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Integrated Reporting as a driver for Integrated Thinking?

Maturity of <IR> in the Netherlands 2015

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Foreword
Integrated Thinking at a higher level

Integrated Reporting and Integrated Thinking are fast maturing concepts in the corporate world.

Organizations experience Integrated Reporting to be synonymous to action – one that inspires companies to change to a new way of running their businesses. Supply chain management, inclusive business, new ways of stakeholder involvement, the circle economy and Integrated Reporting are increasingly part of normal business practices. In my view, ever since John Elkington coined the Triple Bottom Line concept in 1997 Integrated Reporting and Integrated Thinking are logic next steps in the sustainable journey.
The urgency to continue on this journey is huge. Climate change, scarcity of raw materials, loss of biodiversity, poverty, and inhuman labor conditions in the supply chain cry out for more ambition and decisiveness.

The strong interconnectedness of all these issues makes an integral approach the only way to deliver an impact.

This Deloitte study shows us the headway Integrated Thinking and Integrated Reporting are making.

Frontrunners in business consider reporting to be more than merely a matter of accountability. They consider transparency to also be a strong driving force for innovation and value creation.

A growing number of companies prove that learning and increasing their reporting on the social and environmental impact of products and businesses are inspiring sources for new business models, new products and new partnerships. Among the multinationals Philips, DSM, Puma and Unilever are leading examples. Hundreds of frontrunners in the SME sector even think and act this way.

Connecting transparency and reporting on value creation and innovation likewise avoids the so-called reporting trap. Reporting is all too often a tick-the-box exercise resulting in an administrative burden with limited value for organizations and their stakeholders.

This study shows that reporting must start with a strong vision and a clear ambition of the companies involved. Having a clear vision of the future will help clarify what the core of the business is, what value chain they are part of and what kind of risks and impacts must be managed.

This way of Integrated Thinking and Integrated Reporting will most certainly upgrade sustainability.

And that is what my organization – CSR Netherlands – has been aiming for since we started in 2004.

Willem Lageweg
CEO CSR Netherlands (MVO Nederland)

Foreword
Using Integrated Reporting to deliver an impact that matters

Providing a broad range of stakeholders with relevant information on how a company or organization is creating value in the short, medium and long term is key to sustain a healthy company in a fast changing environment.

The <IR> Framework, as published by the International Integrated Reporting Committee (IIRC), is one of the best ways to explain the process of value creation with financial and non-financial capitals. The <IR> framework enables companies to start make more holistic business decisions (based on 'Integrated Thinking') and as such companies - but also society at large - will be impacted positively.

Deloitte has supported the IIRC from the start and strongly believes the <IR> framework will be an important driver for better business management and reporting, ultimately resulting in better performance and greater impact.

As the <IR> framework is a conceptual framework and proper examples are still limited, Deloitte took up the challenge to set up and conduct an annual Deloitte <IR> Maturity Research Study at 30 companies – most of which are listed at the AEX. The report aims to stimulate companies to adopt <IR> and to share learnings and best practices.

This report is being presented for the fourth consecutive year and, in order to advance the progress of <IR>, CSR the Netherlands (MVO Nederland) and Deloitte have combined forces. What's more, we have invested time in interviewing the most mature companies and several experts on drivers of and barriers to <IR>; the relation between <IR>, Integrated Thinking and financial performance; the role of assurance; and the overall development of <IR>, including legal and regulatory aspects.

The research clearly shows the good progress <IR> is making in the Netherlands. Many company reports meet the Guiding Principles and part of the Content Elements of the <IR> framework in a relatively mature way. The next challenge will be to leverage Integrated Thinking: it's time to implement integrated management to create a more positive impact. Deloitte's purpose is to deliver an impact that matters. Performing this annual research and partnering with CSR the Netherlands to share the outcomes in this report represents one of the many things Deloitte undertakes to attain this purpose.

Our ambition to continuously improve ourselves and support companies who are advancing on the <IR> journey means we welcome any comments you may have. Please send them to (asipkens@deloitte.nl or pseinstra@deloitte.nl).

Anneke Sipkens
Director Sustainability Services

Patrick Seinstra
Partner Integrated and Sustainability Reporting

Executive Summary

Integrated Reporting (<IR>) is making a great impact. In a relatively short timeframe it has significantly changed the corporate reporting landscape. And because <IR> requires companies and their stakeholders to get a better insight into value creation, its impact is not just limited to the reporting landscape.

In an integrated report companies are asked to put forward an integrated view on how their company creates value now and in the future - taking into account multiple financial and non-financial capitals. As such it is felt that <IR> stimulates Integrated Thinking and vice versa, ultimately resulting in more holistic business decisions that will drive better business performance. Considering the potential impact of <IR> it is worthwhile to assess how mature Dutch companies are when it comes to <IR> and to identify positive reinforcements of the added value the <IR> framework is able to offer.

Deloitte Netherlands has set up an annual <IR> Maturity research to that end, at 30, predominantly AEX listed, companies. Based on publicly available reports, companies are scored on the Guiding Principles and the Content Elements of the <IR> framework. The model contains four stages of maturity. Companies scoring lowest on the maturity model are Starting, followed by Progressing, Leading and Innovating. Deloitte partnered with CSR the Netherlands (MVO Nederland) this year, in order to broaden the scope of the research. Several companies were interviewed and desk research was used to dig deeper into the global uptake of <IR>; the <IR> drivers; the relationship between <IR> and business performance; and recent developments on assurance.

We witnessed that more and more companies are finding ways to work with (elements of) the <IR> framework. As a result, companies' <IR> maturity is progressing. Five of the companies researched are classified as Innovators. They are KPN, Heineken, NS, BAM and Aegon. Companies generally find it easier to apply the Guiding Principles. They mainly struggle with some Content Elements:

- the Business Model; how value is created, which inputs, outputs and capitals are used;
- the Strategy & Resource Allocation; where the organization wants to go, to what extent strategic objectives are met and how resources are used to realize this strategy;
- the Performance; an overview of financial and non-financial results and how they compare to targets identified and results of previous years;
- the Outlook; the challenges and uncertainties organizations are likely to encounter, and what implications they will have for future value creation possibilities and subsequently a company's business model.

Key findings of the Deloitte <IR> maturity research are:

1. The number of integrated reports published is increasing;
2. Scoring high on <IR> principles is possible even without having an integrated report;
3. Overall companies are showing progress in implementing the <IR> principles;
4. Guiding Principles of <IR> are developing well, some Content Elements, related to Integrated Thinking, remain a challenge;
5. Companies struggle with the timely collection of non-financial data;
6. Both scope and type of assurance varied in the reports studied.

Right now, many reports still need to underpin their strategy with concrete objectives and allocate financial and non-financial capitals. By defining KPIs for the relevant capitals and by managing them in the regular Planning & Control cycle, organizations will have a better integrated performance management system and their reporting will be more concise and relevant. This will ultimately drive business performance. What's more, there are many external drivers for <IR>, and regulation is one of them. The uptake of <IR> tends to be higher in countries where sustainability is regulated to a certain extent.

Companies that seriously define their purpose and strategy and implement innovative technology, innovate in culture, processes and systems in order to develop integrated performance management systems, are well prepared for the future. Although many indirect business performance drivers are identified, a direct link between <IR> and business performance has not been established to date. The relationship between sustainability reporting and business performance has shown to be positive, so we expect it to be a matter of time before a direct link between <IR> and performance will be established.
Assurance of <IR> could help to set up the proper systems for performance management and data collection. We believe this will ultimately lead to better business performance over time.

Contents

1 Our view on Integrated Reporting (<IR>) and Integrated Thinking

This is the fourth consecutive year in which Deloitte Netherlands has conducted the Deloitte <IR> Maturity Research.

Through this research we want to stimulate companies to successfully complete their Integrated Reporting (<IR>) adventure. Our desire to help identify obstacles and share best practices is the reason why we have conducted the Deloitte <IR> Maturity Research on the reports of 30 companies – most of which are listed on the AEX; we have performed a literature research; and we interviewed <IR> frontrunners and experts.

Reporting alone is never the sole issue in any publication about <IR>, in fact, Integrated Thinking is the overriding topic. Integrated Thinking is defined in the <IR> Framework as: *"The active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated Thinking leads to integrated decision making and actions that consider the creation of value over the short, medium and long term."*

This translates into more Integrated Thinking creating more sustainable value. Likewise, when writing an integrated report, Integrated Thinking is a crucial if not the most important section. That said, any company that wants to start the Integrated Thinking process will need insight into a broader set of information compared with traditional financial analysis. And this information should be more interconnected and more forward-looking (CGMA, 2014). Or, as summed up in the SAICA (2015) survey: *"Integrated Thinking promotes a more holistic assessment to grow better businesses and better societies"*. It is a way of breaking down internal silos, reducing duplication and driving positive behavior focused on long-term success. Firms start with Integrated Thinking to cope with changing business circumstances that often require a disruptive change in strategy. But Integrated Thinking can also help to see the big picture of an organization.

"What should we do first? <IR> or Integrated Thinking?" is one of the frequently asked questions. According to a Deloitte survey (2015a) in the UK, an integrated report is the output of Integrated Thinking. Several of the companies we spoke to, like DSM, Heineken and Delta Lloyd, also suggest a stronger link between Integrated Thinking and business performance than <IR> and business performance. And although this would seem to be logical, many of our interviewees indicate that having or making an integrated report helps to develop the discussion about Integrated Thinking. In that sense superior Integrated Thinking could be seen as the outcome of Integrated Reporting. Nevertheless, having an integrated report could not be possible unless certain conditions and processes have been changed in favor of <IR>. Marleen Janssen Groesbeek, professor of Sustainable Finance & Accounting, argues: *"An integrated report guides organizations towards Integrated Thinking. It is a good idea to start with Integrated Reporting as people from all departments are necessary to fully develop Integrated Thinking."* The SAICA (2015) survey, too, shows that over the 70% of the executive and non-executive director respondents felt that <IR> was a catalyst to enhance Integrated Thinking in organizations.

Both processes clearly try to give a better insight into an organization's process of value creation. Churet et al, (2014) describes this with the metaphor of an iceberg, with the report being the top and thinking representing everything below the surface. The goal of the research this year is to better explain the relationship between the two of them.

The research set up to this end was designed to not only include the <IR> Maturity Research but also many interviews, so further qualitative insights could be acquired. This details of this set-up are described in Chapter 2. Chapter 3 discloses the results of the <IR> Maturity Research conducted, while Chapters 4, 5 and 6 present further qualitative Integrated Reporting information. These insights were derived from the literature research conducted and the interviews held. They subsequently discuss the uptake of <IR>, the drivers and challenges identified, and the relation between <IR> and business performance. In Chapter 7 we focus on assurance of non-financial data. We have added this chapter because apparently there are many questions about assurance on <IR>. So, we feel it's important to share our vision on assurance of <IR> with you. Finally we conclude this report by sharing some tips and tricks derived from insights shared by our interviewees and collected through our own experiences.

2 Research set-up

In order to explore both the bottom of the iceberg (Integrated Thinking) and the top (Integrated Reporting), this year's research comprises the following elements:

- Desk study (Literature research)
- Deloitte <IR> Maturity Research on 30 companies, most of which are listed on the AEX
- Interviews with <IR> frontrunners
- Interviews with experts

CSR the Netherlands and Deloitte collaborated in conducting the research and in writing the report.

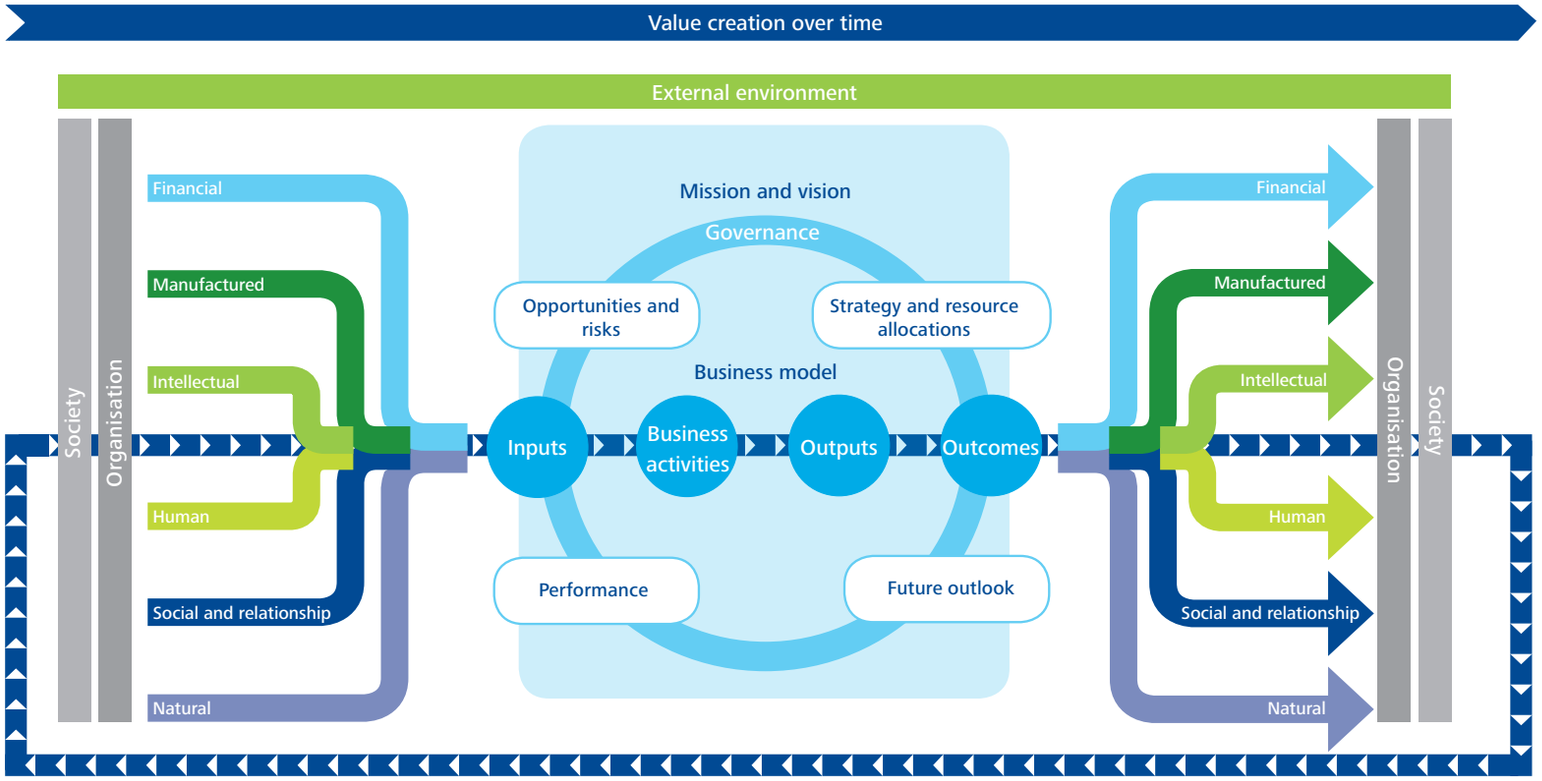
Please refer to Annex 2 and 3 for the detailed research population and methodology. The Deloitte <IR> Maturity Research is based on the IIRC's Guiding Principles and Content Elements. The following section will explain the principles and elements of the scoring methodology, in order to get a better understanding.

2.1 IIRC Framework

The IIRC Framework is built around what we call "capitals" (financial, manufactured, human, intellectual, natural and social & relationship). The idea is based on a company gaining insight into these capitals. It will give them a better holistic understanding of their company. A company specifically needs to know:

- how to use the capitals,
- how to depend on the capitals,
- how to have access to the capitals,
- how to impact the capitals.

This is in no way straightforward, as the capitals can influence each other as well. For example, more employee training may increase the number of competent employees and, hence, improve customer satisfaction. However, it increases costs in the short term. Thinking about how capitals influence each other is in fact what Integrated Thinking is all about. <IR> collects crucial information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. This may be perceived as being complex, which is why the Guiding Principles and Content Elements of the IIRC have been designed to help you implement <IR>. We strongly recommend using the IIRC Framework, especially when the integrated report is the primary reporting vehicle. In those cases it is essential for the report to include all relevant and required information on all material capitals, so all relevant stakeholders will be informed about them. Using the Framework means you can do exactly that.

