

INTEGRATED REPORTING: THE KENYAN PERSPECTIVE

Presentation by:

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Friday, 14th September 2018

Background



UN Sustainable Development Goals (SDGs) in 2015

- Is outcomes based and aims at:
 - ✓ sustainable cities,
 - ✓ responsible consumption and production,
 - ✓ clean water and sanitation,
 - ✓ affordable and clean energy.
- (Among Others).

Background



UN Sustainable Development Goals (SDGs):

- The aim is, by 2030, to have a world of sustainable development.
- In developing the SDGs, it is acknowledged that business will play a critical role in the endeavor to achieve these goals by 2030
- There is need therefore for an integrated approach to achieve

SDG's 3 pillars of

- ✓ the economy
- ✓ society and
- ✓ the environment

Background



UN Sustainable Development Goals (SDGs):

- In the 20th Century, a company was said to be successful if profit increased, share price increased and dividends paid to shareholders increased.
- Leaders of the corporate world through the 20th century focused on increasing the wealth of the shareholders because of a shareholder centric governance model

Background



UN Sustainable Development Goals (SDGs):

- There has been a concerted effort to move away from this way of thinking
- The United Kingdom in 2008 passed ***Section 172 of the UK Companies Act*** which said that directors should ensure the success of the business of the company in the best interests of its shareholders while having regard to the community in which the company operated, society and the environment

Background



UN Sustainable Development Goals (SDGs):

- It is reported that by 1997 only 20% of market value of companies on the great stock exchanges of the world was made up of additives in a balance sheet according to financial reporting standards.
- The rest, 80%, was made up of what became labelled as intangible assets, the reputation of the company, long term sustainable value creation strategy, embedding sustainability issues pertinent to the business of the company into the company's business model, what was happening in its supply chain, endeavoring to ensure that the company's business model would result in positive impacts on the economy, society and the environment.

Background



	Recent BS Data Net Assets KesB	NAV Per share	30 June 18 NSE price	Market Cap/market value KesB
KCB	98.98	32.28	46.25	141.8
KQ	(3.90)	(0.69)	10.65	60.5
Britam Holdings	28.78	11.41	14.60	36.8
Kenol Kobil	12.23	8.31	18.10	26.6
BAT	7.66	76.61	600.00	60.0
Nation Media Group	8.62	45.73	90.00	17.0
EABL	12.68	16.04	218.00	172.4

Background



UN Sustainable Development Goals (SDGs):

- Financial Reporting is critical, but is no longer sufficient.
- On the other hand by itself sustainability reporting, while important in trying to explain the difference in market cap it is critical but meaningless without the numbers
- Integrated thinking is therefore imperative

Integrated Thinking



- This is the collective mind of the board understanding, knowing and then planning how the company will make its money and how it will maintain value creation in a sustainable manner. To that end,
- Board must take account of the inputs into the activities of the business model, the outputs including waste, and the outcomes, both internal and external.
- The internal outcomes would be the money made by the company in order to service its borrowings; pay its wages and creditors and the external outcomes would be the effects of the company's product on the economy, society and the environment.

Integrated Reporting (Defined)



From Corporate Governance for Issuers of Securities to the Public, 2015 integrated reporting is a process that-

- brings together material information about a company's strategy, governance, performance and prospects in such a way that reflects commercial, social and environmental context within which it operates;
- provides clear and concise representation of how an organization demonstrates stewardship and how it creates value, now and in the future; and

Integrated Reporting (Defined)



