: new technologies are opening up new opportunities to boost economic growth, reduce inequality and promote inclusiveness; but we are also seeing a world de-globalizing, with civil wars and local populism driving uncertainty about international relations. We have an important choice to make between a more open, inclusive and interconnected world and one that is closed, siloed and unequal.

Dr Robertson explains that thoughtful leaders are increasingly recognizing that we are not only failing to solve the persistent problems we face, but we are in fact causing them. All too often solving problems create unanticipated side-effects (of our own actions) such as:

- ▶ Overpopulation
- ▶ Income inequality
- ▶ Climate change
- ▶ Pollution
- ▶ Resource scarcity
- ▶ Homelessness and squalid living

Integrated thinking helps us to expand the boundaries of our mindset, helps people and organizations see themselves as part of a larger system so that we become aware of and take responsibility for the outcomes created by our decisions that shape the world in ways desired and undesired.

To try and tackle climate change and other issues, the parties behind the formation of the International Integrated Reporting Council (IIRC). The IIRC undertook to drive integrated thinking forward with a vision for a world in which integrated thinking is embedded within mainstream business practices facilitated by integrated reporting as a corporate reporting norm.

The rapidly changing world

The globalization of the world's businesses which has occurred over the last few decades has made many companies more powerful than some national governments. Globalization has also made it easier to exploit cheap labour, plunder natural resources and cause unsustainable consequences for the natural environment.

Society is becoming more and more intolerant of this behaviour as follows:

- ▶ Increased global awareness of environmental sustainability
- ▶ Reduced trust on a global scale
- ▶ Societal demand for transparency
- ▶ Changing information needs
- ▶ Technological disruptions
- ▶ 78% of investors care more about sustainability compared to 5 years ago
- ▶ 94% of millennials want to use their skills to benefit a cause
- ▶ From short term wealth to longer term health
- ▶ Pandemics

In addition these challenges are driving organizations to innovate and do more with less. As a result organizations are becoming more aware of their purpose and how to achieve their purpose in this context. This leads to a consideration of the organization as a system within the environment rather than a series of internal operations as well as the consideration of the interdependencies between the parts of the system. Of course organizations still need to make a profit but the business must also make sure that it makes and does not destroy value for key stakeholders and society in the long-term.

Dangers of pursuing short term financial profit

The pursuit of short-term profit to the detriment of other key stakeholders can impact on the long-term sustainability of the economy as well as the organizations that continue to pursue that strategy. It helped create the financial crisis and also some of these other disasters:

- ▶ **Financial Crisis**
"Pay packages that incentivised excessive risk-taking in the pursuit of short-term gains played a central role in the financial crisis. We cannot go down that road again"
(<http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/11229407/Short-termism-is-a-wolf-stalking-the-equity-market.html>)
- ▶ **Tesco**
"It seems clear to me that pressure to make the company's financial situation appear stronger in the short term trumped the need to focus on improving its long-term performance"
(Simon Walker, Director General of the Institute of Directors)

▶ **Volkswagen**

“Why would a company such as Volkswagen lie to its customers and government emission testers? Conventional wisdom places the blame squarely on the pursuit of shareholder value which, it is claimed, has fuelled pernicious short-term thinking and irresponsible behaviour”

(Alfred Rappaport - professor emeritus at the Kellogg School of Management and author of 'Creating Shareholder Value')

Establishing long-term stakeholder relationships such as establishing a loyal customer base, developing intellectual capital and managing environmental risk tend to fall off the radar when corporate executives think short-term but they are critical to long-term success. Those which have invested for the long-term have proved to be much more resilient and have given these companies the ability to react to crises in a way that other companies lack.

Research has proven that long-term focused companies surpass their short-term focused peers in several important financial measures: revenue, earnings, market capitalization, economic profit and job creation. These companies also delivered above average returns to shareholders.

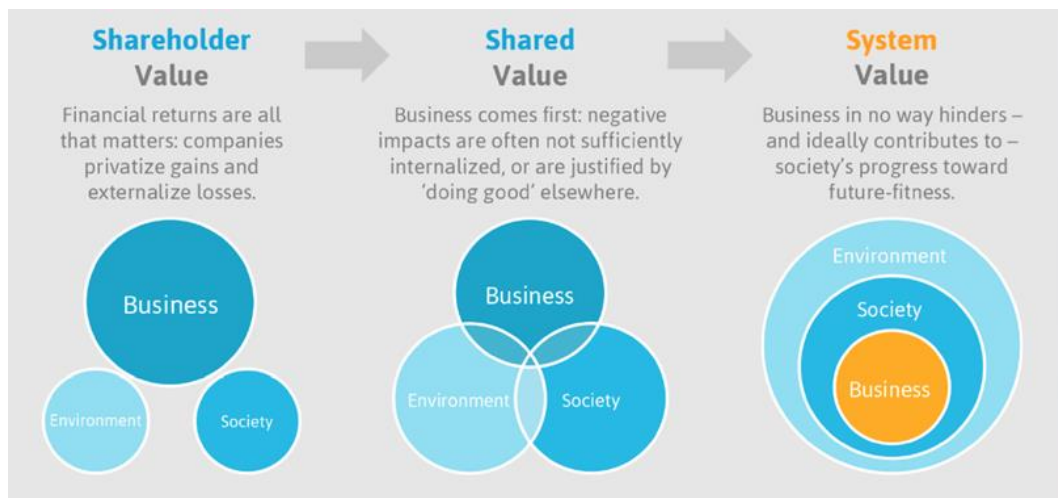
We need to educate our future leaders

In this rapidly changing environment, businesses need to think and act differently. Gaining top management support is essential for integrated reporting and integrated thinking adoption.

Leaders of the future need to be equipped with the right education and training to:

- ▶ Ensure that they are able to influence and change the path that people and organizations take;
- ▶ Ensure that future development is done sustainably;
- ▶ To meet current needs without compromising the ability of future generations to meet their own needs

A company that has a narrow view, based on financial capital alone fails to mitigate its risks and realize its opportunities. Organizations are therefore shifting their focus from considering just financial capital, i.e. shareholder value, to shared value based on the premise that sustainable development requires the recognition that the three dimensions of sustainable development (the economy, society and the natural environment) are indivisible and integrated. This requires an organization to consider and if necessary shift its purpose to create sustainable value and demonstrate good corporate citizenship.



A move to this thinking is a global phenomenon, the ethos of which is compatible with integrated thinking.

Climate Change – a call to action

According to the book, *The Six Capitals*, accountant's failure to account for nature represents the biggest accountancy scandal of all in terms of externalities. However, finally recognizing the importance, global accountancy bodies are now calling on accountants to put sustainability and the fight against climate change at the forefront of their work.



They call on accountants to firstly integrate climate change risk into organizational strategy, finance, operations and communications and secondly supporting sustainable decision making by providing sound advice and services in this regard. But accountants need to acquire additional skills to support this change, skills in non-financial accounting and

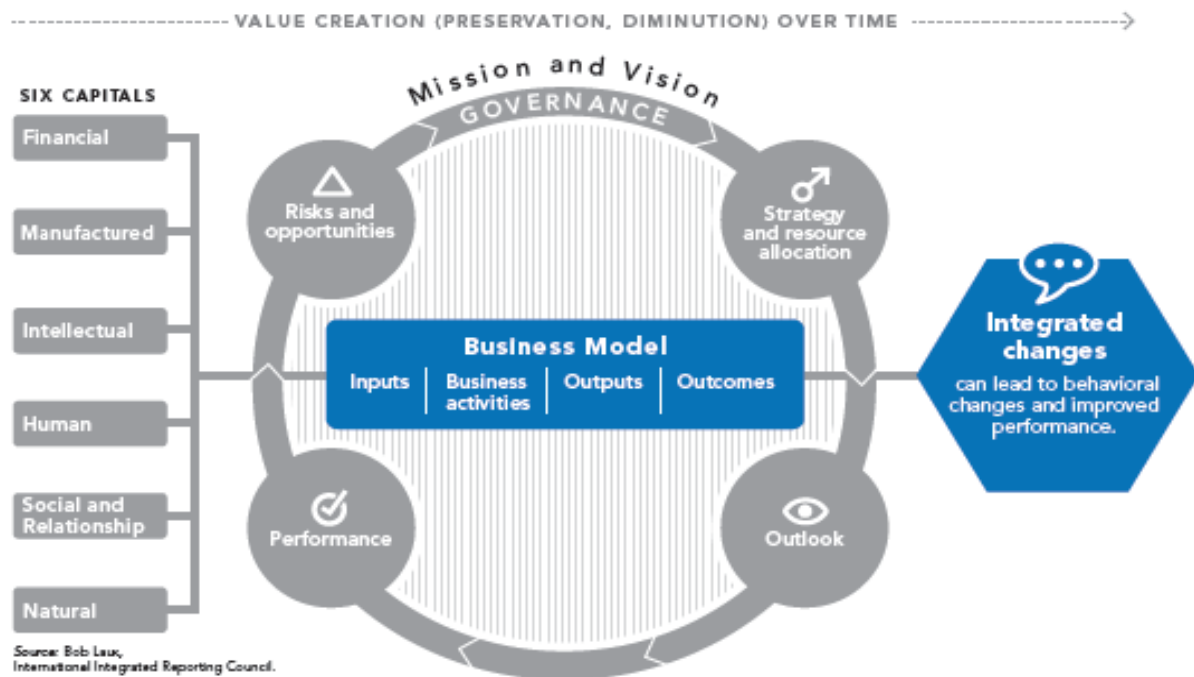
auditing, and to change their mindsets to embrace broader aspects of business externalities.

