



Practical how-to guide: Implementing Integrated Reporting

Background

The UK Green Building Council (UK-GBC)

The UK Green Building Council (UK-GBC) is a membership organisation campaigning for a sustainable built environment – one that minimises negative environmental impacts while maximising benefits for people everywhere. Our mission is to radically improve the sustainability of the built environment, by transforming the way it is planned, designed, constructed, maintained and operated.

Learning and development at UK-GBC is viewed as an essential part of achieving our mission of market transformation. We deliver a range of courses designed to equip industry professionals with the green skills and knowledge required to deliver a sustainable built environment.

The Crown Estate

The Crown Estate is one of the UK's largest, most diverse and most successful property businesses, managing assets ranging across commercial and residential real estate, agricultural land, parkland and forestry, along with over half the foreshore and almost the entire seabed around the UK. The diverse nature of the portfolio provides an exciting challenge: one where The Crown Estate is constantly balancing old and new, looking at a broad range of investment opportunities, while also recognising its stewardship responsibility for some of the UK's most important natural resources.

Their journey of integrated reporting has seen the delivery of two integrated annual reports and throughout this guide they will share some of their tips and learnings to help you get your organisation started with integrated reporting.

Introduction

Integrated reporting (<IR>) is a process based on integrated thinking that results in a report by an organisation about value creation over time. It connects different parts of the organisation and through collaboration and integrated thinking incorporates any issue that the organisation faces or which has an impact on its longevity.

Analysis of an organisations performance has traditionally tended to look at risk from a financial perspective only. Integrated reporting aims to look at all aspects of risk such as mega trends, economic, social and environmental changes, and also seeks opportunities that arise from this holistic perspective. It should inform investors and stakeholders on all material issues affecting the organisation in a concise manner to enable

quicker decision making with all impacts considered. This will result in a more resilient organisation that is more demonstrably sustainable.

