

INTEGRATED THINKING, INTEGRATED REPORTING, INTEGRATED CORPORATE GOVERNANCE AND STRATEGIC MANAGEMENT – AN APPROACH TO AVOIDING AND WHERE NECESSARY MANAGING CRISES

In this paper John Stanhope AM and Michael Bray – bring to life the meaning of integrated thinking in the context of integrated reporting in a manner that should appeal to Directors and Executives of all organisations.

Simply put, integrated thinking improves business practice. This is not to say that organisations do not practice any integrated thinking. Integrated thinking in the context of integrated reporting represents a driver of continuous improvement. The focus is on *improving* integrated thinking and communicating that improvement in the integrated report.

If all organisations in an economy improve their integrated thinking and communicate this to all of their stakeholders in an integrated report that can be trusted, the overall economy will benefit in terms of its productivity, confidence in capital markets and the cost of capital, and international competitiveness, the foundations upon which the Australian financial reporting system is built.

This paper should be read by all those with an interest in these matters.

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FREQUENTLY ASKED QUESTIONS

What is integrated thinking?

Integrated thinking is a structured process for assisting the board and management to integrate their approach to governance and strategic management in a way that brings all in an organisation along on being better at creating value for the short, medium and long term in a manner that is appreciated by all stakeholders.

It enables organisations to shift from a siloed mindset which has a shareholder-only focus to one that makes decisions today with the impact on long term value in mind. Organisations who don't think and act in this way do not appreciate that a failure to look after all stakeholders will be to its detriment in the long term and in fact destroy value for shareholders. It provides the basis for assisting CEOs in unlocking *latent* (previously unknown) intrinsic value of intangibles.

Integrated thinking is defined in the Integrated Reporting Framework and Integrated Thinking Principles 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. Integrated thinking leads to integrated decision-making and actions that consider the creation, preservation or erosion of value over the short, medium and long term”*.

The Integrated Thinking Principles shape thinking about and acting on:

- The resources and relationships, including with stakeholders, that the organisation uses or affects, and the critical interdependencies, including trade-offs, between them
- The capacity of the organisation to respond to key stakeholders' legitimate needs and interests
- how the organisation tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces
- The organisation's activities, performance (financial and other) and outcomes in terms of the resources and relationships – past, present and future

Organisations who have successfully implemented integrated thinking according to the IFRS Foundation's methodology as captured in the Integrated Thinking Principles invariably report the achievement of better and more integrated governance and strategic management.

Integrated thinking is implemented by applying the IFRS Foundation's six Integrated Thinking Principles: Purpose, Culture, Governance, Strategy, Risks and Opportunities and Performance, with the Business Model as the 'integration engine room', at three levels:

- Level 1 – a high level questionnaire designed primarily to assist boards of directors diagnose the existing state ('as is') of an organisation's integrated thinking as the basis for interactions with the CEO and other executives in planning a pathway to business improvement
- Level 2 – resulting from the interactions between the board and management at Level 1, a design roadmap is created for the CEO and executive team to map the business model they aspire to have ('to be')
- Level 3 – a methodology and process to allow the CEO, executive team and other managers to implement the 'to be' business model

We are aware of at least one organisation who is developing a technology tool to assist organisations to implement the Integrated Thinking Principles at Level 3. That organisation is looking for potential partners to pilot with.

Deakin University teaches integrated thinking in its undergraduate, post-graduate and executive education courses.

What is integrated reporting?

Integrated reporting is “a process founded on integrated thinking that results in a periodic integrated report by an organisation about value creation, preservation or erosion over time and related communications regarding aspects of value creation, preservation or erosion.”

The integrated report provides a window into the quality of the organisation’s integrated thinking. It enables boards to reveal all aspects of intrinsic value to stakeholders, including intrinsic value of intangibles unlocked by executives through more integrated thinking.

In that respect integrated reporting challenges the traditional notion of the efficient markets hypothesis. By unlocking previously hidden intrinsic value and communicating that to stakeholders, previously unknown information will be revealed in the integrated report.

Integrated reporting is codified in the IFRS Foundation’s *Integrated Reporting Framework*. The Integrated Reporting Framework is founded on integrated thinking and three fundamental concepts – Value Creation, The Capitals (which many refer to as ‘resources and relationships’) and the Value Creation Process.

A simple way of looking at these concepts is through a lens of *What* (Value Creation), *With* (The Capitals), *How* (Value Creation Process) and *Why*:

- *What* – the organisation’s Purpose, External Environment and Risks and Opportunities
- *With* – the organisation’s:
 - Resources – financial, natural, manufacturing and intangibles. Intangibles include governance, strategic management and innovation capabilities; intellectual property and technology; and people.

Intangibles extend beyond ‘diversity, equity and inclusion’ to how the organisation’s people are aligned with the organisation’s Purpose and Strategy, and whether their goals are set accordingly and lead to performance appraisal, recognition and reward
 - Relationships with stakeholders, including shareholders, customers, employees, suppliers, regulators and society at large
- *How* – the organisation’s Business Model, which is comprised of a series of business processes across the organisation’s value chain.

The Integrated Reporting Framework and the Integrated Thinking Principles focus on key business processes and the critical success factors and associated key performance indicators, and risks and controls, within them.

Key business processes are those material to enterprise value creation and critical success factors are the minimum-level activities that must be performed well for a business to be successful.

Some business processes will always be material in the context of integrated reporting. These include the Board’s governance process, the CEO’s strategic management process, the CFO’s information management and reporting process, as well as the stakeholder management process, risk management process and materiality determination process. These business processes will be described as part of the description of the business in the integrated report.

- *Why* – why the organisation is better than its peers and competitors at using its *with* (what) in its *how* to achieve its *what*. This is the organisation’s investment proposition for all stakeholders – why they should invest their money and time (building relationships) in the organisation rather than others.

Independent external assurance in accordance with the Integrated Reporting Framework adds credibility to the integrated report, such that all stakeholders gain a basis for trust that they are getting the true picture about the quality of the organisation's integrated thinking.

Among better integrated reports are those of ABN AMRO* (Dutch bank), Itau Unibanco* (Brazilian bank), CPA Australia* (Australian professional accountancy organisation), CBUS* (large Australian superannuation / pension fund), TATA Chemicals* (Indian chemicals company), AGL (Australian energy supplier) and Nedbank (South African bank).

* Has independent external assurance under Integrated Reporting Framework

What is the problem being addressed? For Directors? For Stakeholders?

Many organisations have suffered from 'trust deficits' in recent times, or have struggled to deal with crises as the banking and casino inquiries have demonstrated. Often a key driver for this has been a lack of integration in governance and strategic management, and a short-sighted focus on short term returns for shareholders at the expense of focusing on all stakeholders in the pursuit of long term value.

Many organisations have also struggled to get the most out of their intangibles. EverEdge is a management consultancy specialising in intangibles. In its 2021, 'EverEdge Intangible Asset Benchmark' EverEdge states that "*intangible assets are the most important drivers of company growth and value today*", and that "*In short, intangible assets such as data, confidential information, regulatory approvals, software, brands, designs, patents, internet assets, and external relationships have at least complemented and frequently replaced machinery, raw and intermediate goods, and other physical assets as the primary drivers of margin and earnings growth.*"

EverEdge reports that in 2020, 85% of the enterprise value of the S&P 500 was comprised of intangibles. Because enterprise value is a market-determined metric, that 85% excludes currently latent intrinsic value of intangibles, so the percentage of total intrinsic value of intangibles is potentially greater than 85%¹. EverEdge provide a sector-based breakdown which includes energy sector intangibles representing only 22% of enterprise value and financials at only 46% and make comments about the drivers of these low percentages.

EverEdge also have a number of jurisdictional breakdowns, including for Australia (the ASX 200) at only 56%. They argue that key drivers of this are the important position of financial services and energy and natural resources in the Australian economy. We argue that other sources of this gap could include a lack of integrated thinking to unlock latent intrinsic value of intangibles, a lack of integrated reporting to reveal all aspects of intrinsic value to stakeholders, and a lack of integration of governance and strategic management with a focus on long term value creation for all stakeholders.

This is a problem that directors and executives should want to solve for two reasons, and can through *integrated reporting*:

- In *integrated thinking*, they have an approach to unlock the full intrinsic value of their intangibles
- In *integrated reports* with independent external assurance, they have an approach to providing more useful and credible information that is trusted for all stakeholders

Why should companies adopt integrated reporting and integrated thinking?

Companies should adopt integrated reporting and integrated thinking as those who have successfully adopted integrated thinking and report that to their stakeholders in a way that they can understand and trust, invariably are rewarded for doing so. Case study attestations are contained in this paper.

Integrated reporting and integrated thinking are not conceptually difficult. In a sense they are 'Business 101'. Getting started guides for both integrated reporting and integrated thinking are available to assist

¹ To the extent that there is unrecorded value in tangible assets or debt is recorded at less than fair value, this metric may be driven lower

companies in getting started. Specialist advisers on integrated thinking and reporting are available to provide support. Integrated reporting assurance is now emerging around the world. Approached strategically and with a clear business case, significant returns on investment are available.

How have the expectations of Boards shifted and why is integrated reporting and integrated thinking the answer?