Integrated thinking defined

Concerns over climate change, depletion of the world's finite natural resources and societal inequities which current financial and sustainability frameworks fail to address have been significant drivers to the introduction of integrated reporting as an alternative to existing practices.

Integrated reporting is based on integrated thinking which is defined as 'the active consideration by an organisation, of the relationships between its various operating and functional units, and the capitals that the organisation uses or affects which leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term' (IIRC 2013a, p.33).

In integrated reporting rather than using a narrow focus on financial profit, value is created and destroyed through the short-medium and long terms through the lens of six capitals (Financial, Manufactured, Intellectual, Human, Social and Relationship and Natural) within a company's business model which represents its chosen set of inputs, business activities, outputs and outcomes.



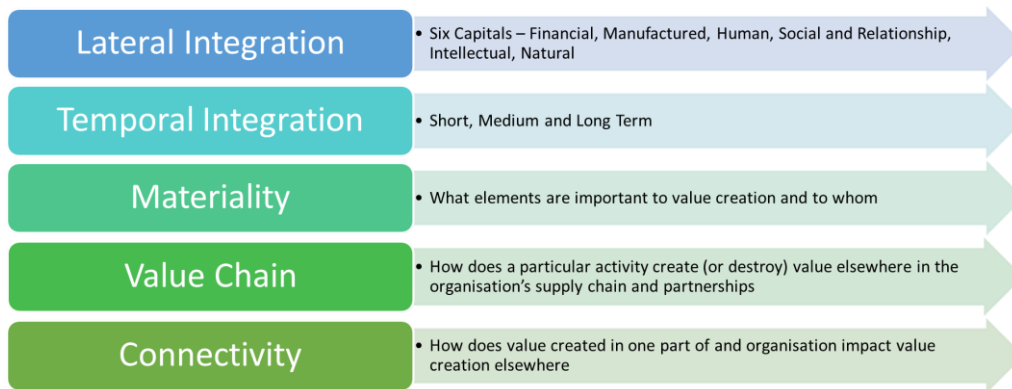
Integrated thinking involves:

- ▶ Fostering collaboration and the integration between different aspects of the business to consider the business model and identify trade-offs between the uses of the different capitals in the development strategy.
- ▶ It is about connecting performance with purpose.
- ▶ It involves identifying, executing and monitoring business decisions and strategies for long-term value creation.
- ▶ It builds on the need to reconcile competitiveness and sustainable growth within the context of an inclusive business model in order to take advantage of the opportunities and face the challenges of the market.

Successful integrated thinking requires an appropriate culture, communication systems and training which lead to an enhanced understanding of the relationships between the operating and functional units of an organization. This understanding creates significant cultural changes and attitudes and ways of doing things and facilitates a more productive dialogue between departments and helps break down internal barriers and silos thus improving decision making leading to better performance.

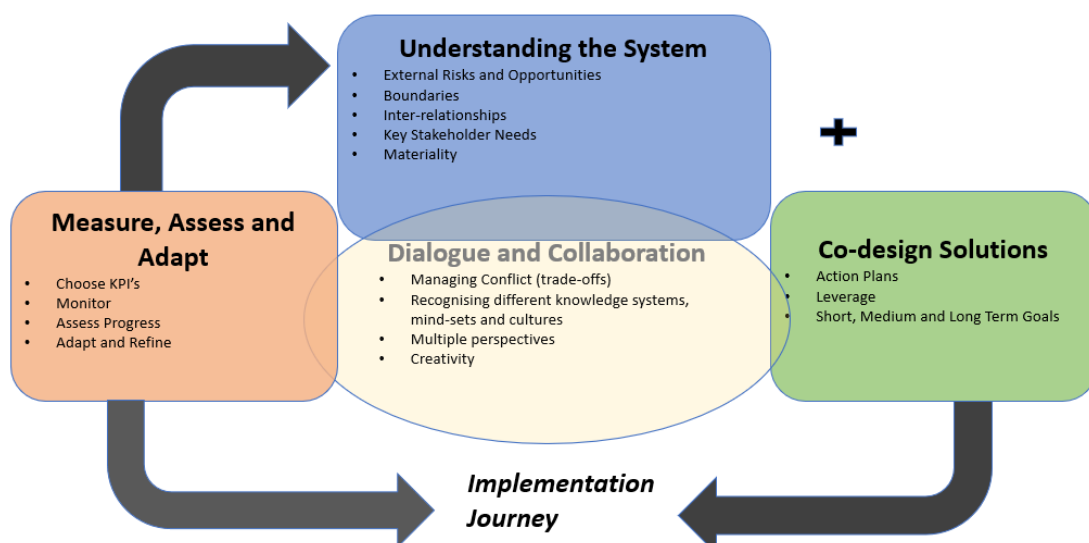
Integrated thinking tools

Integrated thinking tools assist organizations to move from a shareholder-centric model to a model that considers:



Integrated thinking helps organizations to understand the system in which they operate. The operating context and external factors should define the environment in which the organization interacts. These include the macro economic situation, the availability of natural resources and social capital, market circumstances, the competitive landscape, technology, supply chain, labour conditions and the regulatory environment. An organization needs to continually monitor these factors when defining and fine-tuning its business model.

Integrated thinking helps organizations, in this way, to anticipate the unintended consequences of their actions.



Integrated thinking – the way forward

Criticisms

In looking at academic literature, several critics argue with the application of integrated thinking:

- ▶ **Lack of clarity about what <IT> is**
 - “vaguely defined and how the concept can or should be applied is not clear”
 - “the IIRC has not fully defined and articulated the concept of integrated thinking, and there is no shared consensus among practitioners”
 - “no research that illustrates actual cases of IT in practice, why IT takes place”
- ▶ **Concept Criticisms**
 - “penetrating an entrenched culture will not be easy because companies that take on <IR> are, most likely, successful businesses that are already “well managed and transparent”
 - “it encourages all staff to think in the same way and focus on the same organisational risks”
 - “silos are still needed”

Advantages

Several academics find evidence that integrated thinking can lead to significant internal and external benefits:

- ▶ **Internal Benefits**
 - Improvement in internal communications
 - Greater pro-activity
 - Break-down of organisational silos
 - Integrating a broader set of ideas and encouraging the firm to think longer-term
 - Better decision-making through improved understanding of risks and opportunities
- ▶ **External Benefits**
 - Improved financial performance and firm value
 - Attraction of longer-term investors, reduction of bid-ask spreads for investors and improved accuracy of analyst forecasts
 - Increased trust, legitimacy and understanding with stakeholders