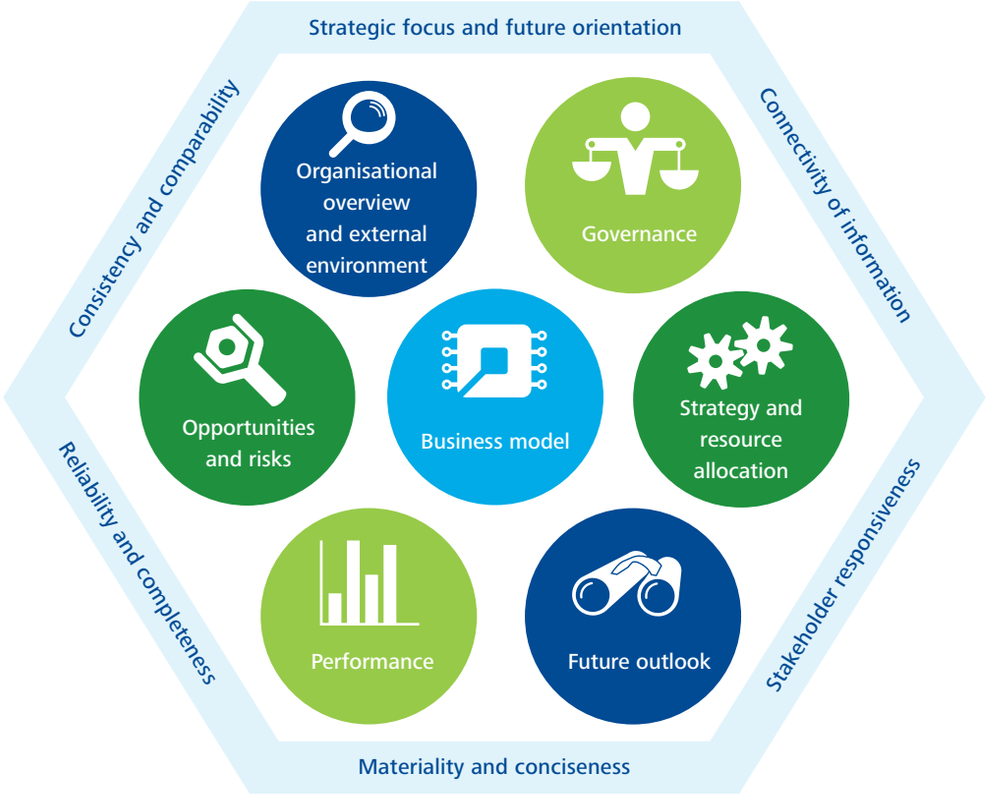


The Value Creation Process (reproduced from the <IR> Framework)

The Deloitte <IR> Maturity Research assesses to which extent companies incorporate these 7 Guiding Principles and 8 Content Elements from the IIRC into their report(s). The 7 Guiding Principles underpin the preparation of the integrated report, giving guidance on what content should be included in the report and how information is presented. These elements are of a more technical nature and form the boundary condition to which an integrated report should comply. The 8 Content Elements all link to each other and affect each other. They stimulate the company to implement integrated performance management based on the integrated thinking of the entire framework.

Guiding Principles

- **Strategic focus and future orientation:**
  Description of the strategy of the company and its relation to value creation and capitals.
- **Connectivity of information:**
  Relates to the interrelatedness of the factors that affect the organization's ability to create value over time.
- **Stakeholder relationships:**
  Description of the key stakeholders, including how the stakeholder's interests are taken into account.
- **Materiality:**
  Relates to the number of disclosures about matters that affect the organization's ability to create value.
- **Conciseness:**
  Relates to the concise format of the report.
- **Reliability and completeness:**
  Relates to the balanced, complete character of the report, which should not include any material errors.
- **Consistency and comparability:**
  Relates to the consistency and comparability of the information within the report.



The 7 Guiding Principles and 8 Content Elements from the IIRC (reproduced from the <IR> framework)

Content Elements

- **Organizational overview and external environment:**
  Description of the organization and the external environment (e.g. competition).
- **Governance:**
  Description of the governance structure and its relation to value creation.
- **Business model:**
  Description of the business model with input, output and capitals included.
- **Risks and opportunities:**
  Description of the risks and opportunities and the risk mitigation system.
- **Strategy and resource allocation:**
  Description of the concrete strategy of the company, both short-term and long-term focused.
- **Performance:**
  Description of the results, compared with targets, previous years and capitals.
- **Outlook:**
  Description of the future challenges in relation to the company.
- **Basis of preparation and presentation:**
  Description of the materiality determination process, reporting boundaries and frameworks used.

2.2 Deloitte <IR> Maturity Research scoring methodology

The Deloitte <IR> Maturity Research has been used to score the 2014 annual reports of 30 companies, most of which are listed at the AEX. The Deloitte <IR> Maturity Research uses a scale of 1 to 4 to score the reports on the 7 Guiding Principles and 8 Content Elements of the IIRC. Please beware, a low score on a guiding principle or content element does not mean a company is unsuccessful in this respect. It does, however, indicate that companies have not sufficiently disclosed the principle or element in their report.
The following table shows the scoring methodology used to score each IIRC principle and element.

1 **Starting the journey:** Although starting on the journey of Integrated Reporting, few elements of the International <IR> Framework are visible.

2 **Progressing:** Has started the journey towards Integrated Reporting by having a more strategic focus, still the connectivity of information is limited.

3 **Leading:** Advancing their reporting by visibly implementing some of the Guiding Principles and Content Elements in their report.

4 **Innovating:** The report is prepared in accordance with the International <IR> Framework. Also, it clearly communicates the value creation story and is based on Integrated Thinking.

This means each principle or element can receive a maximum of 4 and a minimum of 1 points. Hence, a company may be awarded up to 60 points in total (100%). Depending on the percentage achieved the companies are also given the scores “Starting”, “Progressing”, “Leading” or “Innovating”.

3 Results of the Deloitte <IR> Maturity Research

In the overview of the companies and type of reports included in the 2015 Deloitte <IR> Maturity Research, companies highlighted in green have published an integrated report for the first time in 2014.

We should note that if two separate reports were published by a company, both reports were studied in the research. We did so to identify if the type of reporting had any influence on how the companies scored on the Guiding Principles and Content Elements of the IIRC. The key findings from this study can be found in section 3.1. Furthermore, for the sake of the analysis we have classified each company into an industry, to see if certain striking differences could be identified. This classification has been included in Annex 3. Section 3.2 presents the industry insights derived from both the study and the interviews.

Separate report	Combined report	Integrated report*
Ahold	Delta Loyd	Achmea
ArcelorMittal	Fugro	AEGON
ASML Holding	Klépierre	Akzo Nobel
Boskalis	OCI	DSM
FrieslandCampina	SBM Offshore	ING Group
Gemalto	TNT Express	KPN
Heineken	Unibail-Rodamco	NS
Liberty Global		Nutreco
RELX Group		Philips
Royal Dutch Shell		Randstad
Unilever		Royal BAM Group
Wolters Kluwer		

*Either refers specifically to the IIRC or has an integrated report

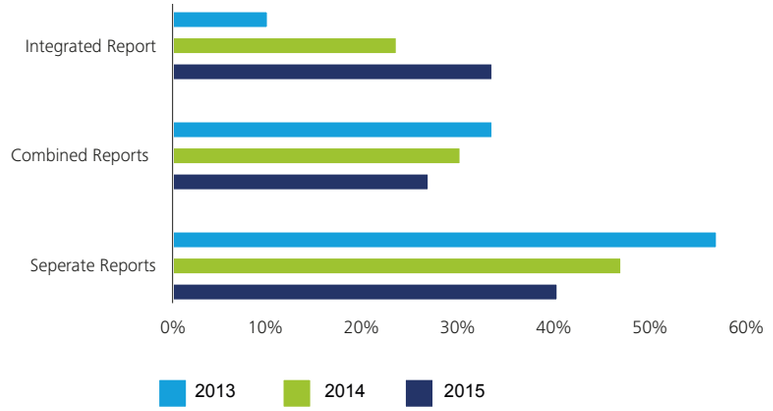
3.1 Key findings

Key findings of the 2015 Deloitte <IR> Maturity Research are:

Key finding 1

The number of integrated reports published is increasing

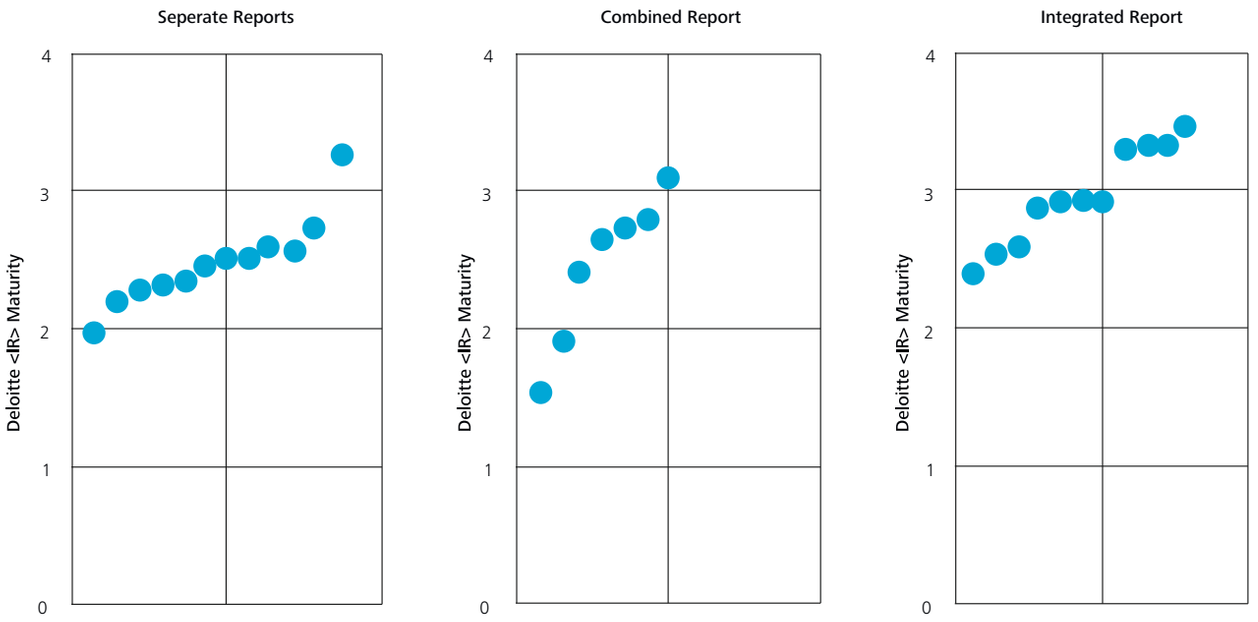
The IIRC Framework was officially published in 2013. Since then we have seen a steady increase in the number of Integrated Reports published by the companies incorporated in our research. Of the reports studied 40% are Integrated Reports. Although fewer companies now publish separate reports, many still prepare separate financial reports and sustainability reports.



Key finding 2

Scoring high on <IR> principles is possible even without having an integrated report

Three companies switched to an integrated report in 2014 <IR>. Though not all companies that had previously switched to <IR> achieved a better overall score, most improvement could generally be identified in the Guiding Principles "connectivity" and "consistency and comparability" and on the content element "risk and opportunities".

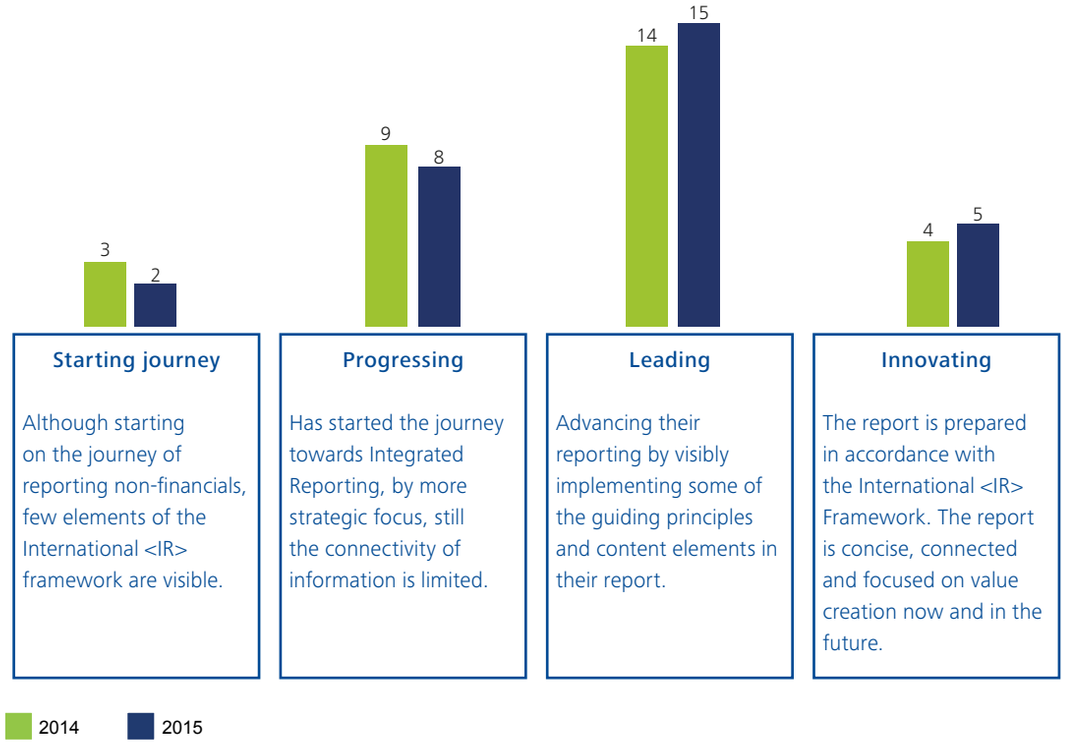


As regards connectivity, companies using <IR> generally showed an improvement in connecting different aspects in their report compared with the previous year. The strategy, risks and sustainability/social issues show a better interrelatedness, and several strategies integrated nonfinancial topics. Royal BAM Group for example integrated sustainability into their strategy. In doing so they showed the importance of sustainability within their company. Consistency of reports over time was another point that had generally improved. This transparency enables stakeholders to identify if a company has been able to meet their expectations and form an informed opinion about business performance.

Though <IR> can help companies in becoming more mature, translating into more companies with higher scores, we also conclude that having an integrated report is not a prerequisite for higher scores. In fact, some companies that score high in our Deloitte <IR> Maturity Research do not even have an integrated report. The most striking example is Heineken, which scores as "innovating" and is leading in the consumer business industry even though it has two separate reports. And Heineken is not alone, as becomes apparent when we plot the Deloitte <IR> Maturity score to the type of report. What's more, having an integrated report does not necessarily mean a higher score on the maturity index. As the companies researched show: the principles and elements of the International <IR> Framework can also be applied regardless of what form and shape a report is in, as long as the focus is on connecting and integrating information between the reports and on following the guidelines of the International <IR> Framework.

> "An integrated report is the backbone of an organization. If you start with the report, the Integrated Thinking can be further developed."
>
> Marleen Janssen Groesbeek, Avans Hogeschool

GRI (2013) conducted a survey of <IR> pioneers called "The Sustainability Content of Integrated Reports". It concluded that about half of all self-declared integrated reports were in fact two separate reports under one cover, with little or no cross-over. Once again, this illustrates that the shape and size of the report is not what makes a true integrated report – it is a company's ability to show true Integrated Thinking in its report(s).



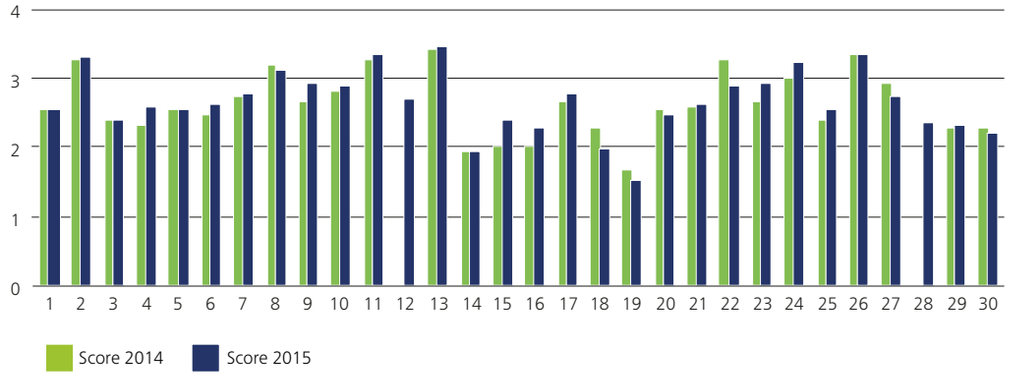
<IR> Maturity of companies

Key finding 3

Overall companies are showing progress in implementing the <IR> principles

The research classifies each company is into 4 maturity levels based on their scores: Starting, Progressing, Leading or Innovating. The progress in reporting is reflected by more companies scoring Leading and Innovating in the 2015 research compared with the 2014 research.

In general we see that many companies have been able to slightly improve their scores. This illustrates that taking on board <IR> elements is a step-by-step process. The <IR> journey takes time.



