Integrated Reporting: Current Practice and Lead Thinking

Is Transparent Authentic Reputation an Added Benefit?

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Abstract

Following the financial crisis of 2008, trust in business is low and reputations have suffered as a result of the narrow focus on short-term profits. Companies are waking up to the importance of long-term value creation and ethical business practices that embed environmental and social responsibility into core business strategy. The International Integrated Reporting Council (IIRC) is working towards a reporting framework for the integration of material financial and non-financial information to provide a more holistic view of the long-term health of an organization. Through a literature review and in-depth interviews with senior managers, executives and consultants, this study explores the current state of sustainable business and non-financial reporting practices. The concepts of integrated reporting and corporate reputation are also reviewed. The study questions whether the adoption of integrated reporting can restore trust and positively impact the reputation of organizations and asks what needs to happen to take the practice mainstream. The in-depth interviews provide greater insight into the academics versus reality of non-financial and integrated reporting practices, at this stage. Despite the limitations caused by the infancy of the integrated reporting practice and lack of a standardized framework, discussions suggest that a more transparent and authentic reputation, which benefits both the organization and its stakeholders, is a byproduct of the integrated report and the organizational change associated with the process.

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Introduction

The business environment is changing. Thirty years ago, over 80 percent of market capitalization was made up of tangible assets. Today, that figure stands at only 20 percent (Ocean Tomo, 2011). Intangible assets, which can now account for almost 80 percent of market capitalization, are described as “identifiable non-monetary assets without physical substance” (IASB, 2012), They include intellectual property (patents, trademarks and copyrights), human capital and goodwill.

A strong positive reputation is now one of an organization’s greatest assets. The 2013 US Reputation Dividend report indicates that an average 22 percent of market capitalization and over 50 percent in top performing companies is attributed to reputation - worth close to $3 trillion in the S&P500 (Shearman, 2013). But, reputation is fragile; any decline in reputation may erode value and reduce market capitalization.

An organization’s reputation depends on the perceptions of its stakeholders and is determined by its performance, behavior, and communication (Doorley & Garcia, 2011). Key reputation drivers include financial performance, leadership, governance, products and services, workplace environment, social and environmental responsibility, and emotional appeal. Each stakeholder group will rank the relative importance of these indicators differently.

Trust is an important component of reputation. The 2012 Edelman Trust Barometer report highlights a significant gap between stakeholder expectations and corporate performance when it comes to transparent business practices and honest communication (Edelman, 2012).

Transparency enables analysts, investors, employees, and customers to make informed choices about an organization.

Traditionally, corporate reporting practices focus on financial reporting. Stock exchanges and regulatory authorities require annual or quarterly audited financial reports that document an organization's financial health at a specific period in time, but these financial reports fail to provide a complete picture or understanding of an organization's actions, business strategy, and long-term value. Johnson (2010) states that, "Enron, WorldCom, Lehman Brothers, Bear Stern and British Petroleum …… all harbored unrecognized risks and presented public images that disguised the real dangers of their business models" (p.149). The behavior of these companies and others drew attention to the need for greater accountability and to the potential conflicts between short-term profits and long-term corporate responsibility and value creation.

Short-term value for shareholders can no longer be prioritized at the expense of society (employees, customers and the communities in which an organization operates) or the environment. Stakeholders want to know about an organization's impact on the environment, its social and labor practices, and its governance. Seventy seven percent of consumers believe it is important for companies to be socially responsible; respecting the environment and employees top the list of expected corporate behaviors (Landor, 2010). Furthermore, employees want to work for organizations that have strong ethical business practices and of which they can feel proud. A 2011 PwC study indicates that 59 percent of millennials[1] globally and 70 percent of millennials in the U.S. want to work for organizations where the corporate social responsibility values match their own.

[1] Millennials are those born between 1980 and 2000.

Over the past decade, the drive to establish an effective means of communicating non-financial information has gained momentum, in particular to encourage sustainable business practices and a sustainable society. Non-financial reporting in most countries remains voluntary, but, in 2010, the Johannesburg Stock Exchange made Integrated Reporting compulsory for all listed companies (Eccles & Saltzman, 2011). Integrated Reporting, or One Report, a term introduced by Robert Eccles of the Harvard Business School, combines information on both financial and non-financial performance in a single, cohesive document and explains the relationship between the two metrics (Eccles & Krzus, 2010). The International Integrated Reporting Council (IIRC) states:

> Integrated Reporting brings together the material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates value, now and in the future. (IIRC, 2011, p. 6)

The voluntary adoption of integrated reporting in Europe is becoming more common facilitated by long established traditions of triple-bottom-line reporting in several countries, but adoption of the practice in the United States is slow.

Philips, Watson, and Willis (2011) suggest, "the primary benefit of integrated reporting is a more holistic view of information relevant to the company and its value proposition and strategy" (p.27). Eccles and Krzus advocate the use of One Report as a means to identify risks and opportunities within the current business model and to speak with one voice to stakeholders (as cited in Lagace, 2010). In addition, the authors discuss lower reputational risk as a primary benefit of integrated reporting, but can the process ultimately enhance reputation and trust among stakeholders?

This paper explores current sustainability and non-financial reporting practices, the motivation and reasoning behind the adoption of the integrated reporting process and the benefits, including reputational advantages, which may be gained by organizations that implement the integrated reporting model. In-depth interviews with leaders in the field also pose the questions of why adoption of the practice is slow, particularly in the U.S. and what needs to happen to take this practice mainstream. An initial literature review helps outline the changing business world, the current state of non-financial reporting and discuss the concepts of integrated reporting and corporate reputation.

Since integrated reporting provides stakeholders with more relevant information about many of the non-financial drivers used to assess reputation, it is proposed that there may be a link between the adoption of integrated reporting and enhanced reputation of an organization.

Literature Review

> Too much and for too long, we seem to have surrendered personal excellence and community values in the mere accumulation of material things. Our gross national product counts air pollution and ambulances to clear our highways of carnage...counts special locks for our doors and destruction of natural wonder ...
>
> ...yet it does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry ...or the integrity of our public officials. It measures neither wit nor courage, nor wisdom or learning nor

> compassion or devotion to our country. It measures everything in short, except that which makes life worthwhile and makes us proud to be citizens of our countries and planets. (Senator Robert Kennedy, March 18, 1968)

Reshaping Business for Long-term Sustainability

Corporate Social Responsibility

For too long, quarterly financial reports and short-term profitability for shareholders have driven the corporate agenda in many organizations. Both business and society have suffered as a result of this narrow focus; major corporations collapsed during the 2008 financial crisis and global climate change and diminishing natural resources threaten societal well-being. The expectations of governments, NGOs, activists, the media and society have risen. Business is blamed for causing some of our societal problems and now business must contribute to the solutions to secure its own long-term viability and the current and future needs of society.

In general, corporate social responsibility (CSR) activities have been separate from and unrelated to core business strategy. Browne and Nuttall (2013) suggest, “Traditional CSR is failing to deliver, for both companies and society” (para. 1). The authors describe four major flaws in the traditional CSR model: lack of support across the business causing funding disagreements; narrow views of relevant stakeholders; over-emphasis on building reputation capital to limit fallout from irresponsible behavior elsewhere in the business and; short program life and vulnerability to budget-cutting exercises. Porter and Kramer (2006) suggest that CSR initiatives have been viewed in terms of “cost, constraint, and charitable deeds” rather than wealth-creating opportunities, including innovation and competitive advantage (p. 80).

