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The International Integrated Reporting Council: A call to action

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ABSTRACT

This paper sets out the case for integrated reporting and its potential to change the thinking of corporate actors leading to the further integration of sustainability actions and impacts into corporate strategic planning and decision making. It calls for academics to engage with the process and to contribute to the development of new forms of accountings to help ensure this potential is reached. It suggests areas of further research to facilitate this. The paper was written in response to John Flower's paper titled "The International Integrated Reporting Council: A story of failure."

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1. Introduction

Implementing integrated reporting requires the development of new accountings and management processes. And at the time of writing scarcely enough time has passed for the first reports to be prepared which follow it. So whilst it may be of interest to assess the content of the International <IR> Framework (IIRC, 2013a) released in December 2013 against previously stated objectives, it is certainly much too early to assess its success or failure, however that might be measured.

Flower's focus in critiquing integrated reporting is on the extent to which it addresses sustainability. It is not the main purpose of integrated reporting to do this. Rather, we are perhaps witnessing the early stages of widespread promulgation of a different way of thinking about corporate success and reporting. What integrated reporting becomes as time passes is, to some extent, dependent on (critical and sustainability) accounting academics as actors in a process that has the potential to lead to profound change.

Adams and Whelan (2009) suggest that research concerned with corporate social disclosure should take as given that changes in disclosure patterns are governed by a concern with profit maximisation. The paper suggests that the potential of integrated reporting (or any other driver) to effect change depends on the extent to which it creates a source of dissonance significant enough to change the way managers think within the constraints imposed on managers to maximise profit.

Without idealism (something Flower, appears to be critical of) and worthy intentions integrated reporting would not have got off the ground. Its attempt to encourage mainstream accountants to think longer term, consider what value means, to whom and to acknowledge the role of staff, broader society and the environment in creating it, is bold and surely worthy. There is a role for critical accounting researchers in providing a counter force to those who would try to ensure such efforts result in nothing more than business as usual. Talking amongst ourselves will not do it, yet only a handful of academics submitted responses to the IIRC's consultation draft.[1]

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[1] See http://www.theiirc.org/consultationdraft2013/ [accessed 20.03.14]. Academic respondents are few in number, but include John Flower and myself.

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The extent of support of the professional accounting bodies for a form of reporting which considers value and the business model in anything other than monetary terms is perhaps a little surprising, and itself worthy of further research. The ACCA, CIMA and CPA Australia have already produced integrated reports and the ACCA and CIMA have announced that they are including integrated reporting in their professional syllabi. Following the arguments of Adams and Whelan (2009) this support of professional bodies in itself has the potential to change the way CFOs think, encouraged perhaps by a desire to be respected professionals.

At the time that the IIRC was established, the governing bodies of the Global Reporting Initiative (GRI) did not include investors who were first allocated places on the Stakeholder Council in 2013.[2] Whilst the GRI had made some progress in encouraging companies to measure historical impacts on the environment, society and economies, it did not set out to encourage businesses or investors to consider the value to business or its stakeholders, of doing so. Further, seventeen years after the formation of the GRI, the integration of sustainability considerations into mainstream decision making, reporting and performance management has arguably been limited or at best slow and patchy (Adams and Frost, 2006, 2008). Corporate initiatives on sustainability were gaining limited traction at senior levels and there is a view, which I share, that integrated reporting can help. For example, the United Nations Global Compact LEAD[3] submission to the Consultation Draft of the International Integrated Reporting <IR> Framework[4] noted:

> "The business case for sustainability can often be difficult to measure and share... integrated reporting has the potential to connect financial disclosures with sustainability in a way that makes them more relevant for a broader audience... and... this greater level of integration of reporting practices encourages and supports the integration of sustainability in strategic planning, decision-making and operations."

To my mind it is the necessity of getting senior executives and Board members to think (long term) about their business model, how they create value and to whom, material issues, risks and strategy together which gives integrated reporting the potential to effect change.

Chief Financial Officers focussing on short term financial gains and cost cutting, supported by accounting and reporting requirements that privilege financially quantified information, have been a stumbling block. They have tended to see social and environmental sustainability initiatives as an unnecessary cost rather than as a moral obligation or a benefit. Further, they have ignored sustainability risks with (potentially) significant (often long term) financial consequences. At the same time, financial reporting has been capturing a decreasing proportion of what is of value. I recall a speech at a CIMA Global Business Week conference in 2001 by Douglas Flint, then Chief Financial Officer (now Chairman) of HSBC where he recognised the competitive advantage of First Direct, the bank without branches, was in its people, culture and relationships and could not be copied by showing other bankers around their premises. What was of value was intangible. Indeed, Standard and Poor's stock market index of the top 500 US listed companies in the 1970s around 80% of a company's market value could be traced through to the financial statements whereas by 2010 only around 20% can be accounted for by its financial and physical assets (IIRC, 2011). Further KPMG (2012) have argued that there is a mismatch between what is being reported and factors that influence value.

It is in this context that the IIRC was formed.

Much has been written about the role of accountants in making things visible – or not. Critical researchers and social and environmental accountability researchers have argued that accounting can hide and reveal (see, for example, Cooper and Puxty, 1996; Hines, 1991; Williams and Adams, 2013). Whilst accountants might not be willing or able to "save the world" (Flower, page XX), if we (or those other accountants) are part of the problem, how will it be saved without our (or their) involvement?

Whilst Flower criticises the composition of the IIRC, those involved believe it would be difficult to argue that they have not run a transparent process.[5] In addition to publishing submissions to the consultation draft on their website, the IIRC published a summary of responses, discussed how they were dealt with and why in documents titled Basis for Conclusions (IIRC, 2013b) and Summary of Significant Issues (IIRC, 2013c). They have also published a series of Background Papers developed by Technical Collaboration Teams[6] guided by multi-stakeholder Steering Committees covering a range of topics including the Capitals (IIRC, 2013d), the Business Model (IIRC, 2013e) and Value Creation (IIRC, 2013f). Flower (2014) has not referred to any of these documents, yet they are important in understanding how different voices have contributed to the process.

Flower links a declining focus on sustainability accounting and reporting in IIRC documents to the dominance of accountants on the Council. This is plausible, but the role of the various other organisations concerned with aspects of sustainability accounting and reporting is also worthy of consideration. It might be unwise to assume that accounting firms and professional bodies are the only players acting out of self-interest and self-preservation.

[2] *Note*: The author is a member of the GRI Stakeholder Council and was a member of the IIRC's Technical Collaboration Group.

[3] See http://www.unglobalcompact.org/howtoparticipate/lead/index.html [accessed 31.03.14] for further information.

[4] Available at http://www.theiirc.org/consultationdraft2013/ [accessed 31.03.14].

[5] Conversation with Paul Druckman, CEO, IIRC.

[6] This author was on the Technical Collaboration Team for the Capitals Background Paper (IIRC, 2013d).

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