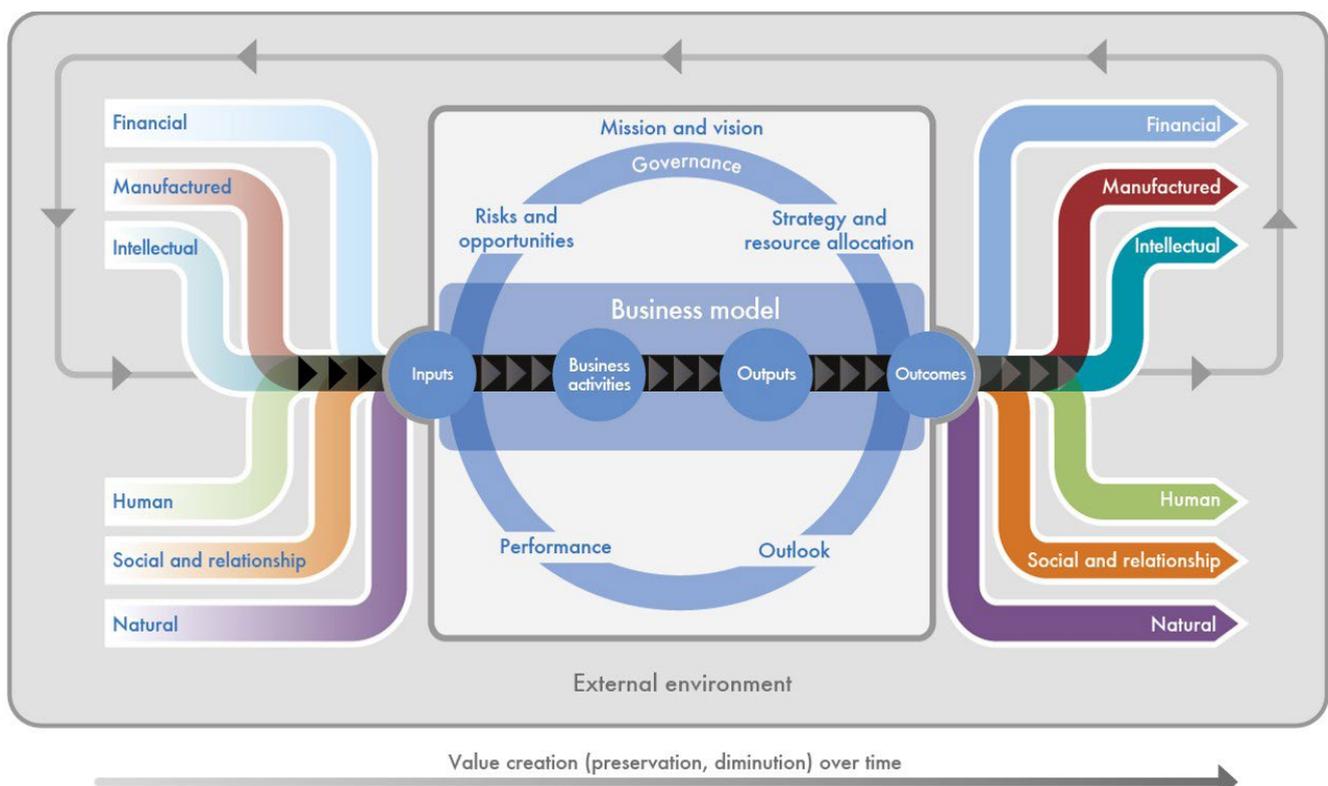
TOP TIPS FOR INTEGRATED REPORTING

- ✓ Build a team (with internal and external support)
- ✓ Ensure you have leadership on integrated thinking (needs a top down approach)
- ✓ Don't try to do it all at once
- ✓ Tell the story clearly of how you create value over time
- ✓ Build on what you have done before (look to your existing reports)
- ✓ Embed integrated thinking into the business (this will be highly beneficial not only to the process but also to the organisation)

An integrated report is a concise communication about how an organisations strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.

The process of integrated reporting is not a linear one as you can see from the diagram below so the steps in this guide may not necessarily be in the best order for your organization, you will need to determine the correct order based on your organizational needs.

Figure 1. Pictorial representation of the integrated reporting process - IIRC framework



The International Integrated Reporting Council (IIRC) published their [International <IR> Framework](#) in 2013 and The Crown Estate have followed this framework over the last few years to produce their first two integrated reports (links to these reports can be found in the resources section).

This short guide will set out the key steps that will help you get started on integrated reporting in your organization, using the IIRC framework, and provides helpful guidance from The Crown Estate from their perspective.

Integrated thinking is bringing all of the resources an organisation depends on into everyday decision-making and looking at the broader social and natural impacts of those decisions as well as the financial bottom line. Action is required to develop integrated thinking –it won't just happen. Develop tools and clearly communicate to the organisation.

Figure 2. Pictorial representation of the steps from integrated thinking to integrated reporting - The Crown Estate

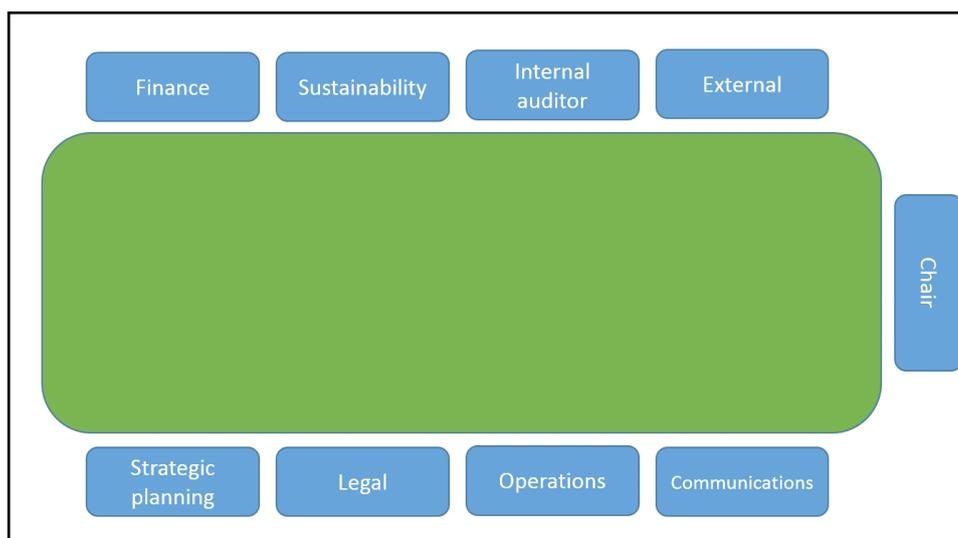


Note that you will not be able to jump from Integrated thinking right to integrated reporting. The process will mean that you will need to go through each stage of the above diagram (Figure 2) in order to have the processes in place for integrated reporting.

