Integrated Reporting:

What's your value creation story?

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Telling the real story

The need for better insight through reporting is hardly new. But the developments of the past year or so have brought corporate reporting into greater focus.

Disruptions are unprecedented, as Malaysian companies adapt to a volatile landscape marked by low earnings growth, digital transformation, and intensifying stakeholder scrutiny, accompanied by the change in government.

With the proliferation of alternative sources of information in the marketplace from blogs to stock investment portals, the need to build and maintain trust has never been more relevant.

During these times, corporate reporting is a powerful stakeholder engagement tool which can help you define your corporate story, and to fill the gap between what the market perceives of your organisation vs the actual state of how your organisation is creating value for its stakeholders.

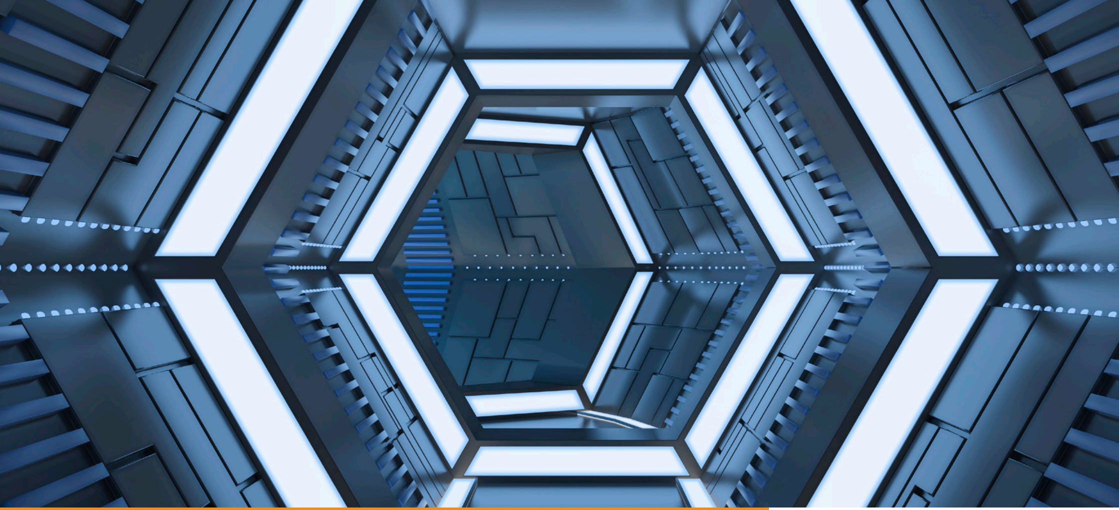
<IR> will help your organisation communicate how you do things differently, demonstrating authenticity to your stakeholders.

Integrated Reporting <IR> is the means by which the broader value drivers of a business are managed internally and communicated to investors and other stakeholders.

At PwC, we advocate good reporting through <IR> as a cornerstone to building trust.

"...trust is not an end goal in itself. Since the start of our (PwC's) Building Trust programme in 2015, we have been making efforts to encourage corporates to look at trust through a different lens – as an asset that can be measured, managed and nurtured to bring tangible gains to businesses in an environment of constant change."

Sridharan Nair,
Managing Partner, PwC Malaysia



Communicating value through <IR>

We have for the past few years, benchmarked the annual reports of the top 50 companies in Bursa Malaysia (based on market capitalisation) against the Integrated Reporting framework as published by the International Integrated Reporting Council (IIRC).

Our previous benchmarking exercise and what's happened since

In our last benchmarking report in 2016, we highlighted that some companies were beginning to incorporate some elements of integrated reporting in their annual report. This included a clearer linkage of KPIs to strategy, and inclusion of strategic priorities to enhance the credibility of vision statements. For the most part, however, companies still largely viewed corporate reporting as a compliance exercise.