Average Deloitte <IR> Maturity score per company 2014 - 2015

Key finding 4

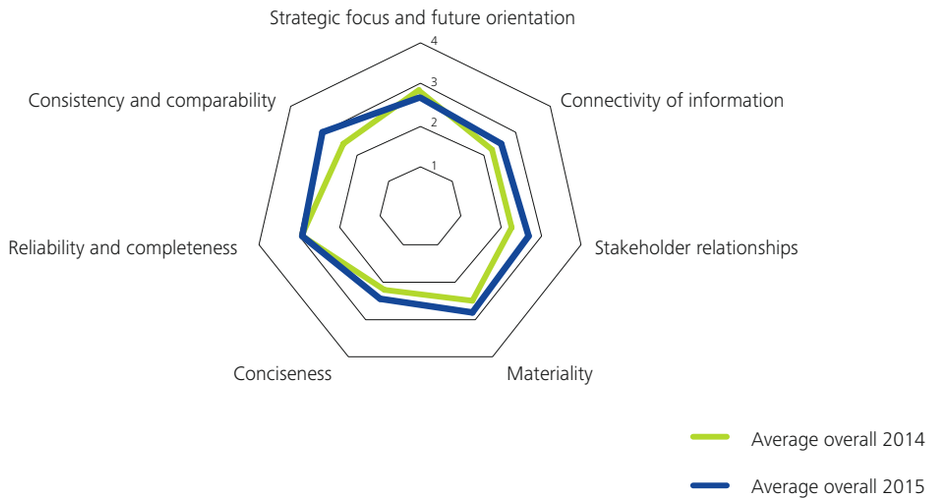
Guiding Principles of <IR> are developing well, some Content Elements, related to Integrated Thinking, remain a challenge

The overviews ("spiders") per Guiding Principle and Content Elements showing the 2014 & 2015 results indicate that, although progress has generally been made, companies apparently struggle more with the Content Elements than with Guiding Principles. The spiders show the maturity level from 1-4 on each of the 7 Guiding Principles and on the 8 Content Elements.

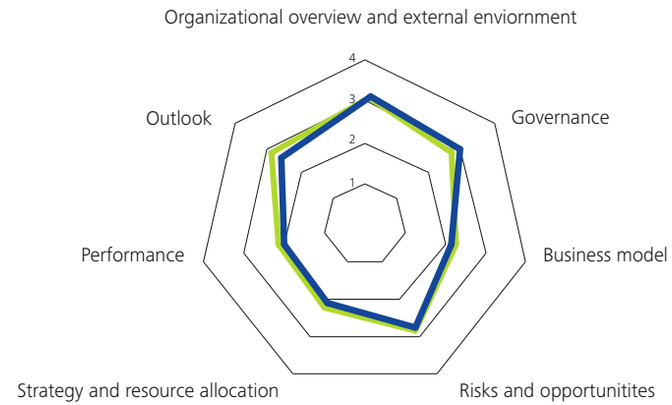
Guiding Principles

The Guiding Principles spider shows a nicely balanced, gradual improvement; many principles have the same maturity level. The 'consistency and comparability' as well as connectivity has improved, as companies tend to be more consistent in showing key information (e.g. results) and show comparability over time. The improvement of the materiality & stakeholder relationships in the reports also relates to the wider adoption of the G4. The number of companies that have reported to follow the G4 guidelines increased by almost 30% compared with 2014. G4 requires a materiality analysis that identifies the most important topics to report on. Despite the fact that 'conciseness' has improved, it is by far the weakest principle. Companies still find it a challenge to report more concisely by, e.g., transferring the less material information from the report to the website.

Guiding Principles: comparison 2014 - 2015



Content Elements: comparison 2014 - 2015



Content Elements

The Content Elements have not improved much. The spider also shows that certain elements consistently score lower in maturity, making the spider less balanced than the Guiding Principles spider.

'Risks and opportunities' are generally well disclosed, as well as the 'organizational overview and future orientation' and 'governance'. Companies are more used to report on those elements.

The elements 'performance', 'strategy and resource allocation' and 'business model' are elements all companies struggle with. This was the same in 2014. These three elements have consistently received the lowest score in this research. Companies tend to have difficulties describing background information on performance when describing results. For example, the performance is not really described in relation with the overall situation in the market. Also, it is challenging for companies to disclose long-term targets. While some companies do have a long-term vision or strategy, the way to achieve the long-term vision is often only explained at a high level, lacking specific details. This is also visible in the weak maturity of the 'outlook' principle.

The conclusion is that in terms of quality many companies are starting to report well (like materiality and stakeholder process). Still, many companies have not yet embedded integrated thinking within their company processes and performance management systems. To detail the outcomes of materiality process into a clear company strategy with subsequent resource allocation and measuring performance is still in an immature stage at many companies. Failing to properly measure performance likewise makes it difficult to create a properly underpinned, future outlook.

"A truly integrated strategy gives substance to our reason of being and our role in society. Our challenge is to formulate this more precisely and to translate it to all sections within the company."

Hans Koeleman, KPN

Key finding 5

Companies struggle with the timely collection of non-financial data

Many companies have indicated to have difficulties in timely and reliably collecting the material non-financial data. Processes are not always designed such that the information is available on time for an integrated report. In addition, developing the right target and related data for many of the material non-financial topics is a real challenge. For example, how to define, measure and validate topics like societal impact, employee engagement, best perceived company, employee development, community development, circle economy and so on. Many companies in our research confirmed that the economic data, the Net Promoter Score data and Energy data (water) would normally be part of the regular Planning & Control Cycle. Many other non-financial data needs to be better defined and implemented in the regular performance management processes and systems.

For some companies this can form a serious barrier to implementing <IR>.

Key finding 6

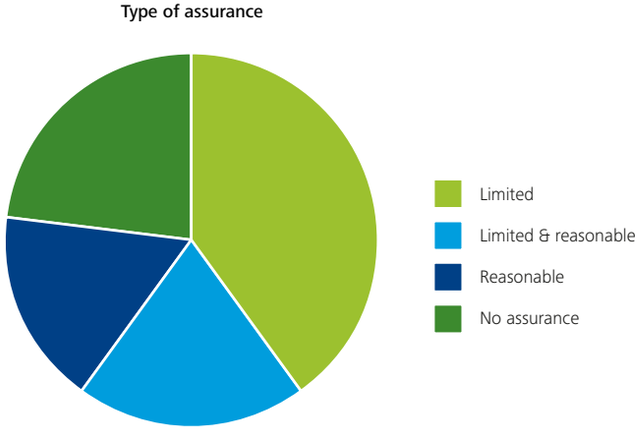
Both scope and type of assurance varied in the reports studied

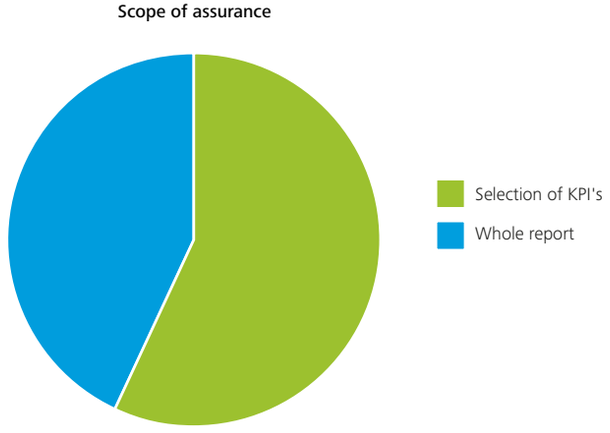
As regards the levels of assurance for the companies included in the research, we found that both type and scope of assurance varied greatly.

Some companies choose to have assurance over just a few KPIs while others choose to have the entire report assured. Other companies choose a mixture of both and sometimes the level of assurance varied even within the report. It was not uncommon to find limited assurance on specific sections of the report and reasonable assurance for certain KPIs.

"The biggest challenge of <IR> is data collection. We need to collect data from 70 countries and especially non-financial data cannot be generated as quickly as data we normally use for our annual report."

Heineken





Most reports did not provide an explanation as to why a certain level of assurance was provided. Searching for possible explanations why some companies were far more ambitious in the scope and level of assurance than others, did not yield any clear answers. For example, we tried to see whether both the GRI version chosen and the type of industry were in any way a prediction of assurance ambition. We were not able to find any convincing patterns in that respect. The only clear relation we found was that in the majority of cases a company not using the GRI guidelines at all, is not likely to have any type of assurance. However, as the level of <IR> maturity was different amongst these companies as well - ranging from low to medium - no clear relation between GRI, level of assurance and <IR> maturity could be derived from the research data. Chapter 7 provides more insight into Assurance and <IR>.

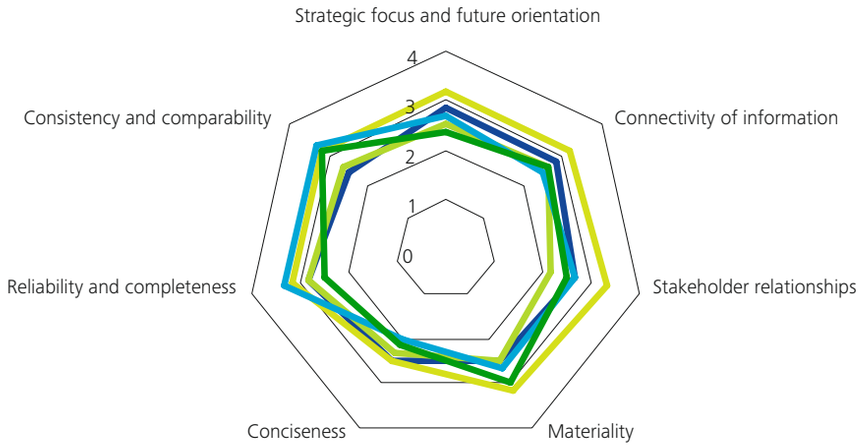
3.2 Industry Insights

The Financial Services Industry - Real Estate is outperforming the other industries, Energy, Resources & Transportation scores relatively low

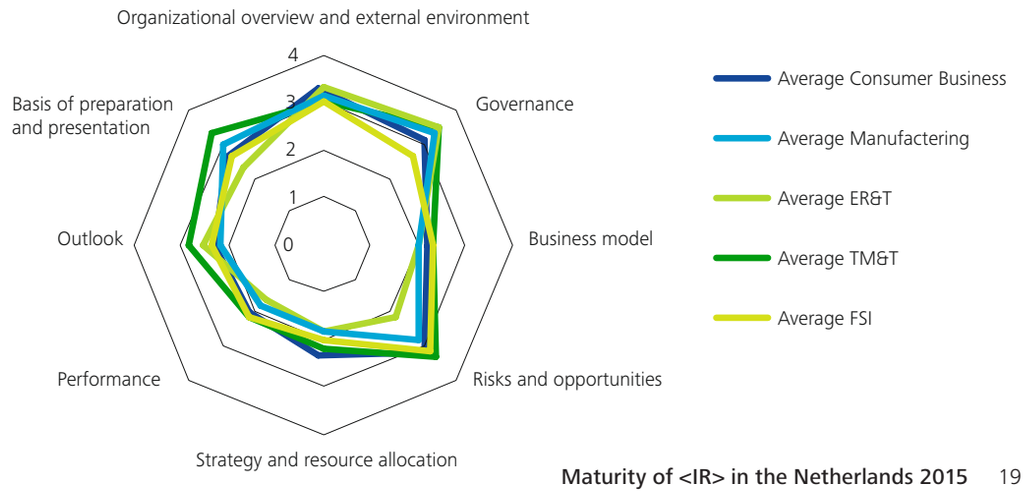
The uptake of Integrated Reporting is visible in all industries, although the corporate reporting of Energy, Resources and Transportation less frequently include the <IR> Content Elements. This is remarkable as the industry is facing considerable global challenges that could impact the value creation over time.

The companies in the Financial Services Industry – Real Estate have a good score, reaching a maturity score of 3 out of 4. The companies score well on almost all Guiding Principles (average score above 3) and they also score better on the Content Elements. An explanation for the consistently high scoring could be that this industry is significantly impacted by current global trends (new technologies, changing regulations, global aging) but most companies have also re-evaluated their business model in relation to their purpose and have refocused on customers and employees in order to create value in the future.

Guiding principles 2015



Content Elements 2015

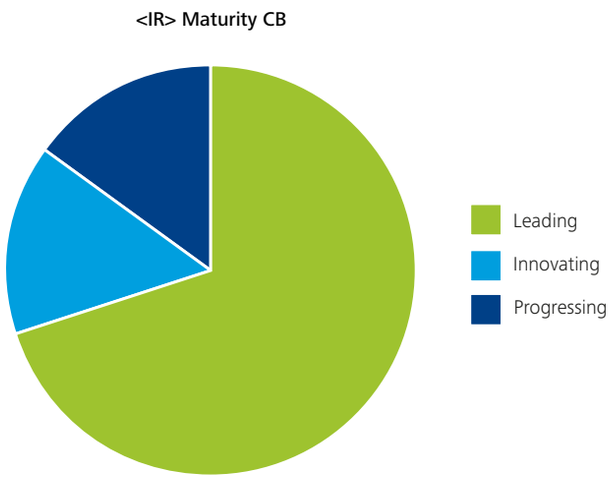


Similar to the conclusion on reporting maturity on some key Content Elements, it is interesting to see that companies in all industries find it very hard to properly report on the Content Elements of 'performance', 'strategy and resource allocation' and 'business model'. There are no significant differences between the industries. Only the Financial Service Industry shows a slightly better performance on 'outlook'.
The next section will include more details on the results of the different industries and the most mature company per industry.

3.2.1 Consumer Business

Overall, the Consumer Business (CB) industry has the same average score on both Guiding Principles and Content Elements as the industries overall (score of 2.7). So on average there are no major differences.

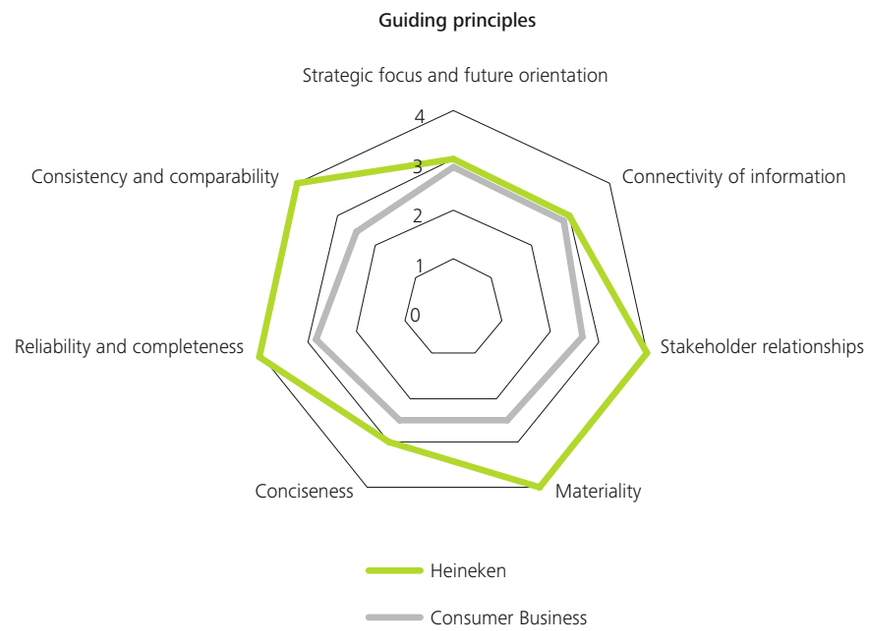
Of the five CB industry companies that were scored, only 1 company is Progressing, 4 companies are Leading and 1 company, Heineken, is Innovating.



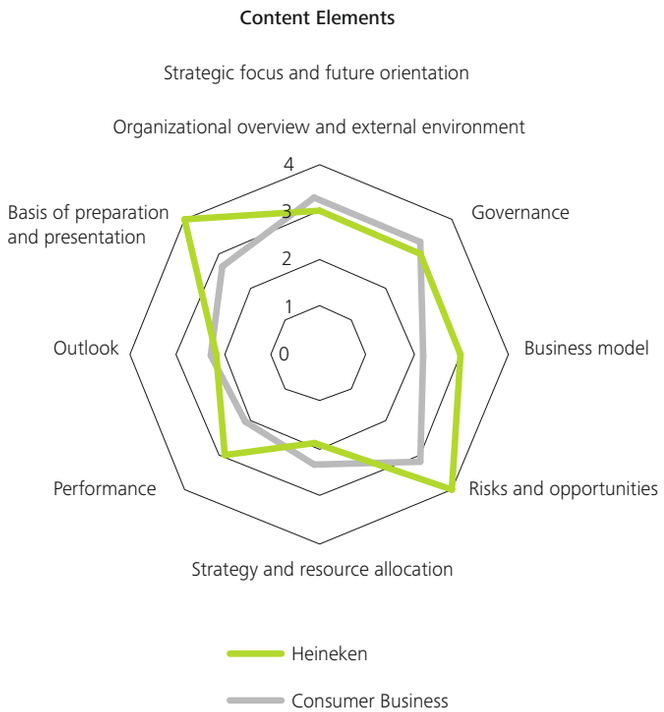
Consumer Business

Average overall scores

3.3	2.7	2.7
Heineken	Consumer Business	All industries



Consumer Business



Two companies improved to the next level over the last year, from Progressing to Leading. A good step forwards.

The CB companies generally provide a detailed description of the context of the business environment they operate in. Although a clear overview of the competition is not always provided, industry specific information is often visible. For example, there is a clear understanding of the situation, developments, risk and opportunities in the markets that companies operate in. This fits well with the focus CB industry has on consumers and on trend developments in order to quickly react to changing consumer expectations and demands.

The sector leader, Heineken, has a long history of sustainability reporting and has been able to incorporate many <IR> elements in their corporate reports despite the fact that Heineken does not publish an Integrated Report.

Heineken clearly identifies the main stakeholders and defines the key material topics based on solid stakeholder input. Having the key material topics well defined, the targets (in the long term) are set and target performance is disclosed. Hence, Heineken represents a good example of the cycle to help manage financial and non-financial information.