The casino Royal Commissions demonstrated that directors are increasingly being held accountable to all stakeholders such as customers, employees and suppliers, in contrast to the narrower 'shareholder accountability' built into the Corporations Act. We believe that integrated reporting and integrated thinking provide the answer in relation to the expanded expectations of boards.

Alison Kitchen is National Chair of KPMG. She said the following at a 2019 KPMG / Group of 100 Wolters Kluwer event: *"A really challenging [matter] for boards – doing the right thing and facing into society's expectations; understanding that whether you are a customer, an employee, a supplier or a shareholder, you [boards and executives] have expectations that you are not only thinking about short term profit for stakeholders but also long term needs of communities in which they operate."*

What should a Board do first?

- Recognise as a Board that expectations of boards and executives have expanded. Communicate that recognition throughout the organisation and to stakeholders now, and later in the integrated report.
- Understand why and how integrated thinking / reporting can meet these expectations.
- Take a look at some examples of organisations that have successfully applied the IFRS Foundation's Integrated Thinking Principles and Integrated Reporting Framework.
- Develop or update its reporting strategy and consider its corporate reports portfolio in the context of that reporting strategy.

A reporting strategy is a plan overseen by the Board, owned by the CEO and implemented by the CFO as to what to report, with what materiality lens, to who, when, in what format, through what distribution channels, with what level of automation and assurance, and why.

In terms of why, presumably the aim is to communicate the quality of the organisation's integrated thinking to all stakeholders, internal and external, with clarity, information integrity and credibility.

A well thought through reporting strategy will assist the organisation in answering the 'chicken and egg' question often asked, 'what comes first, integrated reporting or integrated thinking?' The reality is that integrated reporting and integrated thinking are iterative and parallel processes. A reporting strategy can assist the organisation in mapping its pathway.

A corporate reports portfolio is all of the organisation's reports, internal and external, which are organised as a portfolio built around a flagship integrated report in accordance with the reporting strategy. It should be easy to navigate the portfolio, starting from the flagship integrated report.

- Plan the next strategy day to be an integrated thinking / strategy day and include reporting strategy on the agenda.

Executive Summary

It became apparent 20 years or more ago that financial reporting in accordance with then accounting standards was not keeping up with developments in business models and emerging pressures in relation to environmental and social risks.

However, with no underpinning conceptual framework for all corporate reporting, new reporting initiatives and demands for information began to proliferate, and terms such as 'triple bottom line' 'corporate social responsibility' and 'ESG' reporting emerged. It became a competition. In addition, none of these dealt in any substantive way with changed business models through technology and the growing importance of intangibles, including intellectual capital and the strategic alignment of an organisation's people. Also none really considered how an organisation's governance and management interacted with its corporate reporting.

It is estimated that by 2019 some 400 sustainability reporting initiatives were in existence. Corporates were frustrated. Investors and other stakeholders were confused. The International Integrated Reporting Council was told that although its Integrated Reporting Framework, released in 2013, had great potential, that potential would not be realised if the 'alphabet soup' was not quickly fixed. Fortunately the IIRC had formed a Corporate Reporting Dialogue in 2015, which had started the process having the major sustainability reporting framework developers talking to each other so that consolidation and simplification could occur over a period.

Things have moved at the 'speed of light' since 2021 in the context of the history of accounting since the time of Pacioli, with the IIRC merging with SASB to form the Value Reporting Foundation in 2021 and the Value Reporting Foundation (VRF) being consolidated into the IFRS Foundation on 1 August 2022. Consolidation and simplification of the global corporate reporting system has moved at such a pace that the life of the VRF as an independent body was less than 12 months.

With the VRF being consolidated into the IFRS Foundation, the IFRS Foundation became responsible for the Integrated Reporting Framework. This was the development that those of us associated with the IIRC for a long time had wanted since the IIRC was formed in 2010 – that its reason for existence as an independent organization would cease when the IFRS Foundation became responsible for the Framework.

With the International Sustainability Standards Board (ISSB) being formed in 2021 and its first two standards becoming effective in January 2024, the time is right for the IFRS Foundation to reveal its plans for integrated reporting and integrated thinking. 2023 promises to be the breakthrough year for integrated reporting.

A key enabler of this was the ISSB Board in December 2022 deciding that the final S1 and S2 would use the Integrated Reporting Framework and TCFD Recommendations as fundamental building blocks; and clarifying that its concept of 'sustainability' equates sustainability to the six capitals of the Integrated Reporting Framework and enterprise value, and so encompasses intellectual capital and human capital and so is far broader than ESG : governance in relation to environmental and social matters,.

In addition, the Chairs of the IASB and ISSB clarified that the former VRF's Integrated Thinking Principles will be important continuing resources of the IFRS Foundation, meaning that the IFRS Foundation is stepping up to using integrated reporting to drive better business practice. This includes in governance and strategic management and the integration of the two, and allowing boards of directors to communicate business improvements to their investors and other stakeholders with independent external assurance.

If these resources had been available the governance, strategic management and integration issues which beset the Star Casino may have been avoided or mitigated. Proxy advisers pursuing ESG disclosures would have been provided with far better information as would have been banks wanting ESG disclosures to facilitate funding private companies.

A lot of this agenda will be driven by IASB and ISSB standards. However there is nothing to stop executives and Directors from putting these disclosures into the strategic business context of an integrated report with independent external assurance. To do so requires a reporting strategy which is overseen by the board of directors, owned by the CEO and implemented by the CFO. This paper explains how.

Introduction

The December 2022 Company Director magazine had an article titled ‘The Big Picture’:

“Recent crises, while requiring immediate action, have paradoxically focused boards on the importance of purpose and long term value creation.”

Leading experts and directors also shared their strategies to foster long term thinking. Dr Catherine Ball, Associate Professor in the ANU School of Engineering, said the following:

“Value has social implications, ethical implications, innovation and technological implications. Value has climate implications and political implications. And, if we can look at the idea of redefining what value means, that could be the start of a really powerful conversation”.

In the same article, Paul Ronalds, Founder and CEO of Save the Children Global Ventures, said that his understanding of governance has shifted in recent years:

“I’m much more conscious of making sure that I am balancing the long-term strategic challenges and I’m placing a lot more pressure on [management teams] to make sure they’re balancing them too. Many CEOs often feel swamped right now, but one of the many roles of board members is to help management maintain sufficient focus on the long term, despite ongoing crises.”

The aim of this paper is to demonstrate to CEOs and non-executive directors that integrated reporting, with its integrated thinking foundation, is the answer to the current and continuing issue of boards and management not looking at all stakeholders in an integrated way as they strive for long term value creation. The integrated report, an outcome of applying integrated thinking, is the connector that brings all stakeholders along on the journey.

At a Group 100 / Wolters Kluwer / KPMG Event, ‘Without transparency, there is no trust’, held in Melbourne in April 2019, Dominic Barton, then Chair of the International Integrated Reporting Council, said: *“Integrated reporting is the glue, essential for all of business to ensure that we have the trust to be able to make the difference we want to make and earn good profits as we go through. It is important for trust that business be transparent. There is a drop in trust in many institutions including business. We need a broader set of standards and metrics for that trust.”*²

There are many papers about the integrated reports which flow from following the integrated reporting process. This paper approaches integrated reporting from the other direction – how following the integrated reporting process enables organisations to drive improvement in corporate governance and management through more integrated thinking, allowing boards and management to work together and engage all stakeholders in a more integrated way.

The core of the paper is an analysis of how the IFRS Foundation’s Integrated Thinking Principles can assist boards and management in working together in designing and implementing business models which align corporate governance and strategic management processes to drive the achievement of the organisation’s purpose with the support of all stakeholders. The approach outlined in this paper is scalable. It can be followed by organisations of all types, listed or unlisted, private or public.

Contents of this paper

After introducing the IFRS Foundation’s Integrated Thinking Principles, we provide some thoughts on how an approach to business models following these principles could have avoided or at least mitigated the governance and management failures that have allegedly beset the Crown and Star casinos.

The casino Royal Commissions demonstrated that directors are increasingly being held accountable to all stakeholders such as customers, employees and suppliers, in contrast to the narrower ‘shareholder

² Dominic Barton is now Chair of Rio Tinto. He is former Global Managing Partner of McKinsey and former Canadian Ambassador to China.

accountability' built into the Corporations Act. We believe that integrated reporting and integrated thinking provide the answer in relation to the expanded expectations of boards.

The paper concludes with some thoughts on design, change management and implementation considerations of adopting integrated reporting and integrated thinking; a short commentary on where integrated reporting fits within the Australian corporate reporting system and how that may change; and appendices that CEOs and directors may like to consult for further information.

The value of integrated reporting

We believe that the fundamental concepts of integrated reporting and the IFRS Foundation's Integrated Thinking Principles offer significant potential as an impetus for such a conversation about modern value creation, which includes managing trade-offs across time dimensions while also dealing with current crises with a long-term mindset.

Integrated reporting and integrated thinking deal with all of society, ethics, innovation and intellectual property, technology, climate and political considerations – in an integrated fashion such that trade-offs can be managed taking short term action in the context of a long-term view. This is integrated thinking. The board and executive management have individual and collective contributions to make to value creation and protection. This is what good governance and excellence in strategic management are all about.