Small and Medium Enterprises

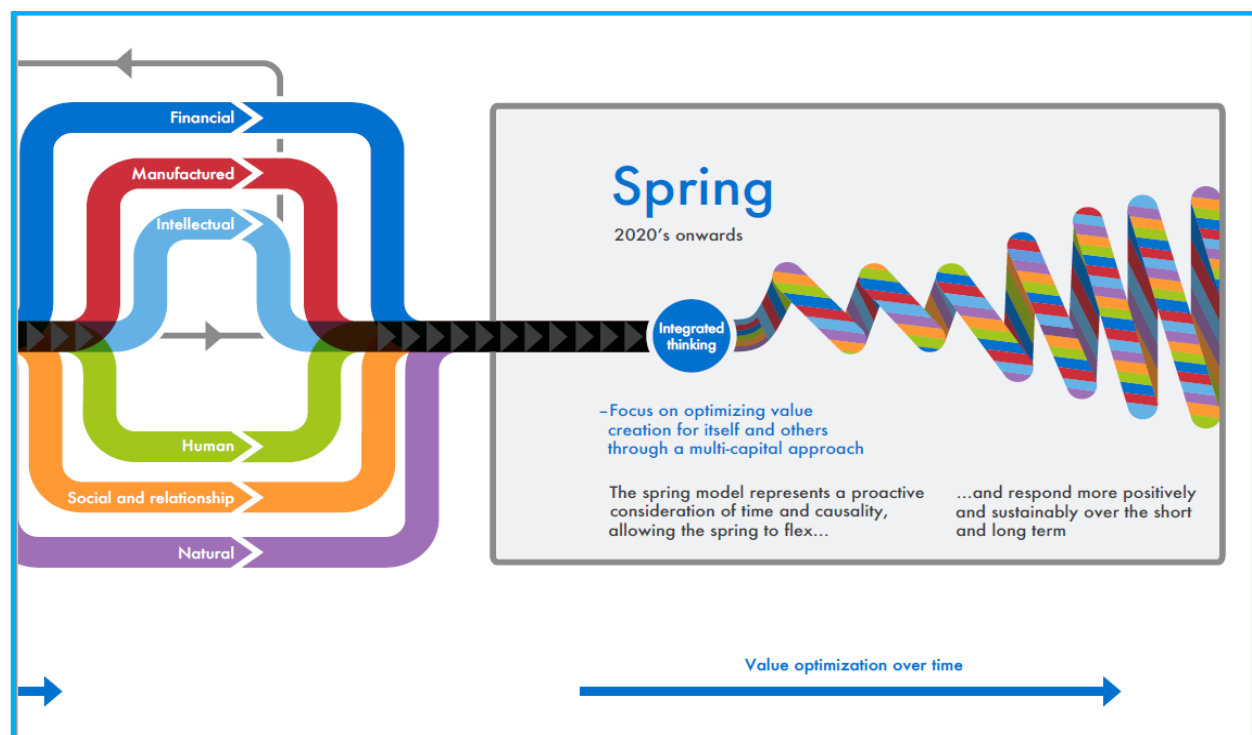
Integrated thinking isn't just for larger organizations. SMEs can more easily move toward IR for following reasons:

- ▶ rooted in the territory of origin
- ▶ smaller size
- ▶ presence of the entrepreneur and his/her family in company operations
- ▶ Importance of social and relationship and human capitals

A new model for Integrated Thinking

The IIRC's strategy group published, in December 2019, a new model for intergrated thinking. Dr Robertson recommends that one should read this report to better understand the current thinking:

https://integratedreporting.org/wp-content/uploads/2020/01/Integrated-Thinking-and-Strategy-State-of-Play-Report_2020.pdf



The report envisages the move of reporting from a single financial string to six strings, the capitals whose impact needs to be evaluated together. Taken together and over time, the actions of these strings can create value in new ways or magnify the value creation process over time or scale back the impact of a negative impact in one of the strings. Visually if we were to tie the strings together,

we could visualize the result as a spring which represents a proactive consideration of timely causality allowing the spring to flex and respond both positively and sustainably over the short-medium and long-term.

It has taken over 150 years for the financial system to evolve, so the development of integrated thinking will necessarily be an evolving process. The integrated thinking group is seeking our feedback (businessnetwork@theiirc.org). The group aims to learn and develop a lot more in the coming year and to share that in a new report at the end of 2020.

Dr Robertson urges everyone to make a difference by providing feedback and be part of making changes that will ensure that integrated thinking develops to safeguard our future economy, protect our future environment and create a better future for us all.

REFERENCES

DR Robertson's presentation can be found on the Good Governance Academy community site. Register for access on the GGA website (<https://www.goodgovernance.academy/>) and click on "COMMUNITY".

How to do an integrated report

Leigh Roberts

In her presentation Leigh Roberts outlined her seven rules of integrated reporting. She reminded the audience that an integrated report should be:

A concise communication of how an organisation's strategy, governance, performance and prospects - in the context of its external environment - lead to the creation of value in the short, medium and long term.

Leigh emphasized that the integrated report should be the first thing that one should read when wanting to find out more about a company. One can envisage the integrated report as a "cake" where the slices of the cake are the various capitals, where financial capital is just one slice of the cake.

Rule 1: Follow the International <IR> Framework

Everything one needs to know about integrated reporting is contained in the framework:

<https://integratedreporting.org/resource/international-ir-framework/>

There are three main sections:

- ▶ Concepts – providing an overview of the terminology
- ▶ Guiding Principles – providing guidance on what should be included in the report
- ▶ Content Elements – provides guidance on where this information should be disclosed

The report should satisfy the <IR> framework's 19 requirements if it is prepared in line with this standard.

The <IR> Framework is accepted around the world as best practice. It was created by the International Integrated reporting Council (IIRC) which is an independent, multi-stakeholder international body.

The Integrated Reporting Committee of South Africa has produced a useful *Starter's Guide*:

http://integratedreportingsa.org/ircsa/wp-content/uploads/2017/05/IRCSA_StartersGuide.pdf

The framework is being "tweaked" and the updated version was released for public comment on 21 May 2020. There are no major changes in this consultation draft. The two areas which were sent out earlier this year for consultation were the:

1. The Board Responsibility Statements
2. Explaining the Business Model

Both of these are addressed in the consultation draft of the framework. The draft is open for 90 days until 19 August 2020: <https://integratedreporting.org/2020revision/>

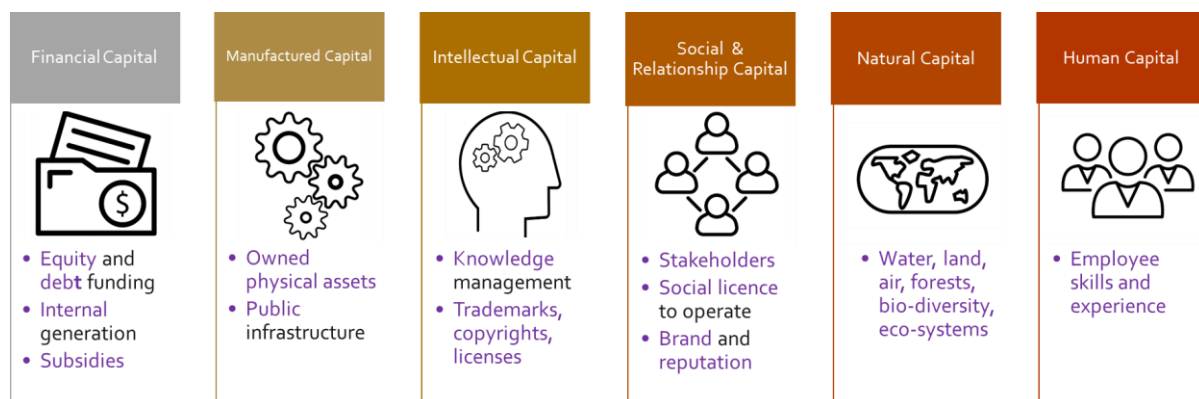
Rule 2: Understand the concepts

There are three fundamental concepts:

1. The 6 capitals
2. Value creation (value erosion and value preservation)
3. Integrated thinking

These concepts are connected and they build on one another. The guiding principles and the content elements give the context for the application of these concepts.

The 6 Capitals



One can see the capitals as a classification system for all the resources and relationships that a company uses and respects. The capitals extend to what the company owns but also what the company does not own. The definition of each of the capitals can be changed to meet your needs. For example, brand and reputation may be better placed in intellectual capital rather than social and relational capital. If there is a deviation, it is important that this deviation is explained.

Importantly, the integrated report does not need to be structured around the six capitals, but it is a good check for completeness. All six capitals are relevant and significant to all organizations and they are all interconnected.

Value Creation and Erosion, Preservation

This is the effects on the 6 Capitals resulting from your organisation's products & services, waste and business activities.

1. These effects can be positive, negative or neutral where positive effects are value creation and negative are value erosion or destruction.
2. Value creation is the outcomes, effects and/or impacts on the 6 Capitals in the short, medium and long term
3. Value creation is not:
 - a. The same as the terms stakeholder value or shared value! These terms usually have excluded the negative effects on the 6 capitals. For transparent and balanced reporting this must be included!
 - b. Aspirations, it is what it is and not what the organization hopes or aims for it to be.
 - c. The value added statement. This statement is purely financial and is only one slice of the cake.