STEP 1: ESTABLISH A STEERING GROUP AND FACILITATE A CULTURE OF INTEGRATED THINKING

- Identify who within your organisation should guide the project, this will typically involve finance, board members, sustainability lead etc. (it is critical you have the key involvement of finance this should not be a sustainability/environment team led initiative). You will need key individuals with a comprehensive knowledge of the organisation from cross disciplinary functions.
- Form a steering group including external representation - Challenge yourself and the ongoing readability of your report through use of a 'critical friend' (whether external consultant, stakeholder panel or internal employee group). It can be particularly useful to take such advice from the start when completing your organisation analysis.
- Senior executive to be accountable - you will need a senior executive to be ultimately responsible for the report, helped by the steering group. This will need to be someone from the executive team. In the case of The Crown Estate this is the Finance Director.

Figure 3. What your steering group table could look like



- Do an analysis of the organisation, where are you currently? Does your organisation already practice integrated thinking in any way? Do you have buy in from the business leaders or do you need to build the case for integrated thinking before moving towards integrated reporting?
- Get buy in – this needs to come from senior management (ideally the CEO) and the board. The steering group will need to ensure that the executive team and the board have a clear understanding of what integrated reporting is and why you should be doing it. They will need to set the objectives of the project and assign governance, and ultimately set the process in motion.
- Develop a culture of integrated thinking within decision making. This is a pre-requisite for integrated reporting which is the demonstration of integrated thinking.
- Chose the framework you will use, this guide follows the International Integrated Reporting Council (IIRC) framework. You may want to start by looking at certain aspects of the framework rather than its entirety depending on your organisation and where you are.

STEP 2: BUILD STAKEHOLDER RELATIONSHIPS AND IDENTIFY MATERIAL ISSUES

- Identify your stakeholder groups both internally and externally (different areas of your organization, customers, investors etc.)
- Engage with your stakeholders to determine the material issues and risks your organisation faces. A good place to start here is to ask all steering group members to concisely describe how the organisation creates value, what is the business model and what are the organisations top 5 material issues. The priority of these issues will differ from one stakeholder group to another and you will need to determine the overall organisational priorities.
- Clearly define the business model - you may be surprised at how long this can take and how much this may need to be modified to meet your future needs as an organisation.
- Integrated reporting should not be an academic exercise but create value for your business, focus measurement on what is material for your business, enhance the quality of your decision-making, bring different parts of your business together and drive the move to full consideration of all impacts of your decisions, not just the financial bottom line.
- Look at where you are as an organisation and where you want to be in the future.
- Identify how you create value and how you measure this

What is a Material issue and what is a risk?

A material issue is something that could potentially influence and have an impact on your organisation - probable. Risks will have an impact on your business - definite.

For example - climate change would be considered a material issue that **could** influence and have an impact on an organisation. A wave surge however would be considered a risk as this will **definitely** have an immediate impact on an organisation.

STEP 3: DEVELOP YOUR ORGANISATIONS VISION AND STRATEGY

- › Look at your organisations vision statement. Does it incorporate sustainability? Does it reflect integrated thinking as a vision for your organisation?
- › In the last step you asked the steering group to define the business model, this may have needed work to revise it, make it clear and ensure that this is the business model you should be working towards for the future and that it covers all aspects of your business. As mentioned this may take longer than you think so allocate sufficient time to this. See below for a pictorial representation of The Crown Estates business model.



