

Integrated Reporting for Public Sector

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“We suggest that adopting Integrated Thinking and Integrated Reporting along with sustainability-related reporting standards by the public sector are critical for strengthening the trust of citizens to democratic governments.”

Public satisfaction, with how democratic governments are functioning, has decreased since the mid-1990s and has been challenged further by the COVID-19 crisis. This is playing out differently across countries, including through low voter turnout, greater political polarization, and larger groups dissociating themselves from traditional democratic processes or expressing discontent through new types of protest. Beyond affecting social cohesion, this trend is increasingly hindering policy making and governments’ ability to address social and economic challenges, thus further increasing dissatisfaction with the functioning of democracies. Trust is needed more than ever in a world challenged by different forms of crises and transformations. Trust between citizens and governments and public institutions is very important for legitimacy and effective functioning of democracy.

The strengthening of trust in democracies should be a priority since strong democracies significantly contribute to **the respect of human rights** and to **increased trust in public institutions**. Trust also results in a **more transparent business environment** with **less corruption** and thus **more foreign direct investment** that contributes to **jobs, higher productivity**, and **economic growth**.

“Trust is the essence of good governance and foundation of sustainable development”

Adopting good governance and earning the trust of the citizens is the key to mobilize their resources towards a common vision. Good governance is culture and a climate where such a culture of trust flourishes. Implementing the principles of **C**onsistency, **R**esponsibility, **A**ccountability, **F**airness, **T**ransparency, and **E**ffectiveness that is **D**eployed throughout the organization and community (The “**CRAFTED**” principles of governance)¹ and its processes is the key for building trust.

¹ “Keys to Governance: Strategic Leadership for Quality of Life”, Palgrave Macmillan (2011), Dr. Yılmaz Argüden

CRAFTED Principles of Good Governance



Transparency in relationships is the key to earning that trust. Success requires **effective** utilization of resources entrusted to governments. Being **fair** and **accountable** to all the citizens are the keys to sustainability of access to those resources and being reelected. The communication and behavior of each institution influences not only how its own resources are utilized, but also those of its stakeholders. Therefore, **consistency** of the policies is key to ensure that right expectations are formed throughout the community, thereby making the whole society stronger. Value creation requires measured risk taking. Taking initiative and **responsibility** which naturally involves risk taking is a key element of value creation. However, especially in the public sector, costs of the risks taken may have intergenerational effects therefore interests of all current and future stakeholders need to be considered in decision making processes. Sustainability of success requires continuous improvement and innovation.

This in turn requires learning and the participation and involvement of all involved. Hence, creation of a climate which emphasizes good corporate governance principles and **deployment** of a good corporate governance culture is the key for improving quality of life and a sustainable future.

OECD has developed a framework to understand the main drivers of trust to the public institutions. The framework identifies five drivers of trust in two dimensions²:

- **Competence:** Government's responsiveness and reliability in delivering public services and anticipating new needs.
- **Values:** Government's principles of integrity, openness, and fairness.

² "An Updated OECD Framework on Drivers of Trust in Public Institutions to Meet Current and Future Challenges", Monica Brezzi, Santiago González, David Nguyen, Mariana Prats, OECD, OECD Working Papers on Public Governance No. 48, 2021

Details of these concepts are given below:

Dimensions	Drivers	Meaning
Competence	Responsiveness	<ul style="list-style-type: none"> • Providing efficient, good quality, affordable, timely and citizen-centered public services which are coordinated across levels of government. • Developing an innovative and efficient civil service in line with expectations of stakeholders.
	Reliability	<ul style="list-style-type: none"> • Anticipating needs and assessing evolving challenges. • Minimizing uncertainty in the economic, social, and political environment. • Effectively committing to future-oriented policies and co-operating with stakeholders.
Values	Integrity	<ul style="list-style-type: none"> • Providing open and accessible information to the public. • Consulting, listening, and responding to stakeholders, including through citizen participation and engagement opportunities that lead to tangible results. • Ensuring there are equal opportunities to be part of and participate in the institutions of representative democracy.
	Openness	<ul style="list-style-type: none"> • Aligning public institutions with ethical values, principles, and norms to safeguard the public interest. • Taking decisions and using public resources ethically, promoting the public interest over private interests while combating corruption. • Ensuring accountability mechanisms between public institutions at all levels of governance. • Promoting a neutral civil service whose values and standards of conduct uphold and prioritize the public interest.
	Fairness	<ul style="list-style-type: none"> • Improving living conditions (quality of life) for all. • Providing consistent treatment of businesses and people regardless of their background and identity (e.g., gender, socio-economic status, racial/ethnic origin).