There are three fundamental concepts of integrated reporting. All are attached to the idea of value and its creation for the short-, medium- and long-term having regard to the needs and interests of all stakeholders, which largely converge taking a long-term view. The Integrated Thinking Principles provide a support resource for organisations to implement the process of integrated reporting, which is as much about business improvement as it is the production of an integrated report.

The power of integrated reporting has been strengthened with the International Integrated Reporting Framework and Integrated Thinking Principles becoming intellectual property of the IFRS Foundation, the global peak body for corporate reporting, upon the Value Reporting Foundation being consolidated into the IFRS Foundation on 1 August 2022.

The IFRS Foundation has published a series of case studies on companies who have successfully applied the Integrated Thinking Principles. The following quote from Liz Barber, CEO of Yorkshire Water, is a highlight:

"Yorkshire Water's integrated thinking journey started around ten years ago. Senior management, the Board and the organizational culture have all provided strong support for this journey. Integrated thinking has enabled Yorkshire Water to expand its understanding of risk and value to drive more informed and sustainability-focused decision-making.

Integrated thinking has also helped increase investor engagement on environmental, social and governance issues and garner support from more ESG-focused investors.

Embedding [an all stakeholder] approach has helped to improve business resilience and create long term value for the Yorkshire region's environment, economy and society. The approach not only allows [stakeholders] to understand the positive and negative impacts of their activities but also enables Yorkshire Water to articulate these impacts to their stakeholders and understand trends over time.

Yorkshire Water's senior management and Board have been supportive of the integrated thinking journey. The approach has enabled them to embed a holistic culture throughout the organization and to look at short-, medium- and long-term targets. We have also used [our resources and relationships] to strengthen our corporate governance, shaping the focus and Terms of Reference of our Board Committees, the Board's new set of Key Performance Indicators and our latest executive remuneration arrangements."

Case studies are also available³ for *ABN AMRO, ING, Royal Schiphol Airport, BMW, Munich Airport, ENEL, Generali, Leonardo, Snam, Novo Nordisk, Solvay*. Common improvement themes across the case studies include improved:

- understanding of the business by the people within the business
- integration of thinking, decision-making and action across the whole organisation, at Board, executive and operational levels
 - elimination or reduction of silos
 - clarity in roles and responsibilities
 - internal management system
 - culture
 - corporate governance
 - importance of CFO / Finance
- ability to deal with crises
- innovation and technology
- communication with all stakeholders, particularly the organisation’s people and customers

Integrated Thinking Terminology

Before delving into how boards and management can attack the task of driving more integrated thinking in a systematic way, it is necessary to give CEOs and directors a high-level introduction to integrated thinking terminology and a working knowledge of integrated reporting, with an interlude on the concept of sustainability and its relationship to ESG.

The Integrated Reporting Framework⁴ defines **integrated reporting***⁵ as a process founded on integrated thinking:

*“**Integrated reporting** is a process founded on integrated thinking that results in a periodic integrated report by an organisation about value creation, preservation or erosion over time and related communications regarding aspects of value creation, preservation or erosion.”*

*“**Integrated thinking** is 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. Integrated thinking leads to integrated decision-making and actions that consider the creation, preservation or erosion of value over the short, medium and long term.”*

While ‘value’ is not defined in the Integrated Reporting Framework, the IFRS Foundation has clarified the meaning of ‘value’ and its relationship to the concept of ‘sustainability’. Value means value for investors, for their assessments of the present value of future cash flows, often referred to as ‘**enterprise value**’, which is defined in the Integrated Thinking Principles:

“The total value of an entity: the sum of the value of the entity’s equity (market capitalisation) and the value of the entity’s net debt.”

The IFRS Foundation’s approach to the concept of ‘sustainability’ is to view it in the light of enterprise value – is the enterprise value sustainable? In other words, how resilient is the organisation?

Directors and CEOs should have a working knowledge of integrated reporting which is derived from and consistent with the fundamental concepts within the Integrated Reporting Framework. They should focus on **integrated thinking***, knowing that by doing so they will be working towards an **integrated report*** under the Integrated Reporting Framework.

³ [Integrated thinking case studies | Integrated Reporting](#)

⁴ The IFRS Foundation’s International <IR> Framework, January 2021; ‘Transition to integrated reporting – A guide to getting started’, IFRS Foundation, September 2021

⁵ * Terms defined in the Glossary to IFRS Foundation’s ‘Integrated Thinking Principles – Value creation through organisational resilience’, August 2022, and / or in the International <IR> Framework, January 2021

David Atkin, then CEO of Cbus⁶, said at the 2019 Group of 100 / Wolters Kluwer / KPMG event: *“To get to an integrated report you need to articulate your strategy internally, Make sure everyone understands each other’s perspectives or roles and that you are linking up the effectiveness of your program through the integrated thinking within your organisation. So the value of integrated reporting is not only the output but the fact that you are having an organisation that is on the same page should make the execution of your strategy more effective because everyone understands their role, the goal, and how we are going to hold ourselves accountable.”*

As an integrated report is an outcome of applying the Framework, this will be mainly a matter for CFOs and Audit Committee Chairs. Other directors and CEOs can read the Integrated Reporting Framework with a view to preparing an integrated report if they would like to.

Developing a working knowledge of integrated reporting and integrated thinking

Dr Ball is quoted in the December 2022 Company Director magazine as saying, *“[We need to exfoliate] some of those business models that were just never going to work in a post-pandemic economy. The supply chain model of importing cheap stuff and expecting it to arrive quickly from overseas is just one of them. Another is not fully exploiting the potential of the resources and relationships we have, particularly intangibles”*. Dr Ball went on to emphasise the need to invest in innovation and other intangibles across all time dimensions.

Woolworths and Coles found the dangers of not thinking of all stakeholders in an integrated way. In the search for customer satisfaction, they put huge and some would argue undue pressure on their suppliers which ultimately destroyed value for suppliers, customers and the companies.

A working knowledge of the Integrated Reporting Framework can be delivered through the lens of the *What, With what, How* and *Why* approach to viewing a business. This approach delivers a high-level business language interpretation of integrated reporting with a focus on implementing or improving integrated thinking rather than preparing an integrated report:

- **What** – Operating Environment, **Purpose**^{*7}, **Strategic Objectives**^{*8}, Risks and Opportunities
- **With what** – Resources and Relationships:

Resources & Relationships	Provided by Key Stakeholders*
Equity and Debt	Investors
Manufacturing Assets – Owned <i>and Used</i> ⁹	Investors and People
Business Model (Intangibles*)	Investors and People
People – Directors, Executives, Other	People
Social Licence to Operate and Relationships	Customers, Regulators, Civil Society, Suppliers
Natural Environment	The Natural Environment

Intangibles* are defined in the Integrated Thinking Principles:

“Intangibles are non-physical resources which, either alone or in conjunction with other tangible or intangible resources, can generate a positive or negative effect on the value of the organisation in the short, medium and long term.”

⁶ David Atkin is now CEO of the Principles for Responsible Investment organisation

⁷ The Glossary to the Integrated Thinking Principles do not define Purpose as such. Instead they quote how three organisations view ‘Purpose’

⁸ Strategy is defined in the Integrated Reporting Framework as ‘strategic objectives together with the strategies to achieve them’. ‘Strategies’ are not defined in the Integrated Reporting Framework. A key difficulty in practice is the varying use of terms such as ‘strategy’ across businesses and business schools, and whether ‘strategy’ is higher or than ‘business model’ or vice versa. It seems clear that the developers of the Integrated Reporting Framework had the ‘Business Model’ – the How - in mind in relation to ‘strategies’, and that ‘strategy’ is higher order than strategies / business model. There is no right answer on this. However at least the Integrated Thinking Principles provide the basis for a ‘common language of business’ developing over time.

⁹ Used within the Business Model

Integrated thinking provides a framework for assisting CEOs to unlock **latent** intrinsic value of intangibles (through more *integrated thinking*) and boards to reveal it to investors (in the *annual integrated report*), along with **already apparent but unreported** intrinsic value – and so improving the business and stakeholder outcomes.

The landmark Mary Barth paper¹⁰ provided empirical evidence that the improved capital allocation that results from integrated reporting is most likely associated with improved integrated thinking (a ‘real effect’) than simply better reporting of existing information (a ‘capital market effect’). Through the integrated report, investors can take previously latent intrinsic value into account in their financial models – assessing WACC, growth rate and cash flow projections, terminal value calculations.

Academics will point to the efficient markets hypothesis in relation to the intrinsic value of intangibles already being factored into market value, but this and the capital asset pricing model (WACC) are all about information known externally (known externally though not necessarily from a corporate report), known internally (unknown externally), but not information not currently known externally or internally (‘unknown unknowns’).

This paper argues that the latent potential of more integrated thinking is an ‘unknown unknown’ which cannot be captured in market value, and which can be converted from latent to obvious through the process of integrated reporting.

If investors cannot see the intrinsic value, they cannot reward it. If management does not think about that latent intrinsic value, it cannot manage it, the board cannot govern in an integrated manner, and the organization will not unlock the full intrinsic value of intangibles.