Rule 3: Integrated Thinking

This is a fundamental concept. The definition of integrated thinking is contained in the framework. It covers the different departments talking to one another and the interconnectivity between the capitals. Integrated thinking is common sense – it is fundamental for decision making, understanding the effects and consequences of the choices made during the decision making process.

The crux of integrated thinking is considering all 6 capitals in the interests of the long-term health of the company. It is integral to King IV's ethical and effective leadership and the strategy of the organization. It needs to be considered when assessing the risks and opportunities faced by the organization and when reporting on the organization's decision making and performance. Integrated thinking recognizes and realizes the "connectedness" of things.

When integrated thinking is achieved in an organization

One can recognize when an organization has achieved integrated thinking using the following indicators:

- ▶ There is no longer separation between non-financial and financial performance in the company – on wide acceptance that each affects the other.
- ▶ All functions/ divisions share in the company's strategy and work together to achieve it.
- ▶ Decision-making is carried out with a longer-term view on value creation and how the decisions impact on the company's resources and its relationships.

Source: Integrate: Doing Business in the 21st Century by Mervyn King and Leigh Roberts (Juta)

Rule 4: Responsibility - Integrated Thinking/ Integrated Report

It is important to ensure that responsibilities are identified, delegated and recorded in agreements. The delegation of authority needs to accompany these responsibilities. Consider the various roles:

- ▶ Board
- ▶ Executive / senior management
- ▶ Management
- ▶ Staff

All these roles in an organization have a role to play.

The Board of course then needs to take accountability for the organization's integrated report. This is articulated in the Statement of Responsibility.

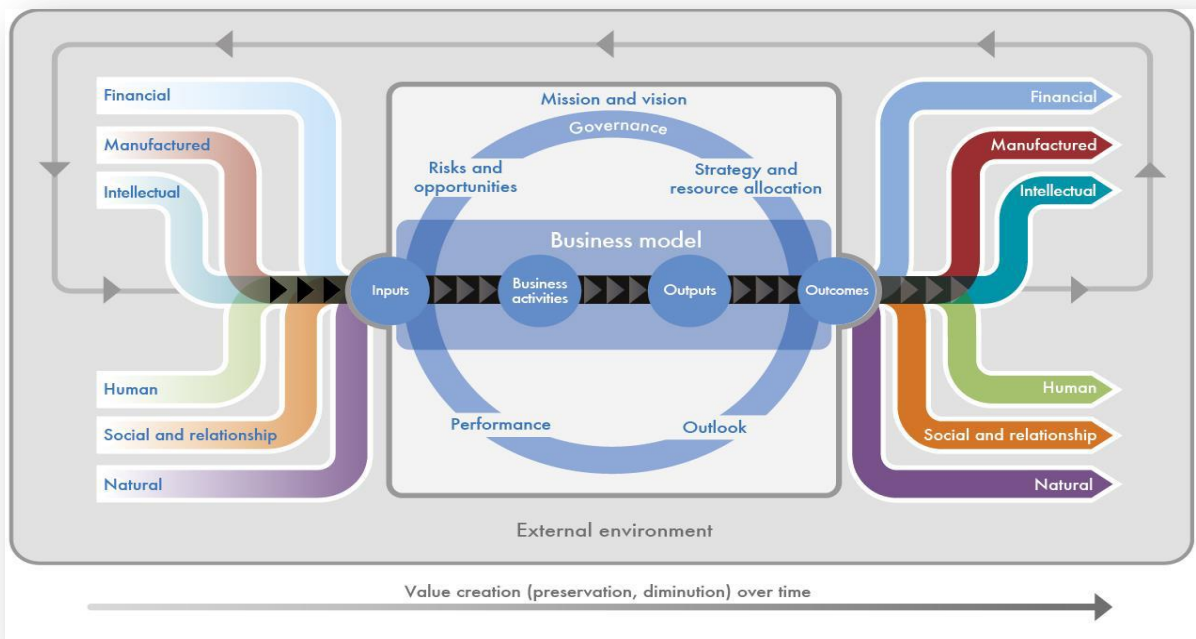
Rule 5: The Octopus



“Olly” the octopus assists to structure the corporate reporting suite. The “Head” is the integrated report with a myriad of other external reports connected to the integrated report. These are for example, the financial statements; the sustainability report; and the governance information. The “Arms” provide the subject specific detailed reports.

This concept is important for structuring the corporate reporting suite, but is also important for structuring the integrated report. The integrated report holds all the material information that one needs to know about the company and all the detailed information can be found in one of the subject matter reports. One does not want a 1000 page integrated report. One wants concise, material information in the integrated report with the details in the associated reports.

Rule 6: The Tarantula



“Tommy” the tarantula is from the <IR> Framework. If one understands this diagram, one will clearly understand integrated reporting. Many preparers are confused by output and outcomes. An easy way to remember is that outputs can only be products, services and waste.

The grey line across the top shows the integrated thinking – the outcomes from the 6 capitals today will have an impact on the capitals input into the business model in the future. The diagram also shows the content elements of the <IR> - the 7 headings in the blue circle. The consultation draft has made some changes to this model.

Rule 7: Structure of the Integrated Report

If one gets the structure of the report correct, one can avoid duplicate information and achieve a concise and readable report.

The 8 Content Elements are flexible one can start anywhere as long as they are all represented in the report. The structure should be determined by the way in which the organization's value creation "story" is told.

Organizational overview

It is useful to start with an organizational overview of "who" the organization is and "what" it does. Explain the external environment (no company is an island) but importantly how this influences the organization. This link is important and indicates the interconnectedness of the organization.

Business model

Then show the business model which could be a 2-page diagram starting with the material inputs from each capital. Show the ZAR or USD amounts and provide page references to where more details can be found in the document. For example, if products and services are addressed in the organizational overview, a reference can be made to this information. In summary, the business model diagram needs to be as simple as possible but link readers to where more detail can be found.

It is then important to list the outcomes – positive and negative outcomes, not just the "good news" but a balanced view of the outcomes resulting from the application of the business model. This balance affects the credibility of the report. Of course the Board's role is in ensuring that there is this transparent reporting.

Stakeholder engagement

Behind the business model one could place the stakeholder engagement table / infographic. This could show the organization's identified stakeholders and their needs, wants and expectations, and the organization's response.

Strategy

Strategy could follow - the Key Performance Indicators (KPI) and Targets for the short, medium and long-terms. Importantly this content should identify which of these KPIs are used in remuneration incentives and close the value creation loop.

Following information

Following on from strategy, one could show the risks and opportunities, provide the year's performance, governance information and then give your outlook summary.

Audience

The <IR> framework refers to the target audience as the providers of financial capital, the investors. In South Africa, the King Report is steering the integrated report to being the company's value creation story to be read by all stakeholders. This latter view is gaining traction internationally and is certainly becoming the predominant view.

The pandemic

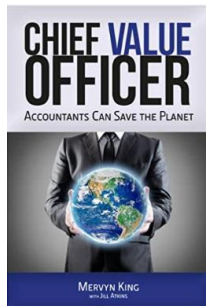
Finally the <IR> Framework is perfectly positioned to guide reporters with respect to the disclosure of the pandemic and its effects because of its multi-capitals basis and integrated nature. The Integrated Reporting Committee of South Africa is working on a Frequently Asked Questions (FAQ) paper in this regard which is expected for release later in the year.

Audiences will want to know how the virus has impacted the value creation story, the changes the organization has had to make and its outlook. In particular readers will want to see the immediate, short-term survival plan which will be a focus on financial cash-flow and then, importantly, the access to future capital. Information will come into each and every content element of the Integrated Report. Of course, it will be one of the organization's top material matters.

Addressing all of the capitals will give audiences a much better view of the going concern nature of the organization, a much better definition than that which can be provided by the accountants. Thinking and decision making in an integrated way will certainly support organizations in their responses to this pandemic. This pandemic is a significant reminder of the connectivity of things!

The CFO becoming a Chief Value Officer

Mark Hoffman



In his presentation Mark Hoffman explains the concepts of value and value creation, and the changing role of the Chief Financial Officer in the context of value creation. The presentation provides a lot of content from the book Chief Value Officer: Accountants can save the planet by Prof. Mervyn King and Jill Atkins.

