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'But does sustainability need capitalism or an integrated report' a commentary on 'The International Integrated Reporting Council: A story of failure' by Flower, J.

Ian Thomson *

Heriot-Watt University, United Kingdom

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ABSTRACT

This commentary analyses the paper by John Flower that critiques the sustainability of the IIRC proposed framework for Integrated Reporting. This commentary largely supports the criticisms and conclusions of this paper and provides some additional insights into the possible impact of Integrated Reporting.

"One report to rule them all. One report to bind them. One report to integrate all and in the darkness blind them" The Author with apologies to Tolkien.

1. Introduction

Flower (2014) offers a comprehensive analysis of the IIRC project and arrives at the pessimistic conclusion that it will fall substantively short of its original objectives. Flower's critique is based on a comprehensive content analysis of key IIRC documents. His analysis identifies a shift away from its founding sustainability infused objectives to a weak, diluted, business-as-usual reporting framework embedded within an explicit capitalist ideology. Tracking subtle (and not so subtle) changes in the Integrated Reporting narrative Flower clearly demonstrates that Integrated Reporting in 2014 is a far cry from the Integrated Reports envisaged in 2009.

The scope of Flower's analysis is diverse, and at times idiosyncratic, drawing on conventional theories of financial reporting, regulatory theory, agency theory, Kantian ethics, decision-usefulness, stakeholder theory, capitalism, political economy and even insights from the wisdom of a Baseball Hall of Famer.[1] Whilst it would be easy to dismiss Flower's critique on the basis of his unconventional, almost scattergun, theoretical framework, this would result in overlooking a set of critical

* Tel.: +44 0131 451 4342; fax: +44 0131 347 8918.
E-mail address: Ian.Thomson@hw.ac.uk

[1] Yogi Berra was elected to the Baseball Hall of Fame in 1972 and one of the all-stars of US Baseball as a player and manager. He is also as famous for his 'yogiisms' see the 'Yogi Book: I didn't really say everything I said' (2010). He was also voted in 2005 as one of the 50 wisest fools of the past 50 years by The Economist.

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insights into a complex, multi-dimensional, fast-moving object of study. Flower's identified a number of serious contradictions between the IIRC objectives and the emerging practices and despite the lack of a coherent theoretical framework it is difficult to disagree with his conclusions. In this commentary, I highlight a number of areas that largely complement Flower's main thesis that IIRC has been professionally captured and can no longer claim to be a credible form of sustainability reporting.

2. IIRC and integrated reporting: intentions and contradictions

It is difficult to argue against IIRC's objective to create a globally accepted reporting framework which integrates financial, environmental, social and governance information in a clear, concise, consistent and comparable format. The shift from a single to a multiple capitals with a future rather than a historic orientation is consistent with research that challenged the value (and values) of conventional annual reporting. This commentary does not dispute that an Integrated Report could improve corporate reporting, but similar to Flower (2014), questions whether it can achieve the following environmental and social objectives.

> *"Integrated Reporting demonstrates the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, Integrated Reporting can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing."* (http://www.accountingforsustainability.org/connected-reporting[2])

It is impossible to predict with certainty the future impact of Integrated Reporting. However, the Integrated Report is the latest in a long line of proposed reforms to Financial Reporting and bears similarities to The Corporate Report (ASSC, 1975), Corporate Social Accounting (Estes, 1976), Making Corporate Reports Valuable (ICAS, 1988), The Greening of Accountancy (Gray, 1990), and more recently the Global Reporting Initiative and Connected Reporting Framework (Hopwood et al., 2012). Despite developments in corporate social, environmental and ethical accounting there is very little evidence that these initiatives have substantively reduced the negative social and environmental impacts of corporations and other social institutions (Gray, 2002, 2010). In the words of Yogi Berra, Integrated Reporting appears to be deja vu all over again.

Therefore it is important to ask how Integrated Reporting differs from these previous developments and whether IIRC have learned how to avoid the pitfalls experienced by standard setters, professional institutes, practitioners and reported on by researchers. Flower's analysis based on his extensive knowledge of the accounting research literature suggests the Integrated Report is unlikely to significantly reduce the unsustainable consequences of corporate actions. Solomon and Maroun (2012) have already flagged this specific concern.

> *'Although the concept of an integrated report should embed sustainability reporting into the heart of the primary corporate reporting vehicle, the annual report, this does not necessarily imply that the reporting will fulfil its potential for transforming corporate behaviour or will not produce merely empty rhetoric'.* Solomon and Maroun (2012, p. 14).

Flower's paper correctly problematises the incompatibility of conventional reporting practices, the business case, investor dominance, capitalism and sustainability. The extent of the transformation sought by the IIRC is apparent when you are welcomed to their website with the following quotation:

> *"Capitalism needs financial stability and sustainability to succeed. Integrated Reporting will underpin them both, leading to a more resilient global economy"* Jane Diplock, Singapore Exchange.[3]

The proposition that sustainability is subordinate to capitalism is highly controversial and strips sustainability of its radical vision. Integrated Reporting appears to relegate sustainability to a footnote of contemporary neo-liberal governing, similar to Orsata and Clegg (2005) description of ecological modernisation as another neo-liberal ideology dressed up in green camouflage. Integrated Reporting reduces sustainability into five sources of corporate value, but sources of value that need to be better managed in order to increase the wealth of individual investors not society's prosperity.

3. Integrated reports and organisational change

The Integrated Report is an accounting practice intended to govern novel risks that confront corporations (Miller et al., 2008) and included in these risks are elements of the scientific and political sustainability discourses (see Bebbington and Larrinaga, 2014). Therefore the Integrated Report could be considered to be an accounting-sustainability hybrid practice (Bebbington and Thomson, 2007; Thomson et al., 2014) that builds on the strengths of accounting, such as robust quantitative evidence gathering, relevance, materiality, reliability, comparability and assurability, to translate the sustainability discourse into a "language" understandable to organisational decision-makers. Integrated Reporting could create greater visibility and knowledge of the financial consequences of consuming capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and provide a different lens to re-evaluate organisational practices

[2] Accessed March 2014.
[3] www.theiirc.org (accessed March 2014).