- **How – Business Model**^{*11}. The Integrated Thinking Principles, including the mutually re-enforcing roles of the board and management, are operationalised through the Business Model. The Integrated Thinking Principles make the link between the Business Model, **Business Processes*** and **critical success factors***:

*“A business process emphasises **how** work is done rather than **what** is done. It is also a structuring of activities across time and place to transform inputs (such as knowledge, people and materials) into outputs for customers and outcomes for other stakeholders. Business objectives, business processes and outcomes all have associated critical success factors and business risks. Business processes contain process-level objectives, business risks and KPIs.”*

Critical success factors are “the minimum level activities within business processes that must be performed well for a business to be successful.”

¹⁰ Barth, M. E., et al., The economic consequences associated with integrated report quality: Capital market and real effects, *Accounting, Organizations and Society* (2017), <http://dx.doi.org/10.1016/j.aos.2017.08.005>

¹¹ “An organisation’s system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the organisation’s strategic purposes and create value over the short, medium and long term.”

Some business processes are ‘material matters’ under the Integrated Reporting Framework. That is, the matters must be reported on in the integrated report as investors and other stakeholders need to know about the process-level objectives, business risks and critical success factors within them as they substantively affect the organisation’s ability to create value over time. We refer to these as **Key Business Processes**. Some business processes will always be Key Business Processes – every organisation, every jurisdiction, every industry sector, every time:

Business Process	Typical Process Owner	Business Process	Typical Process Owner
Governance	Board ¹²	Technology	Chief Technology Officer
Strategic Management	Chief Executive Officer	Materiality Determination ¹³	Variable
Innovation	Variable	Stakeholder* Management ¹⁴	Variable
Intellectual Property	Variable	Information and reporting integrity	Chief Financial Officer

The Integrated Reporting Framework emphasises the separate accountability of the board for the integrity of the integrated report in paragraph 1.20¹⁵. It goes on to encourage the board to also acknowledge its responsibility for the integrity of the process underlying the integrated report in paragraph 1.24¹⁶. In reality, the board carries that responsibility through paragraph 1.20 as the process underlying the integrated report will always be a Key Business Process as it is a material matter. Accordingly, reporting on the reporting process is required in the integrated report and the board must acknowledge responsibility for its integrity under paragraph 1.20.

So the Board of Directors carries two key responsibilities in relation to integrated reporting. The first is that described above. The second is as an instrument of value creation, making a distinctive contribution through the corporate governance process over, above and in collaboration with management and the rest of the organization, and in engagement with stakeholders. They must ensure all stakeholders have been considered in an integrated way.

Performance and Prospects. Key Performance Indicators^{17*} (KPIs) are required to measure the performance and prospects of *The Business*. These KPIs will be those used internally to manage the What, With and How of The Business and report to the board and management. To be clear, KPIs will be required for all of:

- Progress towards the achievement of the strategic objectives, and process objectives for Key Business Processes, including the corporate governance and strategic management processes
- The outputs (products and services for customers) and outcomes for all stakeholders, including but not limited to investors
- Performance of the critical activities within each Key Business Process, including activities for the management of risks.

¹² We refer to ‘the board’ for simplicity. The Integrated Reporting Framework and the Integrated Thinking Principles refer to ‘those charged with governance’ rather than ‘the board’: “The person(s) or organisation(s) (eg the board of directors or a corporate trustee) with responsibility for overseeing the strategic direction of an organisation and its obligations with respect to accountability and stewardship. For some organisations and jurisdictions those charged with governance may include executive management. That is not the case in Australia where there is a clear separation of the roles, accountability and stewardship of the board and executive management.

¹³ Under the Integrated Thinking Principles, ‘material matters’ are “matters that substantively affect the organisation’s ability to create value over the short, medium and long term.

¹⁴ “Stakeholders may include [investors], employees, customers, suppliers, business partners, local communities, NGOs, environmental groups, legislators, regulators and policy-makers.”

¹⁵ Paragraph 1.20: “An integrated report should include a statement from [the board] that includes an acknowledgement of their responsibility to ensure the integrity of the integrated report; their opinion or conclusion about whether, or the extent to which, the integrated report is presented in accordance with the Integrated Reporting Framework”.

¹⁶ Paragraph 1.24: “Process disclosures are encouraged as a supplement to a statement of responsibility from [the board] as this information indicates measures taken to ensure the integrity of the integrated report.”

¹⁷ Key Performance Indicators are defined in the Integrated Thinking Principles as “the financial and sustainability-related quantitative measurements that are collected by the organization, either continuously or periodically, and used by management to evaluate the extent of progress towards meeting the entity’s defined strategic objectives.”

This includes the separate but presumably aligned objectives, stakeholder outcomes and critical activities of the board in terms of its governance process and the CEO in terms of the strategic management process. To be clear, this will require reporting on and accountability for what ‘happens inside’ the boardroom and c-suite. Both the board and executive management make critical contributions to enterprise value creation. They need to report KPIs to be accountable for the performance of these value creating processes.

KPIs need to measure that things are done right and the right thing has been done for all stakeholders because their integration delivers value.

The Integrated Report. These KPIs will also be critical building blocks of the integrated report. The description of *The Business*, its integrated thinking, is the foundation of the integrated report. This provides the business context for the KPIs selected to measure the Performance and Prospects of *The Business*.

John Stanhope, Chancellor of Deakin University¹⁸, said at the 2019 Group of 100 / Wolters Kluwer / KPMG event: *“Integrated reporting is a way to report on all things you do – financial outcomes and also how you affect staff, the community, the environment. And so it’s a way to be far more transparent to all the users. And it’s not just investors that read these documents. In fact in Australia Post we talk about our staff and so the staff read it.*

So it boils down to far better information covering all the outcomes from what the business does. That is what integrated reporting does. Therefore you cover all stakeholders and it actually explains better what the business is about, not just economic performance and the financials but all the outcomes that emerge from the business. And it is all of those that create value, or if you don’t pay attention to all of those, even worse you can destroy value. And that is why we do it.”

Directors need have no fear about making the required forward-looking statements in an integrated report, provided that they exercise appropriate diligence in making them. To be clear, the Integrated Reporting Framework does not require the reporting of financial forecasts. The required forward looking statements include describing the strategy, governance, business model and risk management. Indeed, a board may have greater problems by not making such disclosures than if they do in the context of increased expectations of boards in relation to all stakeholders.

It is important that the **Basis of Preparation and Presentation**¹⁹ within the integrated report clearly describes how the description of *The Business* has been prepared, how the KPIs have been selected, and how the board and CEO have satisfied themselves that the integrity of the integrated report has been ensured. In so doing, they will be ensuring that investors and other stakeholders have a sound understanding of the organisation’s integrated thinking including its governance and attention paid to stakeholders.

Today, sustainability is broader than ESG, being closely associated with enterprise value and business resilience.

The Integrated Thinking Principles

So in a nutshell, the foundation of an integrated report is the description of the **What, With** what and **How** of *The Business*. That description provides the business context for the standardised and self-determined metrics used to communicate the **Performance** and **Prospects** of *The Business* in a way that **stakeholders** can **trust** and use with **precision**. Looked at another way, the integrated report provides stakeholders with a transparent window into the quality of the organisation’s integrated thinking and that they are addressing the impact on and how they care about all stakeholders and their contribution to value.

¹⁸ John is also a Member of the Integrated Reporting and Connectivity Council, chair of the Australian Business Reporting Leaders Forum and Deakin Integrated Reporting Centre Advisory Board, and chair of the Port of Melbourne Corporation. He is former chair of Australia Post and the AGL audit committee.

¹⁹ Required by paragraph 4.41 of the Integrated Reporting Framework

The integrated report is also an opportunity for the board and management to explain the **Why** of The Business to investors and other stakeholders – the investment proposition: **Why** should stakeholders invest financial and other resources in the organisation, and why should they invest their time in building relationships with the organisation? Why is the organisation better at using its **With** in its **How** to realise its strategy and realise its Purpose (**What**)?

Directors and CEOs should focus on the **Integrated Thinking Principles** rather than the Integrated Reporting Framework. An organisation's integrated thinking is its approach to [enterprise] value creation.

So now let's come at integrated reporting from the other direction. Does an integrated reporting journey start by preparing an integrated report? Yes and no. You can start with an integrated report, but you can only do this by reporting on the business you have rather than the business you would like to have. As you think about preparing your first or second integrated reports and want to withstand the scrutiny of independent external assurance, boards and CEOs almost invariably think of ways 'to improve how we do that'. By following through on that, they will be applying integrated thinking.

Alternatively, you can start the journey by considering the Integrated Thinking Principles without present consideration of preparing an integrated report. However, there are immediate capital market benefits to be obtained by better communication about *The Business* as it is, and as a template for how business improvements can be communicated in the future.