OECD has conducted a survey in 22 countries to measure public institutions through the above framework. The surveys have been conducted in most countries in November–December 2021, while some have been conducted in 2020 and between January–March 2022³.

³ “Building Trust to Reinforce Democracy Summary brief presenting the main findings from the OECD Trust Survey”, OECD, 2022

The findings of the survey have important messages, showing that:

- **Public confidence is evenly split between people who say they trust their national government and those who do not.** On average, about four in ten people say they trust their national government (41.4%) and another four in ten (41.1%) say they do not.⁴
- **Governments are falling short of meeting people’s expectations on participation, representation, and responsiveness.** Fewer than one-third of respondents, cross-nationally, feel the political system in their country allows them to have a say in government decision-making, and a similar share of respondents believe that the government would adopt opinions expressed in a public consultation.⁵
- **Public perception of government integrity is an issue.**⁶
- **Generational, educational, income, gender and regional gaps in trust illustrate that progress can be made in enhancing participation and representation for all.**⁷

The level of trust is crucial for accessing resources in the relationship between states and citizens. Societies and sectors with trustworthy institutions can produce extensive, effective, and quick solutions thanks to the effective risk and resource management generated by trust. A strong culture of good governance is needed for building trust and an effective environment for cooperation. Good governance serves to assess risks early on, enables to make good quality decisions, helps effectively and efficiently manage resources and to achieve coordination as well as to monitor and improve procedures and processes⁸.

Public sector needs to deal with the citizens’ trust problem at the local level since the most intense interactions with the citizens are with local governments whose decisions and action have important effects on daily lives of the citizens. Local governments have an important role in improving the quality of life of citizens in city districts. Grassroots of democracy and participation also flourish at the local level as well. Democracy and the development of the quality of life need to be analyzed on

⁴ “Building Trust to Reinforce Democracy Summary brief presenting the main findings from the OECD Trust Survey”, OECD, 2022, p 2

⁵ Ibid p 2

⁶ Ibid p 3

⁷ Ibid p 3

⁸ “Metropolitan Municipality Governance Scorecard”, Dr. İnan İzci, Dr. Erkin Erimez, Dr. Merve Ateş, Argüden Governance Academy, No: 21 September 2022, <https://metropolitangovernance.argudenacademy.org/>

an urban level since about 50% of the world population lives in cities and cities are responsible for most of the economic activity as well as ecological impacts.

Trust for democracy could only be built by adopting a (i) **whole of society**, (ii) **whole of government**, and (iii) **whole the policy cycle** approach that focuses on (a) **informed, inclusive stakeholder engagement**, (b) **evidence-based decision making** supported by ex-ante and ex-post impact analysis, and (c) **integrated thinking** to support continuous learning.

The ‘whole of society’ approach requires first and foremost an appropriate ‘informed’ and ‘inclusive’ stakeholder engagement as different segments of the society may have different levels of resources to study and understand the potential impacts of government decisions and proposed regulations. Therefore, the government institutions need to (i) identify different groups of stakeholders, (ii) make sure that ex-ante impact analyses are conducted, (iii) make sure that all relevant groups of stakeholders are included in the stakeholder engagement process (inclusiveness), and (iv) that the results of impact analyses are communicated to all groups in a way that they would properly understand the potential impacts and raise issues if any during the informed engagement process. There are three critical benefits of informed and inclusive stakeholder engagement: (i) to better understand the sensitivities of various segments before taking a decision and (ii) to increase the potential to develop innovative solutions, and (iii) to gain the trust of all social segments.

“What is not measured, cannot be improved”

The Metropolitan Municipality Governance Scorecard⁹ model has been developed based on good governance principles. The model primarily aims to enable citizens to monitor the quality of municipal governance through publicly available information provided by metropolitan municipalities. One of the main aims of the project is supporting the building of trust between municipality and stakeholders⁹.