Figure 4. Pictorial representation of The Crown Estate business model

- › Develop your strategy and business report for this process, you will need to think about:
 - Value creation** – in the short, medium and long term
 - The 6 capitals** (see Figure 5 on the next page) – you may start with a few and build up to including them all in subsequent reports. Identify the key capitals as they go through your organisation: inputs, outputs and outcomes and ensure the strategy around each is clearly communicated and check if you are already collecting data on each capital and how this is currently reported on.
 - Processes** needed to monitor progress, choose a KPI for each material issue to the business and make sure you have an appropriate monitoring process in place. Some issues can be tricky to measure through KPI's and if you do not currently have a process to monitor those mention this in your report and also mention that you are looking for a way to measure this.
 - Continually checking** that you are linking back to the overall business objectives and that the process is aligned. Check back to your business model.
 - Ensuring you are still telling the story** – make sure you are clear and concise and do not lose the sight of the fact that the report is stating how you create value over time

You may want to map the 6 capitals to your stakeholders to give you a good idea of where each comes into play within your business.

IR does not replace a vision or strategy it is a tool that helps examine and possibly evolve these. It may help to give a fresh perspective on added value.

Figure 5. Explanation of the 6 capitals quoted from the <IR> Framework paragraph 2.15

1. Financial Capital - The pool of funds that is:

- Available to an organisation for use in the production of goods or the provision of services
- Obtained through financing, such as debt, equity or grants, or generated through operations or investments

2. Manufactured Capital - Manufactured physical objects (as distinct from natural physical objects) that are available to an organization for use in the production of goods or the provision of services, including:

- Buildings
- Equipment
- Infrastructure (such as roads, ports, bridges, and waste and water treatment plants)

Manufactured capital is often created by other organizations, but includes assets manufactured by the reporting organisation for sale or when they are retained for its own use.

3. Intellectual Capital - Organisational, knowledge-based intangibles, including:

- Intellectual property, such as patents, copyrights, software, rights, and licences
- 'Organisational capital' such as tacit knowledge, systems, procedures and protocols

4. Human Capital - People's competencies, capabilities and experience, and their motivations to innovate, including their:

- Alignment with and support for an organisations governance framework, risk management approach, and ethical values
- Ability to understand, develop and implement an organisations strategy
- Loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.

5. Social & Relationship Capital - The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being. Social and relationship capital includes:

- Shared norms, and common values and behaviours
- Key stakeholder relationships, and the trust and willingness to engage that an organisation has developed and strives to build and protect with external stakeholders
- Intangibles associated with the brand and reputation that an organisation has developed an organisations social licence to operate.

6. Natural Capital - All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organisation. It includes:

- Air, water, land, minerals and forests
- Biodiversity and eco-system health

You do not necessarily have to use the terminology above. If these don't really reflect you as a business rename them. The Crown Estate amended the terminology to fit their organisation to what they felt reflected their organisations values they talk not of capitals but of resources and relationships (see figure 6 for The Crown Estates resources and relationships)



Figure 6. The Crown Estates resources and relationships (capitals)

STEP 4: COLLECT THE DATA

- The baseline will be your collection of data for your first integrated report – This will include financial data, impact data such as CO₂ emissions, energy usage etc. Make sure you have mapped out what the data requirements are, look to your KPI's and ensure you have a reporting framework in place.
- As you collate the information you will without a doubt some across gaps in thinking, note these as they will be helpful when you look to your improvement plan.
- Set clear timescales for data collection.
- Data collection can be difficult when you are measuring non financial KPI's, think creatively about how you can measure these and what they mean to your organisation.

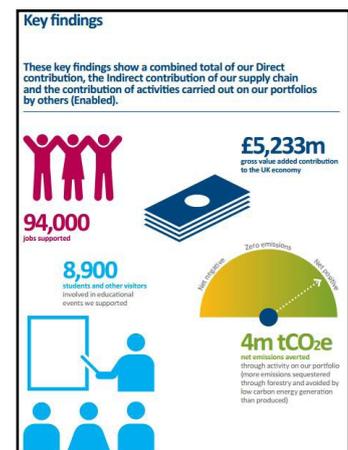


Figure 6: Key Findings, The Crown Estate total contribution report

STEP 5: IDENTIFY GAPS

- As mentioned in the previous step you will come across gaps in thinking and once these gaps are identified you can use these to improve the process and to inform future focus (see step 8 for more details)

STEP 6: COMPILE THE REPORT

The extent to which integrated thinking is developed will be apparent from the way the report is written. For example – it is no good stating those internal and external factors that are material to your business if you do not refer to them, or explain what you are doing about them, in the rest of the report.

