Engaging with multiple capitals – examples for scalable transformation

Sarah Grey
Markets Director, IIRC
and Global Reporting & Assurance advisor, PwC
Who is using multi-capitals in practice?

- Over 1600 organizations do IR
- Over 50% of CEOs, CFOs and COOs are moving towards IR
- And over 35% say they will
- 2,000 participating in IR Networks worldwide
- 320 predicted to adopt IR in Japan
“integrated thinking is a symphony of the 6 Capitals”

Mervyn King, Council Chair, IIRC
The standard setters

Through <IR>, organizations can “address more clearly resources that are not included in financial statements. The increasing awareness that environmental and societal restrictions have an impact on long-term value creation is also clear”

Hans Hoogervorst, Chairman IASB
# Multiple capitals supporting standard setter alignment – Corporate Reporting Dialogue

## Scope of standard or framework through the lens of IR

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Financial capital</th>
<th>Manufactured capital</th>
<th>Intellectual capital</th>
<th>Human capital</th>
<th>Social and relationship capital</th>
<th>Natural capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDP’s Information Requests</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td></td>
</tr>
<tr>
<td>CDSB Framework for reporting environmental</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
</tr>
<tr>
<td>information and natural capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FASB Accounting Standards</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GRI G4 Sustainability Reporting Guidelines and</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
</tr>
<tr>
<td>G4 Sector Disclosures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Financial Reporting Standards</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ISO 26000 – Social responsibility</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
</tr>
<tr>
<td>Sustainability Accounting Standards</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Investors want multi-capital reporting – involved in co-creating <IR>

<IR> asks companies to report relevant KPIs on the long-term business drivers most important to them...

- The production base
- The staff base
- The customer base
- Wider stakeholder relationships
- Company know-how
- Brand and market positioning
- Productivity

... rather than reporting on every matter
Healthcare example

Primary Health Care (ASX: PRY) relies on attraction and retention of health care professionals (HCPs) to for its medical centre, pathology and imaging service assets.

Disclosure

- Strategic changes to HCP contractual arrangements designed to improve attraction and retention
- HCP attraction and retention rates
- HCP expenditure trends,
- tailored metrics on HCP attraction / retention rates for exposed business segments

Example of investor ask: Integrated disclosure human capital

“Organizations can enhance their contribution to the SDGs through integrated thinking and by using their integrated reports to communicate this - demonstrating how they have responded to the risks and opportunities of sustainable development.”

The SDGs, integrated thinking and the integrated report
IIRC, ICAS, Green Economy coalition - Authored by Carol Adams
<IR> is a useful tool for aligning SDGs with the value creation process.
Company progress and examples
Findings from IIRC/ACCA Report Critique project 2017

- Overall reporting on capitals improved
- Evidence of multi-capital decision making e.g., BASF and Anglo African
- Performance measures more consistent
- More companies measuring value created for others (as well as organisation itself)
- Significantly more integrated reports were externally assured – 46% 2016 > 60% 2017
- Some are using integrated report to start to demonstrate commitment to SDGs
Aegon – shows different capitals relied on and value created

Our value chain

Our capitals
In our business, we use different resources or ‘capitals’. This is not only financial capital from our investors and customers, but also human, intellectual and social & relationship capital from our employees and business partners.

Financial capital
Investors buy Aegon shares, bonds and other securities. This gives us the financial capital we need to run our businesses.

Human & intellectual capital
We use the skills, time and resources of our employees to develop, price and market our products and services.

Social & relationship capital
To sell our products and services, we rely on key relationships – with customers, intermediaries and other business partners.

Creating value
With these capitals, we create value for our stakeholders through our products and services, our investments, the tax we pay and the jobs we create.

Financial capital
To our customers, we pay out pensions, savings and insurance claims. We reinvest in our business and from profits, we aim to provide stable, attractive returns for investors.

Human & intellectual capital
We offer our employees a safe, productive workplace, pay salaries and benefits, and invest in training and career development.

Social & relationship capital
Through our products and services, we provide protection and peace of mind to our customers. We're a significant investor, a reliable business partner and support local communities.

Direct & indirect economic value generated
- €48 billion paid out to customers in claims, benefits and plan withdrawals.
- €721 million paid out to investors in dividends and interest payments.
- €2.2 billion in salaries and social benefits to our employees.
- €14 million spent on training and career development programs.
- €2.7 billion in commissions to financial intermediaries.
- €1.4 billion paid to suppliers.
- €644 million in taxes borne directly by Aegon.
- €9.9 million invested in local communities.

Explanatory note
This chart is based on the International Integrated Reporting Council’s (IIRC) six capitals: financial, human, intellectual, natural, manufactured and social & relationship. Each of these capitals represents a store of value, which companies use and transform through their business activities. It's important to remember that, during this process, capitals may increase or be depleted in value. For the purposes of our value chain, we've chosen the capitals most relevant to our business (financial, human, intellectual and social & relationship).