What value means today

Historically Stock Exchange indexes have been our primary value proxy and we have seen some spectacular in these stock exchanges going right back to the Wall Street crash of 1929 through today to the unprecedented impact of COVID-19 not only from an economic perspective but also the massive societal disruption this has caused.

1929	Wall Street
1987	Black Monday
2000	Dot Com Bubble
2008	Financial Crisis
2020	Covid-19

With each recovery we have learnt some lessons but perhaps not fast enough and even long enough. WE are still living in a world with massive geopolitical tensions and they don't seem to be getting any better. Poverty and inequality, certainly during the current pandemic, have been highlighted. Climate change is becoming a lot more real and its potential for sever disruption is being quickly recognized from both an economic perspective as well as social and natural world perspectives. Healthcare shortcomings in the face of space exploration have been highlighted as an area which has been found wanting. Capital market efficiency has also shown up those who are still driving for short-term returns over long-term sustainability and value creation.

Value in a post-COVID-19 world

What will this value look like in a post-COVID-19 world? To restore world economy to its previous position, it is estimated that in the order of \$5 Trillion of revival effort will be required from the G20 countries. It is hoped that this capital will be allocated to those organizations focused on creating sustainable value for the long-term.

Employment opportunities need to be quickly created – the United Nations estimates that close to 1.5 billion worker livelihoods and income earning abilities are currently at risk. We will need to address some of the glaring inequalities in our societies and poverty. Organizations are going to have to work together to address these fundamental issues.

We will need to reconsider infrastructure priorities and capital allocation. There is going to need to be a huge amount of coordination and co-operation and perhaps integrated actions between governments, corporations, non-governmental organizations and society itself in terms of getting to get value creation and sustainability back onto track.

The relevance and long term organizational value propositions will be far more closely scrutinized by all stakeholders. This crisis has woken us up as a world to what value really means and how quickly value can be disrupted as we have seen over the last 6 months.

The management of value

- ▶ The traditional value model that we have known for decades:
 - Historic earnings – often complicated by complex accounting rules
 - Cash flow – past performance as a proxy for future performance
 - Risk and opportunity indirectly factored into discount factor / projections

This model is quickly losing favour from investors, stakeholders and society.

- ▶ The future value model is what is emerging
 - Long term value focus
 - Multi-faceted value drivers
 - Clear view on strategy and business plans
 - Forward looking focus

Organizations moving up the maturity curve of value creation are demonstrating the following:

- ▶ A clear focus on purpose and relevance to society
- ▶ An understanding of their value drivers and integration of value generation
- ▶ A clear focus on short, medium and long term strategy
- ▶ Manage resource allocation across all 6 Capitals in an integrated manner
- ▶ Performance and accountability is across integrated performance metrics, not just the income statement although this is still very prevalent
- ▶ Integrated thinking and management across the whole organisation
- ▶ Outlook being clearly defined with tangible targets and demonstrated accountability

Evolving role of the CFO

Stepping back to a micro perspective, consider those who are managing the current tradition view of value, financial capital.

“Why you don’t need to be an accountant to be a CFO”

Wall Street Journal, Mark Maurer – 29 Jan 2020

The concept of a chief accounting officer reporting into a CFO is quickly becoming a reality as the complexity of the technicalities of accounting increase.

- ▶ **The traditional CFO**
 - Financial reporting, planning and controls
- ▶ **The modern CFO**
 - Strategy development and implementation
 - Operational holistic perspective of business
- ▶ **The future CFO**
 - Integrated thinking and management framework
 - Multi-capital/value driver planning & performance management
 - The Chief Value Officer – the evolution from financial capital to value creation

The Chief Value Officer

The concept of a CVO is as an executive which brings this thinking together along the lines of integrated thinking:

- ▶ Positioned somewhere between CEO and COO, managing value for the business
- ▶ Driving integrated thinking and management
- ▶ Actively involved in strategy development and execution, telling and living the value creation strategy
- ▶ Integrating resource allocation and planning – 6 capitals
- ▶ Managing performance and accountability across all value drivers
- ▶ Driving integrated incentivization and accountability, and focus on the core strategy / purpose – remuneration could be linked to a much wider, intergrated set of performance metrics for example

What would such a job description look like?

- ▶ Strategy management – making it happen

Develop	Plan	Execute	Manage	Monitor	Report
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- ▶ Integrated thinking – bringing it all together

Purpose	Strategy/ business model	Risk/ opportunity	Stakeholder management	Resource/ capital allocation	Performance management
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- ▶ Creating an integrated planning and performance management platform

Value drivers	Lead KPIs	Lag KPIs	Resources	Planning	Performance	Outcomes
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- ▶ Making integrated reporting and management a reality

Management	Assurance	Governance	External
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This is quite a task and not an easy job for any individual or team to get this up and running at a level which is needed in most organizations if not all organizations.

Sneak Peek - what could a value statement look like?

This is not endorsed nor should it be considered as leading practice. This should be seen as a possible example of a value statement:

Value Driver	Lead KPIs	Lag KPIs				
Relationships	Engagement	Reputation	S T R A T E G Y	B U S I N E S S	O P E R A T I O N A L	P E R F O R M A N C E
	Responsiveness	Trust				
Intellectual	Research	New technology				
	Development	New products				
People	Engagement	Productivity/motivation				
	Training/development	Retention				
Financial	Funding	Return on capital				
	Liquidity	Capital efficiency				
Manufacturing	Capital allocation	Production capacity				
	Capital projects	Production efficiency				
Natural	Consumption	Mitigation				
	Waste	Efficiency				

Wouldn't it be wonderful if we could see organizations presenting their "value creation story" on a single, clear and understandable page such as that above?

A change in mind set is required

There are some real challenges which will have to be actively addressed in terms of moving up the maturity levels of a Chief Value Officer:

- ▶ Can we align - concept/reality of value by different stakeholders

Government	Society	NGOs	Investors	Business
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- ▶ Can we align - reporting frameworks and regulatory reporting

<IR>	IFRS/ GAAP	US	GRI/SASB	COSO/ISO	Governance codes	Stock Exchange	Regulatory
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- ▶ Can we align - the value drivers

Financial	Intellectual	Societal	Infrastructure	Environmental	Reputation	Talent
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We need to ensure that the concepts of value and value creation are collectively understood and aligned; we need to align our reporting frameworks especially given that the world is suffering from reporting fatigue; and we need to align the value drivers across the view of 6 capitals and understand the negative and positive trade-offs between them.

What change in mind-set will we need in our organizations?

- ▶ How do we rapidly shift the governance and management model towards holistic and integrated value management?
- ▶ How do we train and equip multiple generations of the Chief Value Officer?
- ▶ When does the CVO position become essential and non-negotiable (and regulated)?
- ▶ Does the CFO evolve up to the Chief Value Officer or off to the Chief Accounting Officer?
- ▶ What are the dynamics and drivers for a super successful Chief Value Officer?

This position will require an executive who will need to understand the concepts of value and value creation holistically and be able to manage that in an integrated fashion – a key position for organizations today and in the future.

Outlook in an Integrated Report

Professor Graham Terry

“A quality integrated report provides the stakeholders of an organization with balanced and transparent information, which can assist them in making more informed assessments of the organization’s prospects and value creation ability into the future.”

Professor Mervyn King SC

In his presentation Prof. Terry uses as a basis the Information Paper prepared by the South African Integrated Reporting Committee, Reporting on Outlook in the Integrated Report. He explains that it is not that easy to understand how “outlook” information is put together and this is because it is distributed throughout an Integrated Report. Prof. Terry’s presentation shows how organizations should build the outlook information within an Integrated Report and also how outlook information completes the value creation story.

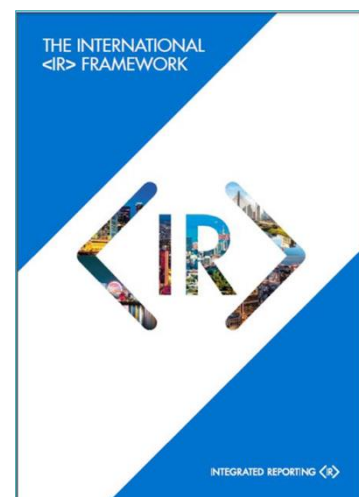


<https://integratedreportingsa.org/reporting-on-outlook-in-the-integrated-report/>

Content Elements

Outlook information is one of the 8 content elements described in the International Integrated Reporting Council’s (IIRC) Integrated Reporting (<IR>) Framework. Content elements are those elements which one can expect to find in an integrated report:

1. Organizational overview and external environment
2. Governance
3. Business model
4. Risks and opportunities
5. Strategy and resource allocation
6. Performance
7. **Outlook**
8. Basis of preparation and presentation



With regard to each one of these content elements, the <IR> Framework asks a question. It is up to the organization to try and answer that question in the presentation of its Integrated Report.

