Integrated Reporting Academic Network Response to IR Discussion Paper December 2011

This response to the IR Discussion Paper 'Towards Integrated Reporting: Communicating Value in the 21st Century' is from the global Integrated Reporting Academic Network and has been compiled by the leader of the Academic Network, Professor Jeffrey Unerman (Royal Holloway, University of London), based on on-line discussions among members of the Academic Network.

While several members of the IR Academic Network recognise the potentially substantial benefits of integrated reporting, concerns have been expressed over weaknesses and gaps in the IR Framework as proposed in the discussion document. These weaknesses and gaps were viewed as compromising the IR Framework's ability to realize its potential benefits. From some perspectives these flaws could result in the IR Framework having opposite impacts from those intended. Among the primary potential weaknesses and gaps in the proposed IR Framework identified by members of the IR Academic Network are:

1. The focus on investors limits the potential of IR to contribute towards sustainability. Although for pragmatic reasons it might be necessary to address the needs of investors in the initial implementation of IR, there is a danger that without firm commitments in advance to broaden the focus of IR to a wider range of stakeholders, IR could be used to further embed current unsustainable business practices focused on a very narrow conception of 'value'.

2. Even if the focus on investors was desirable, the discussion paper does not seem to make allowance for 'investors' being a heterogeneous group, with widely varying interests. If one of the reasons for focusing solely on the needs of investors is to provide an identifiable narrow focus for an IR, the resulting IR is likely to only meet the needs of a subsection of investors.

3. The IR Framework seems to be based on a 'decision-usefulness' approach that has been challenged in other reporting developments (such as developments in financial reporting conceptual frameworks). The notion of the rational investor underlying the decision-usefulness framework has been challenged in recent years, and from an ecological and social sustainability perspective, the decision models used by many investors are far from socially or ecologically sustainable. So if a key aim of IR is to move towards greater long-term sustainability, basing the IR model (albeit possibly implicitly) on a somewhat discredited investor-focused rational economic decision-usefulness model is likely to be counter-productive.

4. While there might be increasing recognition among some financial investors of the economic risks and opportunities flowing from social and environmental sustainability, if the IR is intended to become the primary report it might be used to replace current sustainability reports that are focused on the information needs (and accountabilities towards) a range of other stakeholders. Thus a focus on investors in IR could both privilege accountability to investors and reduce the discharge of accountability to other stakeholders. It is important to maintain, in readily accessible form, accountability communication to a broad range of stakeholders alongside an IR.

5. There is a considerable tension between the ability of an IR to 'accommodate complexity' and a need for 'a clear and concise representation' and it is felt that this is not adequately addressed in the discussion paper. Accommodating

complexity usually calls for a broad range of issues to be covered in a report, and summarizing information too much in order to provide a concise report risks both losing material information and making complex interactive issues appear much less complex and interactive than they are in reality. Resolving this tension will become more difficult the broader the range of stakeholders whose information needs are recognised and addressed in an IR.

6. However, there is also recognition that much financial and sustainability reporting at present is far too long and detailed to provide effective communication or accountability. Therefore work on providing greater clarity through making the reporting much more concise is important. As is a report that clearly demonstrates the integrated nature of the various impacts (economic, social and environmental).

7. There needs to be recognition in the IR Framework that materiality varies between different stakeholders. Allowing managers to decide on a single conception of materiality for their organization in the absence of adequate meaningful and broadly-based stakeholder engagement risks further marginalizing accountability to many stakeholders. The IR Framework therefore needs much more recognition and guidance on stakeholder engagement as a key aspect of the IR process.

8. Some attempts in practice to combine economic, social and environmental reporting in a single report have not resulted in an integration of this information but just a summary of the separate information published in a single report. IR needs to work hard in the pilot projects to overcome this tendency and develop more detailed guidance in the final IR framework on how to produce and report truly integrated information.

9. There is a long tradition of many organizations using rhetorical strategies in their sustainability reporting such that the reports are not a reliable, balanced or faithful representation of any underlying performance/impacts. For IR to be credible, there have to be mechanisms to ensure minimal, and unbiased, gaps between reporting and the underlying reality – IE: IR cannot be allowed to become the PR vehicle that characterizes many current sustainability reports. This is especially important in the context of a brief report that seeks to capture in relatively few metrics and narrative disclosures the essence of a large complex organization and its use of various capitals. This is also significant if the IR is intended to form the primary report as instances of reporting being at considerable variance with the underlying reality could severely compromise the reputation of IR practices (think in terms of an Enron effect). More guidance on meaningful assurance of IRs is therefore essential in the framework.

10. The ‘capitals framework’ is rather limiting. It might be a good way to explain some basic issues, but the capitals are in many ways incommensurable, not discrete nor can they be measured uniquely. Given the centrality of these capitals to the IR Framework, much more work needs to go into developing more sophisticated understandings of the ‘capitals’.

11. In a dynamic world with interactive and readily updatable communication media, proposals for a static once-a-year IR could be regarded as grounded in old technology rather than exploiting the potential of new technology for more meaningful reporting and accountability.

12. There is, however, potential for new technology to be used in imaginative ways to enable a range of stakeholders to readily drill down from a reasonably concise IR to obtain much more detailed integrated information in areas that are of interest, relevance and materiality to them. This would require reporting organizations to make available on-line much more detailed information than contained in the IR.