Corporate social responsibility should build stronger relationships with society. "Mismanagement of a company's social responsibility in the shareholder era has lead to the broad perception that companies prosper at the expense of the broader community" (Leavy, 2012, p. 18). Trust in business and leadership is low (Edelman, 2013). In the annual corporate accountability rating for CSR, BP topped the Fortune list in 2004, 2005 and 2007, and came second in 2006, yet failed to manage its safety risks causing the worst environmental disaster in U.S. history. BP now stands accused of putting "Profits before people, profits before safety and profits before the environment" (Underhill in court proceedings, as cited in Feeley & Johnson, 2013, para. 3). At the time of the 2012 annual report, BP had already paid out $32.8 billion as a direct result of the accident and oil spill - significantly greater than the cost of doing the right thing in the first place (BP, 2013). Furthermore, a study by Reputation Dividend showed that the reputational cost to BP came to an additional £58bn after the first two months alone, impacting its share price by more than 49% (Macleod, 2013).

> Healthier foods, energy conservation and more fuel-efficient vehicles didn't become common until they became profitable …. [in] the relentless maximization of profits, not a commitment to social responsibility. …. The only sure way to influence corporate decision making is to impose an unacceptable cost – regulatory mandates, taxes, punitive fines, public embarrassment – on socially unacceptable behaviour. Pleas for corporate social responsibility will be truly embraced only by those executives who are smart enough to see that doing the right thing is a byproduct of their pursuit of profit. And that renders such pleas pointless. (Karnani, August 23, 2010)

Creating Shared Value

> The capitalist system is under siege. In recent years business increasingly has been viewed as a major cause of social, environmental, and economic problems. Companies are widely perceived to be prospering at the expense of the broader community. Even worse, the more business has begun to embrace corporate responsibility, the more it has been blamed for society's failures ... A big part of the problem lies with companies themselves, which remain trapped in an outdated approach to value creation that has emerged over the past few decades ... narrowly, optimizing short-term financial performance in a bubble while ... ignoring the broader influences that determine their longer-term success. (Porter & Kramer, 2011, p. 62)

Over the past decade, forward-thinking companies have started to question the efficacy of their business models. Focus is shifting from short-term profitability to long-term sustainability with greater consideration of society and the environment. Companies are placing greater emphasis on external engagement to solicit the views of multiple stakeholder groups, and manage their relationships with the outside world. Corporate social responsibility for companies such as Unilever, Nestle, Phillips, GE, Novo Nordisk, Pfizer and many others is no longer an add-on, but a business imperative. Schaltegger and Wagner (2006) emphasize the importance of integrating social and environmental management with business management. Browne and Nuttall (2013) highlight the importance of integrating external engagement into decision making "at every level of the organization" not only to foster external relationships and gain trust but also to act as an early warning system to identify potential threats and opportunities. As a result, CSR activities are becoming more relevant to the individual organization and more closely aligned with core business strategy.

In 2006, Porter and Kramer suggested that the four main arguments to support the business case for CSR – moral obligation, sustainability, license to operate and reputation – pit business and society against each other. The authors stress the interdependence between the two entities, "successful corporations need a healthy society …… [and] a healthy society needs successful companies" (Porter and Kramer, 2006, p. 83). They describe the need for two types of CSR: responsive CSR and a more selective strategic CSR. Responsive CSR focuses on good corporate citizenship attuned to stakeholder concerns and the mitigation of existing or potential adverse effects arising from business activities. Strategic CSR goes beyond traditional models to focus on large-scale initiatives that offer major benefits to the business and society – the concept of "shared value". The corporation uses its resources and capabilities to invest in social issues that will ultimately strengthen the business and provide a competitive edge. Shared value opportunities are created by reconceiving products and markets, redefining productivity in the value chain and enabling local cluster development at company locations (Porter & Kramer, 2011). For example, improved environmental performance can often be achieved through spending on technology, which in turn can lead to net savings.

In fiscal year 2013, Walmart expects to save $150 million through sustainability initiatives including solar and wind energy projects, fuel cell installations, and its zero waste program ("Walmart to save", 2012). This is in addition to $231 million saved in the U.S. from reduced packaging and recycling efforts during 2011, which reduce landfill waste and negative environmental impact (Walmart, n.d.). More importantly, by 2020, the company aims to save over $1bn per year through investment in renewable energy solutions and to avoid 9 million metric tons of greenhouse gas emissions (Walmart, 2013). The savings will allow Walmart to continue its mission of offering customers low prices, creating value for everyone.

The concept of creating shared value for business and society is described as sustainable capitalism (Gore & Blood, 2011). CSR is integral to business strategy and the social dimension becomes part of the value proposition. Bondy, Moon and Matten (2012) argue that this strategic CSR, now practiced by many multi-national corporations, diminishes the importance of stakeholder concerns and turns CSR into a "business innovation used to support profit generation." Further, they suggest this shift in practice positions social and environmental matters beneath economic concerns, which undermines the core foundation of CSR – that social, environmental and economic concerns are on equal footing. Visser (2010) posits that the new "Age of Responsibility" requires systemic rather than strategic CSR. The systemic approach focuses on identifying and addressing the root causes of unsustainability and irresponsibility by innovating business models, revolutionizing processes, products and services, and lobbying for progressive policies. Wind, director of the Wharton school's SEI Center for Advanced Studies in Management, interprets CSR as "socially responsible capitalism …… At the company level, the business objectives need to be to both maximize shareholder value in the long term and to address society's biggest problems" (as cited in "From fringe to mainstream," 2012, para. 12). The CSR debate will continue, but the increasing demands for greater corporate accountability and improved ESG performance are here to stay.

> If you single-mindedly focus on any one value driver, you will not be successful. If you only focus on being sustainable, it would be wrong; if you focused just on shareholder value maximization, that would be wrong. The challenge in this new world is to balance it all. (Paul Polman, as cited in Pitts, 2013, para. 9)

Leadership and Ethics

In its widest meaning, CSR or corporate responsibility is about treating all stakeholders - internal and external, current and future - responsibly and ethically (Hopkins, 2011). According to Dr. Rosamund Thomas (2010) responsible business ethics include: values such as honesty, integrity and fairness; a Code of Ethics that outlines guiding principles for behavior; and Corporate Governance, the framework of polices and procedures that govern the Board of Directors.

Ethical conduct implies that business practices and behaviors should not only comply with regulations and law, but also with the organization's stated values and policies. Leadership sets the tone and values of the organization and affects employee attitudes and behavior. (Weaver, Trevino & Agle, 2005). Ethical leadership, demonstrated by personal moral virtuosity and complimented by communication about the importance of ethics in the organization, will help promote a culture of ethical behavior and trust among employees (Ruiz, Ruis & Martinez, 2011). Ethical role models exhibit: strong interpersonal behaviors, high ethical expectations of themselves, high ethical expectations of others and fairness in dealing with others (Weaver et al., 2005). Ethical behavior improves employee morale and corporate reputation (Ruiz et al., 2011). Unethical behavior of leadership, threatens the value and existence of the organization (Derr, 2012).

During the financial crisis, unethical behavior in the form of financial misreporting driven by shareholder expectations, financial incentives and CEO narcissism caused the downfall of several organizations (Chen, 2010). Five years and numerous corporate scandals later, the 2013 Edelman Trust barometer indicates that only 18 percent of the general population trusts that business leaders will tell the truth when faced with challenging situations (Edelman, 2013).

