

Virtual Talk: Risk, Strategy and Governance

How Integrated Thinking Can Support Boards in Creating Long-Term Value

Enhancing Corporate Governance through Integrated Thinking

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Implementing Integrated Thinking and Reporting

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INTRODUCTION

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A collaboration between the Malaysian Institute of Accountants (MIA) and the Institute of Corporate Directors Malaysia (ICDM), this Virtual Talk discussed the development of corporate reporting around the world and the material impacts on corporate reporting in Malaysia in the years ahead. It also provides the benefits and relevancy of adopting integrated reporting and integrated thinking for board directors moving forward.

Societal demands and the evolving external environment are changing the risk and opportunities that boards need to assess today. The known values are changing and evolving, requiring a new way of thinking about value creation. Integrated thinking creates the connectivity between a company's strategy, governance, performance, and prospects in an integrated reporting process that impacts the running of the company's business. Long-term success comes from meeting the needs of the organisation's stakeholders, working effectively with the supply chain, customers, the society, and the environment in which it operates. The merger of the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) may accelerate the alignment in corporate reporting and the adoption of integrated reporting.

This executive summary captures the salient points presented by the speakers at the Virtual Talk.

KEY INSIGHTS & DISCUSSIONS

- 1 It is critical to understand how [value is changing and evolving](#) in today's world. Megatrends such as inclusive capitalism and long-termism, sustainable development, climate change, globalisation and interconnectedness, technological disruption and governance stewardship are [requiring new ways of thinking about value creation](#). The [Ocean Tomo Intangible Asset Market Value Study](#) highlighted that only 10% of the S&P 500 market capitalisation is accounted for by tangible assets as [intangibles](#) in terms of human, intellectual, social and relationships capitals [becoming more important](#), making integrated reporting and integrated thinking more relevant than ever.
- 2 Integrated reporting can be used as an [Environmental, Social and Governance \(ESG\) tool](#) for boards in [assessing risks and opportunity](#). The insights help boards make better informed decisions, providing a more holistic view, [shifting the focus from just financial performance to a broader emphasis on value creation](#) over the short, medium, and longer-term, as well as enable the organisation to better engage with and address the needs of key stakeholders.
- 3 Integrated thinking starts with having a clear understanding of your [business model and strategy](#), the [material risks and opportunities](#) of your organisation in the [changing business landscape](#), how you are [creating value](#) in meeting your [stakeholder needs](#), and how you are [communicating](#) all these factors in a way that matters to them.
- 4 Integrated thinking [drives connectivity](#) between the company strategy, governance, performance and prospects, creating a flow of information and communication through the organisation. It [breaks down internal silos](#) and gives both board and management a [full line of sight](#) of the business. Other benefits include:
 - Challenging the culture of short-termism
 - Driving connectivity across the organisation
 - Quicker response to new and emerging risks
 - Better understanding of the dimensions of value
- 5 Organisations need to [ensure that the information](#) in its integrated report are [material, meaningful and comparable](#) across markets and industries. It should provide relevant and meaningful disclosures that [help and facilitate the long-term view of investors](#). For example, the earnings per share information is less relevant and meaningful for BlackRock as compared to information on how the company is using its social capital, human capital and natural capital for the business to be sustainable and creating value over time.
- 6 It is vital for an integrated report to address the organisation's [commitment towards the six capitals](#): financial, manufactured, intellectual, human, social and relationship, and natural. The [Chairman's and CEO's statements](#) needs to collectively demonstrate the organisation's [commitment, long-term strategy and outcomes in relation to the capitals](#).
- 7 [Setting up a steering committee](#) involving all relevant departments will be helpful for organisations embarking on its integrated reporting journey. This may help [break the silo mentality and instil integrated thinking](#) while producing the organisation's first integrated report and to collectively understand the value of the IR framework.
- 8 An integrated report needs to [balance disclosures of both positive and negative outputs, outcomes and value creation](#). The organisation needs to be [honest and transparent](#) about the negative outcomes and disclose the mitigation action plan to reduce or prevent the same incidents from recurring in the future. Being transparent upfront will do more good than keeping stakeholders in the dark.

ACTIONABLE OUTCOMES
MOVING FORWARD



1 Challenge the management to embrace **integrated reporting and thinking** and thus, benefit from the exercise.



2 Link your **business model and strategy** to how you can create value to meet your stakeholders' needs.



3 Build trust and lasting relationships with **stakeholders** to co-create value and to enable long-term plan implementation.



4 Take ownership of **integrated reporting** as a management tool for monitoring and disclosing value creation.



5 Collaborate with the **management** in linking the stories, providing **meaningful** information to create a **comprehensive report**.



6 Ensure the **integrity and transparency of the report** in disclosing value creation and the organisation's strategies.



7 **Communicate** the organisation's premise of value creation and **become the source of reliable information** to pre-empt avoid rumours or fake news.



The framework does three things:

It is a framework for reporting.

It is a framework for integrated thinking for board and management.

It is a framework on how you bring your data and information together for effective decision-making.



Charles Tilley, CEO of International Integrated Reporting Council (IIRC)