According to Jan-Willem Vosmeer, Corporate Social Responsibility Manager at Heineken, the current corporate reporting satisfies many investors and stakeholders, who are increasingly interested in the progress on the non-financial – sustainability themes. While the ambition to achieve more Integrated Reporting is there, considering the time involved in the data collection process as regards non-financial information - which needs to be collected from 70 countries – this is not yet aligned with the financial information. Jan-Willem clearly sees the benefits of <IR> and Integrated Thinking.

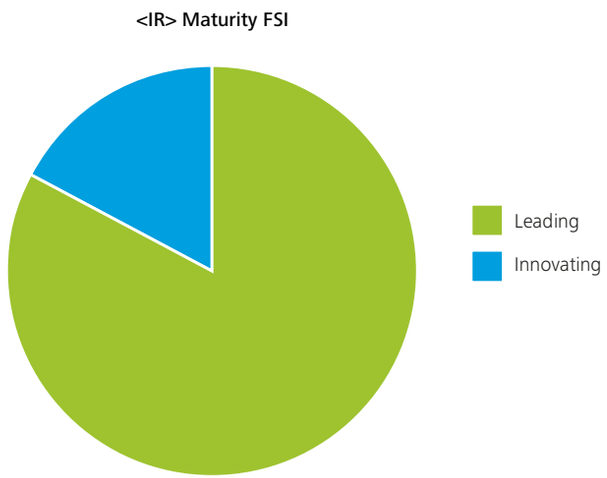
Another ambition for the near future is to better link the overall trends to the performance and future of Heineken and to understand how financial and non-financial information are connected in terms of impact. Impact measurement is complicated though, certainly if this has to be measured on a global level.

"The process of Integrated Thinking and Integrated Reporting will help companies to better understand the drivers for value."

Jan-Willem Vosmeer
CSR Manager at Heineken International

3.2.2 Financial Services Industry & Real Estate

The Financial Service Industry & Real Estate (FSI) is the highest scoring industry in this research with an average of 3 compared with the overall average of 2.7. Of the 6 companies analyzed, 5 companies are Leading and 1 company is Innovating.



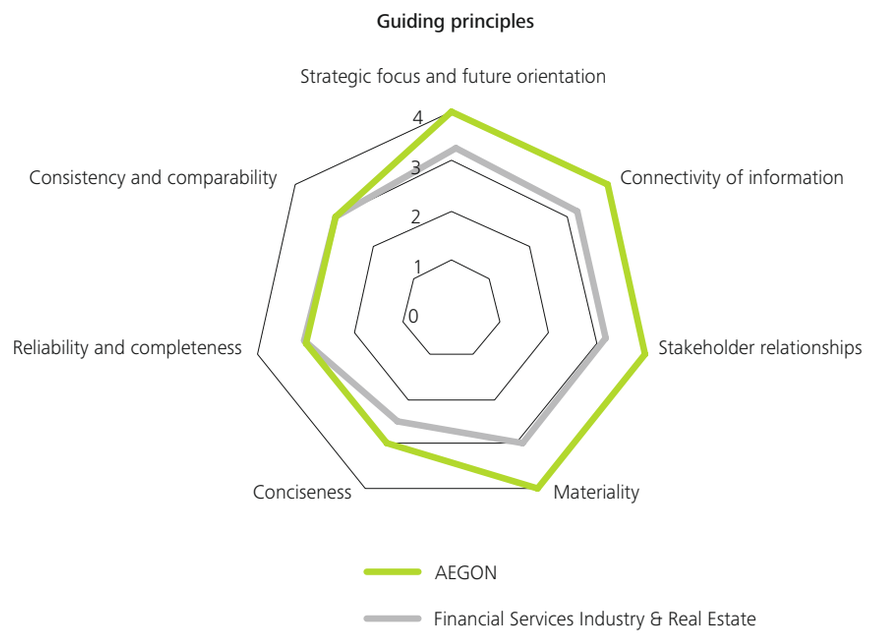
'Risks and opportunities' is one of the highest scoring aspects overall. The companies researched show that the risks are connected to targets and the strategy, and they all have a strong risk mitigation framework. A possible explanation is that FSI companies always had to have a strong focus on financial risks, since this could seriously affect their business. From this perspective it might have been easier to apply these financial risk models and practices to other risk areas (i.e. environmental, social).
The FSI industry is the only industry where the companies researched have either a combined, or an integrated report.

All companies score well on 'connectivity' - better than average. This points to a higher chance of integrating the information if a company has a combined or integrated report.

Financial Services Industry & Real Estate

Average overall scores

3.3	3.0	2.7
AEGON	FSI	All industries



Financial Services Industry & Real Estate

The leader of the FSI sector is Aegon. The insurance company reaches the highest maturity level in 'connectivity', 'stakeholder relationships', 'materiality', 'strategic focus and future orientation' and on 'base of preparation', business model' and 'risk and opportunities'.

The incentives to start with <IR> have been discussed with Neil Smith, Senior Associate of Sustainability at Aegon. The main drivers to become pilot member of the IIRC in 2010 were an increased focus on how customers were connecting and interacting with Aegon and how employees could be more empowered (part of the new strategy introduced for 2010-2015). The strategy became much more integrated and the company felt the need to reflect that in the corporate reporting as well.

Neil Smith
Senior Associate Sustainability at Aegon

The added value of using the <IR> elements is having a solid framework and structure to show how Aegon is creating value for all stakeholders.

According to Aegon, the major challenges are in defining and measuring targets on non-financial parameters. Different from measuring the financial KPIs, the history on non-financial data is scarce. An additional challenge is to measure how information is connected. As an example Neil Smith mentions the way employees have historically been reported: as a financial cost for the company. But employees contribute to many benefits (cooperation, innovation, selling). How should these benefits be quantified? How should a target be set?

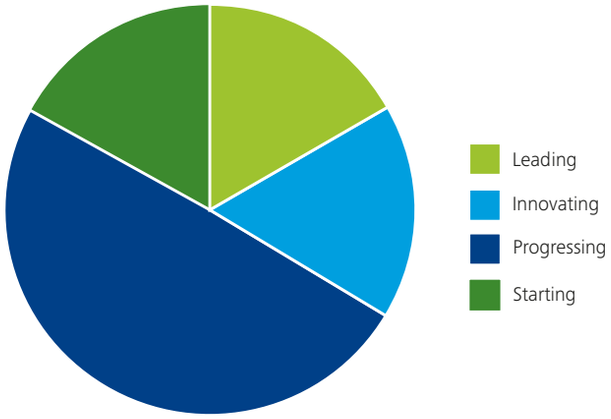
When Aegon defined one of their strategic objectives 'to become Employer of Choice', Aegon started measuring employee enablement and engagement. Every year the results were discussed at all levels in the company and action plans were created to further improve. After 4 years, Aegon is now considerded 'a high performing financial services company'. As Aegon strongly depends on human capital, improvements in employee engagement will contribute to business performance.

"Increasingly, we see companies are looking for more ways to integrate their corporate strategies with their sustainability strategy. This makes for a great business case to consider integrated reporting and start thinking, as a company, in a more integrated way.''

3.2.3 Energy, Resources & Transportation

The Energy, Resources & Transportation (ERT) industry is the least scoring industry of this research. The majority of the companies analyzed are Progressing.

<IR> Maturity ERT



The differences in maturity of the companies analyzed is high (from an average score of 3.5 to an average score of 1.9). This could be partly explained by the different types of business in the sample. Two companies were able to improve their score, which is promising. Mainly in the energy & resources sector, more focus can be given to strategic and Integrated Reporting on financial and non-financial information, which would fit the societal developments.

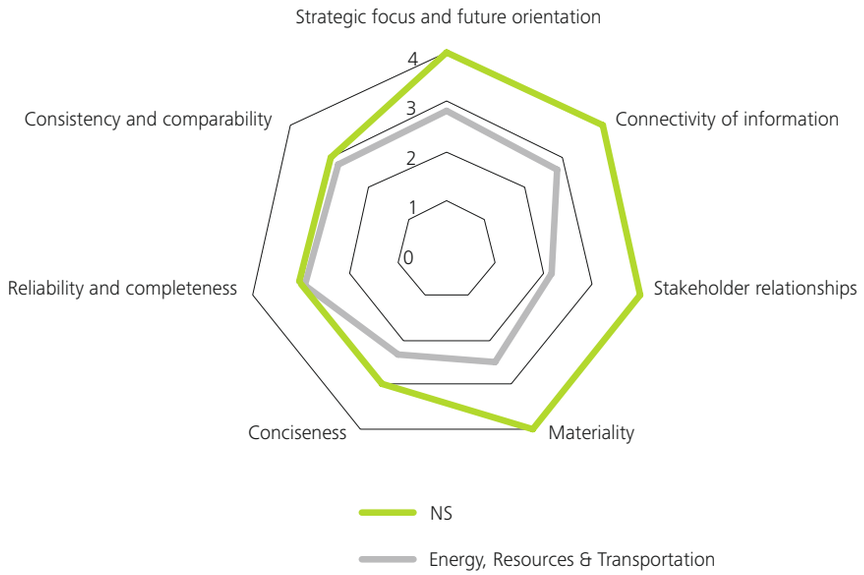
Although companies in the ERT industry have faced disclosure challenges regards various elements of the International <IR> Framework, their disclosure of the governance information is very clear. Compared with the 30 companies they score high on this point, with a score of 3.5. Overall it is very clear how the companies' governance is structured, as well as the type of activities the board was involved in and how the responsibilities within the company are divided.

Energy, Resources & Transportation

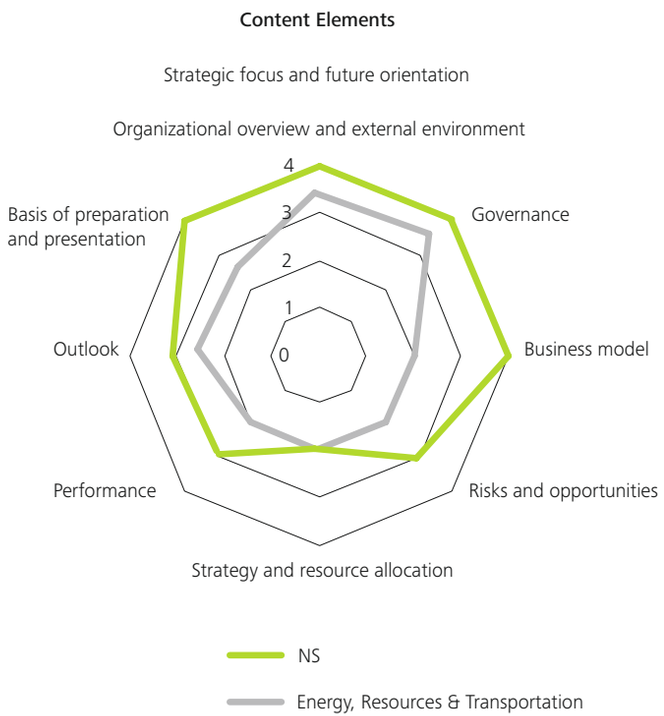
Average overall scores

3.5	2.5	2.7
NS	ERT	All industries

Guiding principles



Energy, Resources & Transportation

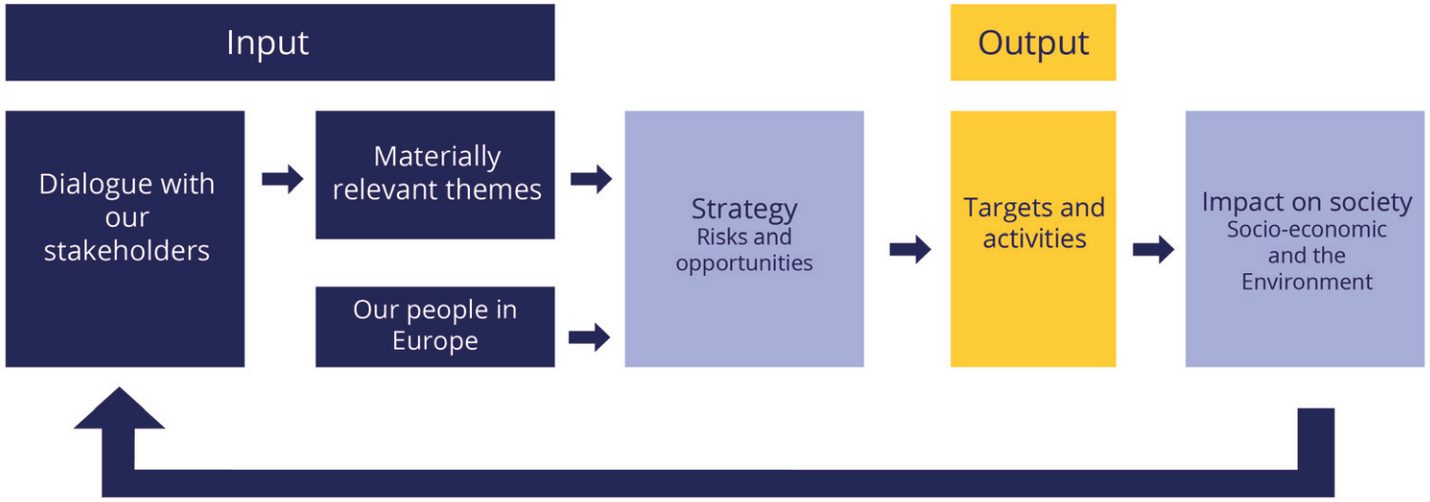


The clear leader in ERT is the Dutch railway company Nederlandse Spoorwegen, or NS. Like last year, NS obtained the highest overall score. Of all 30 companies they have been able to integrate most of the <IR> elements in their report (score 3.5 out of 4). On 8 elements out of the 15 NS realizes the highest maturity score (4) and only on 1 element, 'strategy and resource allocation' the score reaches the Progressing level (2).

An area in which NS performs particularly well is 'connectivity'. The performance of NS in terms of financial results, social and environmental aspects are all integrated. Materially relevant themes and KPIs are discussed in a social and or environmental impact analysis. The KPIs involve different aspects leading to this high maturity score: environmental, social and financial.

NS also scores high on 'stakeholder engagement' and 'materiality' (both level 4). The report includes an illustration showing the flow from dialogue to impact - a powerful way to explain the process.

From dialogue to impact



Source: NS Annual Report 2014

As an Innovator, NS also started with monetizing of externalities. The <IR> Framework does mention that it could help to show the connectivity between the capitals an organization uses and impacts. At Deloitte we strongly support the development towards monetization as it can help to create a much stronger link between financial and non-financial information. This, in turn, can lead to better understanding of the real value created and thus strengthen the overall business performance.

According to Carola Wijdoogen, the primary reason to start monetizing was to better manage the positive impacts (like connecting people or creating employment) and the negative impact (like CO2 impact of transportation). Once NS better knows the impacts, it can improve its management decisions and incorporate them in investment decisions. NS would like to see other companies apply this as well, so a standard on monetization of non-financial information can be developed.

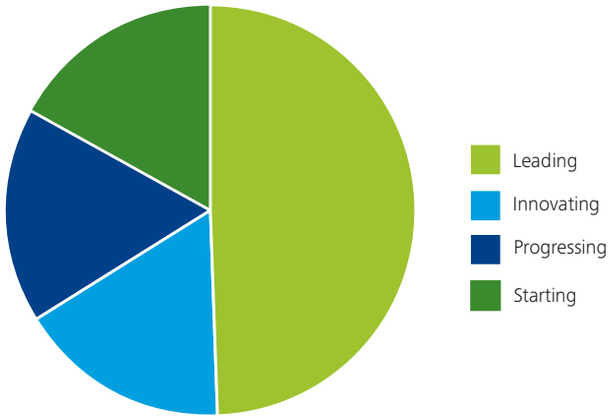
Carola Wijdoogen
NS

"It is our ambition to contribute to sustainable mobility by improving our positive impact and reducing our negative impact. Therefore, we want to be as transparent as possible about how we monetize our impact. "

3.2.4 Manufacturing

The manufacturing industry scores slightly less compared with the overall average. There are quite some differences in performance, resulting in 1 company Starting, 1 company Progressing, 3 companies being Leading and 1 company, BAM, being Innovating.

<IR> Maturity Manufacturing



Companies in the manufacturing industry tend to score better on the Guiding Principles of <IR> Framework than on the Content Elements. Especially the reliability and completeness of the report stands out. The companies in the manufacturing industry generally produce balanced reports, describing both positive and negative aspects. Often, their processes and activities are described together with the material topics that positively influence the completeness of the report. As Good Manufacturing Practices (GMPs) are common practice in the industry, this might positively impact the completeness and reliability because this regulation has created a lot of attention for manufacturing processes and operating procedures.