> Companies are populated by people. Ethics, social responsibility and behavior are governed by individual responsibilities. Individuals are guided by a corporate framework, so leadership is important. People follow leaders, and leaders are the culture setters of business and ultimately that affects their performance. Too often, the cost of poor leadership and decision-making is not counted.
> (Fraser Hardie, Blue Rubicon - as cited in Dunne, 2013)

Purpose and Culture

Companies with a clearly defined and communicated purpose benefit through better financial performance and increased trust among stakeholders (IMD & Burson-Marsteller, 2010). Strong organizational values and beliefs, referred to as cultural strength, are associated with increased motivation and goal alignment among employees (Sørenson, 2002).

The corporate purpose defines why the corporation exists, what it does, whom it serves and how it creates value for its stakeholders. It must extend beyond creating profit to identifying the social purpose of the organization. According to Wilson (2004), purpose is related to a corporation’s mission and its values and is inextricably linked to the strategic objectives. Purpose sets the tone of the management style and corporate culture. A corporate purpose that takes into consideration the needs of all stakeholders is more meaningful and morally uplifting for employees than one that focuses on creating shareholder value (Springett, 2004). Perceptions of increased corporate citizenship result in higher levels of employee engagement, creativity and quality relationships in the work environment (Glavas & Piderit, 2009). In turn, higher levels of creativity lead to innovative ideas and products and can add to the bottom line.

Restating or redefining corporate purpose establishes priorities, provides context for cultural change and drives action (Wilson, 2004). "A strategy that is at odds with a company's culture is doomed. Culture trumps strategy every time" (Katzenbach, Steffen, & Kronley, 2012, p. 113). A redefined corporate purpose needs constant reinforcement by the CEO and executive leadership; communication and actions must be consistent with the new values and desired culture (Wilson, 2004).

The culture of a corporation influences the relative importance employees place on different sustainability issues (Linnenluecke & Griffiths, 2010). Sustainability can only be truly embedded into an organization if a sustainability-orientated organizational culture is developed (Crane, 1995).

Although organizational rigidity and subcultures may hinder sustainability-related culture change, corporate sustainability reports, employee education and the inclusion of sustainability measures in employee performance reviews can foster change in employee attitude towards sustainability practices (Linnenluecke & Griffiths, 2010).

> Corporate purpose goes well beyond corporate responsibility. It is part of a company's DNA; it is the reason for the company's existence. Companies that have a purpose deeply embedded into their overall corporate strategy – and one which is well communicated and understood both internally and externally – will have a significant competitive advantage. (Jeremy Galbraith, as cited in Burson-Marsteller, 2010, para. 3)

Non-financial reporting

> ….. what you measure is what you get, because what you measure is what you are likely to pay attention to. Only when companies measure their social and environmental impact will we have socially and environmentally responsible organizations.
>
> (“Triple Bottom Line,” 2009, para. 2)

The global financial reporting model is tried and tested. Based on generally accepted accounting standards, financial reports provide information about an organization’s current financial state and changes in that state over time. Financial performance metrics are comparable and assurable and allow investors to evaluate the relative merits of an organization at a given moment in time. But, financial reporting is backward-looking and only paints part of a picture. The current framework fails to provide sufficient information to make an assessment of the sustainability of an organization (King, 2011). Increasingly, non-financial performance plays a major role in an organization’s long-term financial health (Eccles and Saltzman, 2011). How a company manages environmental and energy issues, responds to societal concerns and the strength of its corporate governance have become important determinants in the capital markets (Governance & Accountability Institute, 2012). Clearly, organizations must reassess how they communicate their operations and performance.

Much of the early environmental reporting, which started in the 1980s, was compliance and stakeholder driven. In 1994, John Elkington described the concept of the triple bottom line (TBL). In addition to economic value, the TBL agenda encouraged companies to consider their environmental and social values and to measures their performance (Elkington, 1998).

Metrics to measure an organization's energy consumption, waste products and water usage are now well developed and more easily quantifiable and standardized than the more subjective measurements for monitoring social impact. As the demands for corporate accountability have risen, TBL and sustainability reporting have become more common. King (2012) notes that "companies are now asking for the traceability of their input products because of the impact this could have on one of their most valuable but intangible assets, their reputation" (para. 4).

ESG Frameworks and Sustainability Metrics

Several non-profit organizations are working towards creating standards and frameworks for effective non-financial reporting to allow benchmarking and comparability. The mission of the Global Reporting Initiative (GRI), established in 1999, is "to make sustainability reporting standard practice for all organizations" (GRI, n.d.-a). It currently provides guidelines for economic, environmental, social, and governance reporting and has global strategic partnerships with the Organization for Economic Cooperation and Development, the United Nations Environment program, and the United Nations Global Compact (GRI, n.d.-a).

Eighty percent of the 250 largest global companies use the GRI Sustainability Reporting Guidelines (KPMG, 2011). Under the GRI G3 guidelines, organizations select from 81 indicators to disclose performance on relevant key sustainability issues. This allows benchmarking and comparison over time and assessment of performance in relation to laws, norms, codes, standards, and voluntary initiatives (GRI, n.d.-b).

GRI continues to update and expand its reporting framework and performance indicators for sustainability disclosure. The fourth generation of guidelines (GRI G4), which was released in May 2013, places greater emphasis on materiality to improve relevance and credibility. For organizations using integrated reporting, GRI suggests its sustainability reporting processes will help identify material topics, build stakeholder engagement to establish material issues and manage risks and opportunities, and provide recognized performance indicators for measuring and reporting material issues (GRI n.d.-c).

In 2011, the Sustainability Accounting Standards Board (SASB) was formed in the U.S. to evaluate the materiality[2] of non-financial issues and to develop industry-specific performance indicators for disclosure of material environmental, social and governance issues to the Securities and Exchange Commission (SASB, n.d.). As global companies listed on U.S. stock exchanges must comply with SEC regulations, any non-financial reporting mandated by the SEC will have a global impact. The SASB standards aim to provide relevant, comparable (within the industry sector) and auditable information to help investors, analysts and the public better understand the risks and opportunities and to help corporations manage critical sustainability issues (SASB, n.d.).

SASB stresses that its work and that of GRI and the IIRC (discussed in detail later) are complementary and share a common goal of advancing sustainability reporting. “SASB provides standards for mandatory reporting, whereas GRI and IIRC provide frameworks for voluntary reporting” (Eulitt & Mackey, 2013). SASB’s standards are expected to be available for all industry sectors by 2015.

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[2] “material information” is defined as information which represents a substantial likelihood that its disclosure will be viewed by the *reasonable investor* as significantly altering the *total mix* of information made available.

In addition to GRI and SASB, a number of other non-profit organizations encourage companies to critically evaluate their social and environmental impact and report on their sustainability development. The United Nations Global Compact (UNGC), launched in 2000, encourages companies to voluntarily adhere to ten principles covering human rights, labor standards, environment and anti-corruption practices across their business and supply chains (UNGC, n.d.). The initiative aims to foster change in business operations, promote good corporate citizenship and encourage communication with stakeholders about progress achieved under the ten principles in the annual report or in a corporate responsibility or sustainability report (UNGC, n.d.). The Global Compact provides reporting guidelines and templates. Companies that fail to report on their progress can ultimately be expelled from the initiative (UNGC, n.d.). The implication behind this action is that what gets reported must be measured and therefore managed; failure to report implies lack of commitment and performance or lack of transparency and accountability.

