



THE ANNUAL GOVERNANCE & ETHICS CONFERENCE

Theme : Sustainability and Convergence

Topic : Integrated Thinking and Reporting for Sustainability

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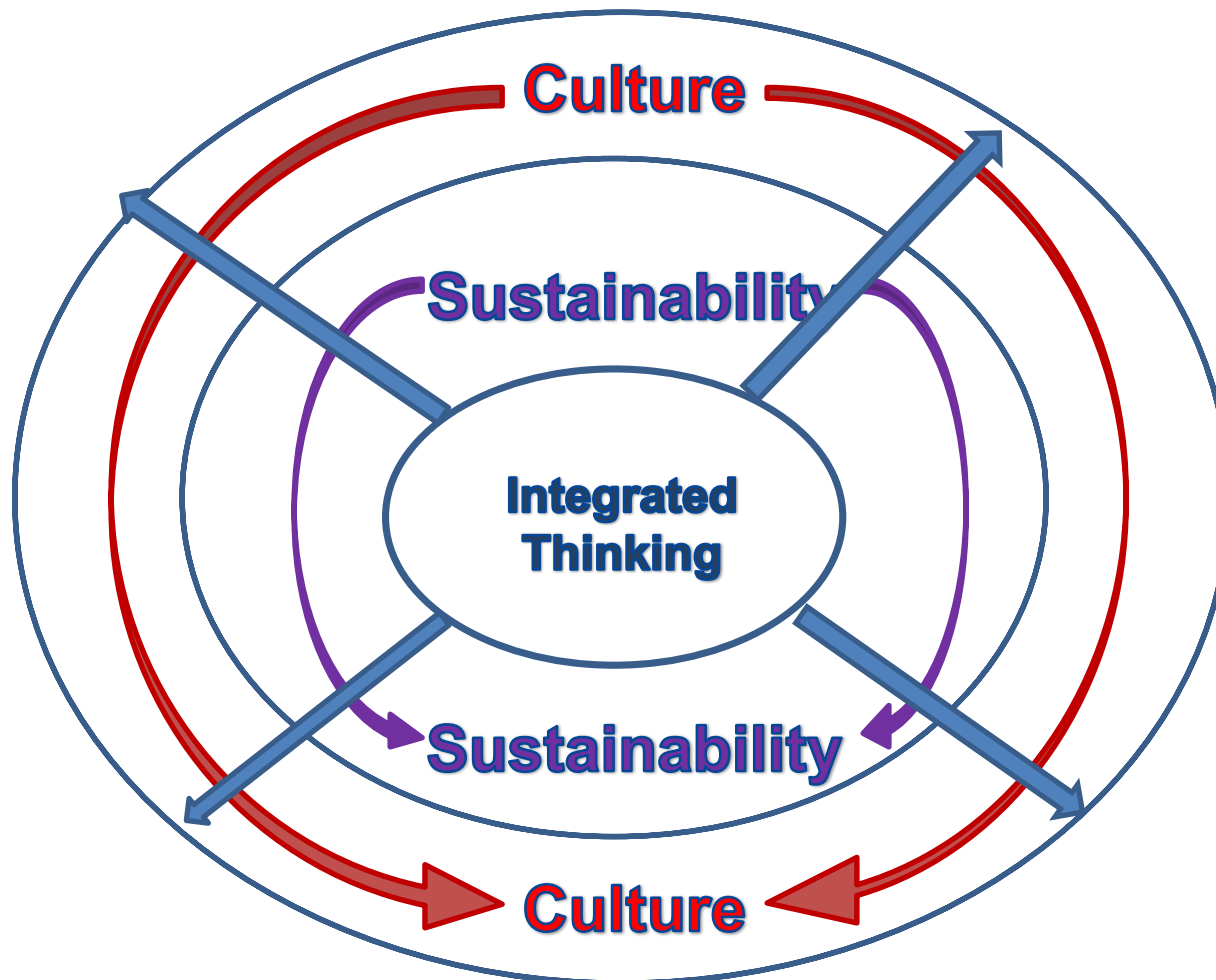
**Date : 27th - 29th March, 2019
Venue : The Reef Beach Hotel - Mombasa
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Contents



Integrated Thinking and Reporting for Sustainability

CULTURE AS THE OIL / FUEL / GLUE



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Sustainable



Integrated Thinking

Ability to link issues. In the context of this session:

- **Support / help drive sustainability in any system (a company, non-profit organization, government & ?)**
- **Creatively change, continuously weaken or remove resistance to desirable sustainability processes**

Sustainable

- **Concept of a self re-energising stable state**
- **Able to maintain itself**

Sustainable



So, what is it that we seek to SUSTAIN?