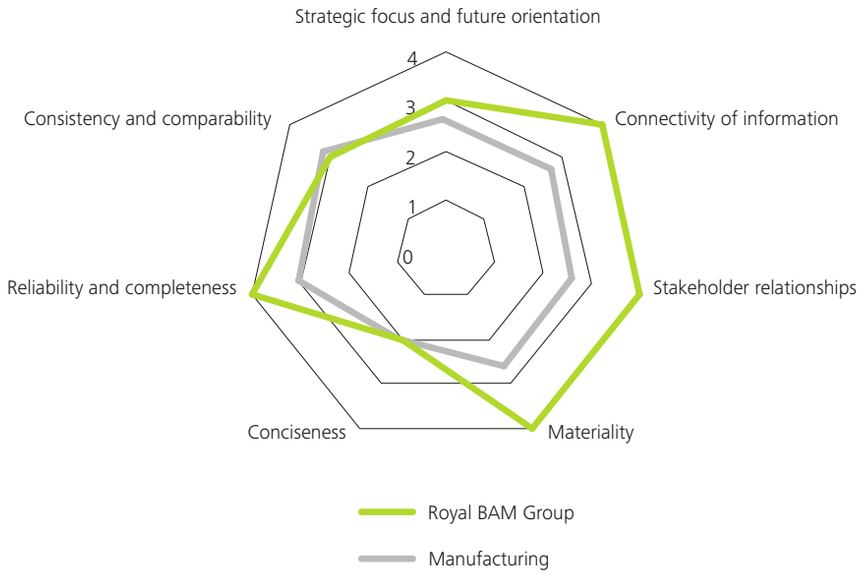
The weakest scores are in the area of 'strategy and resources allocation' and 'performance'. This can be seen in all industries, but is particularly low in Manufacturing.

Manufacturing

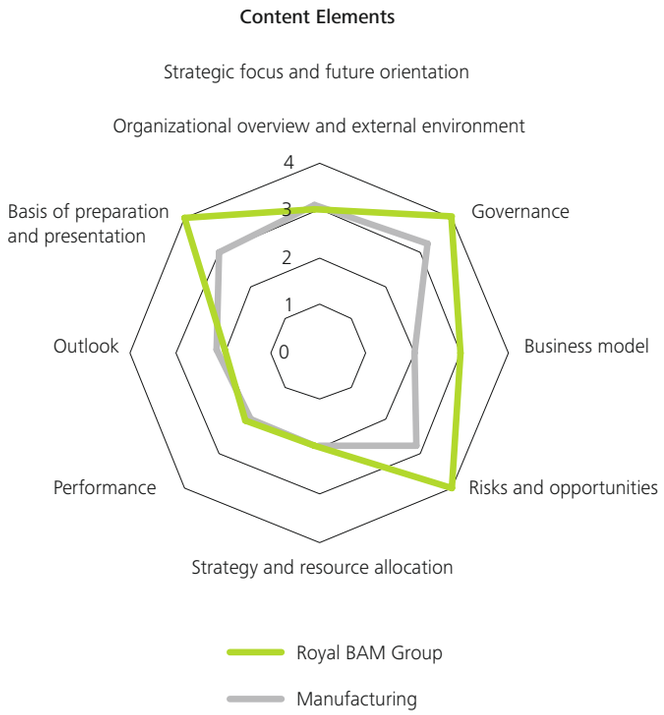
Average overall scores

3.3	2.6	2.7
Royal BAM Groep	Manufacturing	All industries

Guiding principles



Manufacturing



The leader of the segment, BAM, was able to improve its score to Innovating. The main points of improving were on 'connectivity of information' and 'consistency and comparability'. According to Céline Bent and Barry Oesman from BAM, the main reason for this improvement was caused by the shift towards an Integrated Report.

By applying the framework even more consistently, non-financial (sustainability) targets are integrated in the strategy, while environmental, social and economic risks are addressed and the material topics are linked to the strategy.

In addition, the report is consistent and enables comparability with other organizations (also due to using GRI indicators). The financial, social and environmental performance is at least compared with one year (social and environmental often with more years) and is often visualized in graphs.

When asking Céline and Barry 'why did BAM develop an Integrated Report', they stated two main reasons:

- Being able to better show the relation between financial and non-financial performance; and
- Transparently showing stakeholders how BAM is creating value

They also state two very important enablers for making the integrated report: the full ownership of the board of BAM for the process and the fact that Integrated Thinking was already embedded in the organization over the last years.

For the following year(s) the focus will be on 1) reducing the number of material topics in order to be able to better define targets and performance and 2) to further develop impact measurement to allow for more comparability in management decisions. Next to NS, BAM is also recognized as one of the pioneers in monetizing environmental and social impact.

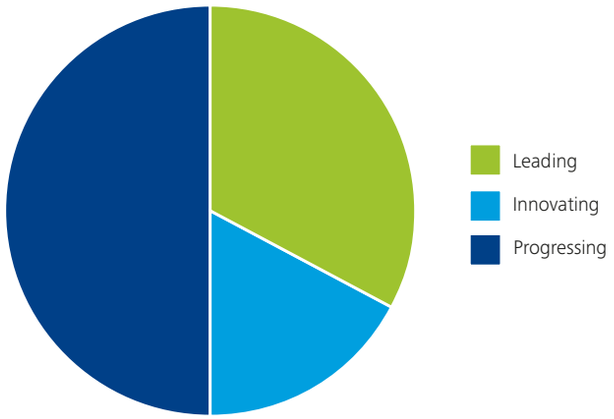
Céline Bent
Project Manager CSR at Royal BAM Group &
Barry Oesman
Group Controller at Royal BAM Group

"Only if Integrated Thinking is well embedded, a well-developed integrated report can be written."

3.2.5 Technology, Media & Telecommunications

Of the 6 companies researched in the TMT industry, 2 companies have been able to improve their level of maturity over the last year. There is still one company starting the <IR> journey and 3 others are Progressing. There are 2 companies Leading and 1 company is, like last year, on the level of Innovating, KPN.

<IR> Maturity TMT



The majority of the companies in the TMT have described their organizational overview & external environment and the risks and opportunities clearly, especially the risks outside their organization. The emphasis on risk management in the companies is affected by the rapidly changing technology sector, where a lot of risks are visible, like cyber and privacy risks.

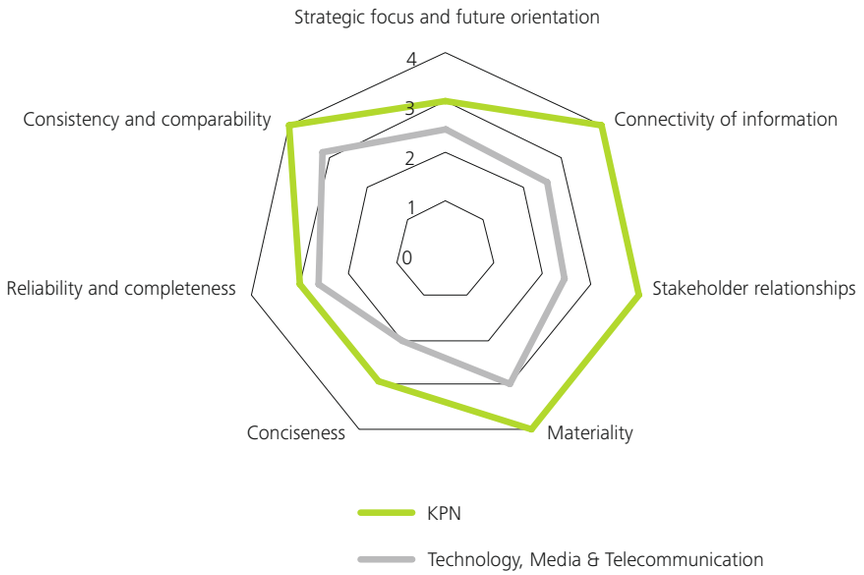
Because of the rapidly changing technology, the TMT companies had and have to adapt often. This can explain the high score on 'materiality'. It is important to know which topics affect the companies the most. Most companies have well defined the material topics that affect their performance and the material topics are often integrated in the strategy or play a prominent part in the report.

Technology, Media & Telecommunication

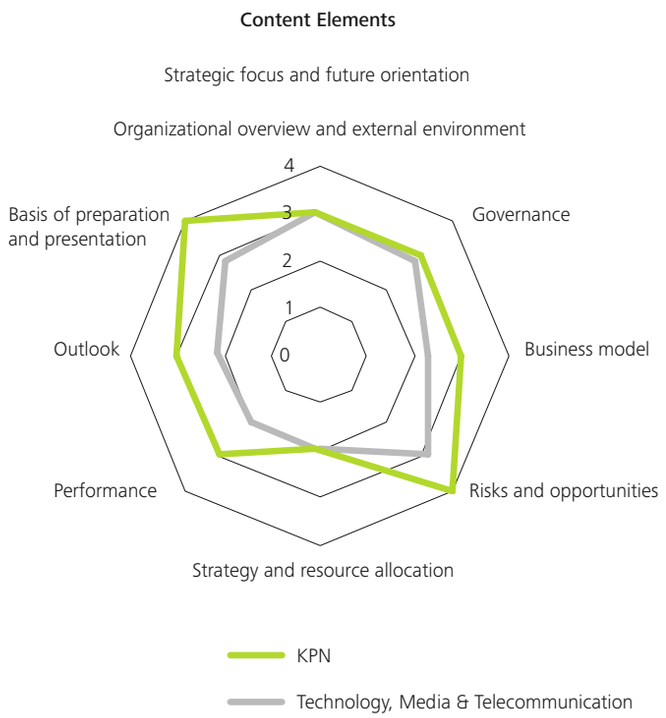
Average overall scores

KPN	TMT	All industries
3.3	2.6	2.7

Guiding principles



Technology, Media & Telecommunication



KPN is consistently well performing on the Guiding Principles and of the Content Elements KPN score relatively well on most elements except 'strategy and resource allocation'.

KPN realizes a score of 3 on both 'performance', 'outlook' and 'business model' which are by many companies considered to be three of four most difficult Content Elements.

We asked Hans Koeleman, Director Corporate Communications, KPN and Brechtje Spoorenberg, Manager MVO KPN, how they have been able to develop their report.

KPN has been active in sustainability reporting since many years and in 2007 KPN formulated a more stringent sustainability policy and started to report better. This resulted in winning the Crystal Price (check name) which created a lot of positive PR. The report over 2013 was the first integrated report.

The main success factors according to KPN are:

- Create a steering commission with members from the key departments (a.o. Control, Strategy, Reporting, Sustainability), with the CFO as Chair
- Utilize the knowledge in the company, involving & motivating around 60 people
- Manage the process well, start with a great kick off and celebrate once the report is ready
- Develop a skeleton of the report so everybody knows where to fit in what
- Ensure board involvement in an early stage

The benefits for KPN were a more efficient process, more cooperation and understanding between the departments and the creating the base for setting the next step. The next step is to further integrate Sustainability in the core of the strategy of KPN and to better understand the value KPN is able to create in the broadest possible way. So defining more clearly the societal impact and the long-term vision for KPN. On the basis of that the targets and KPIs can be further sharpened.

Brechtje Spoorenberg
Manager CSR at KPN

Hans Koeleman
Director Corporate Communications & CSR at KPN

"We have been able to develop an Integrated Report, now we would like to start with Integrated Management"

4 Global uptake of <IR>

According to the IIRC, the global adoption of the IIRC framework is in the breakthrough phase[1]. Also organizations like the WBCSD and GRI describe that <IR> is evolving and more and more companies around the world adopt the ideas of Integrated Reporting.

This is good news, but as the majority of companies –even in the Deloitte <IR> Maturity Research 2015- still do not produce integrated reports or use the IIRC framework, we also identify a world of opportunities.

It would be interesting to determine the global status of <IR> adoption. Do we see a difference in the uptake of <IR> depending on the country or region? If so, why? Can we identify major global differentiators? Momentarily South Africa is by far the most frequently mentioned country with regard to <IR> as it is the only country where <IR> is mandatory for listed companies[2]. Other countries however often have specific legislation regarding non-financial (sustainability) reporting, transparency and assurance (GRI, n.d.).

It would be interesting to see if we can find evidence that these kind of legislations have any positive effect on <IR> as governments and other regulatory institutions continue to struggle with this issue. Should they pursue a mandatory or voluntary reporting regulating approach? There is something to be said for both sides. Mandatory approaches stimulate standardization and has the advantage that companies have to disclose their negative performances as well. Opponents of mandatory reporting however argue that it is not flexible and that companies won't develop an intrinsic reporting motivation that way as it is not one size fits all. Opponents of voluntary reporting however argue that there is not enough compelling reasons for companies to report when it is not obliged by law (GRI, 2010).

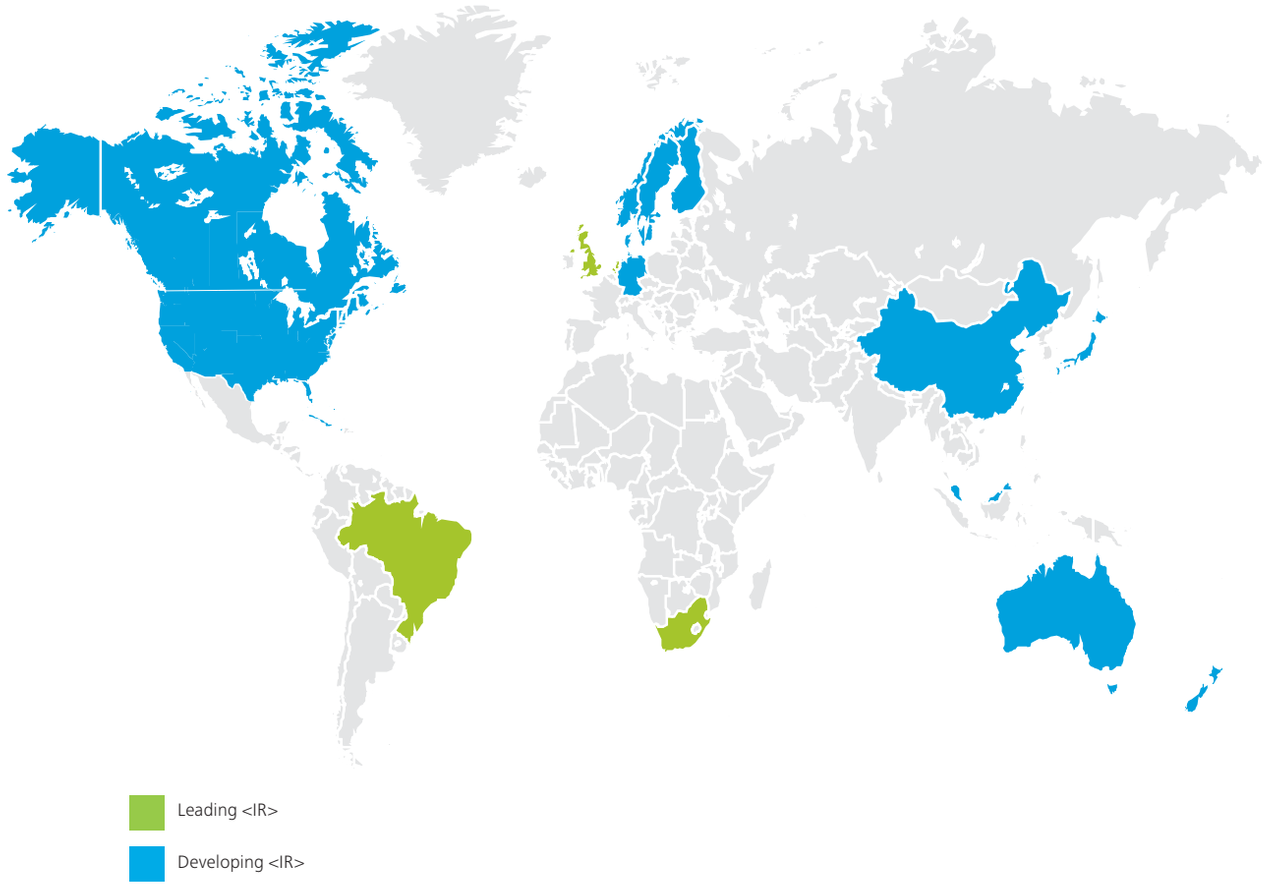
A complicating factor for including <IR> into legislation though is the way in which <IR> is constructed. As the International <IR> Framework only produced guidelines that organizations can adapt (IIRC, 2013), differences between companies are inevitable. This flexible approach does not make standard mandatory <IR> regulations an easy task.

Before diving into the global differences regarding legislation and the current global adoption of <IR> it is important to note that although more and more companies are using the IIRC Framework, not all companies use the framework in the same way. In fact whilst some companies use the GRI as a strict set of disclosures, others only use the GRI as a "mindset for disclosing". Some companies even use self-declared <IR> (GRI, 2013) and very often investigations concerning <IR> are based on soft or qualitative indicators. This hinders a comparison between companies and countries. For this reasons we not only researched current literature, but we also held interviews with several companies and stakeholders to get a better qualitative picture of <IR> adaptation around the world. Insightful as this was, we would recommend further in-depth research into this subject as developments proceed very rapidly.

[1] http://integratedreporting.org/the-iirc-2/

[2] http://publisher.enablon.com/blog/why-is-south-africa-leading-the-integrated-reporting-debate/

Global uptake of <IR>



4.1 Global adoption

At the moment, South Africa is the only country in which <IR> is mandatory by law. The government of South Africa made <IR> mandatory for all companies listed on the Johannesburg Stock Exchange[3]. According to the GRI the leading countries in the field of <IR> are South Africa followed by the Netherlands, Brazil, and Australia (Black Sun, 2015)[4]. When it comes to leading regions that show increased attention to <IR>, after Africa are: the US, Latin America, and Oceania.