The elements required in an integrated report are listed in figure 8 on the next page, remember that the report should not be written in a formulaic approach ticking the box of each section, remember to tell the story.

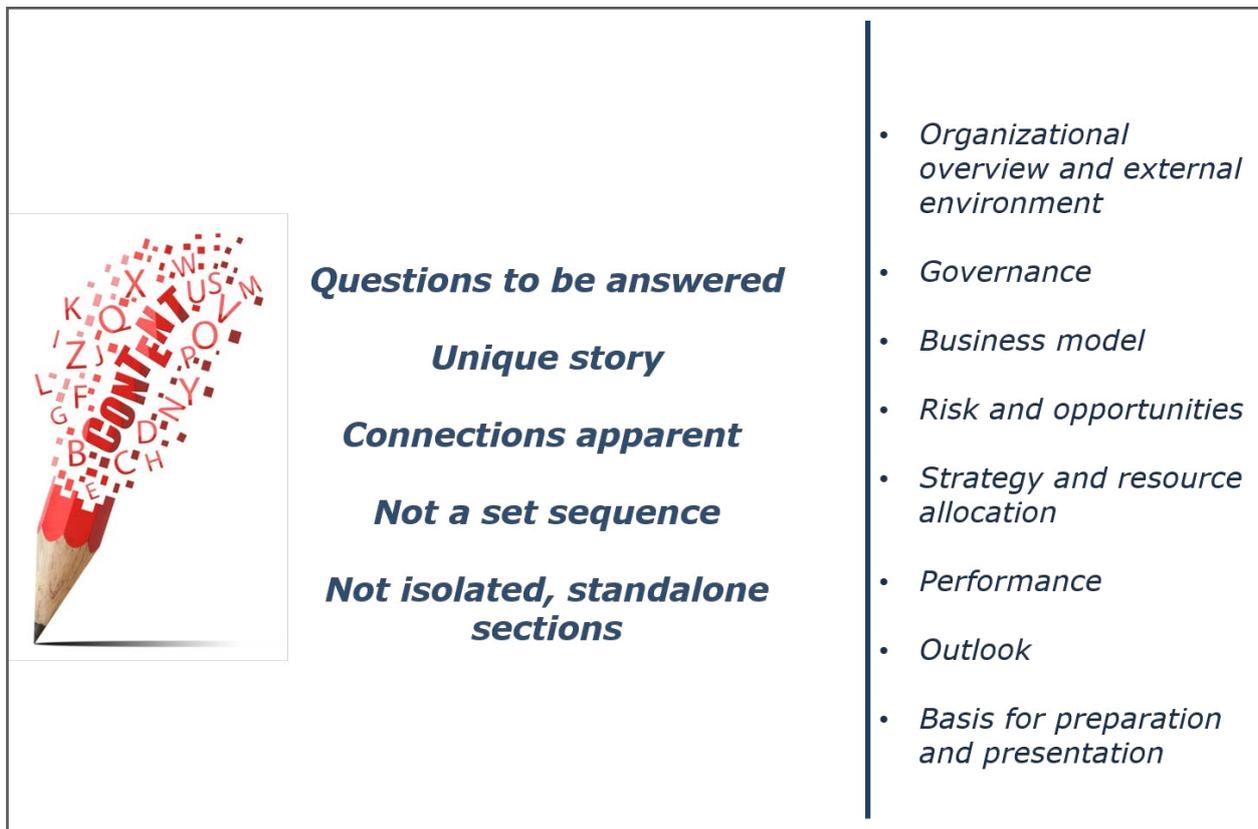


Figure 8. Content elements of <IR>, Courtesy of the IIRC

STEP 7: COMMUNICATE HOW YOU CREATE VALUE

- Whether your integrated report is part of a range of reports your organisation offers or embedded in the annual report you will need to communicate the outcome to your stakeholders and a wider audience
- The report should inform all investor presentations and updates on the organisations progress, make sure it is championed by your senior staff and board in particular.
- Targets set should be clearly communicated within the report and details of how these will be measured going forward stated
- When subsequent reports are issued a comparison of achievements should be made to show progress
- Think of innovative ways to share your message