Since then, Securities Commission Malaysia released the 2017 Malaysian Code on Corporate Governance (MCCG), a set of best practices to strengthen corporate culture, anchored on accountability and transparency.

In the new MCCG, Large Companies[1] are encouraged to adopt integrated reporting based on a globally recognised framework. As advocated by MCCG, the integrated report improves the quality of information available to investors and promotes greater transparency and accountability on the part of the company.

Additionally, Bursa Malaysia had issued guidelines requiring its listed companies to comply with sustainability reporting requirements from 2017 onwards, depending on the market capitalisation of the companies. MCCG 2017 also encourages companies to be more transparent and accountable in their reporting, to mitigate checkbox behaviour. Companies will need to provide alternative steps or actions that have been taken if they don't adhere to good corporate governance practices.

Our 2018 benchmarking exercise

In our most recent benchmarking analysis[2] of Bursa Malaysia Top 50 companies, we are delighted to see greater awareness and improvements in the quality of annual reports being published.

These include:

- Providing insight on Corporate Governance activities beyond boilerplate terms of reference
  - There is now greater clarity over the outcome of the company's governance process. We see a 30% increase in companies discussing the actual activities undertaken by the Board and its committees
- Disclosure of principal risks affecting the business
  - There's a 67% increase in companies disclosing principal risk(s) from management's perspective and mitigating actions. An added insight would be to relate these risks back to the company's strategy
- Inclusion of strategic priorities, enhancing the credibility of vision/ mission statements
  - We see an 18% increase in companies adding disclosures of their strategic priorities in achieving its ultimate vision
- Embedding sustainability into the overall business strategy
  - There's a 26% increase in companies discussing some linkage of their sustainability goals to their overall business strategy

We hope to see these metrics improve:

- Linking the company's business model to its value creation activities
  - The business model should elaborate the value that the company creates for its stakeholders
- Disclosure of KPIs and linking these to the company's strategic priorities
  - Clarity over how the company measures the success of its actions in achieving its strategies
- Discussing market trends and linking these to the discussion of strategic choices
  - In addition to discussing how market trends affect the business, the company should also discuss how these trends affect its strategic choices, such as key markets and customer segments it operates in

[1] Large Companies are companies on the FTSE Bursa Malaysia Top 100 Index; or companies with a market capitalisation of RM2 billion and above, at the start of the companies' financial year.

[2] Based on the latest available annual reports as at June 2018.

Frequently asked questions

Here are some questions that we frequently encounter on <IR> from our conversations with businesses.

What are the incentives to adopt <IR>?

Adopters have cited many benefits to <IR> adoption, including breakthroughs in understanding value creation, improving measures of success, improving decision-making and promoting long term decision-making, and abolishing silos by connecting departments and broadening perspectives. With this in mind, there must be buy-in from top management on the benefits of adopting the <IR> framework. This remains a key success factor for organisations to meaningfully realise such benefits.

Whilst greater transparency has its advantages, will the additional disclosures give away the preparer's competitive advantage?

The framework encourages transparency but does not mandate the level of disclosure. The level of disclosure of the <IR> content elements remains at the discretion of the preparers. Hence, the Board and management should be comfortable with the level of information being published.

However, in this digital age where information is available at the public's fingertips, organisations are no longer the sole keeper of certain information. Organisations have to compete with alternative sources of information like stock investment portals and public forums which may not provide an accurate picture of an organisation's financials and non-financials. There are cases where investor relation packs or analyst briefings may sometimes be more informative than annual reports.

To such extent that information is already disclosed, we urge preparers to include them in the annual report so that the organisation can craft a cohesive storyline on the business and use this narrative consistently across all communication platforms for their multitude of stakeholders.

Is Integrated Reporting also Sustainability Reporting?

The Global Reporting Initiative (GRI) website discusses sustainability reporting as synonymous with other terms for non-financial reporting; triple bottom line reporting, corporate social responsibility (CSR) reporting, and more.