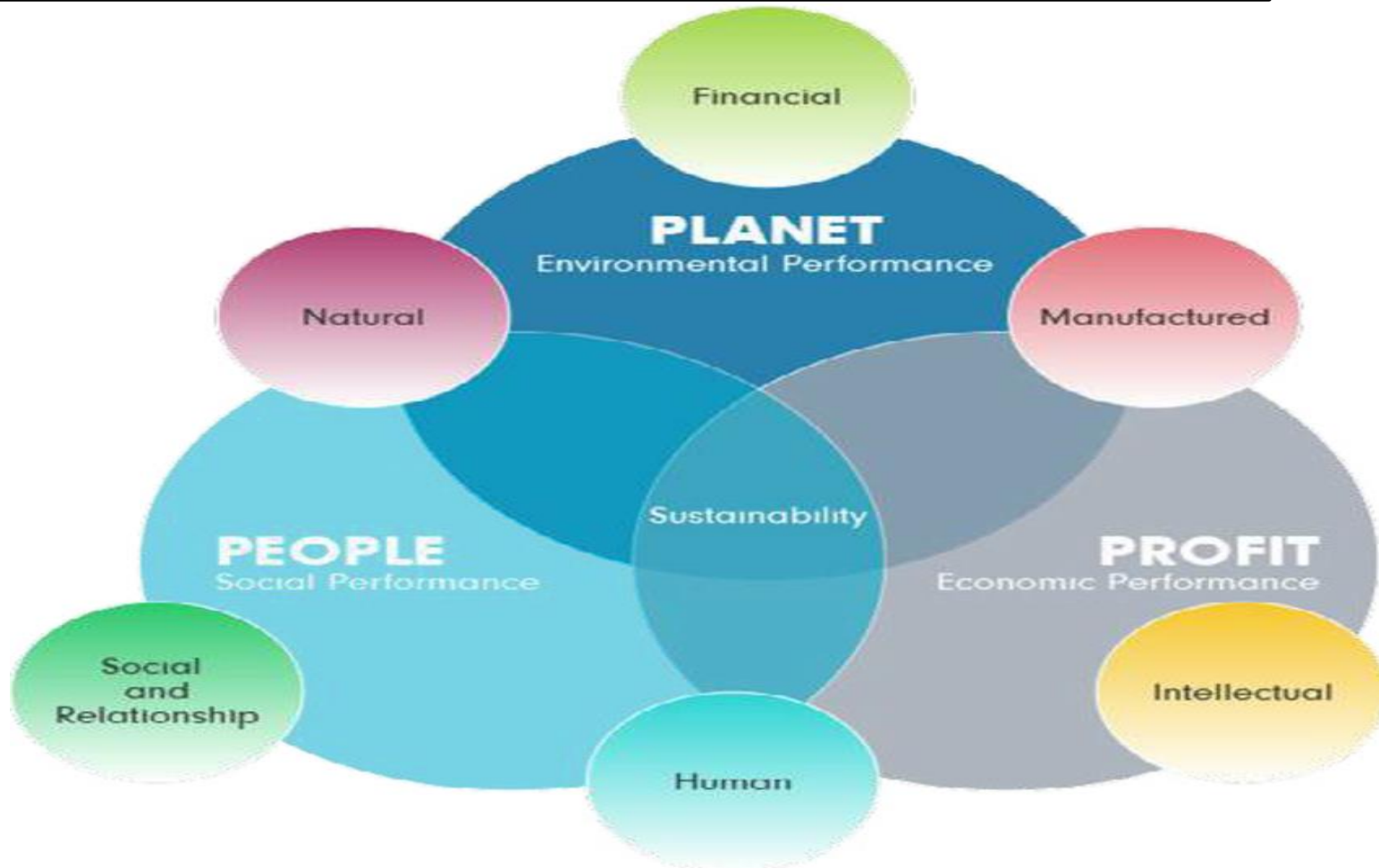
- combines the most material elements of information currently reported in separate reporting strands (financial, management guidelines, governance and remuneration, and sustainability) into a coherent whole

Integrated Reporting (Defined)



- **Meaningful Integrated reporting only derives from Integrated thinking**, which is the active consideration by a company of the relationships between its various operating and functional units and **the capitals** that the company uses or affects.
- Integrated thinking leads to **integrated decision-making** and actions that consider the creation of value over the short, medium and long term

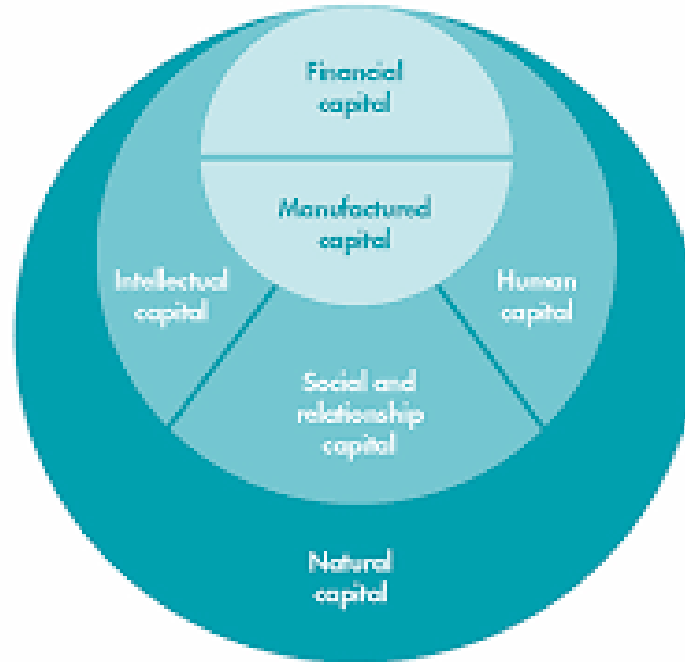
Integrated Reporting Six Capital Model



From IR Framework

Integrated Reporting

The Capitals



Code on CG



- CG Code recommends that the Board of an issuer shall continually work towards the introduction of integrated reporting.
- As is now, integrated reporting in our market is considered a best practice.