Alison Kitchen, Chair of KPMG²⁰, said at the 2019 Group of 100 / Wolters Kluwer / KPMG event: *"There are three key lenses I'd suggest boards and management use to make their decisions today: 1. People and customers. Outcomes beyond profit, putting customers and people at the heart of everything you do. 2. Technology and innovation, recognising we are in this constantly changing environment, not how we did things in the past – getting one step ahead of the competition. 3. A really challenging one for boards – doing the right thing and facing into society's expectations; understanding that whether you are a customer, an employee, a supplier or a shareholder, you have expectations that you are not only thinking about short term profit for stakeholders but also long term needs of communities in which they operate."*

Scalability

The same integrated reporting concepts and integrated thinking principles apply regardless of the size or shape that an organisation takes. Neither are rules based or mandatory and can be applied to all organisations – listed and unlisted, large and small, for-profit and not-for-profit, private and public sector (including GBEs and government departments).

All organisations have similar needs – for example, to have stakeholders that provide the resources and relationships that they need, for licences to operate, to be clear about the What, With what, How and Why of their businesses.

SMEs have at least as big a need for automation of as much of the integrated reporting process as possible as do larger organisations. The IFRS Foundation is currently evaluating such automation possibilities. Australian boards and CEOs may like to consider putting their organisations forward as potential pilots for this work.

In December 2022, the State of Victoria was announced as the host of the 2025 World Congress of Chambers of Commerce. VECCI will have a significant role with this congress. It has been announced that a key theme for the congress will be 'ESG for SMEs'. In the light of this paper (the scalability of integrated reporting / integrated thinking and the positioning of the concept of sustainability relative to ESG), this theme could well be positioned in an integrated reporting context, with focuses on

²⁰ Alison Kitchen is also a member of the Board of the Business Council of Australia

integrated thinking and integrated reports providing the strategic business context for governance, management and reporting on ESG matters.

Design, Change Management and Implementation

Set out are the three stages of the process of integrated reporting: preparing the Integrated Report, assurance of the Integrated Report and implementing Integrated Thinking. As noted above, these stages need not be undertaken sequentially. The remainder of this paper is about implementing integrated thinking. It makes comments on what is possible now with integrated reports and their assurance. There is no reason not to start – no regrets investments.

Stage 1 – The Integrated Report

As explained above, the description of the What, With what, How and Why of *The Business* is at the core of the integrated report. This description provides the business context for the metrics and associated disclosures chosen by management and the board to measure the **Performance** and **Prospects** of *The Business* in the context of value driven by and for all stakeholders. The report can contain material ESG metrics and yet remain concise – for instance, by using ESG Data Centres for more detailed information. The Board of Directors is responsible for the integrity of the integrated report and the reporting process underlying it.

Preparing such an integrated report as the corporate reporting flagship is possible today. It could be prepared along the lines of the outline annual integrated report in Appendix 1. Indeed, companies such as AGL have demonstrated that it is possible to produce a comprehensive and insightful yet concise integrated report which contains material metrics and associated disclosures from applying GRI and SASB Standards, the TCFD Recommendations and the International Integrated Reporting Framework.

Appendix 5 to this paper lists as Resources, integrated reports from three companies highlighting several features of integrated reports – AGL (one integrated report as the corporate reporting flagship), Nedbank (acknowledged director responsibility for the integrated report) and ABN AMRO; Rabobank, Tata Chemicals, CIPLA, Itau Unibanco, Dexus, Cbus and CPA Australia (integrated reporting assurance); and the IFRS Foundation’s Integrated Reporting Examples database.

It is unlikely that investors and other stakeholders will have gleaned any real information about *The Business* of Crown and Star and their integrated thinking or lack of from their corporate reports.

More will be said by the IFRS Foundation in the months to come about its plans for the future of the Integrated Reporting Framework. Its commitment to the Integrated Reporting Framework was confirmed by the Chairs of the IASB and ISSB on 25 May 2022 encouraging organisations to continue adopting the International Integrated Reporting Framework.

Directors and CEOs are welcome to attend the coming Australian Business Reporting Leaders Forum event which will focus on what is possible now with an integrated report. The event will be held in mid-April 2023, allowing time to have regard to what is possible in June 2023 corporate reporting.

There is no doubt that integrated thinking and reporting are moving towards global acceptance as a global reporting system that ensure directors and officers pay attention to all stakeholders and their impact on value.

Stage 2 – Assurance of the Integrated Report

It is also **possible now** to have an integrated report prepared along the above lines independently assured. Assurance has a significant role as a credibility enhancement technique for integrated reports, building the case for why stakeholders including investors should invest their resources and time in an organisation, and at what cost.

Organisations such as Dexus have already taken this step, presumably because they believe that their investors value such assurance. The *Brazilian* securities regulator in 2021 mandated integrated reporting assurance, as well as integrated reporting on an ‘opt in’ basis – there was a significant

uptake in 'opting in' in Year 1 in 2022. *Spain and Italy* have mandated partial integrated reporting assurance under their interpretation of the EU assurance mandate; as has *France* under its own regulations. Notable instances around the world of companies obtaining integrated reporting assurance on a voluntary basis include *ABN AMRO* and *Rabobank* in the Netherlands, *Tata Chemicals* and *CIPLA* in India, and *Cbus* and *CPA Australia* here in Australia.

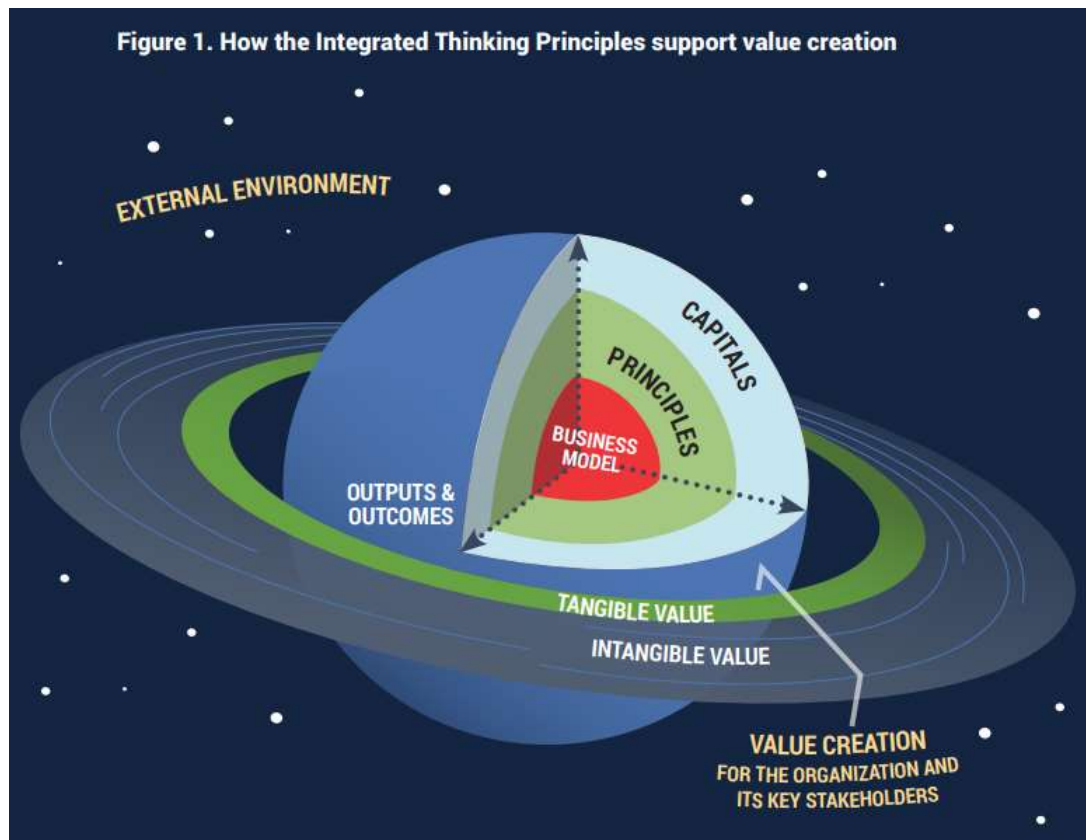
The Resources set out in Appendix 4 include the first two instalments in the International Federation of Accountants (IFAC) *Integrated Reporting Assurance* series; and a book by the founder of Integrated Reporting, Professor Judge Mervyn King, and Linda De Beer *'The Auditor – Quo Vadis?'* The IFAC papers explain the nature and value of integrated reporting assurance, and how independent assurance complements the board's responsibility for integrated reports in underpinning stakeholder trust of the report and the organisation issuing it.

Integrated reporting assurance will also be a focus of the April 2023 Australian Business Reporting Leaders Forum event.

Stage 3 – Operationalising the Integrated Thinking Principles

Boards and CEOs will be well advised to approach integrated thinking in a structured way. Rather than being content to provide investors with better information about *The Business* you already have (Stages 1 and 2 above), it is possible for boards and CEOs to view their first integrated report as a starting point before moving to **Stage 3**, which focuses on improving *The Business* and reporting with assurance.

The following high level diagram overviews the Integrated Thinking Principles, where the organisation is a planet, with the Business Model at the core, orbiting the solar system of the organisation's external environment:



We can only speculate on whether and to what extent application of the Integrated Thinking Principles, if only at Levels 1 and 2 below, would have prevented or at least mitigated the effect of

the material matters experienced at Crown and Star. We saw an apparent failure of governance, strategic management and integrated thinking. The boards and executive were apparently not thinking as an integrated whole with a focus on long term enterprise value and impact on all stakeholders.