✓ Stakeholders in anything worth sustaining

Integrated Thinking and Reporting for Sustainability

? Nice, high sounding academic words? It is NOT all about companies ! We must consider other spheres

Other Spheres – Sustainability



“Sustainable Citizen Award”

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Other Spheres – Sustainability



She says :-

“In this era of sustainability, businesses must shift from being solely accountable to shareholders in their reporting, to being accountable to society. Everybody, from suppliers to consumers are on the match for brands with a conscience. Social and environmental performance must become an integral part of Integrated Annual Report of every conscious company. Business that ignore sustainability will soon scramble for the bottom piece of the market pie”.

Judy Kepher-Gona 2019

Other Spheres – Sustainability



Judy Kepher-Gona

Winner – Forbes Africa Woman

Sustainable Citizen Award 2019

This award is given to thought leaders, thinkers and pioneers who have dedicated their careers to influence how the world consumes and produces goods and services.

Judy has been in the forefront for advocating for inclusive, responsible tourism in Africa for 20 years and contributed immensely to guiding global agenda on sustainable tourism.

Other Spheres – Sustainability



The changing corporate reporting landscape

Old order of Reporting

- **Long and cluttered**
- **Language, terminologies etc.**
- **Backward looking and short term**
- **Complex**
- **General purpose**
- **Focused on financial results for shareholders**
- **Rule bound, narrow disclosures**
- **Reflects stewardship of financial capital**

Aspects in Social Sustainability Reporting

- 1. Equity within corporation**
- 2. Internal social improvement**
- 3. External social improvement**

Integrated Thinking and Reporting for Sustainability



Integrated Report - An integrated report is a concise communication about how an organization's 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 *[Definition as per International Integrated Reporting Council (IIRC)].*

Purpose and users of integrated report



Integrated report seeks to explain to providers of financial capital how an organization creates value over time by providing both financial and non-financial information. The report is intended to benefit all stake holders including employees, customers, local communities, suppliers, regulators, business partners, regulators and policy makers.

Purpose and users of integrated report



Narrow down to :-

Sustainability Reporting - Its value creation is in two dimensions :-

- i. Organization : for financial returns to the investors**
- ii. Others : Society and other stake holders.**

Purpose and users of Integrated Reports



So far there is no mandatory standard. Organizations can produce a stand alone integrated report in addition to its annual report or develop one document that satisfies requirements of integrated reporting.

Objectives of Integrated Reporting



- **Providing quality information to financiers and other stakeholders to enhance efficient capital allocation**
- **Promoting efficient corporate reporting that communicates all material factors that affect organization's ability to create value overtime through sharing broader and long term objectives**

Objectives of Integrated Reporting



- **Enhance accountability through demonstrating interconnections between social, environmental, governance and financial factors and linking them to sustainability**
- **Shift focus from normal emphasis on short term financial performance thereby supporting needs of long term investors**

Guiding principles underpinning Integrated Reporting



- **Strategic focus – The report should indicate organizations strategy and interconnect it to value creation in short, medium and long term.**
- **Connectivity and linkage – Showing relationships and interdependence of factors in creating value overtime**
- **Stakeholder relationships - provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.**

Guiding principles underpinning Integrated Reporting



- **Materiality – The report should include those matters that are substantial in organization's ability to deliver value in short and long term.**
- **Conciseness – Provide clear, brief and complete information.**

Guiding principles underpinning Integrated Reporting



- **Reliability and completeness** - An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.
- **Consistency and comparability** – report should be consistent in presentation to enable comparison.

Content Elements (IIRC)



- **Organizational overview and external environment - What does the organization do and what are the circumstances under which it operates?**
- **Governance - How does the organization's governance structure support its ability to create value in the short, medium and long term?**

Content Elements (IIRC)



- **Business model - What is the organization's business model?**
- **Risks and opportunities - What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?**
- **Strategy and resource allocation - Where does the organization want to go and how does it intend to get there?**

Content Elements (IIRC)



- **Performance** - To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
- **Outlook** - What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?