The model has been developed by considering approaches of *Citizen Centric Public Governance*, *Integrated Thinking*, *Good Governance Principles of Council of Europe and European Label of Governance Excellence (ELoGE) Indicators*, *UN Sustainable Development Goals (SDGs) and Vision*, *OECD Wellbeing Index*, *EFQM 2020 (European*

⁹ “Metropolitan Municipality Governance Scorecard”, Dr. İnan İzci, Dr. Erkin Erimez, Dr. Merve Ateş, Argüden Governance Academy, No: 21 September 2022, p 30 <https://metropolitangovernance.argudenacademy.org/>

Foundation for Quality Management) Excellence Model, Regulation, International Standards and Agreements.

The model allows citizens to observe the quality of the implementation of governance principles of transparency, accountability, representation and participation, inclusiveness and fairness, responsibility and responsiveness, effectiveness and efficiency, and consistency. The model has been implemented in Türkiye in 27 metropolitan municipalities¹⁰.

The findings of the study showed that there are four areas of focus to improve quality of life. These are¹¹:

1. Strengthening Sustainable Development Efforts and Improving Quality of Life

2. Improving Quality of Participation

3. Improving Quality of Information Sharing

Information sharing should cover inputs, processes, outputs, and outcomes including impacts. Provided information must be:

- Covering all dimensions (environmental, social, economic and governance)
- Covering all commitments for the future (accrual-based rather than cash-based accounting)
- Including all material impacts on different social groups of the society
- Explaining short-term impacts as well as potential long-term impacts
- Correct, complete, and accurate (consolidating all performances of institutions reporting to the local government)
- Accessible
- Understandable
- Explaining interaction between inputs, outputs, outcomes, and units in the organization

4. Strengthening Institutional and Administrative Capacity

¹⁰“Metropolitan Municipality Governance Scorecard”, Dr. İnan İzci, Dr. Erkin Erimez, Dr. Merve Ateş, Argüden Governance Academy, No: 21 September 2022, p 6 <https://metropolitangovernance.argudenacademy.org/>

¹¹ Ibid p 12–15

Also in 2022, an Integrated Municipality Governance Model[©] was developed and implemented with Şişli and Sultanbeyli Municipalities, to help prepare these pioneering Turkish municipalities for the European Label of Governance Excellence. The Model guides municipalities in evaluating their quality and performance of governance in terms of practicing good governance culture throughout their entire governing processes. The Model helped these two municipalities with their¹²:

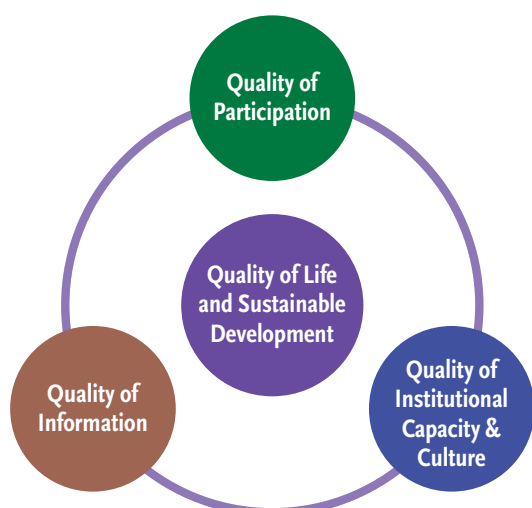
- Adoption of an integrated thinking approach in decision making and implementation processes through considering the potential impact of decisions and activities on various social groups from economic, social, environmental, and cultural aspects,
- Planning and implementation of municipal services, investment, and overall activities in an inclusive, fair, and responsive manner through improving the quality of participation,
- Transparency, accountability, consistency, and supporting participatory democracy through improving the quality of information,
- Effective utilization of resources and governing processes through improving the operational quality of municipal processes,
- Institutional learning and supporting the sustainable development efforts at the local level through the perspective of continuous development.