Currently, there are over 4,000 companies on the “expelled” list (UNGC n.d.). Compliance with UN Global Compact requirements is linked to home country governance (Knudsen, 2011). Companies from countries with weak governance institutions are more likely to be delisted than companies originating in countries with strong governance. Large companies with higher levels of foreign investment are most likely to become signatories of the Global Compact while companies with purely domestic interests may see less benefit of joining the Global Compact (Bennie, Bernhagen and Mitchell, 2007).

Critics of the Global Compact suggest that it offers a “one-size-fits-all” for CSR reporting and that companies pursue CSR initiatives to comply with the Global Compact rather than initiatives that may create value for the company and the communities in which it operates

(Knudsen, 2011). Knudsen points out that CSR should not begin with reporting, but with a complete evaluation of company and its purpose.

The UN Global Compact also facilitates partnerships between business, governments, NGOs and society to advance the global sustainability and development agenda. This opportunity to form strategic alliances allows companies to enhance their reputation and legitimacy in the human rights and environmental areas (Bennie et al., 2007).

The International Organization for Standardization (ISO), which develops voluntary international standards through global consensus, provides guidelines to help businesses optimize operations and achieve sustainability goals (ISO, n.d.). The 19,000 standards include standards for environmental and energy management, social responsibility and corporate governance. The ISO itself does not offer certification, but external groups provide auditing services and certification to ISO standards (ISO, n.d.).

The Carbon Disclosure Project (CDP) is an international, not-for-profit organization that works with companies and cities to reduce environmental impact, protect natural resources and drive sustainable economies (CDP, n.d.-a). The CDP provides guidance for measurement, disclosure and management of environmental risk including climate change, water, deforestation and supply chain risks and makes data accessible to investors and policy-makers to inform and guide decision-making and drive sustainability measures. Currently, more than 722 institutional investors, representing assets of US $87 trillion, are signatories of the CDP (CDP, n.d.-a).

Company participation has grown from 235 companies in 2003 to 4112 in 2012 (CDP, n.d.-a). Company reports receive scores based on the quality of their disclosure to the CDP and top scorers are listed in the Climate Disclosure Leadership Index (CDLI). In addition, carbon performance scores are assigned based on adaptation, transparency and actions taken to mitigate climate change (CDP, n.d.-b). The top scorers in this category are listed in the Climate Performance Leadership Index (CPLI). Measurement and management of climate change impact helps companies to lower energy costs, increase productivity and acquire knowledge to develop low-carbon, energy efficient products and services. Inclusion on the CDP indices raises a company's profile for environmental sustainability.

In 2013, the CDP formed partnerships with GRI and SASB. GRI and CDP will focus on aligning areas of their reporting frameworks to reduce the reporting burden for companies and improve reliability and comparability of data towards a global standard (GRI, 2013). SASB is working with the Climate Disclosure Standards Board (CDSB), a specific project set up by CDP to support the integration of climate change-related data into annual reports and provide a more holistic view of the risks and opportunities posed by climate change to corporate financial performance (Climate Disclosure Standards Board, 2013). By determining the materiality of climate change-related issues across industry sectors, SASB and CDSB aim to advance disclosure standards on material sustainability issues.

Puma, the sports apparel maker, has taken environmental reporting a step further than any of the existing frameworks. In 2011, the company, in conjunction with PwC and TruCost, produced its first Environmental Profit and Loss statement (EP&L), which placed a monetary value on natural capital usage and environmental impact throughout its operations and those of its supply chain (Simon, 2013). The EP&L statement accounted for greenhouse gas emissions, water use, land use, air pollution and waste production. A group of sustainability experts and accountants brought in to critique the statement supported the methodology and data and suggested improvements for developing a natural capital accounting framework ("An Expert Review", 2012). "Valuing environmental impact in financial terms provides an overarching metric to assess risk and opportunity across operations, products and supply chains" (Trucost, n.d., para. 2).

> I sincerely hope that the PUMA EP&L and its results will open eyes in the corporate world and make the point that the current economic model, which originated in the industrial revolution some 100 years ago, must be radically changed. A new business paradigm is necessary and a transformation of traditional corporate reporting will be central to this - one that works WITH nature, not AGAINST it. (Zeitz, 2011, p. 2)

Although EP&L is still in its infancy, Kering, parent company of Puma, is moving forwards to produce EP&L reports for all its brands by 2015. In addition, the panel suggested that EP&L should align with the efforts of larger strategies such as those of the IIRC to standardize the approach and encourage widespread adoption ("An Expert Review", 2012).

Many other organizations including Business for Social Responsibility (BSR), the World Business Council for Sustainable Development (WBCSD) and the Clinton Global Initiative (CGI) are working to increase corporate accountability, drive sustainable business practices and address global challenges while creating new and innovative opportunities for business. In June 2013, Sir Richard Branson and Jochen Zeitz, former CEO of Puma and force behind Puma's EP&L statements, formed the B Team. The group of 14 global business leaders aims to drive sustainable business solutions and increase transparency and accountability beyond financial gain to include positive and negative impacts on the environment, society and the economy (B Team, 2013a). The B Team declaration begins:

> We, the B Team, believe that the world is at a critical crossroads. Global-business leaders need to come together to advance the wellbeing of people and the planet. In fact, we think business has to think this way in order to thrive. The private sector can and must redefine both its responsibilities and its own success. A plan B for concerted positive action that will ensure business becomes the driving force for social, environmental and economic benefit. (B Team, 2013b)

Investor Support

In a 2010 survey conducted by the United Nations Global Compact and Accenture, 34 percent of CEOs cited lack of recognition from the financial markets as a key barrier to embedding sustainability issues into core business (Accenture, 2010). Yet, they acknowledged that increased demand from the markets could be the strongest driver of sustainable business practices.

Investors are slowly waking up to the risks and opportunities posed by an organization's ESG performance. In 2006, the UN launched a set of Principals for Responsible Investing (PRI) aimed at encouraging institutional investors to incorporate ESG performance into their analyses (PRI, n.d.). Signatories to the Principles not only include ESG considerations in their own decision making to enhance financial returns but also influence organizations and policymakers to improve ESG performance. Today, signatories include 1200 institutions from over 50 countries that manage combined assets of over US $34 trillion - 20 percent of the global capital markets (PRI, n.d.). Corporations are responding to this investor interest with corporate responsibility and sustainability strategies, policies, programs, initiatives, and higher quality reporting (G&A Institute, 2012).

The Dow Jones Sustainability Indexes (DJSI), launched in 1999, and the FTSE4Good Index, launched in 2001, provided some of the early benchmarks for responsible investing. Both organizations have continued to customize their ESG data services to identify sustainability leaders and drive sustainable business practices.

In 2009, Bloomberg launched its ESG data service to provide financial analysts and mainstream investors with greater access to data and analytics about the energy consumption and emissions, social impact including human rights issues and supply chain risk, and the governance structure of more than 3000 companies (BSR, 2009).

The number of services and indices designed to support socially responsible and sustainable investment decisions continues to rise. In May 2013, Thomson Reuters introduced a new family of corporate responsibility indices to measure performance in companies with superior ESG practices (Thomson Reuters, 2013). More recently, on June 11, 2013, Barclays and MSCI, Inc. launched a series of fixed-income indices based on ESG performance, which are expected to spur growth of sustainable investing in the bond markets (Barclays 2013).