A map showing the global situation and developments regarding <IR> illustrates that the uptake of <IR is truly global. Nevertheless it seems that <IR> is gaining traction more quickly in certain areas of the world. For instance, we see developments in countries such as Japan, Singapore, and Korea. In these regions, the dialog among policymakers, preparers, investors, and other market participants is developing constructively. Marleen Janssen Groesbeek argues that she expects that an increase in attention from the US concerning <IR> as the development of SASB (Sustainability Accounting Standards Board) will result in an increasing amount of attention to <IR> and sustainability within the accountancy profession. She also sees developments in India as there is much attention in India for philanthropy by companies. The non-financial reporting in annual reports benefits from this attention which can lead to more reporting on <IR> elements.

Broadly speaking, the uptake of <IR> continues to accelerate moderately around the world with certain areas of Europe and Asia gaining traction more quickly.
As can be seen from the map showing the global developments on <IR>, there have been numerous developments within Europe (GRI, 2013). We will describe these developments in the next section.

[3] http://publisher.enablon.com/blog/why-is-south-africa-leading-the-integrated-reporting-debate/

[4] http://integratedreporting.org/when-advocate-for-global-adoption/find-out-what-is-happening-in-your-region/

4.2 European adoption

Specific regulation on sustainability reporting that might affect <IR> uptake?	
Norway	✔ from 1998
The Netherlands	✔ from 2005
Sweden	✔ from 2007
UK	✔ from 2008
Denmark	✔ from 2009
France	✔ 2011
Finland	✔ 2011
Spain	✔ 2011

Currently numerous European countries have legislation on sustainability reporting. And as can be seen from the table / infographic, many European countries that are leading or developing in <IR> have legislation in place that stimulate or force disclosure of sustainable non-financial information (GRI, n.d.) It is interesting to see that apparently many companies chose <IR> as a means to comply with this legislation.

In fact, the legislation in Norway with regards to non-financial information mimics the goals of <IR> best: Following the regulation, large companies are required to provide information on how they integrate social responsibility into their business strategy. Research into the legislation in Denmark shows that the reporting practices of companies had improved significantly due to the nonfinancial reporting legislation. In addition, companies reported on more topics than before and used more international standards as the basis for their CSR reports. The requirement turned out to be encouraging companies to report on CSR (GRI, n.d.). Finland for example has no formal legislation, however the government adopted a resolution requiring non-listed state-owned companies to report on sustainability performance (GRI, 2013). The UK also has a robust reporting regime.

Current reporting regulations require companies to prepare a strategic report along with a director's report. The requirements of the strategic report align closely with the principles of the <IR> Framework.

If having sustainability regulation would indeed mean that <IR> could get a boost, as the results above suggest, this could mean we are in for exciting times, because in December 2014, the EU issued Directive 2014/95/EU. This Directive will require greater transparency from large companies[5]. The Directive must be transposed into national legislation and is applicable for financial years starting during calendar year 2017. More specifically, the Directive requires companies with over 500 employees to disclose information about policies, risks and outcomes of environmental matters, social and employee aspects, human rights, anticorruption and diversity in their management report[6] Approximately 6,000 companies throughout Europe and 100 companies in the Netherlands are affected by this Directive (MVO Nederland, n.d.).

Though legislation can certainly play an important role in the uptake of <IR>, it is far from the only driver of the global differences we see. Many interviewees suggest that cultural values (such as transparency and a reporting history) and the role of shareholders and stakeholders are possible drivers for the strong attention for <IR> within Europe. Marleen Janssen Groesbeek argues that <IR> is well adopted in the Netherlands due to the Dutch culture where people steer on consensus. In the Netherlands as well as in Scandinavian countries, <IR> is increasingly gaining attention from companies. This is partly due to the active role of other stakeholders then just shareholders. The following chapter provides greater insight into general drivers for <IR>.

[5] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0095

[6] http://ec.europa.eu/finance/accounting/non-financial_reporting/index_en.htm

5 Drivers and Challenges for <IR>

The global reporting landscape of <IR> as discussed in the previous section clearly shows that <IR> is not just practiced in some isolated countries. On the contrary, it takes place globally and in a wide variety of industries.

But we have also established that in many cases legislation does not specifically require companies to practice <IR>. So why is <IR> as widespread as it is? This sections will attempt to identify the main external and internal drivers and challenges for companies implementing and progressing <IR>.

The following table provides an overview of the main external and internal drivers and challenges to <IR>. Despite the long list of internal and external challenges, the list of drivers contains a wide range of business advantages. This would suggest that the uptake of <IR> would continue slowly but surely.

Overview	Drivers	Challenges
External	• Framework is adapted to investors' language (capitals, value creation) • Legislation on transparency and reporting • High standards on accounting • Policy measures • Stock exchange listing • Shareholder pressure/ possibility to see how sustainability impacts financial value and risks • Information need of stakeholders on how a company creates value	• Risk of enhanced disclosure - liability (e.g. on outlook) • Risk of greenwashing • Expectations on Assurance • Stock listing (long term vs. short term)/ support by investors not always evident • Different guidelines for reporting (G4 – SASB IIRC- Form 10-k and others) • Lack of <IR> thinking at governmental level

"External pressure always works better than internal pressure. This means that employees at companies can invest in the quality of <IR> but when you are part of the system that is a very difficult challenge. External pressure from stakeholders and legislation is therefore very important."

Marleen Janssen Groesbeek, Avans Hogeschool

Overview	Drivers	Challenges
Internal	• Easier access to financial capital • Internal engagement (multidisciplinary, all levels) • Integrated strategy linked to purpose • Connect financial – CSR department/ breakdown silos • Stimulates integrated thinking /Holistic approach • Stimulates integrated risk management • Support tenders • Expected link with business performance • Enhance stakeholder engagement • Focus on material issues • Focus on strategy and longer term value creation • Better allocation of capital / resources • Drives KPI setting on both financial and non-financial material aspects • Favors monetization • Report non-financial data more frequently	• Conceptual framework, lacks practical application • Collection, measurement and valuation of non-financial data • Defining smart targets • Full board commitment • Embedding throughout the entire organisation • Conciseness of report versus completeness • Industry-specific regulations might not favor <IR> • Lack of evidence that <IR> links to business performance • Consistency (connectivity) of materiality matrix, strategy, targets, and performance

Source: deskresearch, interviews with companies, internal and external experts and Deloitte (2015b)

Elements of the above overview will be discussed in more detail below.

5.1 External Drivers and Challenges

5.1.1 Legislation and regulations

Legislation for transparency and reporting is seen as one of the key drivers In South Africa. Due to specific legislation (the King Code for governance), almost all of the listed companies are reporting in line with <IR>. However, South Africa is an exception, as there is no other country with legislation that includes specific references to <IR>. But those countries in which the government has developed legislation for transparency and reporting appear to be the fastest growing countries in the field of <IR> .

Stock exchange requirements or other sector specific regulations (such as within the financial industry) are identified as strong drivers of <IR>. Examples can be found in various countries. For example, in Brazil a variety of initiatives encouraged corporate disclosure on sustainability. As a result, the number of integrated reports increased[7]. In Australia the Australian Securities Exchange (ASX) encourages companies to disclose on several principles. As a result 200 members of the Australian Business Reporting Leaders Form (BRLF) are now focusing on the design and implementation of <IR>. They perceive <IR> to be a potential solution to the current volume, increased complexity, and excessive regulation in corporate reporting in Australia that has developed over time[8].

On the other hand, some companies see a stock exchange listing as a challenge to <IR>, as it does not fit to the longer term view on value creation. As many investors are so focused on short-term financial results, companies find it difficult to report on more sensitive topics and report on e.g. long-term risks.

In addition, not all sector-specific regulations explicitly favor (elements) of <IR>. Because they require many other items to be disclosed, the <IR> Framework can be perceived as additional reporting burden. The many different reporting frameworks and ranking schemes are not encouraging the use of yet another framework. For many companies, the landscape is unfortunately confusing. Royal BAM Group responds by stating, *"It is a valid question to ask whether making <IR> mandatory does indeed help to improve the quality of integrated reports. (Too many) guidelines can also make you lose focus."*

5.1.2 Stakeholder and shareholder pressure

Companies start <IR> to communicate the process of value creation in a more transparent way[9]. In fact, stakeholder pressure from investors, analysts, regulators, and NGOs to gain insight into the company's performance, instead of just its financial performance, is a major driver for <IR>[10]. According to Gürtürk and Hahn (2014), *"Investors were able to acquire Environmental, Social, and Governance (ESG) information more correctly when it was provided in an integrated report as compared with separate reports. This result confirms that professional investors stick to a directive search strategy and that this strategy also applies to non-financial information. When ESG information was presented separately, investors did not consider this information to the same degree as in an integrated report."*

"The financial sector already has many obligatory rules and regulation. It is therefore not always easy to also incorporate a holistic framework such as that of the IIRC."

Delta Lloyd

[7] http://www.sseinitiative.org/fact-sheet/bovespa/

[8] https://www.ifac.org/system/files/publications/exposure-drafts/comments/BRLF.pdf

[9] http://essay.utwente.nl/66450/1/Wijnhoven_MA_management_governance.pdf

[10] http://www.irmagazine.com/articles/earnings-calls-financial-reporting/20244/can-integrated-reporting-simplify-investor-relations/

"Standalone sustainability and financial reporting have not sufficiently enabled a clear understanding of how sustainability performance impacts business results. Each form of reporting is intended for different audiences and current sustainability reporting is generally framed in a language that is not familiar to mainstream investors. <IR> can help to close this gap."

Kristen Sullivan, Deloitte

Being more transparent about the business model, the longer-term strategy, the outlook, and performance on financial and non-financial information could also make a company more vulnerable to liability issues and to being accused of greenwashing. Not all stakeholders might evaluate a company's report and story in the same way. If a company is doing well, it can now also be assessed on more qualitative (non-financial) information. This could be interpreted in positive and negative ways (for example, being transparent on a negative social impact such as child labor and being accused of supporting it rather than being applauded for addressing the issue). Managing various stakeholders' expectations can be a real challenge and requires continuous monitoring and dialog.

This dialogue is also referred to Kimberley Chan, DSM: *"I believe <IR> can help show the value that DSM is creating. It is all about communicating."* Nutreco adds to that insight by stating that *"<IR> is especially important in industries in which brand value depends on consumers."*

5.1.3 Assurance

In general, assurance on sustainability reporting is driving a better quality of sustainability reports as organizations are forced to apply GRI principles such as materiality and must support their information using evidence. Assurance on <IR> reporting could also lead to better-integrated reports and to more trust in the process and outcomes. It therefore could act as a driver for <IR>, however, because there is not yet a harmonized international assurance methodology for <IR>, this can lead to a slower uptake of <IR>. See Chapter 7 for more information regarding assurance.

5.2. Internal drivers and challenges

Various organizations have conducted research into internal drivers for <IR>. The IIRC, for instance, carried out a study together with The Black Sun (2014) that indicated that the <IR> agenda has a positive effect on internal engagement. Furthermore, they showed that <IR> impacts and benefits all levels of an organization. The World Business Council for Sustainable Development (WBCSD, 2014) also published a report on the benefits of <IR>. They emphasize that the integrated report is crucial to the process of Integrated Thinking, enhancing stakeholder engagement, and focusing on material issues. The framework also encourages companies to focus on strategy and to report more concisely.

"<IR> helps organizations to look beyond financial information to non-financial information, including areas such as business strategy and model, environmental and social factors, human resources, intangibles, governance models, and risk management."

Kristan Sullivan

A selection of internal aspects that can be seen as either a driver and/or challenge is provided below.

5.2.1 Breaking down silos

As seen through the lens of opportunity, steps that companies are beginning to take include a more comprehensive approach to enterprise risk management to contemplate how a company's business model relies on and impacts the multiple forms of capital and the likelihood and magnitude of financial impacts based on the actions the company takes or does not take (trade-offs). By breaking down silos within an organization, allocation of resources can be more effectively prioritized to create greater transparency around the risks to the company (e.g. the CFO is focused on risks that affect financial manufacturing risks; the head of procurement is focused on supply chain risks, including child labor, conflict minerals, and environmental compliance; and the head of human resources is focused on risks related to diversity, resource management, training and development). KPN mentioned that, thanks to <IR>, CSR KPIs are now integrated in their monthly reports. *"This means that we have only one dashboard that we monitor instead of two. As a result, the control and CSR department work together more often."*

5.2.2 Integrated management

Traditional accounting methodologies have focused solely on financial metrics, while natural and social capital stocks have not been reflected in commercial decisions. While financial metrics will continue to be an important indicator of business performance, companies will need to gain greater visibility of natural and social resources to understand the impacts they may have on future business viability – and that could potentially generate "market moving" reactions.

Working with the <IR> Framework stimulates Integrated Thinking, which would imply a better understanding of the natural and social resources for strategic business decisions. To be able to do so, companies need to have better, more reliable, and more frequent data for those resources used and impacted. This could also pose a challenge to <IR> because many companies find it hard to select and collect the non-financial data, to measure or monetize this data, and to integrate this data in the regular planning and control cycle.

Nutreco, Heineken, and Royal BAM Group all see the reduction of available information into a consistent report as one of the main challenges.
The process of data collection is also an oft-mentioned challenge. According to Heineken: *"The biggest challenge for <IR> for companies like Heineken is the collection and validation of non- financial data."* Systems are often not prepared to collect all information that is required for Integrated Reporting. This impacts the reliability of the data, as well as the possibility to manage the data. In this way, the benefits of <IR> cannot be captured.

5.2.3 Materiality and targets

The focus on key material topics for a company that drive business value (based on a well-managed stakeholder process) is a major advantage of the <IR> Framework for most companies. At the same time, we see many companies struggle to make the proper connection between the materiality matrix – the company's strategy – defining (longer term) targets and measuring the performance.

At KPN, a few more straightforward targets are already well managed (such as Net Promoter Score or Energy), but there is a need to develop more future-proof KPIs. For example, if KPN wants to have the best ICT infrastructure for our clients, how would 'best' be defined? DSM acknowledges the need for KPIs that are material with their notion *"being brave enough to drop KPIs from time to time is essential if KPIs are not material."*

Companies don't have the same history with non-financial targets as they do with financial targets. As there is no history, there is also no idea what the target should be.

Aegon

5.2.4 Competitive edge?

Finally, some companies indicate that as long as <IR> is not the common method for reporting within a particular country or industry, implementing <IR> helps to distinguish themselves from competitors. Although this can be a driver for some to embark on the <IR> journey, we know from experience that the benefits that a company experiences from <IR> eventually outweigh any just or unjust frontrunner gains simply because they last.

5.2.5 Board Commitment

Board commitment is seen as a strong driver for successful <IR>. Delta Lloyd mentioned that a full integration of <IR> and Integrated Thinking will only take place when the board fully supports both the way of thinking and reporting. According to Nutreco: *"Integrated Reporting will only develop to a mature stage when the board is committed and when Integrated Thinking is given the full attention."*

"Commitment from the board is crucial when an integrated report needs to be made."

Royal BAM Group

5.2.6 Business Performance

Due to the many positive benefits of <IR>, there is a general expectation that <IR>, and more specifically Integrated Thinking, will drive business performance. This is a strong driver for <IR>. On the other hand, the fact that hard empirical evidence is (still) lacking could also be a reason not to embark on the <IR> journey. See Chapter 6 for more details.

"The holistic approach of <IR> will lead to better decisions."

Martin Lok, Ministry of Economic Affairs

In summary, along with the challenges, there are numerous internal benefits of implementing <IR>. These benefits can be perceived as drivers for <IR>, as long as companies are aware of them.

6 Business performance and <IR>

Both the literature and the results from our interviews show that it is difficult to make a direct connection between <IR> and business performance. However, there are indications that due to the benefits of Integrated Reporting & Integrated Thinking there is an (in)direct connection. The main reasons are a better understanding of the process of value creation and a better overall quality of management of the company.

6.1 What does the literature say?

For many years, scholars tried to find a link between sustainability and financial performance.

One of the most frequently cited studies is from Eccles et al. (2011). This Harvard study showed that high sustainability firms dramatically outperform low sustainability ones in terms of both stock market and accounting measures. Moreover, research shows that non-financial reporting can also increase the performance on non-financial indicators. The reporting process of sustainability reporting not only helps to organize data, but also improves performance and helps companies with continuously implementing their sustainability actions. Several companies confirm that they see reporting as a driver for performance (GRI, 2011).

There is strong evidence that superior ESG management does indeed contribute to superior financial performance over time.

(Churet and Eccles, 2014)

This study was based on finding a relationship between environmental, social and corporate governance (ESG) management of companies in the RobecoSAM database and their Return on Invested Capital (ROIC). Companies that are strong in their ESG management are also transparent about it in their external reporting, which is a proxy for <IR>.

Additionally, research amongst Dutch firms showed a positive relation between CSR attention and financial performance[11].

And although the causality of these types of investigations is always a concern, the idea of CSR attention and better performance sounds quite logical.