The question which is asked in regard to outlook is:

'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?'

Outlook

An integrated report highlights anticipated changes over time and provides information, built on sound and transparent analysis, about:

- ▶ The organization's expectations of the external environment it 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.

Care is needed to ensure the organization's stated expectations, aspirations and intentions are grounded in reality. Is the organization able to deliver on the opportunities taking into account:

- ▶ Its available resources;
- ▶ Competitive landscape and market positioning; and
- ▶ The risks it faces?

Supporting Disclosures

The <IR> Framework provides support disclosures which can enhance the quality of their presentations. Things like:

- ▶ Lead indicators,
- ▶ KPIs or objectives,
- ▶ Relevant information from recognized external sources, and sensitivity analyses.
- ▶ Forecasts or projections (with a summary of related assumptions),
- ▶ Comparisons of actual performance to previously identified targets

Importantly, disclosures need to take into account legal and/or regulatory requirements.

The Importance of Outlook Information

- ▶ Outlook information completes the value creation story.
- ▶ It contextualizes the organisation's positioning in relation to the external environment.
- ▶ It sets out the organization's strategic path ahead.
- ▶ It provides the leadership's view on the material uncertainties and challenges, that may affect the achievement of the strategic objectives, and
- ▶ The potential implications for the organization.
- ▶ Where an integrated report does not offer meaningful insight into the Outlook it diminishes in credibility.

Benefits for the organization

- ▶ Completes the value creation story.
- ▶ It gives stakeholders a greater appreciation of the challenges and uncertainties, as well as the opportunities.
- ▶ Transparency around an organization's value creation process, can improve stakeholders' trust in the organization.
- ▶ Assists in managing internal and external expectations.
- ▶ Demonstrates the leadership's understanding of the external environment and its ability to respond.
- ▶ Contributes to a balanced report by showing connectivity with the past together with explanations of potential implications.

The role of the Governing Body

'The governing body should ensure that reports issued by the organization enable stakeholders to make informed assessments of the organization's performance, and its short-, medium- and long-term prospects.' **King IV, Principle 5**

Reporting by organizations, in particular financial reporting has come under heightened scrutiny. This partly stems from the spate of corporate failures and scandals caused by events not previously reported on, despite being in existence at the time of reporting. These failures and scandals have had an adverse impact on the perceived integrity of those charged with governance and the reports they issue to stakeholders.

The governing body should ensure that Outlook information in the integrated report mindfully reflects its view of the organization's strategic path ahead, and the potential uncertainties, disruptive factors, challenges and opportunities. This is a key component of a quality integrated report and is a part of the governing body's duty of accountability through balanced and transparent reporting.

The International Framework suggests that organizations should include in the integrated report a statement of responsibility by those charged with governance. The credibility and reliability of the integrated report is enhanced by the Board's acknowledgement of its responsibility.

Observations

Weaknesses

- ▶ Organisations disclose information not material to the organization's value creation process.
- ▶ It is often vague or generic in nature.
- ▶ It lacks connectivity (between external environment, strategic objectives, risks and opportunities, performance and material matters).
- ▶ Focuses on short-term strategic targets with little disclosure of medium- and long-term targets.
- ▶ Similar information found in reports of organizations in the same industry.
- ▶ Outlook is a neglected area with little consideration given by the Board

Challenges

- ▶ Outlook information may overstep legal, regulatory or stock exchange listing requirements.
- ▶ Uncertainty as to what the <IR> Framework requires.
- ▶ Concern about potential risks, including reputational risk and legal liability.
- ▶ Not wanting to create unrealistic expectations about future performance.
- ▶ Lack of a clear strategy to support long-term planning.
- ▶ Could influence stakeholders, or reduce competitive advantage.

Building the Outlook Picture

The organization addresses factors that are material to achieving its strategic objectives in the short-, medium- and long-term. These may be within the organization's control (controllable factors) such as employee upskilling or outside of its control (uncontrollable factors) such as the dollar price of metal.



Forward looking information

- ▶ In today's world any forward-looking information is inherently uncertain, therefore it is essential to make this clear to users.
- ▶ Organisations give disclaimers regarding financial forward-looking information in financial statements.
- ▶ When providing forward-looking information in an integrated report, organizations should provide a disclaimer.

Forward looking statement – example from Nedbank

'This report contains certain forward-looking statements with respect to Nedbank Group's financial position, results, operations and businesses. These statements and forecasts involve risk and uncertainty, as they relate to events and depend on circumstances that occur in the future. There are various factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Consequently, all forward-looking statements have not been reviewed or reported on by the group's auditors.'

Considerations

1. Expected changes in the external environment

- ▶ The view of the organization on expected changes, how it is equipped to respond, and the potential effects.
- ▶ The view of how the competitive landscape could evolve in the future and the organization's market positioning. This is especially important where the organization faces heightened threats from industry disruptors.

2. Strategic objectives and strategy

The organization discloses its:

- Strategic objectives for the short, medium and long-term,
- Targets (and measurement indicators such as strategic KPIs), and
- Its strategy to achieve them.

Some organizations may not have long-term strategic objectives but it remains helpful to provide the broad strategic direction.

3. Likely challenges and uncertainties (Risks)

- ▶ How is the organization responding to these challenges and what mitigating actions is it

taking?

- ▶ What are the potential implications for the business model, strategic objectives and financial performance?
- ▶ What strategic allocation plans does it have to ensure access to the capitals it needs, focusing on their availability, quality and affordability?
- ▶ How is the organisation managing its key stakeholder relationships and what is the quality of these relationships?

4. Expected opportunities

- ▶ Changes in the external environment may render opportunities.
- ▶ Material opportunities with potential implications for value creation.
- ▶ A realistic view on how the organization intends to take advantage of the opportunities.
- ▶ The effect on future performance, ability to achieve objectives and the availability of capitals.
- ▶ The overall approach to maximizing opportunities and innovation.

5. Expectations and assumptions

- ▶ A realistic outlook assessment involves research, interpretation and analysis of data.
- ▶ Assumptions need to be robust, supported by disclosure of lead indicators, sensitivity analyses, scenarios, trend analyses and credible information sources.
- ▶ Make a distinction between controllable and uncontrollable factors.
- ▶ Explain the process involved in setting assumptions

6. Connectivity between performance, stated targets and future targets

Organisations should give a comparison of actual performance with stated targets differentiating between (controllable and uncontrollable) factors. Organizations should also provide insight into the links between past and current performance with future expectations

Summary

Outlook information should appear throughout the report. The organization may consider including a summary in a dedicated section titled “outlook” with cross-references as to where the information appears in the report. Outlook information neatly completes the organization’s value creation story.

Panel Discussion

Charles Tilley: Interim CEO of the International Integrated Reporting Council

Suresh Kana: Chartered accountant and Chair of the King Committee

Roy Andersen: Chartered accountant and Chair of companies

Mohamed Adam: Corporate Legal Counsel, ArcelorMittal

Parmi Natesan: Chartered accountant and CEO of the IODSA

Karin Ireton: Independent advisor, Sustainability matters

Specific insights or comments from/on the presentations from the panel

Parmi Natesan

As a preparer of an Integrated Report myself, it was interesting to hear an earlier question regarding whether a Small Business can be expected to do an integrated report. From my perspective, it starts with a buy-in to the benefits integrated reporting will bring to the organization rather than from the perspective that you have to do it to “tick the box” or someone expects you to do it. As Leigh said, I found value by starting with the <IR> Framework and understanding the content elements. I spoke to a lot of people, read a lot of papers and actively sought guidance and lessons learnt from others. We use the term “proportionality” in King IV - it is important that small organizations need to take this into consideration. It is not the expectation of small businesses to do an integrated report like a large corporate does.

I often advise, especially other professional bodies, to start somewhere, even if you can't get it right immediately, and take your stakeholders along with you on that journey. Explain to your stakeholders that you have done a lot of work in some sections, but that other sections may rather be expanded in later integrated reports, for example.