Although the rise in ratings, rankings and indices suggest recognition of the importance of sustainability issues, the increased noise adds confusion to the picture. Companies are bombarded with surveys requesting information, yet may score high in one system and low on another. Rating methods are often proprietary. There are more than 100 instruments that use more than 2,000 corporate sustainability performance indicators to evaluate the performance of more than 10,000 companies (Ceres, 2013). In response to this trend, Ceres and Tellus Institute formed the Global Initiative for Sustainability Ratings (GISR), in 2011, to accredit ratings, rankings and indices, and help move markets in favor of true sustainability leaders. Still in its infancy, GISR's mission is to design and steward a global sustainability (ESG) ratings standard (GISR, n.d.).

> GISR's goal is to create a benchmark of excellence that will bolster investor confidence in sustainability ratings and increase their uptake. This, in turn, will grow the market for ratings and unleash their full potential to move capital toward true sustainability leaders. In a world fraught with uncertainty, such outcomes will play a vital role in bringing long-term prosperity and resilience to investors, companies and society at-large. (Mark Tulay as cited in Ceres, 2013)

Willard (2013) suggests that 2015 will be a major turning point for the importance capital markets place on ESG performance. By early 2015, GISR will release the first version of its sustainability ratings standard, SASB will complete its industry specific regulatory disclosure standards and the IIRC will have released its framework for the integration of financial and ESG reporting. Together, the work of these three initiatives is expected to influence investors and reinforce the importance of sustainability issues to the long-term prospects of a company (Willard, 2013). In turn, increased investor interest will force more companies to measure, manage and report on ESG performance and embed sustainability issues into core business strategy.

Benefits of Non-financial Reporting

Organizations that measure, manage, engage and report on ESG matters are more likely to be ranked or rated higher by credible third party sources, including the Dow Jones Sustainability Index, the NASDAQ OMX CRD Sustainability Index, the Bloomberg ESG

Disclosure Scores and the Carbon Disclosure Project Scores (G&A Institute, 2012). There is also some association between non-financial reporting – ESG, sustainability and responsibility reporting – and more frequent inclusion on corporate citizenship, ethical company and corporate reputation lists (G&A Institute, 2012). The media interest surrounding these lists draws attention to the companies' activities, good or bad.

Over time, companies that measure, manage and report on their ESG progress also perform better financially. Several studies indicate that high-sustainability companies – those that have voluntarily adopted social and environmental policies for a number of years – outperform their competitors in the marketplace (Eccles, Ioannou and Seafeim, 2011; Ameer and Othman, 2012). They experience higher mean sales growth, return on assets, profit before taxation and cash flows (Ameer and Othman 2012).

Current Non-financial Reporting Landscape

The 2012 CorporateRegister.com review indicates that around 6,000 companies produced some form of corporate responsibility report in 2011 and almost half of those companies were based in Europe. Despite over 1,000 new first time reports, the numbers pale compared to the total of 45,000 publicly traded companies and over 80,000 corporations doing business across national borders (CorporateRegister.com, 2012) The reports range from straight forward environmental and environmental, health and safety reports to more complex sustainability and integrated reports. Cumulative statistics show a gradual evolution towards reports that cover a wider range of issues.

The KPMG International Survey of Corporate Responsibility Reporting, which has tracked corporate responsibility reporting trends since 1993, confirms the changing trend. The firm acknowledges a major shift in CR reporting from "purely environmental reporting up until 1999 to sustainability (social, environmental and economic) reporting" (KPMG, 2005). The survey tracks global reporting activity using the world's 250 largest companies (G250) obtained from the Fortune 500 listing and national trends based on the 100 largest companies (N100) in each of the countries included. The KPMG 2011 survey indicates that 95 percent of G250 companies produced stand-alone CR reports, combined CR and financial reports, or fully integrated reports, a 60 percent increase since 1999. Of the five percent of companies that did not report on their CR activities two-thirds were based in the U.S (KPMG, 2011).

The KPMG survey tracks key business drivers for CR reporting globally. Not surprisingly, ethical and economic considerations topped the list in 2008, ahead of innovation and reputation or brand (KPMG, 2008). However, reputation and brand consideration became the key driver of CR reporting three years later.

In the 2011 survey report, KPMG included a chapter titled, "A Benchmark on Integrated Reporting" - recognition that the move towards integrated reporting is gaining momentum. In 2008, only four percent of the G250 companies had attempted to integrate financial and non-financial information (KPMG, 2008). This figure rose to 27 percent in 2011, but KPMG acknowledges that 62 percent of those companies merely include a separate CR section in their annual report constituting a more basic "combined" rather than integrated report (KPMG, 2011). The benchmark study indicates that integrating CR into the core business is the greatest force behind integrated reporting. Reputation, innovation, leadership considerations and access to capital or increased shareholder value are lesser drivers. "Currently, one out of every 15 companies weaves environmental and social information into the directors' report to the extent that CR information is virtually indistinguishable from other key business information" (KPMG, 2011, p. 24).

Limitations of Stand Alone Sustainability Reports

Dobkowski-Joy and Brockland (2013) argue that, "Segregation of ESG and financial information perpetuates a deeply rooted fallacy that environmental and social issues are in some way 'non-financial' and unrelated to core business performance and operation" (p.1). They further suggest that segregating information isolates stakeholders. Conflicting messages often arise when separate teams produce the financial and sustainability reports (Oberholzer, 2011).

CSR and sustainability reports vary considerably in quality and content. Wadee (2011) suggests that reports are often aspirational rather than providing tangible outcome or performance measures. Porter and Kramer (2006) view glossy CSR reports as cosmetic attempts to "showcase companies social and environmental good deeds …. [they] rarely offer a coherent framework of activities" (p.81). In an interview with Kiron (2012), Eccles describes sustainability reports as "window dressing" and suggests they are ineffective at influencing management decisions. Management buy-in is essential to drive sustainable business practices throughout the organization.

Evolution of Integrated Reporting

> From the corporate report, the reader should be able to tell that the company has not profited at the expense of the environment, human rights, a lack of integrity or society; that there are adequate controls in place to monitor and manage material risks and

> opportunities; that remuneration is linked to overall performance which includes social, environmental and financial, that there is an interactive communication with the stakeholders who are strategic to the company's business and that the company is conducting a sustainable business. (King in "Corporate Reporting", 2011, para.13)

The world is changing. Increasing stakeholder demands and declining resources are forcing organizations to reassess how they communicate their operations and performance. In its discussion paper titled, "Towards integrated reporting – communicating value in the 21st century," the IIRC cites a number of key drivers for change in reporting practices: "globalization, growing policy activity around the world in response to financial, governance, and other crises; heightened expectations of corporate transparency and accountability; actual and prospective resource scarcity; population growth; and environmental concerns" (p. 2).

Several forward-thinking companies and experts developed the concept of integrated reporting (explained in detail later). In 2002, Novozymes, the Danish biotech company, produced the first integrated report and six years later United Technologies Corporation produced the first American report. American Electric Power, BASF, Natura, Novo Nordisk, PepsiCo, Phillips and Southwest Airlines are among the early adopters (Kiron, 2012).

In August 2010, the Prince's Accounting for Sustainability Project and the Global Reporting Initiative (GRI) launched the International Integrated Reporting Committee (IIRC) to develop a framework for integrating ESG reporting with financial reporting and to encourage a sustainable future (International Integrated Committee Forms, 2010). Professor Mervyn King, author of the King Report on Governance for South Africa (2009), stated that Integrated Reporting "builds on the practice of Financial Reporting, and ESG Reporting, and equips companies to strategically manage their operations, brand and reputation to stakeholders and be better prepared to manage any risk that may compromise the long term sustainability of the business" (as cited in International Integrated Committee Forms, 2010, para. 5).