Figure 9. Annual report 2014 The Crown Estate

STEP 8: FUTURE DIRECTION AND NEXT STEPS

- Develop a multi-year plan for achievement with bite-sized chunks which you can build on year on year. It takes time to introduce different aspects of an integrated report to the organisation, for systems to be set up to bring them into the operational process and for the organisation to become comfortable with them e.g. the materiality process and thinking in terms of the capitals. Ensure that you work within the IIRC strategic framework but adapt it to fit your organisation.
- Trying to do everything in the first year will lead to confusion both for your stakeholders and within your organisation. You will get a sense of which elements are best first addressed within your organisation but some suggested elements for immediate attention are:
 1. Development of your business model to clearly show inputs, outputs and outcomes – and how you use and transform the capitals in working to deliver your objectives

2. A statement of your strategic objectives
3. The inclusion of one or more KPI's related to the various capitals that are material to your organisation (e.g., intellectual, social, human, natural) alongside your financial KPI's
4. Development and statement of a process to address materiality within your organisation

It may not be possible to address all of these in the first year. It is better to tackle fewer elements properly than more inadequately.

› Continue to embed integrated thinking into the organisation. It should become:

- › Part of business planning
- › Part of personal scorecards/performance management
- › A means of empowering employees
- › Reflected in non-financial KPI's

This will naturally help to improve the quality of your integrated reporting and the value of your organisation.

› Work year on year to show and improve connectivity between different elements through signposting, use of icons etc. For example it may be useful to:

- › Show links from different parts of your business model to further information or fuller examples elsewhere in the report
- › Link key risks to your materiality issues
- › Link capitals to text showing examples of where you have transformed one of these into something that creates more value for your business e.g. using finance to train employees, resulting in in-house expertise.

Remember: integrated reporting should not be an academic process. If integrated thinking can be embedded within the business as a sustainable business practice this should just be a natural extension of that. The report should be a clear and concise overview of the organisation and the factors that affect it to enable quick and informed decision making, taking into account all factors.

Resources

To supplement the masterclass, the following resources have embedded hyperlinks that you can use to take you directly to the resource. Click on the links below to explore:

Frameworks and guidance

[International Integrated Reporting Framework](#), (2013) - International Integrated Reporting Council (IIRC)

[Preparing an integrated report: A starters guide](#), (2014) - Integrated Reporting South Africa

[Creating value: Value to the board](#), (2014) - International Integrated Reporting Council (IIRC)

Case studies

[The Crown Estate](#), (2014) - Annual report and accounts

[The Crown Estate](#), (2013) - Integrated annual report and accounts

[The Crown Estate](#), (2012) - Total Contribution report 2011/12

[Crest Nicholson](#), (2014) Annual integrated report

[Tata Steel](#), (2013) - Communicating value transparently

[Unilever](#), (2014) - Annual report review

[M&S](#), (2014) - Annual report

[Interserve](#), (2013) - Annual report

[Examples database](#), (2015) - International Integrated Reporting Council (IIRC)

Additional resources

[Tomorrow's business success](#): using integrated reporting to help create value and effectively tell the full story, (2014) - International Integrated Reporting Council (IIRC)

[Realizing the benefits](#): the impact of integrated reporting, (2014) - International Integrated Reporting Council (IIRC)

[Integrated reporting in South Africa](#): From concept to practice, (2014) - World Business Council for Sustainable development (WBCSD)

[Ten Practical Steps to integrated reporting](#) by Carol Adams, (2013) - The Guardian

[IIRC Yearbook](#), (2014) - International Integrated Reporting Council (IIRC)