What was of most value for my organization was to go through the exercise of understanding our business model – the inputs, outputs and outcomes. Once you come to this understanding, I found myself making decisions differently which seems to talk to the point of integrated thinking versus integrated reporting. I think after the 4 months spent on our integrated report, we will be doing things differently in our organization because of the impact that the integrated thinking has had on our understanding of the organization.

Charles Tilley

To pick up on some of the points that were made – the overall ambition of what we are trying to do is to demonstrate, and this is really important today, that businesses are a force for good. In this regard, businesses need to work with governments around the world and together we can do things like implementing the Sustainable Development Goals. Neither government nor business alone can do these alone. So this is really important and COVID-19 is emphasizing this more than ever. The demands from society of business are going to be much greater moving forward.

Sustainable Development Goals:

<https://www.un.org/sustainabledevelopment/sustainable-development-goals/>).

The way to look at Integrated Reporting and integrated thinking is about organizations telling their stories, but first and foremost, it is about a well-run company – you can't tell a good story if you are not a well-run company. The <IR> framework is brilliant from a governance and risk management perspective and running the organization perspective. I have used the business model concept and the integration of the Key Performance Indicators in many organizations both as a Chief Executive Officer (CEO) as well as a Non-Executive Director and it really helps you focus on what really matters – the key strategic matters, the key strategic relationships and the key strategic risks.

Business is complex, thinking that integrated thinking is going to be simple is not realistic, nor is the reporting. One needs to focus on this as a key thing to do. For example in a large company I was running, every year for 2 weeks, as the CEO, I would work with the Chief Financial Officer (CFO) to develop the right metrics around the business model so that we were incentivizing people in the right way. This is difficult. The idea that it is simple is wrong. But, the reason that it is worth doing is because (a) you want a successful business and (b) you want to cut through that complexity and this gives you the focus needed. This truly works for any organization. I have used this on small organizations right the way through to very large organizations (multi-billion UKP organizations).

With respect to the Chief Value Officer, I have been doing a lot of work with IFAC (International Federation of Accountants) where I chair their accountancy in business committee and we have been focusing on the future role of the accountant and the CFO in particular. I think if the CFO wants to remain relevant to driving forward successful businesses then they need to move into this “Chief Value Officer” position. In talking to CEOs what I am hearing is that what they want is not a Financial Director, they want a “co-pilot” of the organization.

The concept of regulation and assurance to get trusted information, balanced and fair information is also really important.

Roy Andersen

Coming at things from the Board and the Chairman's point of view, the responsibilities are very clear:

- ▶ Is there absolute understanding of what the company really is?
- ▶ Is there alignment between the Board and the executives?
- ▶ Do we agree on our stakeholders and what their issues are?
- ▶ Do we agree on the capitals and their interrelationships?
- ▶ Do we understand the environmental and social issues?
- ▶ Is there consensus?

I often find on boards that these issues are dealt with on paper but they are not really thrashed out before the integrated thinking is progressed. Unless one has a firm foundation, you are not going to have integrated thinking and you are not going to have an effective integrated report.

Suresh Kana

I support what Roy has said. I sit on a number of Boards and what he has said is critical. Particularly the role of the Chair and this is where leadership is truly founded, to ask are we conducting the business of the organization on an integrated thinking basis rather than this is just an end report we have to get to. The integrated report is one of an organization's critical reports. As Leigh said, it is the first document you should read about a company because it gives you the holistic picture of what the organization is about.

South Africa has done well as a country in this regard but we can't rest there as there is a lot which still needs to be done. I agree with Roy, we have to check back to all the basic principles. Whilst we have made progress, have we entrenched them to the right level within organizations? Is the thinking there? For example, concept of a Chief Value Officer is an evolving one and I think we need to get there. In addition, I feel that outlook in integrated reports is generally dealt with very, very poorly and this needs to be improved.

Karin Ireton

The issues of climate change and the environment and the understanding of the complexity and the inter-connectedness are generally poorly addressed. WE talk about the 6 different forms of

capital but you can't separate social and environmental capital from the others. The environment and society are underpinning forces which impact the ability of organizations to generate financial capital and business value. When these are dealt with as separate capitals without the understanding of the connectedness, one misses some of the value.

I was recently the lead author of the technical paper written for the national treasury looking at climate related risk and one of the issues is financial disclosure in this regard. For example, what are the financial implications for the economy, for companies, for the financial sector, for insurance companies, for pension funds etc.? The level of complexity is quite extraordinary and there is going to be a future tension between the need for integrated reporting that is concise and materiality focused and the need for depth and detail and understanding of the complexity.

This also links to "who is sitting on the Board". One of the European Union working groups put forward that that we need to ensure that the Board is equipped to deal with these complex issues. We make sure, for example, that we have sufficient financial expertise sitting on the Board and enough understanding of the business at hand. What we are not doing is checking for skills related to the social sciences and environmental sciences.

The outlook is one of sustainability and are we delivering it? Can we deliver it?

Certainly integrated reporting goes a long way to helping Boards to bring together all of these various disciplines and encouraging boards to think in a multi-disciplinary and systemic fashion.

Mohamed Adam

There was a question regarding the alignment with an economic model, for example a social / capitalist model. If we look at what good governance entails, it's about mindful application to the matters before the leadership. You can't have mindful application if you are not thinking across the depth and breadth of the issues that face you. So by implication, mindful application is about integrated thinking regardless of the context / economic model within which it is applied.

Considering what is influencing how a Board is leading, irrespective of the economic model, it is issues such as:

- ▶ **Climate change**

The impact of inclement weather on the organization and the organization's supply chain

- ▶ **Social issues**

Looking at poverty - if the work force is unable to afford transport to work, there are implications for the organization

Considering national health - a long time ago when HIV AIDS was still a major risk in South Africa, a number of companies started investing in anti-retroviral drugs and support programs for employees. Whether this was an altruistic act or it was based on the fact that if they didn't do this, they wouldn't have a workforce to come to work and keep the company viable does not matter. The point is they needed not only to think across the

internal things that affected the company but they also had to think about the external forces impacting the company.

▶ **Risk**

The issue of scarce resources is also an important issue.

In summary, whatever the business model, if you are not thinking in an integrated fashion, I don't think that you are applying good governance in leading your organization.

If one looks at the stakeholder model and the value of the organization – Dr Robertson spoke about shareholder value, shared value or system value and the stakeholder inclusive model or the enlightened shareholder model. In this respect, my view is depending in which model you are in, it improves the quality and sustainability of the integrated thinking and integrated reporting process and ultimately the decisions that are made.

Let's consider the example of scarce resources and the issue of water:

In the case of the shareholder value model, one may approach the usage of water in a way in which you say that the organization should comply with the minimum of the law and no more. If one considers a shared value model, or enlightened shareholder approach, one would rather consider the need to be more efficient because there is consideration for the consequences of not using water sparingly - the costs of water are going to soar and this will have a negative impact on the company.

If one looks at an approach that is based either in the stakeholder inclusive model or the model that Dr Robertson refers to as the system value approach, one may then start looking the long-term and saying that we need to start thinking about how we share this scarce resource and how as a society we make decisions about how much water is used for food security, manufacturing and other processes and requirements of society. I believe in this case, you get the best quality outcomes and the best reflection of integrated thinking. This is what we talk about in the King Report as redefining success in terms of lasting positive benefits for society, the environment and the company itself.

Specific questions posed to the panel

Several questions were asked of the panel. These questions and the answers from the panelists can all be found online by accessing the live stream on the Good Governance Academy's YouTube channel (please subscribe):

<https://www.youtube.com/channel/UCMVLUWNCeyVSQK0n9HiNrxA>

The Questions and Answers start at 4:25:21 towards the end of the video.

Summation

Professor Mervyn King SC

We have had four excellent presentations on the critical subjects of integrated thinking and doing an integrated report. I want to thank the four speakers for the time and effort in preparing their presentations. Their presentations are available on the Good Governance Academy's website.

I also want to thank our panellists for their input and our programme director, Carolynn Chalmers, for her excellent moderation, planning and execution of the third colloquium which was held virtually. Also thank you to the Wits Business School for their collaboration with the Good Governance Academy in making today possible.

Also a great deal of gratitude to the South African Institute of Chartered Accountants for their support of the Academy both professionally and financially.

One of the presentations today was about the chief financial officer being known in future as the chief value officer. This is so because the reporting world has moved away from the primacy of the shareholder model to a company centric and stakeholder model replacing profit with value creation in a sustainable manner. The subtitle of my book "The Chief Value Officer" is accountants can save the planet. IFAC¹ has agreed that the term chief value officer better describes the accountant in a value creation scenario than the descriptive chief financial officer.