- Financial capital represents the funds to which we have access; this includes both debt and equity finance.
- Intellectual capital refers to institutional knowledge, innovation and research that developed within the organization. Human capital is different – it refers to individual knowledge, skills and capacities in our workforce.
- Social & relationship capital covers relationships developed both within and outside the organization. It includes relationships with customers, business partners and suppliers.

We’ve chosen not to include manufactured and natural capital. Neither are directly relevant to our core financial services business, though we may, of course, affect the value of these capitals through our investments (see page 31). For more information on our use of IIRC capitals, see our Reporting Supplement.
SAP Case Study

- Focus on 4 KPIs that have clearest connection with financial capital
- Reward is linked to the targets set for those KPIs - board responsibility
- Employee engagement is directly linked to customer satisfaction/ contract renewal – 1% change in employee satisfaction correlates to specific increase/decrease in revenues

You want to learn more about a specific connection? Simply open the sections below and find written explanations for every indicator and connection in the graphic.
A new era for Sasol

Managing Natural Resources

Our approach to managing natural resources includes strategic, cost- and carbon-efficient use of water and energy. This approach is complemented by our focus on sustainability, ensuring we are able to operate sustainably while maintaining high standards of environmental performance.

Developing People

The skills, experience, productivity, diversity and excellence of our people are what enable us to operate our facilities safely, reliably and efficiently, and to deliver our growth projects on time and within budget. In making our investment decisions, we assess whether we have the necessary skills in place and whether we are able to secure the necessary skills, if needed, to deliver on our strategic objectives.

Developing relationships with stakeholders

Enhancing relationships with our stakeholders, including our business partners, investors, customers, employees, shareholders, indigenous communities, shareholders, regulatory authorities, government and local authorities, is fundamental to achieving and maintaining our stakeholders' trust. We seek to build strong, long-term relationships with all our stakeholders to foster mutual understanding and support.

Driving Manufacturing Excellence

Our ongoing capital investments in our plants and equipment enable us to operate more efficiently, which increases our competitiveness and enhances the profitability of our business. We also invest in new technologies to maintain and enhance our existing assets and investing in new growth projects around the world.

Advancing Intellectual Property

Our intellectual capital assets include our knowledge-based resources, databases, know-how, software, systems, processes and products. We continue to invest in intellectual capital assets, including those that will support our future growth initiatives, and to align our operating policy with our intellectual capital assets in order to ensure that we are utilizing our intellectual capital assets to the best of our ability.

Optimising Financial Capital

Our financial capital investments in our business are used to fund our growth initiatives, meet our financial obligations and generate returns on our shareholders' investments. The investments we make are carefully analyzed and managed to ensure that they are efficient and effective. We are able to make informed capital allocation decisions and to invest in the most profitable and sustainable projects.
Kumba Iron Ore – intellectual capital

CAPITALS

OUR INNOVATION

The success of our business model is dependent on having the right people, in the right roles, informed by effective management systems and Company culture. Investing in these skills and systems requires sufficient financial capital, and will have a positive impact in developing our people. Certain processes and technologies can result in a reduced workforce, with implications for key relationships.

KEY INPUTS

- Technically skilled and experienced employees and external experts
- Operating Model providing a sequenced and repeatable set of work steps aimed at delivering the intended purpose of our teams’ work in the most efficient manner and invest in step-change technology
- Values-driven Company culture

OUTCOMES

- Investment in skills development: R275 million
- Investment in technical studies: R181 million
- Successful roll-out and stabilisation of the work management processes of the new operating model at Sishen North mine and pre-strip mining areas
- Roll-out of work management processes at the plant operations and maintenance areas, with the project set to go live early in 2016

ACTIONS TO ENHANCE OUTCOMES

There has been a strong focus this year in implementing the Operating Model across the group, to ensure that we have the best processes in place to deliver the revised business expectations established by management.

Human capital - what the research says

Research links human capital to improved performance

- Those with a diverse workforce enjoy greater market share and competitive edge, according to The Center for Talent Innovation
- 85% of CEOs from organizations with a formal diversity and inclusiveness strategy, said it had enhanced performance, says PwC’s 18th Annual Global CEO Survey
- Commission on the Future of Management & Management: call for employers to include broader people metrics and use <IR> Framework.
Resources

Integrated Reporting Examples Database
Sharing real examples of leading practice in integrated reporting to help organisations on the integrated reporting journey

The International <IR> Framework
Providing the principles and concepts for organisations adopting integrated reporting

<IR> Network
Bringing together organisations worldwide to enhance the way they think, plan and report.

www.integratedreporting.org
examples.integratedreporting.org