Together with the Municipality Governance Scorecard[©], where we analyzed the environment and culture within which governance in municipalities operated¹³, (the processes and culture of good governance) we have been able to not only measure, but also provide a road map to improve governance at local governments that could be utilized in other parts of the country and the world. It is important to note that while local governments' performances are more difficult to benchmark as performance is context specific, measuring and providing a road map for good governance to improve performance is transferable across geographies. Thus, focusing on 'How' rather than 'What' these methodologies were developed to enable their utilization in many different jurisdictions to improve quality of life.

¹² "Integrated Municipality Governance Model", Dr. İnan İzci, Dr. Erkin Erimez, Melis Türker, Argüden Governance Academy, No: 22 November 2022, p 5 <https://integratedgovernance.argudenacademy.org/>

¹³ "From a Citizen's Perspective: Governance Scorecard of Municipalities for İstanbul Districts", Dr. Yılmaz Argüden, Fikret Toksöz, Prof. Korel Göymen, Prof. Ersin Kalaycıoğlu, Assoc. Prof. Erbay Arıkboğa, Enver Salihoğlu, Dr. Fatma Ögücü Şen, İnan İzci, Argüden Governance Academy, No: 12 April 2018, p 7 <https://municipalityscorecard.argudenacademy.org/>

Quality of information provided to stakeholders is an important enabler of trust to the local governments. Information is key for effective participation, effective internal processes, capacity development, and designing a strategy for sustainable development and quality of life.



The framework proposed by ISSB’s Disclosure Drafts (both general and climate related disclosures) can be used as a guide in reporting the performance of local governments. When the scope of disclosures of ISSB’s exposure draft have been analyzed there are four areas of disclosures¹⁴:

- **Governance:** Focuses on mechanisms, controls, procedures that have been used by the institution.
- **Strategy:** Focuses on handling sustainability related risks in institutions strategy and how these have been aligned to strategy to create value in short, medium, and long term.
- **Risk Management:** Focuses on how risks have been identified, monitored, and mitigated in line with the institution’s strategy.
- **Metrics and Targets:** Focus on how the institution is performing according to its strategy and goals through evidence-based manner based on the information.

All these issues must relate to financial performance and position of the institution which is critical for resilience. Financial performance and position are also critical for accountability reasons in public institutions.

¹⁴ “[Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information”, IFRS Sustainability, ISSB, March 2022, p 23–30 and “[Draft] IFRS S2 Climate-related Disclosures”, IFRS Sustainability, ISSB, March 2022, p 32–43

This disclosure could be helpful to **Improving Quality of Information Sharing** in local governments through providing a useful framework for making transparent and effective disclosures for communicating sustainable development efforts including the financial impacts on financial position of the local governments.

IFRS and ISSB have stated that they support Integrated Reporting. Integrated Reporting is a communication tool about value creation for all stakeholders of an institution. It is based on integrated thinking. Integrated thinking focuses on interaction between inputs, outputs, and outcomes. It connects different parts and units of an institution and supports collective and participatory decision making for creating value in short, medium, and long term for the whole value chain. Good governance practices enable implementation of integrated thinking in the organization.

Outcomes are important in the public sector. Implementation of integrated thinking and preparing Integrated Report can help demonstrate both output and outcomes which are critical for achieving long term policy goals. Integrated thinking can help to create a common understanding where silos are minimized and effective decision making and information flows can be enabled¹⁵.

Implementation of integrated thinking approach in management and reporting will be useful in adopting a holistic perspective in decision making through considering the interactions between priorities, resources, parts, outputs, and outcomes. Therefore, the public sector leaders need to adopt a whole of government, whole of society, and whole of decision making and implementation processes approach for more effective performance and building trust. We should not miss the point that short term performance is not the only result of our decisions, how we take the decisions and implement them are also critical in a world of repetitive games, especially for building trust which is critical for effective resource utilization and risk management in the long term..

There are two basic priorities of any official who assumes a responsibility to make and implement decisions that utilize others' resources and have an impact on others: (i) protecting the assets entrusted upon him/her and (ii) creating value with those assets.

