

Linkage - a driver of integrated thinking



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Dear Reader,

We thought that it would be useful to focus on linkage for our third edition of our <IR> **Nexus**, as it seems that it's the least understood of the Framework's Guiding Principles, and quite a challenge for entities embracing <IR>.

We see linkage [and connectivity] as a driver of integrated thinking, and a useful tool to help stakeholders understand and trust decision makers.

So, what is linkage?

Linkage is not only between the entity and its external environment, it is also an internal challenge. While working with our clients on their <IR> journey, we find that the starting point - and often the main hurdle - is having clients connect their financial and non financial capitals, to work and think as one, to link-up.

I hope this paper brings some practical ideas and a few pointers that will help you stay connected.

Best regards

Ariane

Why is it important?

The implementation of <IR>, and integrated thinking, implies an ability to understand the linkages between strategy, the value creation model of the business and its performance indicators, amongst others. This connectivity enables investors and other stakeholders to understand where the business is going and how the thinking process is happening within the management of the company.

Reporting needs to evolve as expectations change, and we know that it's no longer about just profit. Non-financial KPIs that are measured regularly are therefore as important as financial KPIs; however, both should be integrated, realistic, and directed to factors that matter and make a difference to the organisation.

Linkage is also internal: we know from experiences shared how much <IR> helps in getting a holistic approach in the internal management of the business.



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Corporate Reporting Awards 2018

Inspiring Trust through Integrated Reporting

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More details on www.pwc.com/mu/cra

ClientTalk



“When we started our <IR> journey some years ago, we realised how challenging it was to bring together all our initiatives, decisions, and energy to serve the strategic objectives of a large and diverse group such as ENL. In our most recent strategic plan, we chose to focus strongly on goal alignment and monitoring, with a shared framework at every level of the organisation. It really makes a difference.”

Virginie Corneillet
Head of Corporate Services
ENL

Linkage - a driver of integrated thinking (cont.)

What are we seeing in the market?

Linkage is something we've commonly identified in annual reports as an area for improvement.

This is supported by the Jury findings of last year's Corporate Reporting Awards (CRA), which concluded that many reports were still aggregated in silos and did not connect between the various sections. We've also seen that sustainability reports or corporate governance were often treated in isolation. This can't be. If you are reporting in silos, does it mean that are you also working in silos?

We'd also hoped to see more of strategy shared with clarity for stakeholders to understand where the board is taking the business, how this is connected to its market drivers, its business model, its risk management and its performance.

Local trends - entities linking their strategy to:

	KPIs	Business Model	Risks
SEM10	17%	17%	33%
Other Listed	12%	4%	19%
Financial Institutions	40%	20%	20%
FTSE 100	48%	24%	32%

Source: Corporate Reporting Awards 2017

How do I ensure the linkage happens?

- **The first step is internal:** talk to your operations and understand the key metrics that drive their performance. These should be reflected in the organisation's management accounts, and any movements explained to the Board. Disclose same in the annual report.
- **Connecting all of it:** after you have defined your business model and shared your strategy, go back to the business model and think: 'Does it connect with my strategy and have I shown this?', then go back to your strategy and think: 'Does it connect with my business model? Have I covered all the aspects of my business model in it?'
- When preparing the annual report, start by performing a **gap analysis of existing content** against the key components of your business model, strategy, risks and KPIs; draw connections where gaps exist, either in content or terminology.
- **Illustrate** how your capitals interact with your organisation's strategy, value chain and KPIs – in a snapshot, a reader will know how your business works!
- **Cross-reference** the business model to other elements of the report, use consistent terminology throughout the report.
- Wider stakeholder engagement is critical; you'll need to focus on **reporting what matters** to them. You may include sustainability and other such reports as required by regulators. However, there is no need to publish them in full: focus on the material information impacting the organisation.
- **Move online and to digital platforms**, where the "engagement rate" is the KPI determining the success of interactivity. Leverage on social media to promote responsibility stories and innovative web content.
- Make sure that large **corporate contact options** are available online, including named contacts in specific areas.

Talk to us

We can help you in your <IR> journey in several ways:

Consulting

We accompany our clients on their <IR> implementation journey by providing practical guidance to help them implement integrated reporting in a way tailored to their organisation.

Training

We run various workshops for our clients, to help them understand the benefits of 'integrated thinking' and why they should adopt the <IR> approach.

Make a start.

Get in touch with our dedicated team.

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