On the other hand, <IR> combines the analysis of financial and non-financial performance, and hence has a wider scope than Sustainability Reporting. An integrated report is a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.

Will the adoption of <IR> in Malaysia be mandated?

The MCCG 2017 encourages Large Companies to adopt integrated reporting based on a globally recognised framework. An example of such a framework would be the IIRC's <IR> framework. There is currently no initiative to mandate the adoption of <IR> in Malaysia. We hope to see a market led adoption of <IR> to preserve the authenticity of reporting, as mandatory adoption may lead to a checkbox mentality amongst preparers. This may lead to the dilution of authenticity in the communication of the organisation's value creation story, which would defeat the purpose of adopting <IR>.

Where and how do we start?

Refer to the section "Making <IR> a success". Additionally, a good way to start would be to take stock of the internal information available, based on the content elements of the <IR> framework. Most often, organisations have the information readily available. However, you may need to collect certain data for newly identified measures of success once value creation activities are aligned.

Key findings

		2016	2018
Governance	Refer to culture, values and ‘tone at the top’ driving governance	80%	85%
	Provide any insight on Corporate Governance beyond boilerplate terms of reference	18%	48%
Performance	Explicitly identify KPIs	42%	40%
	Of those who link KPIs to strategy	30%	33%
Strategy & resource allocation	Disclose a strategic vision	86%	94%
	Of those who include strategic priorities	20%	38%
Organisational overview and external environment	Discuss market trends	84%	96%
	Of those who link this discussion to strategic choices	10%	31%

	2016	2018	
Business model	40%	50%	Make reference to their business model
	20%	19%	Of those who explicitly link the business model to value creation
Opportunities and risks	76%	90%	Describe the process by which risks are identified
	16%	83%	Report their principal risks
Outlook	64%	100%	Have a separate sustainability or Corporate Responsibility section
	32%	63%	Embed sustainability into their overall business strategy

Making <IR> a success

1. Having the right mindset, communicating consistency throughout your organisation

Organisations should be clear why they would want to adopt <IR>. Taking a checklist-driven approach may result in a report that does not convincingly and clearly communicate the value creation story of the organisation. Consistency of disclosure is important as <IR> is focused on the longer term outlook of the business.

Your reputation as a corporate citizen hinges on how well you represent yourself externally and internally to your stakeholders. This means being aligned in your words and your actions.