¹⁵ "Integrated thinking and reporting, Focusing on value creation in the public sector, An introduction for leaders", CIPFA and World Bank Group, 2016, p 7

Among the assets entrusted upon decision makers are people, financial, physical, and natural assets, as well as social and intellectual assets. Therefore, paying attention to the health and safety of the people, protecting the value of financial, physical, and natural assets as well as the intellectual and social capital of the organization is the responsibility of the officials.

One is elected or appointed to a position not only to protect the assets, but also to create value. Impacts of the decisions have different impacts not only on each asset class, but also on different stakeholders as well. Unless the decision makers measure and consider different impacts for different stakeholders and share the material impacts in a transparent manner, it would be difficult to gain the trust of the stakeholders and find better solutions, as what is not measured, cannot be improved.

Integrated reporting would be a useful tool for showing how value is created in alignment with information requirements with ISSB's framework for local governments.

The first municipality to adopt Integrated Reporting in the world has been the Kadıköy Municipality, a district municipality of İstanbul Türkiye, who has prepared two Integrated Reports for its operations in 2018¹⁶ and 2020¹⁷ according to the Integrated Reporting Framework. These reports have shown value created for different stakeholders in a concise, connected, holistic, and understandable manner in comparison to standard reporting approaches according to annual report preparation rules.



Preparing concise and understandable reports could help communicate with all groups of stakeholders and improve transparency and accountability. Improved transparency and accountability would help to improve trust to the local governments.

¹⁶<https://arge.com/wp-content/uploads/2018/12/Kadikoy-Municipality-First-Integrated-Report.pdf>

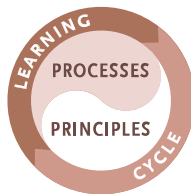
¹⁷<http://www.entegreraporlamatr.org/tr/images/pdf/Kadikoy-Belediyesi-2020-Entegre-Rapor.pdf>

In summary, the quality of decision-making in the public sector affects the quality of life of the citizens. In order to keep up with the emerging needs, global developments, and improve public trust, we need to include data-based impact analyses, consultation processes that ensure informed and inclusive stakeholder engagement, and post-regulation evaluation that brings a culture of continuous learning and accountability into action.

Improving the trust of citizens is key to improve the quality of life and to achieve a sustainable future. Public sector's adoption of Integrated Reporting would be a good milestone for this purpose.



<https://integratedgovernance.argudenacademy.org>



MUNICIPALITY GOVERNANCE SCORECARD

<https://municipalityscorecard.argudenacademy.org>



<https://metropolitangovernance.argudenacademy.org>



ARGÜDEN GOVERNANCE ACADEMY

Good Governance for
Quality of Life

Argüden Governance Academy is a non-profit foundation dedicated to improve the quality of “governance” by increasing trust for the institutions to help build a better quality of life and a sustainable future.

Academy’s **Purpose** is: Improving quality of life and sustainability of the future.

Its **Mission** is: Improving quality of governance to improve trust for organizations.

Its **Vision** is: Being ‘a center of excellence’ for development and widespread adoption of good governance culture.

And the **Target Audience** is: Leaders of private sector companies, NGOs, public institutions, and international organizations; as well as individuals of all ages, from 7 to 77.

The Academy conducts education, research, and communication activities, and collaborates with local and international think-tanks, NGOs, and organizations to promote good governance.

Argüden Governance Academy is committed to play a pioneering role by adopting “Integrated Thinking” and “Good Governance Principles” in all its work and stakeholder relationships.

The Academy aims to:

- Ensure that good governance is adopted as a culture,
- Raise the understanding of “the key role of good governance in improving quality of life and sustainability of the planet”,
- Guide the institutions by developing methods to ease the implementation of good governance principles,
- Inspire future leaders by promoting “Best Practices” of good governance,
- Increase the next generation leaders’ experience of good governance,
- Disseminate global knowledge and experience at all levels of the society with a holistic approach,
- Become “the right cooperation partner” for the leading institutions in the world by creating common solutions for global issues.

The Academy advocated “Integrated Thinking” during Türkiye’s presidency of the G20 and adopts this culture in all its activities.

Argüden Governance Academy became the first non-governmental institution in the world to report its work as an Integrated Report since its founding.

The Academy has been accredited by the Council of Europe to lead the awarding process of the European Label of Governance Excellence in Türkiye.