Code on CG



Integrated reporting is considered beneficial for the company because of the following-

- leads to more effective disclosures;
- helps the company plan for the short and long term taking into account the interests of different stakeholders;
- attracts investors;
- fosters collaboration and ownership through the onboarding of relevant stakeholders and their interests
- More importantly, Material risks are addressed in the process

COMPANIES ACT



- Companies Act, 2015 reinforces the spirit of the Code on Corporate Governance.
- Section 655 requires the directors of a company to include in their report a business review in order to inform members of the company and assist them to assess how the directors have performed their duties.

COMPANIES ACT



The business review should contain-

- a fair review of the company's business;
- a description of the principal risks and uncertainties facing the company;
- a balanced and comprehensive analysis of the development and performance of the company;
- main trends factors likely to affect the future development of the company;
- information about environmental matters including the impact of the company's business on the environment;
- social and community issues.
- **These are all indicators of integrated thinking**

COMPANIES ACT



- In contrast with the CG Code, the business review reporting is a mandatory requirement under the Companies Act particularly for listed companies and non-compliance is punishable by a fine.
- International Integrated Reporting Council (IIRC) appreciates the significance of integrated reporting in improving the quality of information available to providers of financial capital.
- IIRC has found that integrated reporting enables a more efficient and productive allocation of capital and promotes a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time.

COMPANIES ACT



- CMA has issued a Corporate Governance Reporting Template to issuers which, among others, requires them to report on how they have implemented integrated reporting in their business.
- Where a company has not implemented integrated reporting, it is required to disclose the strategies it has put in place and the timelines for implementing the recommendation.
- It is good to note that reports from a number of companies indicate that there is ongoing work within the companies to introduce integrated reporting

AIRC



- At a regional level the Authority with ICPAK are inaugural members of Africa Integrated Reporting Council(AIRC) under the auspices of Pan-African Federation of Accountants -PAFA with a view of championing adoption of integrated reporting across Africa markets.
- Locally ICPAK, ICS, NSE and CMA have formed the KIRC and which you will be hearing more about in the coming periods. A constitution is being finalized and will guide membership of other likeminded organisations –both private and public.

COMPANIES ACT



- The Stewardship Code for Institutional Investors, as gazetted in June 2017, takes this accountability a step further by encouraging the institutional investor community to serve as responsible stewards in promoting sustainable success of issuers.
- Principle 6 of the Stewardship Code requires institutional investors to focus on sustainability issues including environmental, social and ethical factors in the context of their monitoring, voting and engagement activities.
- The Champions of Governance Awards and the Financial Reporting (FiRe) Awards are some of the initiatives championing integrated reporting and recognition for companies which are already applying the recommendation

LESSONS LEARNT



- Integrated reporting is a journey and the most important step is to start
- Integrated thinking precedes integrates reporting. A report is an outcome.
- Focus on your own story. No two stories are alike
- Leadership buy-in in IR is important. Bring everybody on board
- Engage and listen to your stakeholders.
- Identify and measure the outcomes of value created.
- Use of data, analytics and commentaries make the story more interesting.
- By 2017 the following companies among others have incorporated integrated reporting-Kenya Commercial Bank, National Bank of Kenya, Stanbic Bank, Equity Bank, Eveready East Africa, Diamond Trust Bank, Kengen, East African Breweries Ltd, Jubilee Holdings Ltd, Family Bank Ltd and Sameer Africa.

Way Forward



- Need for a New corporate and personal governance culture to embed integrated thinking in our organizations
- Moving away from compliance reporting to a value creation narrative
 - ✓ Thinking of the reporting process as an opportunity to reflect
 - ✓ Report honestly and look for opportunities to improve
 - ✓ Don't treat the report like a tick box exercise
- Finding the best ways to Identify and measure outcomes
- Striving to stay relevant and keeping in line with best practice
- Need for ICPAK to clarify on issues of Assurance and Audit on integrated reports

Interactive Session