In October 2011, the IIRC launched a pilot program to develop and test principles, content, and practical applications of integrated reporting. There are currently over 90 reporting organizations and 30 global investor organizations contributing to the process (IIRC, 2013a). Based on input from the group, the IIRC released a "Consultation Draft of the International Integrated Reporting Framework" for public response, on April 16, 2013.

The Case for Integrated Reporting

Benefits to the Organization

The literature outlines a number of benefits of integrated reporting. "Integrated reporting forces companies to look at their businesses as an integrated whole rather than just at its component parts" (Wadee, 2011, p. 6). Eccles believes that integrated reporting can influence corporate behavior (as cited in Kiron, 2012). If an organization has to document its environmental, social, and economic impact (good or bad), integrated reporting will become a mechanism to reverse poor corporate behavior and drive positive change. "Opening up an organization to scrutiny and directly linking environmental, social, and governance compliance to financial performance creates a powerful incentive to do the right thing" (Bridwell, 2010, p.100). It provides an opportunity to question and re-align business strategy to create and sustain value in response to increasing market demands.

In an interview conducted by Martha Lagace (2010) for HBS Working Knowledge, Eccles and Krzus suggest four key benefits of integrated reporting:

1) Greater clarity of the relationship between financial and non-financial performance.
2) Improved management decisions due to better measurement and information.
3) Deeper engagement with stakeholders.
4) Reduced reputational risk due to better understanding between the organization and its stakeholders.

Ludke (2012b) and Phillips, Watson, and Willis (2011) also emphasize the reputational protection element of integrated reporting. Effective two-way communication with stakeholders allows issues to be identified and addressed before they threaten reputational health. Fries, the executive director for the IIRC, suggests implementation of integrated reporting helps connect the dots between business functions, improve consistency of corporate messaging, and shape the corporate narrative (as cited in Daniels, 2012). In the current age of the Internet and 24-hour news cycle, if an organization does not fully explain its own story others will. Misinformation can pose a risk to reputation.

Oberholzer (2011) posits that effective communication will result in “empowered communicators across the company, an engaged workforce, alignment with corporate strategy, stakeholder support for company goals and a positive reputation” (p. 48). Eccles and Krzus (2010) suggest that integrated reporting gives CEOs and organizations an opportunity to improve their reputations for transparency, leadership and engagement.

Additional opportunities offered by early adoption of integrated reporting include the ability to:

- manage regulatory risk ahead of further global regulation (Eccles and Saltzman, 2011).
- influence standards and frameworks as they are developed (Eccles & Saltzman, 2011).
- gain competitive advantage and market differentiation (Hampton, 2010).
- seek new business opportunities (Phillips et al., 2011).

Benefits to Stakeholders

In addition to greater two-way dialogue and real engagement as and where possible, the most important benefit to all stakeholders is greater access to and increased transparency of information (Phillips, et al., 2011). Stakeholders will benefit from the more holistic view of the organization and greater understanding of how their interests complement or compete against those of other stakeholder groups (Eccles & Krzus, 2010). Investors will have the ability to conduct better short-term and long-term financial analyses of the organization. Employees, potential employees and customers will be able to make better-informed decisions about the organization, including whether its values align with their own.

Proposed Integrated Reporting Framework

Integrated reporting is a process that leads to communication of an organization's value creation over time. The organization's ability to create value is affected by external factors including social, economic and environmental issues, its relationships and partnerships with others, and its dependency on various resources. The IIRC (2013b) describes six capitals, or resources and relationships, which are used or impacted by the organization's business model:

- **Financial capital** – pool of funds that is available, or can be obtained through financing, or generated through operations and investments.
- **Manufactured capital** - buildings, equipment and infrastructure (roads, waste and water treatment plants) that are available for production of goods or provision of services.
- **Human capital** – skills, experience and motivation of personnel, alignment with governance framework and values, and ability to understand and implement the organization's strategy.
- **Intellectual capital –** intangibles including intellectual property, "organizational capital" and brand and reputation equity.
- **Natural capital –** all renewable and non-renewable environmental resources (including water, minerals and ecosystem health) that are needed to support the present and future success of the organization.
- **Social and relationships capital –** key stakeholder relationships including trust and willingness to engage, common values and behaviors, and social license to operate.

Not all capitals are relevant to every organization, but how the organization runs down, builds up or changes its capitals affects the long-term value of the organization. Therefore, reporting the organization's impact on these capitals is essential to understand its current and future health.

The IIRC framework draft defines an integrated report as "a concise communication about how an organization's strategy, governance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term" (IIRC, 2013b, p. 8). It is a stand-alone document that may be supplemented by separate financial and sustainability reports. Integrated reporting, as outlined by the IIRC (2013b), aims to:

- Produce a more cohesive and efficient approach to corporate reporting.
- Inform financial capital allocation assessments.
- Enhance accountability and stewardship of the six capitals.
- Support integrated thinking, decision-making and actions.

The IIRC (2013b) proposes that preparation of an integrated report should be based on six guiding principles:

- **Strategic focus and future orientation** – to provide insight into the organization's strategy and how it affects the organization's ability to create value over time.
- **Connectivity of information** - to show how components that are material to value creation are interconnected and dependent on each other.
- **Responsiveness and stakeholder inclusiveness** - to explain the organization's relationship with key stakeholders and how it responds to their needs.
- **Materiality and conciseness** – to provide all material information concisely.
- **Reliability and completeness** – to include all positive and negative material matters in a balanced way.
- **Consistency and comparability** – to present information in a consistent manner to allow comparison over time with other organizations.

According to the IIRC framework draft, the content of the report should adhere to the guiding principles and focus on seven interconnected areas (IIRC, 2013b).

- Organizational overview
- Governance

- Opportunities and risks
- Strategy and resource allocation
- Business model
- Performance
- Future outlook

Barriers to the Adoption of Integrated Reporting

Papers highlight internal and external barriers to wider implementation of the reporting practice: cost of information access, lack of internal infrastructure, lack of experience and know-how, lack of a globally accepted framework, and fear of potential litigation.

Philips et al. (2011) discuss the high cost of information access and analysis as a limiting factor of any reporting that extends beyond what is required for regulatory compliance, but emphasize that managing a business on this information alone does not create long-term value. In addition, Paul Druckman, CEO of the IIRC, states that results from the IIRC pilot study indicate that only five percent of organizations have the systems in place to produce information on their environmental, social, and governance performances (as cited in Daniels, 2012).

Financial reporting is highly regulated and the legal system enforces standards for measuring, reporting, and auditing. The lack of a globally accepted framework for integrated reporting and lack of standards for measuring and reporting non-financial information has presented challenges to organizations choosing to implement integrated reporting (Eccles and Saltzman, 2011). Similarly, the authors acknowledge that lack of standardization and low number of companies adopting the practice makes performance comparison difficult for investors.

Druckman suggests that, “regulators are the biggest roadblock” (as cited in Daniels, 2012). Integrated reporting is low on their agenda, but without regulator support many companies fear greater transparency may lead to litigation. Waygood suggests that the support of stock exchanges and their regulators is crucial and states, “integrating sustainability into valuation helps ensure that capital flows in the direction of more sustainable companies” (as cited in Eccles and Saltzman, 2011).