In the double crises facing the planet namely depressed economies and the corona viral infection, described by me as Coronanomics, directors in the short term have to make decisions for the survival of their companies but also strategically have to think long-term. Whilst the difficulties of Coronanomics are being fought there is the gathering storm of climate change. If as predicted there is a 2 to 3 centigrade increase in temperature in the next three years this will have a far greater adverse impact on humanity than the present crises of Coronanomics. Hopefully in reporting on the environmental, social and governance issues preparers will be assisted by a convergence of the major standard setters in sustainability reporting. With climate change there will not be the remedies of self-isolation, social distancing, washing or disinfecting hands and wearing masks. They will be of no assistance in a more arid world with rising sea waters.

Directors owe the duties of good faith, care, skill and diligence to the incapacitated company that has no mind or conscience. Directors become the conscience of the company. Owing these duties to the company compels the directors to be accountable to the company and through the company to all its stakeholders. The basic premise of being accountable is to report in an understandable manner.

¹ International Federation of Accountants

Directors, in my judgement, do not discharge the duty of accountability by doing a financial report in terms of international financial reporting standards and a sustainability report also in terms of international standards without highlighting the material issues in those reports and the challenges and uncertainties facing the company short, medium and long-term in achieving its business model. The integrated reporting framework guides directors on materiality in the guiding principles of the framework and to deal with challenges and uncertainties using the content elements as contained in the framework. The board is the most informed collection of persons in the governance architecture of companies. Compared with the knowledge of the board stakeholders are uninformed. The board being informed must spend more time understanding the financial and sustainability reports than in clear, concise and understandable language explain the material matters defined as those having an impact or effect on the three critical dimensions for sustainable development namely the economy, the environment and society.

Thus an integrated report is critical for the trustees of pension funds and directors of financial institutions to make more informed assessments about sustained value creation by a company. The annual financial statements and the mass of information through the Internet in sustainability reports make it important that the informed directors account in an understandable manner.

Integrated thinking will be of critical importance in endeavouring to ensure the survival of companies in the crises of Coronanomics. Integrated reports will be critical for the uninformed but interested stakeholders to make more informed assessments about long-term value creation in a sustainable manner by the company

For these reasons today's presentations have not only been informative but critical in furthering the agendas of integrated thinking and doing an integrated report.



Professor Mervyn King SC

27 May 2020

Speaker Biographies

Carolynn Chalmers

Programme Director, the Good Governance Academy

<https://www.linkedin.com/in/carolynnchalmers>

Carolynn has extensive management and governance experience and has held various positions such as Chief Information Officer (Liberty Health Holdings, Thebe Investment Corporation), Chief Technology Officer (Old Mutual, acting), Board (Old Mutual Health Insurance Limited), Board Committees (Audit Committees, Risk Committees, Social and Ethics Committees) and other Executive roles for international, listed, private and public organizations.

Currently Carolynn is an independent non-executive for Government Employee Medical Scheme and director of the Institute of IT Professionals (IITPSA) and the ISACA South Africa Chapter. She volunteers her time to standards development as chairperson of the South African Bureau of Standards (SABS) Technical Committee for the governance of organizations, international convener of the ISO/TC309 Advisory Group for Communication and Engagement, co-editor of the ISO 37000 standard (Guidance for the Governance of Organizations) and member of the international committee for the re-write of ISO 38500 (IT Governance).

She is known for her work in the areas of:

- ▶ The King Reports
- ▶ Corporate Governance and IT Governance
- ▶ The governance of Risk and Compliance
- ▶ Information/Data Governance, Strategy and Architecture
- ▶ Information Privacy and Security and Cybersecurity
- ▶ IT Legacy and Digital Transformation
- ▶ Project Governance and Project Management

She holds a BSc (Hons) and MSc (Quantitative Resource Ecology) as well as several industry related credentials including CGEIT[®] and CBRM[®]. Carolynn consults through Candor Governance (candorgovernance.com) as both a practitioner and an independent advisor.

Dr Fiona Robertson

Senior Lecturer, Leeds Beckett University

<https://www.linkedin.com/in/dr-fiona-robertson-ma-phd-9613aa83>

Dr Robertson currently works as a senior lecturer in accounting and finance at Leeds Beckett University. She is also an associate director of The Centre for Governance, Leadership and Global Responsibility where her research interests include Integrated Thinking and Reporting. She passionately believes that the focus of corporate leaders should be in the best interests of the long-term health of an organisation, which requires the recognition that the three dimensions of sustainable development, the economy, society, and the environment, are indivisible and integrated.

She is currently lead researcher on two funded research projects. The first project involves creating innovative solutions for sustainability in higher education and the second project aims to provide practical tools for implementing Integrated Thinking and Reporting in SMEs. She chairs an Integrated Reporting Group at Leeds Beckett University made up of practitioners and academics, who meet quarterly to promote and develop Integrated Thinking and Reporting.

She completed a PhD in Integrated Reporting in 2016, where she conducted 36 interviews with leading executive in seventeen FTSE 100 companies on their perceptions and experiences of Integrated Reporting. She has published several articles based on her research in leading academic journals and practitioner magazines and has presented her research findings at leading conferences.

She has previously worked for 25 years in senior finance roles in industry, with particular expertise in compliance, internal audit and project management. Fiona qualified as a Chartered Accountant in 1988 and is a member of the Institute of Chartered Accountants of Scotland (ICAS) Corporate & Financial Reporting Panel which represents ICAS in relation to financial reporting and broader corporate reporting issues and undertakes proactive initiatives to contribute to the debate on how reporting could improve into the future, to better meet the needs of stakeholders.

Leigh Roberts

Chief Executive Officer, Integrated Reporting Committee of South Africa

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Leigh is an Integrated Reporting specialist, Keynote speaker, TV anchor, MC and panel facilitator. She is a business journalist in television and print and co-author of "Integrate: Doing business in the 21st century" (Juta) with Mervyn King. She is current chairman of the Integrated Reporting Committee of South Africa having been appointed in November 2013.

She has been consulting through Leigh Roberts Consulting since August 2015. Through this vehicle, Leigh provides Integrated Reporting consulting, training, technical reviews of corporate integrated reports against the International Framework, and board update sessions on integrated thinking and integrated reporting. On Business Day TV, Leigh is presenter of the "Doing Business in the 21st Century" series and the "Integrated Reporting Made Simple" series I, II and III. She is also a news presenter. Leigh was also Project Director: Integrated Reporting for SAICA for nearly 7 years.

Mark Hoffman

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Mark joined Deloitte in 2019 having previously worked with KPMG for 29 years. Mark has worked with over 150 organizations in implementing and improving their IFRS Financial Reporting and Integrated Reporting processes and systems. He believes in practical and purpose driven reporting processes and systems that enable organizations to achieve their strategic objectives and purpose.

Mark has worked with more than 50 companies in IFRS accounting change, disclosure refresh, finance process solutions, complex transaction support and related financial reporting solutions. He has worked with over 150 organizations implementing and enhancing integrated reporting processes. He is an active member of IRC of SA Working Group and has extensive experience on development of processes, methodologies, report production, integrated assurance, King IV governance disclosures as well as Strategy, Performance reporting, Risk Management, Stakeholder Engagement, Governance and Remuneration applications.

Professor Graham Terry

Professor, University of Johannesburg

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Professor Graham Terry is an integrated reporting advisor and an ambassador for the International Integrated Reporting Council (IIRC).

He is a professor of practice at the University of Johannesburg where he is coordinating courses and research on integrated reporting and thinking. He is a Chartered Accountant (SA) and worked for The South African Institute of Chartered Accountants (SAICA) for 30 years serving in various capacities including Vice President and ending up as Senior Executive: Strategy and Thought Leadership. He was also a member of the SAICA Board for 10 years.

He has served on many national and international technical committees and was a member of the IIRC working group that developed the International Integrated Reporting Framework published in 2013. He was a founding member of the Integrated Reporting Committee of South Africa and chairman of the working group which developed the first discussion paper on integrated reporting.

He is the author of two books and has spoken at numerous conferences in Europe, Asia, Africa and the United States on integrated reporting and integrated thinking. He assisted in the establishment of the annual integrated reporting awards in Sri Lanka sponsored by the Institute of Certified Management Accountants of Sri Lanka and serves on the panel of judges.