The Boards and executives apparently mistook achievement of short term financial returns for the need to achieve sustainable enterprise value and a resilient organisation in the long term - where the interests of all stakeholders co-incide. They lived in the inner box of the Dynamic Materiality Diagram to the exclusion of the middle and outer boxes. They seem to have forgotten that financial returns in the long term are totally contingent on all licences to operate and diligent attention to business resilience being maintained. They forgot that investors and analysts need to select discount rates and terminal values for their financial models based on what they know about the company.

Loss of or threats to licences to operate is likely to have significant adverse effects on discount rates, terminal values and medium to long term cash flow projections, which could comprise 50% or more of enterprise value.

Both boards (corporate governance) and CEOs (strategic management) play critical roles in enterprise value creation. Boards must be active and not passive in their governance. Boards must be able to trust CEOs and have a sound basis for forming judgements about that trust.

The Integrated Thinking Principles are implemented at three levels. In substance, as the levels are all derivatives of the overall Integrated Thinking Principles, which are themselves a derivative of the Integrated Reporting Framework, pursuit of the questions posed at Levels 1 to 3 will be implementing the process of integrated reporting and establishing the basis for preparing a 'Year 2' integrated report which provides suitable criteria for independent assurance:

- Level 1 is for boards of directors as boards, and for boards with executives, to use to ensure that they are thinking in an integrated manner. Boards can consider the questions as a board and can ask the CEOs and other executives the other questions as the basis for a high-level documentation of *The Business* at Level 2.
- Level 2 is a diagnostic tool for CEOs to use with their executives to ensure that they are thinking in an integrated matter. The statements resulting from taking the answers from Level 1 a little deeper can serve as a high-level documentation of *The Business* which is suitable as an input to design, change management and implementation.
- Level 3 is the basis of a change management tool for organisations to use as they think about the design and implementation of the 'to be' What, With what, How and Why of *The Business*. This will help ensure that the whole organisation is aligned with the board and executive.

Level 3 is the least developed of the levels at this stage. Accordingly, boards and executive management teams may look to expert external advisors to help them in implementation.

Level 1 – The Principles

Level 1 is the principles themselves, which will be the focus of the board. There are six integrated thinking principles which are phrased as questions for boards to consider as boards and then to ask the CEO and executive management team:

- **Purpose** – Why do we exist and what is our unique contribution to the needs of society and the environment?

Did the Boards of Crown and Star have a clear understanding of their companies' contribution to the needs of society? Was that understanding shared by executive management?

- **Governance** – How do those charged with governance make a distinctive contribution to value creation? How is our strategic execution enabled by our organisational structure, cross-functional teaming, decision-making processes, and risk and opportunity management processes?

Did the Boards of Crown and Star make a distinctive contribution to value creation over and above that of executive management and the rest of the organisation? Were the organisational structure, governance, strategic management and risk management processes enablers of the execution of the strategy? Did the board discuss these matters with management as the basis for decision-making?

- **Culture** – How do we identify our key stakeholders, and how do we embed a culture that earns their trust and aligns with our core values?

How effective was the stakeholder management process at Crown and Star? Did they embed a culture that earned stakeholder – investors, customers, employees, regulators and others - trust? What reporting was there to these stakeholders to demonstrate a basis for that trust? Did the board discuss these matters with management as the basis for decision-making?

- **Strategy** – How does our organisation define where it wants to go and how it intends to get there? How do we seize opportunities, mitigate risks, and maximise the resources available to us to meet the needs of our customers and key stakeholders through the products we make and the services we provide, whilst creating value in the short, medium and long term?

Were the strategic objectives of Crown and Star balanced against the legitimate needs and interests of all stakeholders and expressed in SMART terms? Were the objectives clearly aligned with the purpose, values and business model? Was internal and external reporting effective in communicating progress towards achievement of the strategic objectives? Did the board discuss these matters with management as the basis for decision-making?

- **Risks and Opportunities** – How do we assess the impact of internal and external risks and opportunities on our business model, operations and strategy in the short, medium and long term? Have we thought of all the impacts on our stakeholders?

How aligned was the risk management process with the strategy and business model at Crown and Star? Was the short term managed in the context of the long term? Did the board discuss these matters with management as the basis for decision-making?

- **Performance** – How do we measure, manage, act upon and communicate the value we have created for our [investors] and other key stakeholders?

How did Crown and Star measure, manage, act upon and communicate value created for all stakeholders – customers, employees, suppliers, regulators and society, as well as investors? How did the boards and management think about, analyse and report upon the potential impact of today's actions on long term enterprise value? Did the board discuss these matters with management as the basis for decision-making?

Level 2 – Diagnostic Assessment of 'As Is'

Level 2 provides a resource for a diagnostic assessment to build on the principles themselves. Statements rather than questions are used as the basis for conversations between the board and executive management. These statements can be shaped by responses to considering the questions posed at Level 1. The resulting statements can be used as a template for documenting the 'as is' What, With what, How and Why of *The Business*. This 'as is' documentation can then be used in design and implementation of the 'to be' using Level 3 of the Integrated Thinking Principles.

For example, in relation to Governance and Strategy:

- **Governance** – *The objectives and critical success factors of [the board] are clearly defined. Our executive management, organisational structures, cross-functional teaming and decision-making processes support [the board] in executing our strategy and delivering our strategic objectives.*

The inquiries into Crown and Star shone a light on governance failures, including the strategic alignment of the board's approach to governance with management's approach to the strategy, business model and risk management..

- **Strategy** – *We have identified our **strategic objectives** and gauged how their achievement will enable us to achieve our purpose and contribute to the SDGs²¹.*

*Our sustainability priorities are **aligned** with our business strategy.*

*We understand how the **material issues** associated with our business model affect our ability to execute our strategy.*

*We understand how our products and services meet our **customers' needs**.*

*We consider how our strategic actions affect our **broader stakeholders**.*

*We generate competitive advantage through our **innovation**, unique insights and perspectives, and our ability to bring our products and services to market in an effective, efficient and ethical way, whilst also generating a financial surplus.*

One might consider whether the boards and management of Crown and Star had any serious regard to the SDGs, sustainability priorities, customer needs and impacts on broader stakeholders.

- **Culture** – Our conduct and how we do things are consistent with our purpose. Our organisational culture creates trust, inspires innovation and aligns with our business partners and broader stakeholders. We recognise the critical interdependency between value creation, preservation and erosion across all of our resources and relationships.

Cultural concerns regarding Crown and Star amplify the comments made above in relation to Governance.

Level 3 – 'To Be' Design and Implementation Road Map

Level 3 of the Integrated Thinking Principles are a resource to support organisations in operationalising the principles in its Key Business Processes through the critical success factors in them. The Level 3 approach is question-based. There are 30 questions across the six integrated thinking principles.

Boards and CEOs will need a lot more than answers to a questionnaire to give them confidence to change their governance, strategic management and other aspects of the Business Model and risk management. However, the resource will at least provide a starting point for design and then a road map for implementation, whether that be achieved through expert internal resources or external advisory support.

We illustrate Level 3 using Governance, Culture and Strategy as examples, without comment on Crown or Star, in Appendix 4.

Support for implementation of integrated thinking principles

²¹ The SDGs are the Sustainable Development Goals. The **Sustainable Development Goals (SDGs)** or **Global Goals** are a collection of 17 interlinked objectives designed to serve as a "shared blueprint for peace and prosperity for people and the planet now and into the future". The SDGs are: no poverty; zero hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; reduced inequalities; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice, and strong institutions; and partnerships for the goals. The SDGs emphasize the interconnected environmental, social and economic aspects of sustainable development by putting sustainability at their centre. The SDGs were formulated in 2015 by the United Nations General Assembly (UNGA) as part of the Post-2015 Development Agenda, which sought to create a future global development framework to succeed the Millennium Development Goals, which ended that year.

Organisations may have appropriately qualified internal resources to support their implementation of the IFRS Foundation's Integrated Thinking Principles. Alternatively, they may look to external sources for such support. This is a contestable market.

Management consulting firms such as McKinsey will no doubt have most of the required experience. However, will they have appropriate expertise in the process of integrated reporting, the Integrated Thinking Principles, supporting CEOs in unlocking latent intrinsic value of intangibles, supporting boards with the preparation of integrated reports, integrated reporting assurance and communications with investors and other stakeholders?

Neither Ocean Tomo or EverEdge (refer to Appendix 3) goes beyond the c-suite to the boardroom with their advisory services – they are management consultants. Neither does McKinsey. Integrated reporting is focused on how **Boards** should articulate intangible enterprise value for their investors, and the importance of the Board's governance responsibility for the integrity of the annual integrated report and underlying integrated reporting process.

The large accounting firms may have an edge if they truly understand the importance of reporting strategies, integrated reporting, integrated thinking and integrated reporting assurance, as they too have management consulting, and governance, risk and corporate reporting advisory arms.

The Resources in Appendix 4 include:

- A further book by Mervyn King, 'Chief Value Officer - Accountants can save the planet'.
- KPMG papers on reporting automation and governance within the context of integrated reporting
- A 1997 KPMG book describing KPMG's Business Measurement Process.