2. Buy-in from top management

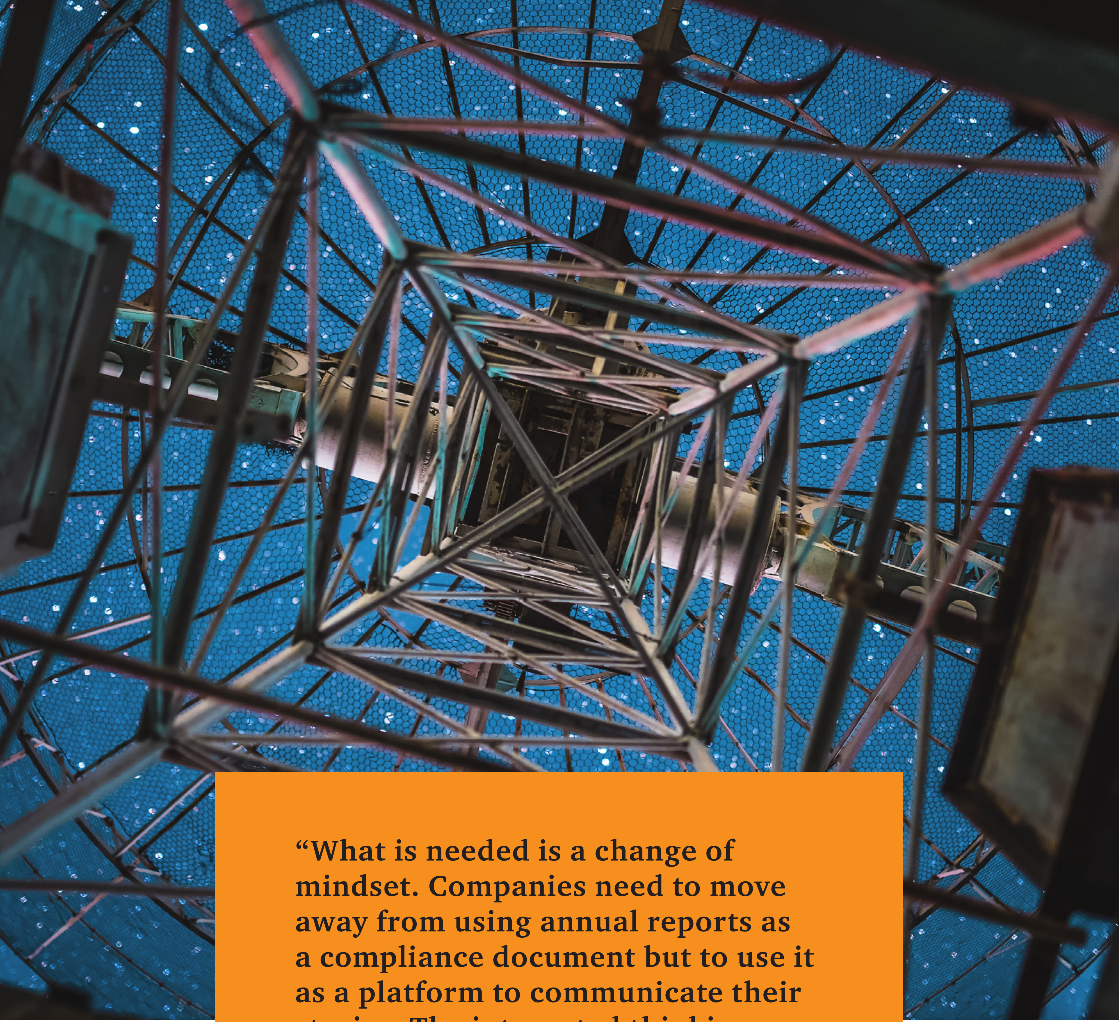
To embark on a successful journey, there must be enough support from top management, typically Board of Directors and C-Suites. This provides leverage to the working teams to overcome roadblocks and obtain consensus on the level of disclosures while giving them a channel to voice their concerns. The mandate to adopt <IR> should be clear and communicated across the organisation.

Promoting integrated thinking as a business culture is a good start, for instance, maintaining strict standards when responding to enquiries from various stakeholders including customers, the public and the organisation's own employees. Employee newsletters can be an effective internal communication tool to share a compelling vision of management's strategy with employees on the ground.

3. Working together, breaking silos

A cross-departmental working group is vital, to build consensus and align the organisation's value creation story. Instead of involving only corporate affairs, consider working with teams representing the various stakeholders of the organisation, such as talent management, legal and technology.