If we look at business performance and <IR>, even less information is available. However, although sustainability and Integrated Reporting are not entirely interchangeable, the previous results indicate that at least some aspects of <IR> are possibly linked to a better business performance. After all, many aspects of <IR> match with the integral approach of CSR.

To build on their previous results on the relationship between ESG management and financial performance, Churet and Eccles (2014) researched the relationship between <IR>, quality of management and financial performance. In a sample of 2,500 publicly listed companies RobecoSAM looked for indicators of <IR> in the main sections of the corporate reports.

As an indicator of <IR>, they used the following definition: "Management decisions to include in the main section of the Annual Report, specific examples of sustainability initiatives, and how they impact financial performance". Only 12% of the companies provided at least one example, mainly environmental (energy) initiatives. Most initiatives were labeled strategic (material) and many of them were still described in a qualitative way (60%).

Churet and Eccles (2014) further researched the connection between <IR> and the overall management of ESG issues. This is based on the assumption that good ESG management is related to the overall quality of management. This is a way to examine the link between Integrated Reporting and Integrated Thinking: if companies do report on aspects of <IR>, are they more likely to also manage the sustainability issues on a strategic level and in their daily operations? Based on the Corporate Sustainability Assessment (CSA) of RobecoSAM, there is a positive (though weak) relationship between management of ESG issues and <IR>.

As a follow-up, the financial performance of the companies that reported aspects of <IR> and that did not report aspects of <IR> was analyzed.

[11] http://www.mt.nl/1/87186/home/waarom-duurzaamheid-loont.html

The study did not find a conclusive evidence that <IR> practices are correlated with companies achieving a higher ROIC. There could be a time lag (it takes time to capture the benefits) or the proxies need to be further fine-tuned. This requires further research.

The investigation of the Black Sun (2014) done in partnership with the IIRC is one of the few examples where the link between <IR> and performance is made. They looked at 66 publicly listed companies that took the lead on changing their corporate reports. They conclude that companies that incorporate the IIRC framework are better at understanding the process performance and value creation by the business itself, their providers of financial capital, and their stakeholders. They also mention that adopting <IR> is leading to important breakthroughs in organizations. Also, several other improvements, probably indirectly related to performance, are found, for example, the relation with external stakeholders, improvements in decision making and management information, improving what is measured, and connecting departments.

The relationship described with external stakeholders is also the topic of several academic investigations. Gürtürk and Hahn (2014), for example, investigated the interest of professional investors for <IR> related topics. They concluded that an integrated report might influence the valuation of a company and in the end attract more investors. Although the links with business performance cannot be made directly, at least Integrated Reporting can influence the valuation in a positive way.

Also, the report of CIMA (2014) made in association with the IIRC says that <IR> helps a company to understand the process of value creation and telling the story of how this value is created. <IR> seems to help to formulate a better long-term strategy and helps companies to get a better understanding of decision-making processes and their business model. In addition, aspects as trust and reputation are positive influences on the effects of <IR>. The report also showed that 92% of interviewed C-suite executives feel that being able to bring together financial and non-financial information would help to better explain how their business creates value over time. This is mainly because information is better connected and value-creating activities and relationships through which value is created inside and outside the organization are better understood.

"Adopting <IR> result in several improvements that are indirectly linked to performance, like relations with external stakeholders, improvements in decision making and management information, improving what is measured and connecting departments"

(Black Sun - IIRC, 2014)

6.2 What do our interviewees and experts say?

According to Heineken, the development of <IR> helps companies to look in a more detailed way at whether the companies will benefit equally from this development. For some companies, it is easier to make this link than for others. Whether this also has a positive effect on performance is not always straightforward, perhaps because this effect is caused by the process of Integrated Thinking. Moreover, the concept of <IR> provides a better long-term plan and can therefore indirectly contribute to better performance. "The process of Integrated Thinking and <IR> helps companies to map their value drivers."

The Dutch Ministry of Economic Affairs has stated that hard evidence of <IR> and performance is still lacking. This link is believed to exist and is similar to the link between ESG criteria adaptation and performance. <IR> could perhaps be a good indicator for performance, according to Martin Lok.

Also, Delta Lloyd mentioned that the possible relationship with performance should not be overestimated. The report is just a final product. The real change (and the possible link with performance) will always come through changes in the core processes. In this respect, it seems more logical to link Integrated Thinking with performance than with <IR>. Besides, the current way in which many organizations are structured often makes it difficult to integrate <IR> in the short term. The strategy of a company, and thus the method of value creation, KPIs and targets, will not be changed every single year. In the long run, <IR> can have a positive effect on the company's performance because <IR> maps the core values of a company. Embedding <IR> is a phased process and so the link with performance can only occur over time.

According to Carola Wijdoogen, NS, more research and time is needed. Due to the fact that NS is making the effort to monetize the impact with the aim to support better management decisions, NS needs more research to translate the impact analyses into information suited for internal decision making. It will therefore take a longer term to use for internal decision making. However the impact analyses already prioritizes the areas of focus for policy making and product development, such as the trains running on wind power, reducing our largest negative environmental impact.

KPN has been very active in developing a well-written and balanced integrated report, including integrated KPIs. At this point, there is no clear link to the business performance, although in many operations, sustainability is now built in, such as in building energy efficient data centers. This contributes to financial savings. An overall picture of the financial value of <IR> has not yet been developed.

Royal Bam Group also agreed that it is a challenge to make a direct connection between performance and <IR>. For example, there exists a direct link between sustainability indicators, such as waste and carbon emissions, and business performance. The process of Integrated Thinking, if properly integrated, will have a positive effect on the performance of a firm.

At Aegon, the main example mentioned is the positive relationship between efforts to increase employee engagement and having a high performing financial services company. This relationship has not been quantified, but there is a strong belief that in an industry that depends highly on human capital, greater engagement will result in better business performance. Therefore, managing Human Capital in an integrated way will contribute to a better financial performance.

At Nutreco, there was more pressure from shareholders on <IR>, but there was also a strong focus on short-term results. Being delisted from the stock exchange, the company feels it's able to develop a long-term strategy and integrating sustainability aspects into their daily business. By moving away from annual reporting and moving towards compiling and recording KPIs quarterly, throughout the year, information can be effectively used by managers in their routine quarterly business review meetings in a much more pro-active way using IR to manage real footprint reductions.

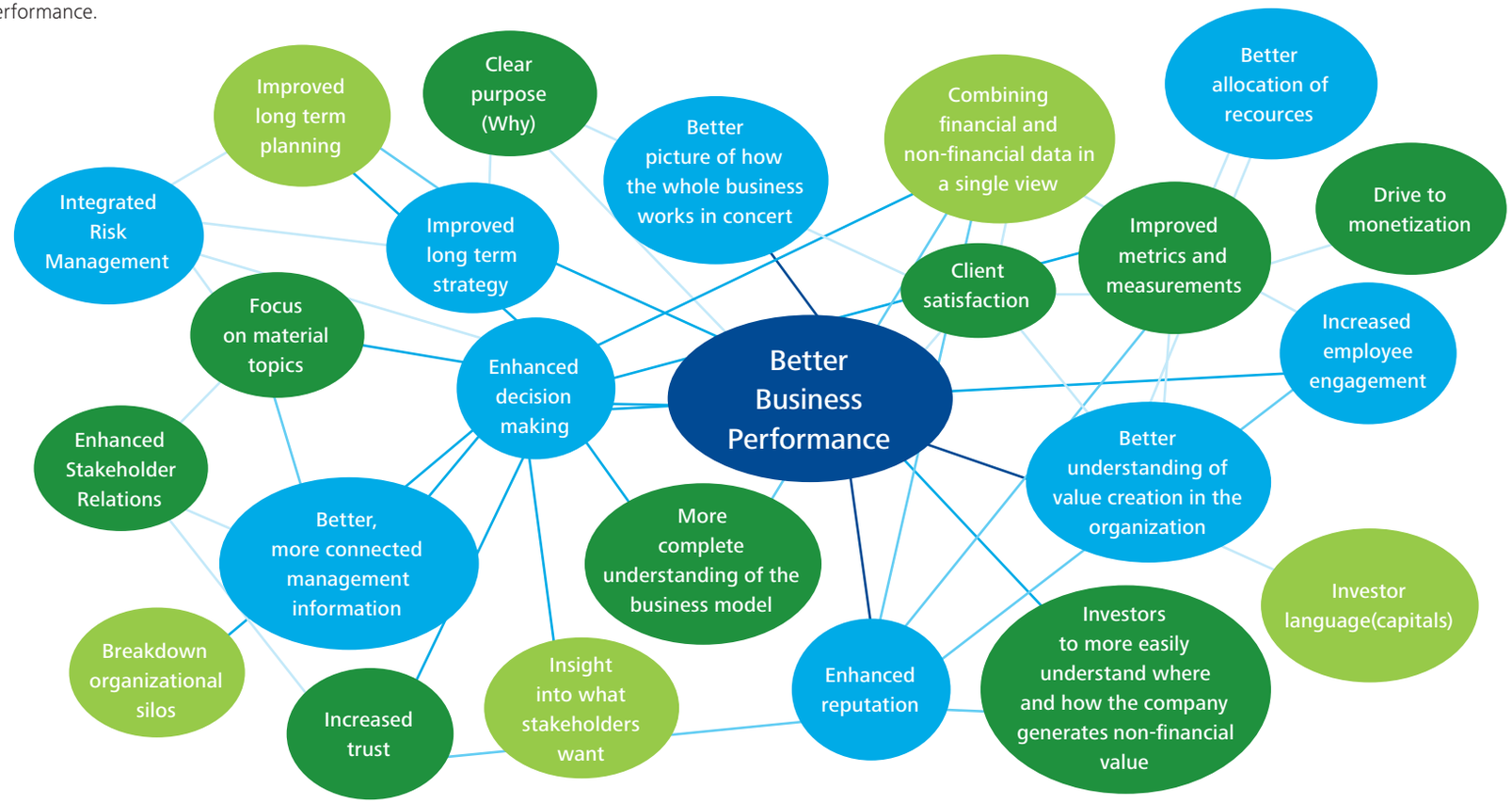
Marleen Janssen Groesbeek, professor of Sustainable Finance and Accounting, said that the causality is always hard to demonstrate, because many factors influence the performance of an organization. It should be determined first whether companies that adopt <IR> are getting a better perspective on how their organizations work.

In summary, most interviewees believe that there is considerable value from <IR> for a company and many of the aspects described have a direct or indirect connection to business performance or financial performance. They all would like to further embed Integrated Thinking into their business because that would be the main driver for better management decisions.

Because most companies have not yet started to measure the financial impact of non-financial information, there is no empirical evidence available of the relationship with business performance.

More academic research and better company data collection and monetization would help to support the hypothesis.

Based on the findings from the literature and the interviews, the following model shows how the various aspects of <IR> could be linked to Integrated Thinking and better business performance. Different aspects influence multiple drivers, which in turn lead to better business performance.



6.3 How do investors look at companies?

In the absence of extensive evidence base on <IR> in practice, companies will be encouraged to further develop <IR> and Integrated Thinking by a clearer understanding of what investors are looking for. Key drivers investors are using in analyzing a company stock are summarized in the following table.

Drivers investors	Revenues	Costs	Risk/Cost of capital
Main financial criteria	Proceeds from sales (mix of volume and price)	Cost structure (determining profitability)	Capital structure Exposure to risk (determine discount rate used to adjust future cash flows)
Relevant sustainability criteria	Innovation management Product stewardship Human capital development	Supply chain management Environmental management Occupational health and safety	Environmental management Corporate governance Risk management occupational health and safety

Source: Deloitte

As the overview presented shows, many sustainability criteria (linked to the <IR> capitals) are relevant to investors in valuing a company. This shows that investors already recognize a relationship between sustainability management, <IR>, and financial performance and valuation of a company. This view has been confirmed by multiple companies in the interviews held. NS added that non-financial indicators are at least as important as financial indicators for their stakeholders.

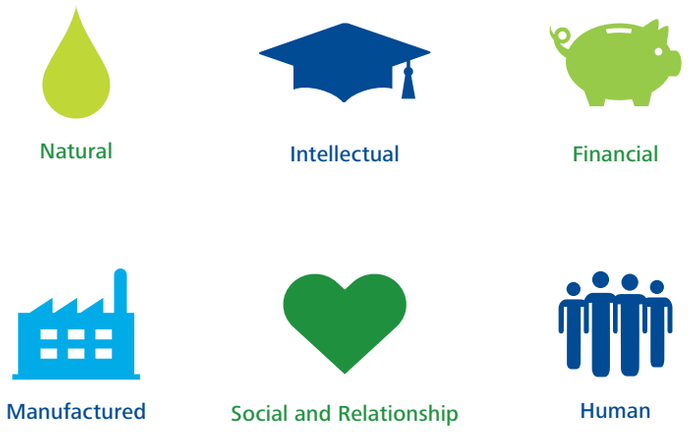
6.4 Managing and measuring value creation for all stakeholders

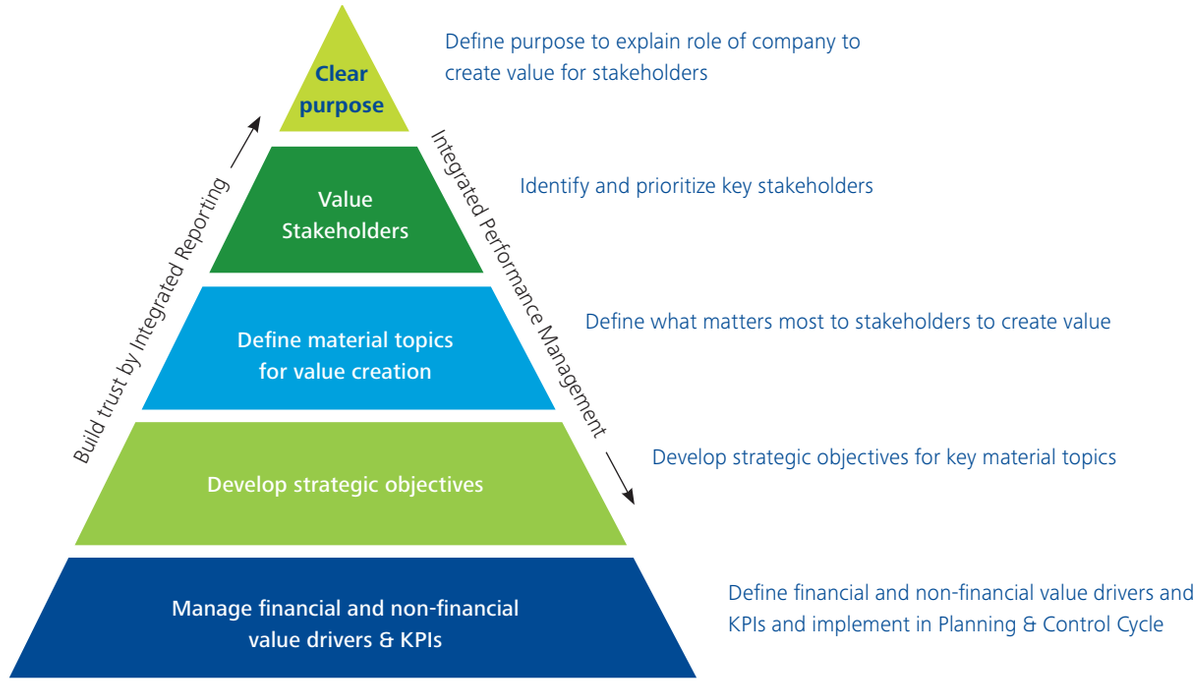
As many companies struggle to develop and manage the financial and non-financial KPIs for <IR>, a high level overview is given on how an Integrated Performance Management system can be set up.

The key process for <IR> is value creation in the short, medium, and long term, but it is challenging to measure and manage that value creation for all stakeholders. Heineken states that "The biggest challenge is how to measure material issues and how you quantify or monetize your value creation."