Despite the hurdles, Eccles and Saltzman (2011) stress, “there is really no alternative to integrated reporting” as a management practice. A sustainable society can only be achieved if companies practice integrated reporting to ensure that, resources used today do not jeopardize access to resources for future generations.

Reputation and Reporting

Reputation

Academic papers cite numerous definitions of corporate reputation (Barnett, Jermier & Lafferty, 2006; Lange, Lee and Dai, 2011). Fombrun (1996) defined reputation as the sum of the images the various stakeholders have of an organization. Barnett et al. (2006) conclude that reputation is a multidimensional construct formed by “observers’ collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time” (p. 34). If, as described by Doorley and Garcia (2011), reputation is based on performance, behavior and communication plus the degree to which the organization’s actions align with its intrinsic identity (the authenticity factor), then transparent, authentic communication of non-financial performance to all stakeholder groups is an important contributor to reputation.

Reputation is earned, not owned. "Reputation affects attitudes like satisfaction, commitment and trust, and drives behavior like loyalty and support" (Macleod, 2013). Further benefits of a resilient reputation include higher return on assets and superior financial performance over time (Roberts & Dowling, 2002); ability to charge premium prices for products and services (Landon & Smith, 1998); higher number and better quality of job applicants (Turban & Cable, 2003); lower cost of capital (Cao, Myers, Myers, and Omer, 2013) and more favorable terms and conditions from partners and suppliers (Fombrun, 1996). Drivers used by reputational analysis firms like the Reputation Institute, Harris Interactive, Fortune "Most Admired Companies" and Echo Research to measure reputation include a combination of financial performance, leadership, governance, quality of products and services, innovation, workplace environment, social and environmental responsibility, corporate ethics including transparency and communicativeness, and emotional appeal.

The 2012 Global CSR RepTrak™ 100 study undertaken by the Reputation Institute indicates that CSR-related perceptions (corporate citizenship, governance, and workplace environment) make up 42 percent of a company's overall reputation (Reputation Institute, 2012). Because reputation is a key driver of value, it is important for companies to manage, deliver and report on their CSR performance effectively.

Reputational Implications of Integrated Reporting

Reputation delivers expectations about a firm's future behavior or performance based on perceptions of its past behavior or performance (Lange et al., 2011). An integrated report that combines financial and non-financial performance, explains the relationship between the performance measures, establishes priorities, goals and vision, and discusses the opportunities and challenges lays out clearly an organization's commitment to its stakeholders and where it lies relative to its various commitments. It increases transparency and accountability and provides "proof points (for reputation management) grounded in concrete performance measures" (Bridwell, 2010, p.102). Perhaps more importantly, integrated reporting is the end point of a process that forces companies to put sustainability and corporate responsibility at the core of business strategy. It is a reflection of a company's leadership, ethics, values, strategy, operations and execution.

Rhee and Haunschild (2006) discuss the potential "liability of a good reputation." Expectations that rise faster than performance have a negative effect on trust. It is therefore important to manage expectations by cultivating relationships with, and listening to, stakeholders. As discussed, the integrated report will provide stakeholders with greater insight into a company's business strategy, the potential threats and opportunities associated with the strategy and its ability to create value over time. Transparency in measuring, monitoring and reporting positive and negative impacts and potential risks and opportunities will help manage stakeholder expectations and reputation.

The literature search exposed a number of articles that discuss the importance of integrated reporting as a means to reduce reputational risk by encouraging careful evaluation of long-term business strategy and increased stakeholder engagement. Eccles and Krzus (2010) suggest that integrated reporting is an opportunity to improve reputation for transparency, engagement and leadership, but the search did not produce any articles or studies that link enhanced reputation to integrated reporting.

White (2005) suggests that quality reporting can act as an antidote to the loss of stakeholder confidence in corporations. “A durable commitment to leading edge reporting is a key tool to restoring public trust” (p. 4). He further suggests that non-financial reporting will help affirm commitment to corporate responsibility.

A study by Sridhar (2012) indicates that Triple Bottom Line (TBL) reporting (incorporating economic, social and environmental dimensions) boosts organizational credentials. Unlike integrated reporting, triple bottom line reporting does not combine the financial and non-financial information in a single report that explains the relationship between them. Therefore, similar, if not better, results might be expected following the implementation of integrated reporting.

The author proposes that by encouraging companies to report openly and transparently on the relationship between ESG and financial performance, and therefore to measure and manage social and environmental impact at a core level, integrated reporting can rebuild trust and lead to a more transparent, authentic reputation.

> Moving forward, it appears that the new metric of corporate leadership will be closer to this: the extent to which executives create organisations that are economically, ethically and socially sustainable. (O’Toole & Bennis, 2009, p. 54)

Method

In-Depth Interviews

In-depth telephone interviews with 22 corporate executives[3] and experts working in the sustainability field were conducted between April 2013 and July 2013. Interviewees included senior managers and executives of companies from among the early adopters of integrated reporting, companies currently involved with the IIRC pilot study and companies held as leaders in sustainability, but with little or no experience of integrated reporting. Although all the companies involved were large global organizations, the interviewees were based in North America or Europe.

Sustainability experts from management consulting companies, professional accounting bodies, and sustainability agencies were also included in the study. Several of the interviewees had additional responsibilities on the advisory councils or working committees for the major standard setting bodies including the IIRC, GRI, SASB and GISR.

Potential global companies were selected from among the early adopters, IIRC pilot study and sustainability leaders. The aim was to obtain a balance of perspectives across industry sector, geographic region and level of experience with integrated reporting. Several private companies were included to gain their perspectives on non-financial reporting and sustainable business practices. A total of 35 potential interviewees were approached by email resulting in 22 telephone interviews.

[3] Executive interviewees included CEOs, CCOs, CSOs, Directors of Sustainability and Corporate Responsibility

Question Framework

Interviews focused on current non-financial reporting practices; the motivation behind the adoption for integrated reporting; the benefits of integrated reporting including reputational implications; the role of the communication team in relation to other departments; the reasons for the slower uptake in the United States; and the changes that need to happen to take this practice mainstream. Open-ended interview questions varied relative to the existing non-financial reporting practices of the company and the professional experience of the interviewee.

Discussion

Overview

> I don't think the basic underpinnings of capitalism have changed, but I think how you get there has absolutely changed. It's no longer acceptable to say, "it's profits versus acting in the public interest." You have to act in the public interest to achieve the profits, otherwise you won't. It's become the new paradigm; you have to satisfy all your constituencies. (CCO of IIRC pilot study member, U.S., personal communication, April 15, 2013)

There is a clear consensus among interviewees that trust in business is low and that business must change its focus from short-term profits to long-term value creation and responsible business growth strategies that consider social and environmental impacts. As many governments are not pushing the sustainability agenda, it is up to business to take up the challenge and lead the way. This concept is not new. Most of the companies included in this study are at the forefront of these changes and have been for a number of years. They integrate sustainability into core business strategy, even if they continue to produce separate financial and non-financial reports as opposed to integrating the information. Yet, they agree there is still a long way to go until this practice becomes mainstream.

Consultants report that many companies including some of the large corporations are only just publishing their first sustainability reports, particularly in the U.S. Furthermore, many social contributions are still focused more on volunteer and philanthropic efforts and add-on CSR programs that lie outside the companies' core business processes than creating long-term sustainable value for society and business.