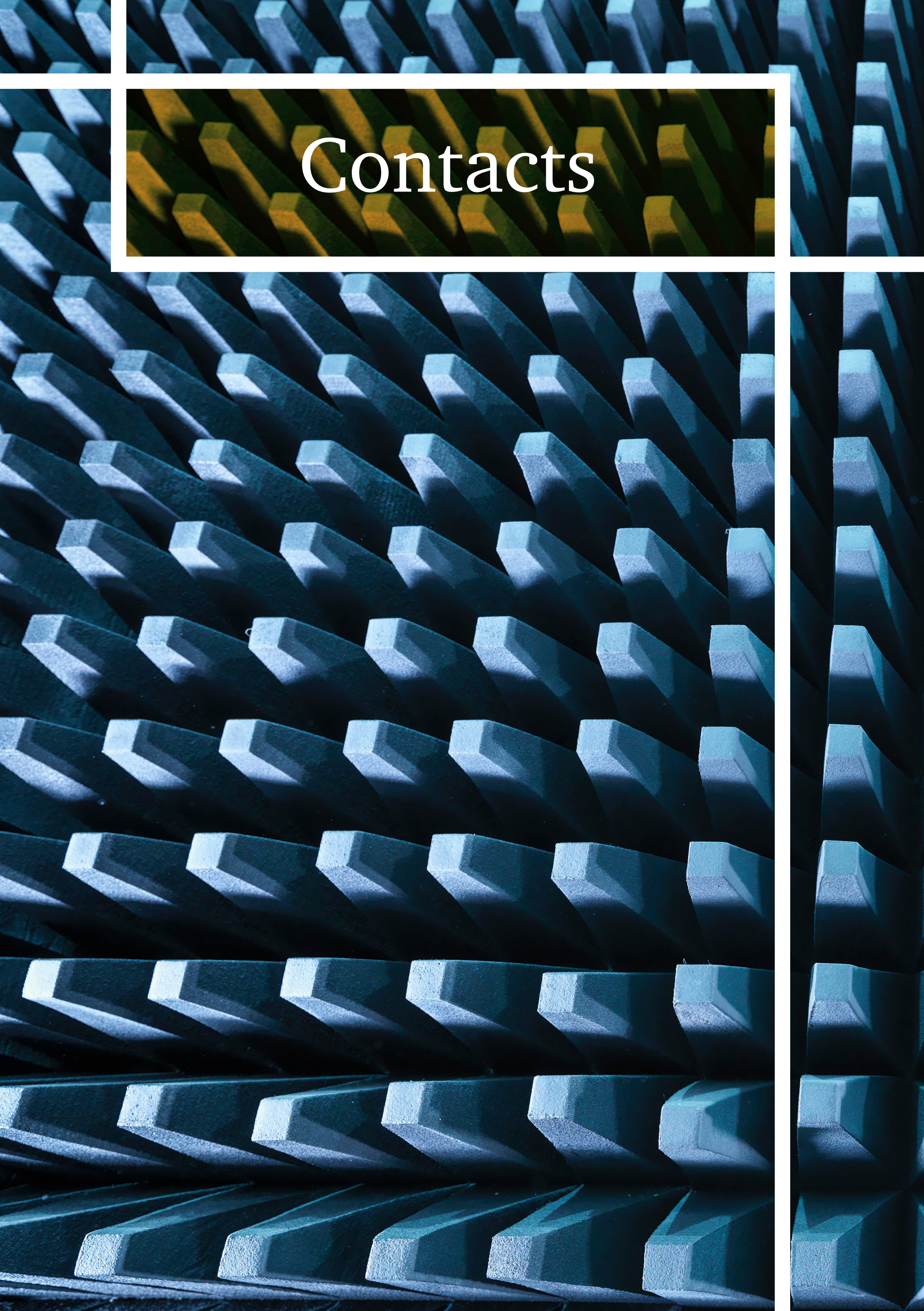
To achieve clarity and consistency in the messaging communicated in the annual report, involve your different internal stakeholders in the process and get their input on the key messages and storyline. In many cases, separate departments write their respective sections of the annual report, which is then compiled together at the end. This results in disjointed narratives within the report sometimes.



"What is needed is a change of mindset. Companies need to move away from using annual reports as a compliance document but to use it as a platform to communicate their stories. The integrated thinking approach will enable companies to communicate their long term value in a clearer and more succinct manner."

Pauline Ho,
Assurance and People Partner,
PwC Malaysia

Contacts



Pauline Ho
Partner
PricewaterhouseCoopers PLT
+603 2173 0946
pauline.ho@pwc.com

Tay Choon Ling
Executive Director
PricewaterhouseCoopers PLT
+603 2173 0558
choon.ling.tay@pwc.com

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