Universities such as Deakin University are equipped to assist. Deakin has a dedicated Integrated Reporting Centre. The centre has research, education (including executive education), thought leadership and industry engagement, focuses. It provides the Secretariat for the Australian Business Reporting Leaders Forum, the IFRS Foundation-recognised Integrated Reporting Community for Australia; and is a reporting stakeholder to the Australian Financial Reporting Council.

The Australian Corporate Reporting System

It is timely that the reflections on the Crown and Star crises have provided a reason to write a paper on the potential for the process of integrated reporting, integrated thinking and integrated reports to bolster the resources available to boards and CEOs.

It is particularly timely given the revolution that has occurred in the global corporate reporting system since 2020 with the IFRS Foundation:

- acquiring the intangible resources and relationships of the former Value Reporting Foundation through the 1 August 2022 consolidation of the VRF into the IFRS Foundation:
 - the International Integrated Reporting Framework, Integrated Thinking Principles, Sustainability Accounting Standards Board (SASB) Standards – intellectual property
 - Connectivity and Integrated Reporting Team, which reports to a joint Board of the IASB and ISSB; and the Integrated Reporting and Connectivity Committee, which advises the IFRS Foundation Trustees, IASB and ISSB – human resources
- forming the International Sustainability Standards Board in 2021, releasing exposure drafts of the first two ISSB Standards in 2022 and the anticipated release of the standards resulting from those exposure drafts in 2023.

Just as the IFRS Foundation is the peak global body for corporate reporting, the International Auditing and Assurance Standards Board (IAASB) is the peak global body for audit and assurance standards and guidance. The IAASB is expected to release an overarching assurance standard on sustainability reporting in September 2023. This standard will be framework-neutral in the sense

that it will cover all sustainability frameworks and standards including ISSB Standards and the Integrated Reporting Framework.

Elizabeth Johnstone, Chair of the ASX Corporate Governance Council, said at the 2019 Group of 100 / Wolters Kluwer / KPMG event: *“Investors and those that advise them are looking for a wider range of information. They want to understand the strategic direction of the company. They want to look beyond the documents – the traditional audited accounts – and look a wider cross-section of material was critical. We really tried in Recommendation 4.3²² to ensure that the quality of the material would be there. We are all interested in how the board can more effectively do its job in respect of culture, governance and risk. So it was with those things in mind that post the Hayne Royal Commission that we considered carefully how to express this as we moved to the 4th Principle which is about the integrity of reporting.”*

Australia is now moving quickly to remain internationally aligned. Always largely a ‘taker’ of IFRS Accounting Standards – made possible by having a seat at the global table 20 years ago – The Treasury, Financial Reporting Council, AASB and AUASB are considering and conducting research on the best approach to appropriate Australian responses which are internationally aligned.

For instance, the AASB and AUASB formed a Joint Sustainability Reporting Advisory Panel; and in December 2023, The Treasury announced a consultation on proposed changes to the ASIC Act to accommodate the AASB issuing Australian equivalents aligned to ISSB Standards. This consultation closes on **17 February 2023**.

There are three broad options under consideration:

- enabling the AASB to itself make Australian equivalents to ISSB Standards
- formation of a third board (that is, in addition to the AASB and AUASB) to make Australian equivalents to ISSB Standards
- More systemic changes involving all of the Financial Reporting Council (FRC), AASB and AUASB, and potentially, the ASX Corporate Governance Council.

We believe that it would be appropriate for a re-named FRC to more closely resemble the IFRS Foundation such that it would oversee the adoption of integrated reporting and integrated reporting assurance in Australia.

Australian directors and CEOs are encouraged to respond to this consultation with submissions endorsing the proposed changes to the ASIC Act and asking the FRC to consider how successful, high quality adoption of integrated reporting and integrated reporting assurance on a timely basis should be a core component of the systemic changes being contemplated given:

- the main objects of the Australian Financial Reporting System are set out in section 224 of the ASIC Act; and
- the FRC’s functions under section 225 of the ASIC Act.

The Deakin Integrated Reporting Centre would be delighted to assist with such submissions.

The April 2023 Australian Business Reporting Leaders Forum event will also consider these matters.

²² Recommendation 4.3 of the ASX Corporate Governance Principles and Recommendations was added in the 4th Edition in 2019:

Appendix 1 – Resources

‘International Integrated Reporting Framework’, IFRS Foundation, January 2021

‘Transition to integrated reporting – A guide to getting started’, IFRS Foundation, September 2021

‘Integrated Thinking Principles – Value creation through organisational resilience’, IFRS Foundation, August 2022

IFRS Foundation Integrated Thinking Case Studies: ABN AMRO, ING, Royal Schiphol Group, (Netherlands), BMW Motor Group, Munich Airport (Germany), Enel, Generali, Leonardo, Snam (Italy), Novo Nordisk (Denmark), Solvay (Belgium), UBS (Switzerland), Yorkshire Water (UK)

IFRS Foundation Integrated Reporting Examples Database

Integrated Reports for:

- *AGL* - one comprehensive and insightful, concise integrated report containing material metrics from applying GRI and SSASB Standards, TCFD Recommendations, International Integrated Reporting Framework, and otherwise self-determined, with non-material ESG metrics being located in ESG Data Centre
- *Nedbank* – good practice example of a formal statement from board on governance responsibility for the board for the integrity of the integrated report and underlying reporting process
- *ABN AMRO, Rabobank (Netherlands), Tata Chemicals, CIPLA (India), Itau Unibanco (Brazil), Dexus, Cbus, CPA Australia (Australia)* – instances of integrated reports being suitable criteria for assurance under ISAE 3000 with the assurance conclusion expressed as to whether the integrated report is in accordance with the International Integrated Reporting Framework, as well as other criteria set out in the Basis of Preparation and Presentation of the Integrated Report

Maroun, W et al, ‘Refining integrated thinking’

Inbar, Zivit, ‘The Ethical Kaleidoscope: Values, Ethics and Corporate Governance’ ISSB Staff Paper 3A – General Sustainability-related Disclosures - Fundamental concepts, December 2022 – deliberations as to the fundamental concepts of the International Integrated Reporting Framework, the concept of ‘sustainability’ and enterprise value

Barth, M E, et al, The economic consequences associated with integrated report quality: Capital market and real effects, *Accounting, Organizations and Society* (2017), <http://dx.doi.org/10.1016/j.aos.2017.08.005>

‘Auditing Organisations Through a Strategic-System Lens – the KPMG Business Measurement Process’, 1997 – a methodology to assist financial statement audit teams develop a strategic understanding of The Business – consistent with the Integrated Thinking Principles

‘Chief Value Officer – Accountants Can Save the Planet’, Mervyn King, 2016 – analysis of potential for CFOs to become CEOs in the light of integrated reporting focus on value creation for the short, medium and long term

‘Automating Business Reporting - Performance Insight through Better Business Reporting’, KPMG 2011

‘Oversight of corporate reporting by company directors - The Journey to Better Business Reporting Continues’, KPMG 2014

‘Accelerating Integrated Reporting Assurance in the Public Interest’ – IFAC and the IIRC 2021

‘Executing the Board’s Governance Responsibility for Integrated Reporting - IFAC and the Institute of Internal Auditors, May 2022

‘The Auditor – Quo Vadis?’, Mervyn King and Linda de Beer, 2018

Good Governance Academy (South Africa), [Home - Good Governance](#) – repository for materials on good corporate governance

Appendix 2 – Outline Integrated Report

Jurisdictions with an existing corporate governance-based integrated reporting recommendation should make clear that it is already possible to prepare an integrated report (the annual integrated report could be a report within the annual report or a separate report) using the Integrated Reporting Framework, without needing to change the corporate governance code. The integrated report describes *The Business* (the governance, strategy, business model - including the reporting process and internal controls therein - and risk management), the basis for selecting the metrics and other disclosures in the report, as well as one set of metrics, sourced from standards of the IASB and ISSB, or self-determined metrics which are critical to *The Business* (for example, in relation to intangibles).

Importantly, the report can include material GRI metrics and other disclosures where an equivalent ISSB requirement does not exist - without detracting from the conciseness of the integrated report or obscuring information.

The integrated report may take a form as summarised in the following diagram, where the ‘front half’ of the report provides the basis for the ‘back half’ which reports on the performance and prospects of *The Business*.

If the integrated report takes the form of a report within the annual report, it will appear alongside the financial report (IASB and ISSB Standards) and other legislated mandatory reports for investors (eg directors report and remuneration report) and corporate governance disclosures (eg. listing rules and corporate governance codes).

The integrated report could also be called a Strategic Report (UK), Management Discussion & Analysis (USA), a Management Report (EU), or an Operating & Financial Review (Australia) (In Australia, the Operating & Financial Review (OFR) is the name recommended by the Australian Securities and Investments Commission; however there is no requirement for the report containing the required disclosures under the Corporations Act to be called an OFR. Equally the report could be called an integrated report), or those reports can be prepared using the Integrated Reporting Framework.

If the integrated report takes the form of a separate report (eg. Japan, South Africa), it can also be informed by material inputs from other legislated reports – eg the financial report, directors report and remuneration report, or corporate governance disclosures.