Before being able to report externally on how performance leads to value creation, a company needs balanced internal performance management, by integrating financial and non-financial performance to ultimately allow for excellent Integrated Reporting. To accomplish that, an organization needs a performance management framework that integrates financial and non-financial information and is in line with the strategy. Various levels of value drivers can describe a value creation process in detail and the purpose of the organization for all stakeholders. Value drivers are activities or an organizational focus that enhance the value of a product or service in the perception of the stakeholder and which therefore creates value for the organization. The balanced set of value drivers must be consistent with the strategy and contribute to the strategic purpose of the company. NS, being one of the frontrunners of <IR>, shared their vision on their areas of improvement for next year:

The 6 Capitals

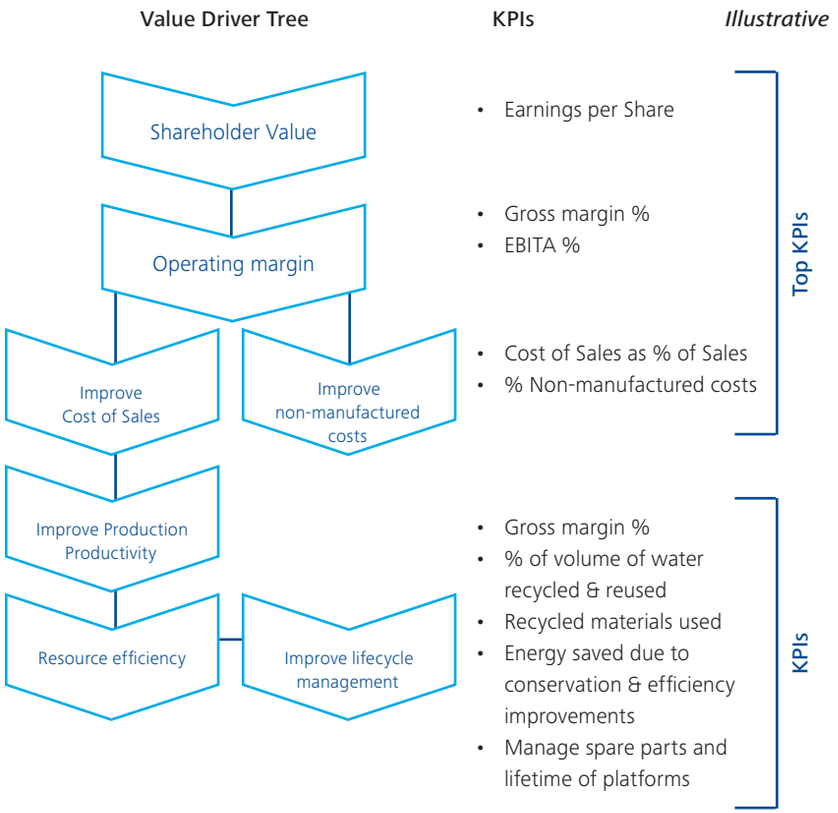




Source: Deloitte Netherlands

Once the important value drivers for the organization are determined, they can be measured using related Key Performance Indicators. A Key Performance Indicator is a conformed metric that is chosen based on its clear link to company performance. This enables improved performance management and leads to better understanding of the value creation process. Categorizing the value drivers by the six capitals from the International Integrated Reporting Framework articulates the relevance of the various input capitals for the value creation process and provides a holistic view of the organization. It also provides information on how well the six different capitals are utilized, which helps with choosing a managerial focus and future target setting[12].

Linking Financial Value Drivers to Non-financial Value Drivers and the related KPIs



"Although it is not a 'requirement' of <IR>, our improvement would focus on further monetization of societal impact analyses to use this in decision-making processes and stakeholder involvement. This information could further feed into other areas of <IR>, such as strategy and resource allocation."

Carola Wijdoogen, NS

[12] More information can be found on http://www2.deloitte.com/nl/nl/pages/audit/solutions/integreren-van-financieel-en-niet-financieel-performance-management.html

7 Assurance and <IR>

Based on the Deloitte <IR> Maturity Research conducted, it becomes clear that companies struggle with some Content Elements related to Integrated Thinking (keyfinding 4) and the timely collection of non-financial data (keyfinding 5). In fact, to work effectively towards higher quality Integrated Reports, companies must focus more on resource allocation, and following that performance management.

Assurance can help companies to address these challenges as it forces a company to formulate clearly formulated KPIs and set up a planning and control cycle. To facilitate this adequately, there is a need for data management systems to become more robust, as well. This in turn facilitates the data collection challenge that companies experience. However, the research showed that the scope and type of assurance varied considerably within the reports studied (keyfinding 6) and we know many companies have questions about the pros and cons of non-financial assurance. We therefore see a need for additional information regarding the need for assurance on Integrated reports, what it is, and how Deloitte sees the future of assurance on Integrated Reports.

7.1 Why assurance on <IR>?

Assurance is one of the most effective methods that a company can choose to add credibility and to build trust. In fact as IIRC states: "It is critical to ensure that the Integrated Reports are of investment grade quality".

An investor wants to know: Is the reporting on value creation described from the perspective of investors or from a broader stakeholder perspective? How complete and reliable is the information? Does the risk paragraph provide a fair representation? However, assurance is not only a must for investors. It is critical in realizing the benefits of <IR> as well, simply because if the IR process or the integrated report is not perceived to be credible or trustworthy, the benefits of <IR> are less likely to be realized.

"Improving the accuracy and reliability of non-financial information is a key success factor for the credibility of Integrated Reporting, therefore it is important to also embed non-financial KPIs in the planning & control cycle."

Frank Geelen, Deloitte

7.2 What is assurance on <IR>?

In a nutshell, assurance on <IR> focuses on whether the organization's integrated reports are prepared in accordance with the Framework. The Framework provides Guiding Principles and Content Elements that must be included in the report, but provides no detailed rules that must be followed when preparing the information. As a result, in most cases, the external practitioner that conducts the assurance provides assurance only on the accuracy of the numbers in the report. Consequently, it is up to the reader to determine if the quality of, for example, the strategy and performance meets his or her quality standards.

Similar to traditional assurance, companies can choose to obtain assurance at the reasonable or limited level. Reasonable assurance means that the independent party has gathered sufficient appropriate objective evidence to conclude that the subject matter conforms to the identified criteria. This type of assurance will always be formulated in a positive form. For example, "Based on the work we have undertaken, we conclude that the information in the Report is fairly presented, in all material respect, in accordance with the reporting criteria." Limited assurance focuses on gathering sufficient evidence to be able to conclude that the matter is plausible and is always formulated in a negative form. For example, "Nothing has come to our attention that would cause us to believe that the report has not been prepared in accordance with…." Furthermore, a company can choose the appropriate scope for the sustainability assurance. For example, they can decide to have a (limited set of) KPIs assured or (parts of) the integrated report.

However, just as <IR> is a rethinking of the reporting model and <IR> assurance requires a rethink of the assurance model, what we see now is that management commentary in the financial report today is only reviewed by auditors for consistency with the financial statements and knowledge of the entity acquired during the course of the financial audit. To what degree the sustainability information in the report is assured depends heavily on the defined scope. This may create an expectation gap as users of the report may not recognize the discrepancy between the assurance scopes.

Recently the IIRC published a report on this very topic entitled "Overview of feedback and call to action." This report highlights the ongoing debate on assurance and emphasizes the varied views, the challenges that lay ahead, and significant matters that must not be ignored in the assurance debate. For example, the implementation challenges, such as the competencies of the assurance practitioner, and technical challenges, such as the reliability of internal systems and the development of assurance standards, are broadly discussed.

'IR requires an integrated assurance process. The financial auditors will play an increasingly important role.'

Marco van der Vegte, Deloitte

7.3 Deloitte's view on future assurance developments

At Deloitte, we recognize that <IR> assurance is in no way a standard product that you can simply take down from the shelf. We believe that a proper <IR> assurance involves deep insight into ongoing processes and does not focus solely on the output of the report. Multidisciplinary teams that understand the business and the implications of the six capitals, approaching the audit in an integrated way, contribute to the aim of <IR> and is, in our opinion, a prerequisite. Just as <IR> is a journey, we envision an <IR> assurance journey as well. Engaging in more discursive audit report writing by these competent practitioners is, in our opinion, an important step forward.

<IR> is not solely the invention of stakeholders, NGO or accountants. <IR> is market-led. Hence it is Deloitte's view that the future of <IR> assurance should be determined by market demand and cost/benefits. For that to be an efficient mechanism, it is important that the market understand what it is getting. Nevertheless, what we see from our experience is that the challenge of user understanding regarding <IR> assurance should not be underestimated. The expectation gap regarding the scope of the assurance is a clear example of one of those issues.

Deloitte recognizes that standards play an important role in uniting auditors under a common set of guidelines. If existing assurance standards such as ISAE 3000 (or the Dutch assurance standard for sustainability reports COS 3810N) cannot be adapted to suit <IR>, a new standard will eventually need to be developed.

In the meantime, a combined assurance approach carried out by a multidisciplinary team through an integrated audit process can provide assurance on the accuracy of information on the six capitals. Furthermore, Deloitte auditors can bring credibility by examining the robustness of underlying management processes to assure that the integrated report is prepared in accordance with the IIRCs framework.

"Integrated assurance creates synergy and results in embedding and better steering on non-financial capitals."

Patrick Seinstra, Deloitte

8 Tips and tricks

Based on a study of the reports, we formulated the following tips and tricks to improve the integrated report that are worth addressing and thinking about.

As a suggestion on how the <IR> process can be managed within a given timeframe is presented in the figure "Managing <IR>".

Discuss the appropriate level of assurance with your accountant. Remember: it is a step-by-step process and see what is feasible now and over time.

Keep your reports consistent over time. This can help you to work continuously on presenting information in a concise and clear manner.

Keep the report attractive yet complete. This means striking the right balance between pictures and text. Be critical about both. What does it add? For example, case studies and examples are valuable additions to a report, but including too many could detract from the report itself. Focus on the key material issues and avoid giving information twice. Use online possibilities.

Find the right balance between qualitative vs. quantitative information. Evaluate whether monetization of the impact on the relevant capitals can support better decision-making.

Find a balance between ample disclosure and concise reporting.

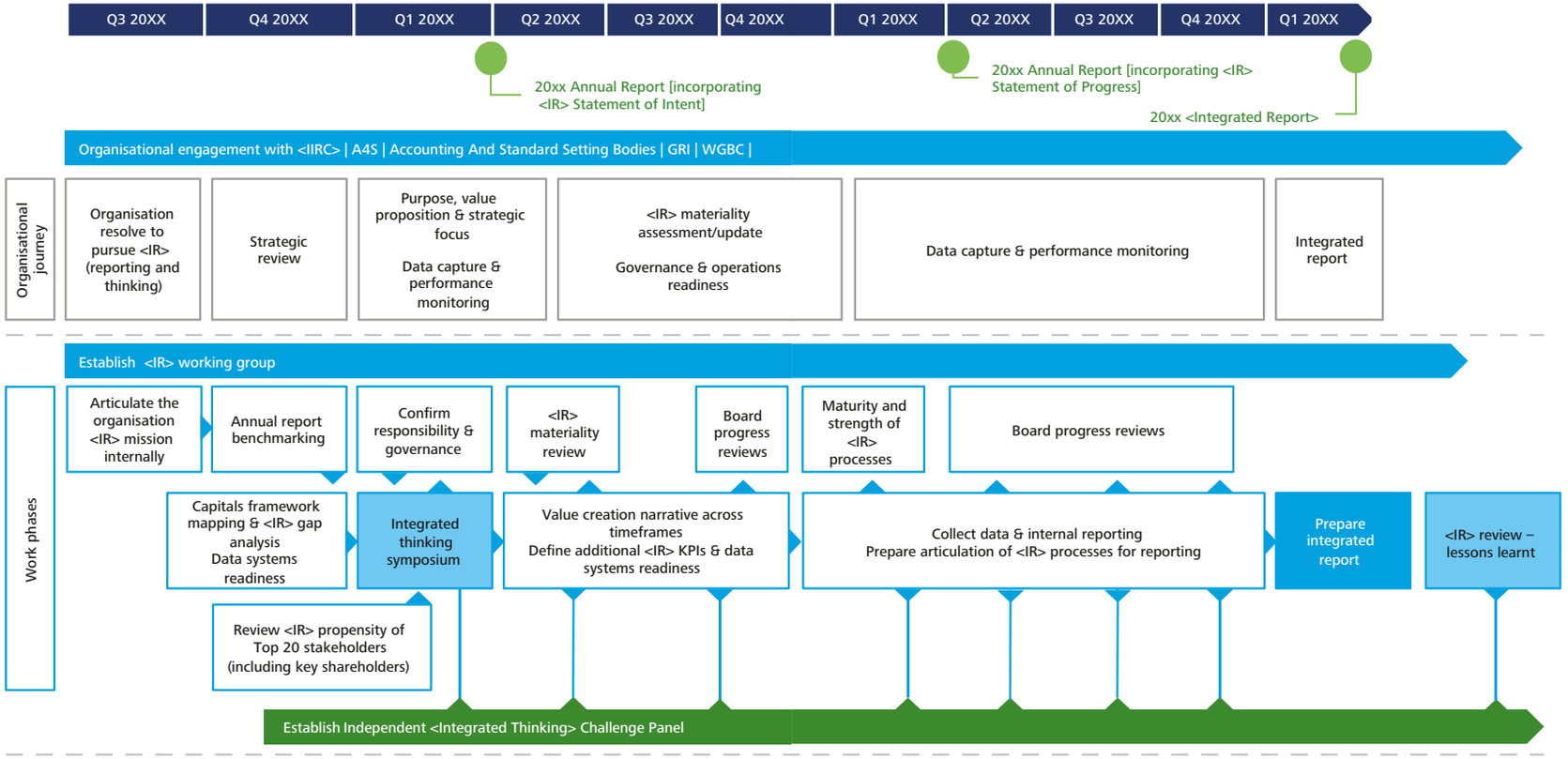
For better reporting on capitals, we suggest the following steps:

a Identify which of the six capitals are the most relevant for now and the future.
b Determine the level of availability, affordability, and quality of the capitals in the short, medium, and long term. Identify the key value drivers.
c Define KPIs for each value driver and identify if and how the KPIs can be measured and managed.
d Report on the relevant capitals and KPIs

Keep the description of the external environments such as trends and competitors concise yet specific for globally active companies that operate in various markets. Make sure your readers understand the challenges and opportunities arising from the external environment.

Present information such as the stakeholder process, materiality matrix, and business model in a comprehensible form as a picture. Many reports did not have these, whereas this greatly aids the purpose of <IR> and forces you to think these matters through.

Remember that the real challenge is not the report itself. It is the thinking that went into it, the adjustments in policy-making, the integration in the systems, the hours that went into the reliability and availability of non-financial data, and the internal audits.



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Annex 2: Our research Methodology

This research was intended to analyze the extent to which current public reports are aligned with the International <IR> Framework. Deloitte has conducted this study four years in a row.

Deloitte <IR> Maturity Model

Our methodology includes the requirements from the International <IR> Framework, as published by the IIRC. After publication of the IIRC Framework Deloitte developed the <IR> Maturity Model in 2014. This Deloitte <IR> maturity Model was used for the research conducted in 2014 and 2015. Making the results from both years comparable. With this model we are able to:

1 **Identify whether the companies are balanced in their reporting**
It is considered to be better for a company to make a decision about the maturity level that is appropriate for its reporting, rather than applying different levels of maturity across the <IR> principles and elements;

2 **Focus on improvement areas instead of the exact score**
The purpose of the research is to identify improvement areas for companies and to get some practical indications on progress, not to have discussions about the exact score. This methodology better facilitates this.

3 **Identify levels of maturity**
We have identified four levels (refer to the figure below) in our maturity model. With the International <IR> Framework and our methodology finalized, we are better able to compare results from year to year. This makes it possible to analyze developments and trends in corporate reporting.

Using the Deloitte <IR> Maturity Model, we scored companies based on the Content Elements and Guiding Principles of the International <IR> Framework as published by the IIRC. These Content Elements and Guiding Principles are explained in greater detail in section 2.1. To substantiate the various maturity levels, the guidance in the framework was used.

1 Starting the journey	2 Progressing	3 Leading	4 Innovating
Starting the journey of reporting non-financials, few elements of the International <IR> framework are visible.	Has started the journey towards Integrated Reporting through more strategic focus. The connectivity of information is still limited.	Advancing the reporting journey by visibly implementing to an extent the Guiding Principles and Content Elements in their report	The report is prepared in accordance with the International <IR> Framework. The report is connected and focused on value creation now and in the future.

Population

As in 2014, we analyzed the reports from Dutch publicly listed companies (AEX) and a limited number of additional Dutch companies. This led to a population of 30 companies with a balanced number of six companies in five sectors:

- Consumer business;
- Manufacturing;
- Energy resource and transportation;
- Technology, media & telecommunications;
- Financial services

Due to some developments in the corporate world, the list is slightly different from 2014. The overall list of companies and the industries is included in Annex 3.

For the Deloitte <IR> Maturity Research we have only examined the annual, sustainability or integrated reports of these companies. Any insights derived from the conducted interviews were not in any way included in the scoring of the companies.

Desk Study (Literature)

During the desk study, we will focus mainly on the differences and similarities of <IR> around the world, rules and regulations, and the relationship between <IR> and business performance. The main purpose of this desk study is to gain an understanding of where we are now and if there are any scientific developments that are worth mentioning.

Interviews

We have conducted interviews with all of the companies that score the highest in their industry. Furthermore, we interviewed some other top scoring companies and experts. In total, 10 interviews have been carried out. Any insights derived from the conducted interviews were not in any way included in the scoring of the companies, because these are solely based on the reports. The derived insights however were used to explain scoring, share best practices and identify (common) drivers and challenges.

Annex 3: List of industries and companies

Consumer Business
Ahold
Heineken
Nutreco
Randstad
Royal Friesland Campina
Unilever

Manufacturing
Akzo Nobel
ArcelorMittal
Royal DSM
OCI
Philips
Royal BAM Group

Energy Resources & Transportation
Boskalis
Fugro
NS
Royal Dutch Shell
SBM Offshore
TNT Express

Technology Media & Telecommunication
ASML Holding
Gemalto
KPN
Relx Group (former Reed)
Wolters Kluwer
Liberty Global (former Ziggo)

Financial Services Industry & Real Estate
Achmea
Aegon
Klépierre (former Corio)
Delta Lloyd Group
ING Group
Unibail Rodamco

“The world we have created is a product of our thinking; it cannot be changed without changing our thinking.”

Albert Einstein