CASE STUDY



DISCUSSION

CASE STUDY



XYZ, a US based phone manufacturing company is considering selling a 40% stake in a bid to raise additional capital. The company sources some components from China. The manufactured phones are sold worldwide. The company has established new market in Europe as a result of good rating on environmental standing as the factory uses 69% green energy. The company recently launched a strategy which will see collaboration with biggest online store that would greatly boost sales. The batteries are manufactured using cobalt sourced from Democratic Republic of Congo. Alex who is an interested investor would like to acquire the 40% stake.

CASE STUDY



- **Advice Alex on additional information that he should also look at.**
- **Advice management on extra information to include in the integrated financial reports to address concerns with regulators, shareholders, customers, investors, local community (who fear environmental concerns over disposal of unused cobalt), other components suppliers.**

Hint



- **US is in trade spat with China and so the supply of components is not guaranteed [the company needs to explain how they intend to stem the risk]**
- **Good environmental record may not be reported in the normal financial statements**
- **Strategy details may not feature in normal financial reports**
- **Cobalt from DRC could be from child miners and so US authorities may be against the idea [management needs to detail how they intend to dispose of the cobalt remains]**

SUSTAINABILITY



Global consciousness about sustainability has increased dramatically in recent years.

As awareness of the human impact on the health of the planet has grown, so has a widespread recognition of the threat posed by maintaining unsustainable behaviours and processes.

SUSTAINABILITY



- **In today's world, businesses face a unique set of challenges to their long-term sustainability, from climate change and resource constraints to urbanization and technological innovation. And investors increasingly want to know how these issues impact corporate value creation.**
- **Includes behaviour of Governments !**
- **Sustainability focuses on the effect of present actions on societies, environments and ecosystems of the future.**

SUSTAINABILITY



- ❑ Sustainability practices and their impact form part of the different components of the integrated report.**
- ❑ These practices should be determined and implemented in order to generate integrated results that will enhance good corporate governance and ethical business conduct.**

These practices affect three key areas:

Environmental, economic and social dimensions.

Organizations are expected to carry out activities in a manner that would enhance sustainability in the above dimensions.

Sustainable Practices Policy be reviewed, at a minimum, once every three years with the intent of developing and strengthening implementation provisions and assessing the influence of the Policy on existing facilities and operations

WHY EMBRACE INTEGRATED REPORTING FOR SUSTAINABILITY



Benefits the company more broadly because of the strategic thinking required to draft such a report.

Increases both the comparability and quality of the information reported.

Makes a provision for more informed decisions concerning the relationship of the organization's activities and its impact on sustainable development.

WHY EMBRACE INTEGRATED REPORTING FOR SUSTAINABILITY



- **The report can function as a map of future risk because it reveals the full array of sustainability risks that a company faces. Those risks might include environmental, social, human rights, fair labor, and other issues.**
- **Greater transparency, better risk management, improved long-term performance and stronger, more valuable brands — while providing investors a more accurate picture of their sustainability performance.**

CONCLUSION



- **Committing openly to sustainability often means publicly acknowledging shortcomings, which can make companies vulnerable and governments uncomfortable.**
- **Governments can stigmatize reports about itself.**
- **By bringing sustainability efforts into public view, companies hold themselves accountable to follow through and succeed on promised initiatives**

CONCLUSION



- **Corruption and politics could stand on the way.**
 - **The need for strong civil society organizations to push accountability agenda**
 - **Voices against plastic waste currently choking our oceans, lakes and other water systems be louder.**
 - **Say NO to political systems that condone and reward corruption**
- **WE MUST NEVER KILL OURSELVES !!**

CONCLUSION



KENYA'S VISION 2030 Audit (Extract – SID Study 2010)

An important conclusion is that reducing inequity is essential, but it is a political action as well as an economic one. It is a process of inclusion. By bringing economic benefits to individuals, groups and regions that hitherto have not gained much from what little growth has taken place, the government enhances the benefits of citizenship. This, in turn, results in a more politically stable, safer and more prosperous nation”.

Questions / Comments

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