One integrated report will deliver a better and more reliable report for investors and other stakeholders as well as reducing the volume of reporting and number of reports, which will go a long way towards addressing directors’ reservations (It may be that fully addressing these reservations may ultimately require a test court case at a national level). The “*more reporting*” reservation can be addressed by market guidance noting an integrated report can replace many reports that are not required by law (eg separate sustainability or ESG reports). The “*additional liability*” reservation can be addressed by the guidance noting that not addressing the requirements of integrated reporting might render directors more liable; and that forward-looking forecasts or projections are not required to be included in integrated reports.

The 2022 AGL, an Australian listed energy company, *integrated annual report* provides an example of an operating and financial review in the Directors Report prepared with reference to the Integrated Reporting Framework and incorporating all of material IASB metrics, SASB industry-based metrics and disclosures, GRI metrics and disclosures, TCFD disclosures, and other business-critical self-determined metrics not required by any reporting or disclosure standard. It is important to note that it is possible to see by linkages which TCFD, SASB and GRI disclosures are included in the operating and financial review.

The Annual Integrated Report <i>Based on fundamental concepts, guiding principles, content elements and other requirements of Integrated Reporting Framework</i>			
Front Half – Business Context		Back Half Performance and Prospects – Metrics	
Basis of Preparation and Presentation / About This Report		Financial – material IASB disclosures	
<ul style="list-style-type: none"> Frameworks and standards selected to describe <i>The Business</i> and select and calculate the metrics and other disclosures 	<ul style="list-style-type: none"> Selection of metrics and other disclosures Integrity of information 	<ul style="list-style-type: none"> Income Financial position 	<ul style="list-style-type: none"> Gearing Cash Flows
Responsibility Statement by Board of Directors		Sustainability – material ISSB^Ω disclosures	
<ul style="list-style-type: none"> Acknowledgement of responsibility for integrity Conclusion on application of Integrated Reporting Framework 	<ul style="list-style-type: none"> Process – measures taken to ensure integrity of report (para 1.24 disclosures strengthen para 1.20 statements) 	<ul style="list-style-type: none"> Climate Human rights 	<ul style="list-style-type: none"> Other ESG topics (ISSB - S1)
Independent Assurance Report		Self-Determined – material business-critical metrics	
<ul style="list-style-type: none"> Limited or reasonable, or private internal assurance for board on readiness (people, process, system) Basis of Preparation and Presentation Board Responsibility Statement 	<ul style="list-style-type: none"> Description of <i>The Business</i> Application of frameworks Selection and calculation of metrics and other disclosures Fair application of frameworks, standards and BoPP 	Intangibles and other business-critical metrics not contemplated by ISSB standards: <ul style="list-style-type: none"> Board performance (governance) Executive performance (strategic management) Materiality determination process Stakeholder management – including customer satisfaction, strategic alignment of talent (board, executive and teams), regulators Reporting process Core business processes – including innovation, intellectual property management, technology 	
Description of <i>The Business</i>*			
<ul style="list-style-type: none"> What – Purpose, External Environment, Risks & Opportunities, Strategy With – Resources & Relationships – six capitals: intellectual, human, financial, social and relationship, natural, manufactured How – Business Model (Key Business Processes including Governance, Strategic Management, Materiality Determination, Stakeholder Management, Reporting, Core), Risk Management Why – Investment Proposition – ‘why our integrated thinking in using our <i>with</i> in our <i>how</i> to achieve our <i>what</i> is better than our competitors for (6) capital 			
*Partial description of <i>The Business</i> achieved by ISSB General Requirements Standard – TCFD foundation – description of governance, strategy, risk management, metrics and targets Ω Will be a substantial overlap between many ISSB and GRI disclosures 0 incremental GRI disclosures will not detract from conciseness of integrated report. Note plan for SASB industry-based standards to be incorporated in ISSB standards			

AGL interprets The Capitals of the Integrated Reporting Framework as ‘Business Value Drivers’. The drivers have been used to drive connectivity throughout the report, allowing readers to determine which sustainability metrics are regarded as material for inclusion under the Integrated Reporting Framework, and those which are only reported in the ESG Data Centre.

Appendix 3 – Intangibles

From EverEdge:

“Most sectors in Australia have included a high intangible asset content, on par with the US, since 2005.

However, the high weighting of Financials, Materials and Infrastructure companies in Australia has kept the overall percentage of intangible assets as a proportion of enterprise value at a stable 60% since 2000.

Much of the change has been due to the vagaries of the valuation of the Energy and Materials sectors in Australia. With the downward reappraisal of their values in 2015 (relative to 2010) these partly outweighed the increase in the market capitalisation of intangible asset-rich stocks, such as CSL (Health Care), which has increased by an order of magnitude since 2011 and is now the third largest stock in Australia.

The sectors with the lowest levels of intangible assets during this period were Energy (25% in 2020 vs 53% in 2000), Financials (24% in 2020 vs 33% in 2000), and Real Estate (21% in 2020 vs 32% in 2000).

The volatility of the intangible asset content of the overall index across the study period is more a function of the changing mix and dominance of sectors within the index than a reflection of the performance of the sectors themselves. Ultimately, the drastic fall in the proportion of intangible assets in the Energy (29% in 2015 vs 69% in 2010) and Materials (28% in 2015 vs 73% in 2010) sectors in 2015 pulled down the overall intangible assets proportion in the Australian market (48% in 2015 vs 59% in 2010).

From 2015 to 2020, the market saw an 8-percentage point increase in the proportion of intangible assets, largely due to the relative derating of the energy sector and the vagaries of the mining/resources sector.”

The EverEdge Intangible Benchmark Index™ for Australia is only 56%. If Australia could use the US metric of 85% as an attainable target, and the current market capitalization of the ASX is around \$1.5 trillion, a target of \$2.3 trillion could be set, an uplift of \$0.8 trillion (\$800 billion) (85/60 = 152%) to the current ASX market capitalisation could be in mind.

A similar analysis could be prepared for Japan, which apparently face a similar innovation issue as Australia. The TSX is capitalised at 730 trillion yen (US\$5.5 trillion). If Japan had a similar EverEdge Intangible Benchmark Index™ to Australia’s a national growth target of \$US8 trillion could be possible. The Singaporean benchmark is only 26% and the Singapore Stock Exchange capitalisation is US\$660 billion!

Of course, this is an overly simplistic analysis. The point is that these numbers are big and can play a significant role in growing national productivity – as long as organisations understand the benefits of integrated thinking, follow EverEdge advice to CEO’s to **articulate** unlocked intrinsic value, Boards to **communicate it**, and investors to understand integrated reporting and integrated reports.

Appendix 4 – Integrated Thinking Principles Level 3

Governance

Do the decision-making processes of those charged with governance assess value creation, preservation and erosion across all the capitals which are material to the decision being taken, and do they balance the necessary trade-offs between the capitals?	Do those charged with governance ensure that our organization's incentive structures are aligned with long-term enterprise value creation, including, where practicable, long-term value creation for broader stakeholders?
How do those charged with governance regularly review the governance structures and processes and identify opportunities to improve them? Is the diversity of skills and experience of those charged with governance reviewed to enable them effectively to guide the executive management team and also hold them to account for the delivery of our organization's strategy?	Do teams work collectively to deliver our organization's strategic objectives and actively break down functional siloes where these exist, fostering connectivity and enabling our organization holistically to assess, measure and report its progress in delivering its critical success factors through its financial and sustainability-related KPIs?
Does our organization assess strategic opportunities with the same degree of rigour as strategic risks?	Is our integrated report assured by an independent third party?

Culture

How do those charged with governance assess how effectively our organization lives according to its values? Are annual employee surveys and regular pulse surveys used to this extent? Do those charged with governance effectively take action where there are areas of concern?	Have those charged with governance identified the relevant stakeholders, and their legitimate needs and interests, as part of a stakeholder engagement and materiality assessment process?
How do those charged with governance enforce policies on ethical behaviour and transparency, taking action if policies are breached?	Does our organization's materiality assessment identify those matters with the greatest positive or negative potential to impact enterprise value creation and value creation for providers of financial capital and other key stakeholders?
Do those charged with governance assess the degree of alignment of our organization's corporate culture and that of its key suppliers and customers when making significant business decisions?	

Strategy

How do those charged with governance identify future strategic opportunities presented by our organization's operating environment, including in its supply chain and broader value chain, during the strategic planning process?	How do those charged with governance regularly assess our organization's strategic decision-making processes, to ensure the achievement of the strategic objectives is helping to fulfill the organizational purpose?
Are our organization's strategy and strategic objectives clearly defined, forward-looking and responsive to longer-term drivers of value creation, preservation and erosion such as technological, societal and environmental changes?	
Are our strategy and strategic objectives aligned with the distinct contribution our organization can make to the SDGs?	Does our organization invest in innovative products and services and nurture a culture of innovation through its purpose and values?
Does our organization undertake a periodic assessment of its material issues, and has it assessed how these may affect its ability to execute its strategy?	How does our organization manage its operations efficiently, taking account of all its dependencies and impacts on its material capitals?