In contrast to the literature that suggests many sustainability reports are 'window dressing', several companies argue that reports are now becoming more sophisticated and provide a list of societal commitments that companies expect to be held accountable to. However, a sustainability consultant notes that many companies still approach sustainability reporting by discussing what they want rather than what they should. They have to be encouraged to identify what's material to the company and to their stakeholders.

A U.S. consultant suggests that, "reporting is an outcome of your philosophical approach to the role that you have in the world" (personal communication, June 18, 2013). Companies that have a long-term view and value their relationships with society in general - the communities they work in, their employees, their customers, and their suppliers – will be more likely to measure their social and environmental impacts and will be transparent in their reporting disclosures. Furthermore, leading companies are becoming more active in their supply chain management. They are pushing their supply chains to increase transparency and accountability to reduce reputational risk and to demonstrate that their social impact extends beyond the immediate company.

Private companies in Europe and the U.S. that have historically not done any reporting acknowledge that the pressure to disclose non-financial performance has increased over the past few years. Consulting practices have to walk the talk. They can no longer advise companies about reducing carbon footprints or improving diversity figures, if they do not benchmark and report on their own performances. Large global private companies that prioritize sustainable business practices are opening their organizations to increased scrutiny to establish their credentials as responsible businesses. In this case, shareholders and investors are not the main audience. The chief sustainability officer of a private global company says:

> We're doing it for the external world, NGOs and governments [ ] and we're doing it for our employees so that they know what's going on, they can feel proud of it, and they can talk confidently about what we are doing to their external partners whether it's in sales, in procurement or other business lines. We're doing it so that the people we touch directly and indirectly have confidence in the company.
> (personal communication, July 11, 2013)

Initially cautious about discussing issues, the company believes it has benefitted from the candid conversations and transparency around what it has or has not achieved through greater collaboration with NGOs and competitors towards common goals. Interviewees believe the demand for openness and transparency will continue to rise. Both public and private companies must prepare themselves to effectively manage and report on their many responsibilities in the changing world. Integrated reporting and integrated thinking are tools that will increase organizational transparency and accountability.

Throughout the ensuing discussion, it should be remembered that the early adopters of integrated reporting and those that have recently been involved with producing integrated reports are not following a standardized format. As and when the IIRC framework is adopted, they recognize that reporting may need to be adapted to meet the criteria and allow greater comparability. Several of the early adopters are working with the IIRC pilot study to help shape the framework.

Initial Motivation and Benefits

> Integrated reporting demonstrates the importance of sustainability to the overall company. The fact that we have integrated it into one report demonstrates that sustainability is an integrated part of the company that can't be dealt with separately. (CCO, Early Adopter, Europe, personal communication, May 21, 2013)

The two early adopters of integrated reporting in Europe both cited reporting efficiency as one of the initial drivers behind integrated reporting. For these companies, sustainability was no longer a policy in itself, but part of the strategic direction of the company. Therefore, it made sense to discontinue separate financial and sustainability reports, to speak with one voice and to integrate the financial and non-financial information into a single report. The CCO of one of the sustainability leaders in the U.S., not currently involved in the IIRC pilot study, acknowledged that the company is also looking at integrating financial and non-financial reporting to improve reporting efficiency.

The majority of interviewees concurred with the motivating factors described by Wadee (2011) and Eccles and Krzus (2010), namely to drive or support integrated thinking, to reduce reputational and operational risk, to increase transparency and to articulate the company's value creation story. Several interviewees feel that reputational considerations were (and for many companies still are) the initial drivers of all sustainability initiatives and reporting practices, but that this is slowly transitioning to operational reasons including cost savings, innovation and long-term value creation. When asked about the motivating factors behind the adoption of integrated reporting and the company's involvement with the IIRC pilot study, a Head of Corporate Social Responsibility in Europe stated:

> It's about how you make a difference and how you make money at the end of the day. It is impossible to measure value creation just on financial KPI's. We are part of a complex society and it's impossible to measure all the complexities of the communities and countries in which you operate without any reference to the governments, anti corruption, the environment, environmental policies, safety and human rights or how you manage your supply chain. How can you manage all this without embedding it into your strategy and your communication? So from my perspective it's not about the motivation, it's our obligation to integrate our sustainability systems, policies, monitoring and our communication into the economic and financial ones.
> (Personal communication, June 24, 2013)

Interviewees with experience of producing integrated reports divide the key benefits into internal and external benefits. From an external perspective, integrated reporting allows the company to present a more coherent, comprehensive narrative about the company, its performance and its position for the future (including potential risks and opportunities) to provide readers with a better ability to assess or value the company. The report facilitates transparent open communication with shareholders and other stakeholders. A former Director of Sustainability and U.S. based consultant adds that many companies are, “trying to change the nature of the conversation with investors and get investors to focus more on the long-term and this type of report is a great platform for the long-term discussion” (personal communication, July 16, 2013). Internal benefits are derived from the organizational change that the process encourages. They are summed up in the following quotes:

> The internal benefit has to do with what we believe is the ultimate goal of integrated reporting - it is not an integrated report in itself, it's integrated management and integrated thinking [ ] that is the derived benefit and the reporting is a means to an end. (Early Adopter, Europe, personal communication, April 30, 2013)

> I see a big change among those who are practicing [integrated reporting], or who are trying to practice it, in terms of inter-functional relationships, inter-functional collaboration and cross collaboration across the company and cross perspective of the impacts that accompany both the output and the outcome activity of the company. (Change Management Consultant, Europe, personal communication, April 30, 2013)

The internal change allows organizations to drive long-term value creation on an integrated basis rather than in silos working sometimes together and sometimes not. Interviewees also suggest the process drives the pride employees have in the business through greater understanding of the business strategy and the importance of social and environmental considerations to value creation.

Suggested Reasons for Slow Response

Most interviewees acknowledge that, in general, U.S. companies have been slower than European companies to respond to the concept of ESG performance and the drive to disclose financial and non-financial information in an integrated format. European interviewees also suggest that progress is not uniform throughout the region. According to consultants, a number of companies in Holland practice integrated reporting and truly believe in it. Other European countries are well represented in the IIRC Pilot study including the United Kingdom, Italy and Spain, but not all participants are at the stage of integrating their reporting processes, yet. The reasons suggested for the slow response fall into four categories: organizational mindset, lack of framework and standards, insufficient external demand and proof of business case.

1. Organizational Mindset

Many organizations still engage only in compulsory environmental reporting as oppose to true sustainability reporting. Clearly, these organizations are at an early stage of the evolutionary process. But, there are many organizations with mature citizenship and sustainability programs embedded in their business strategy that are sitting on the windowsill waiting for progress. Interviewees highlight the natural hesitation with anything new; fear of the unknown; fear of not getting it right and suffering at the hands of NGOs or the legal profession; concerns about the additional workload and processes that are required; and concerns about the longevity of the movement - is it just a fad and will something else emerge?

2. Lack of Framework and Standards

Integrated Reporting is a work in progress. Early adopters have taken a leap of faith and have developed their own measurement and reporting processes, but there is still no definitive framework. Interviewees cite this lack of clarity around the structure and measures as one of the key obstacles to greater adoption of integrated reporting. A participant in the pilot study suggests the current proposed framework is still "eye-level" with no specific rules of application. Companies are looking for more direction and a universally adopted set of standards, which, despite the work of the IIRC, SASB and other groups, they acknowledge may be several years away. A question raised by several interviewees is that even with the metrics and framework, how will a board know they've got all the information they need to issue an integrated report?

Furthermore, until there is a global consensus around structure and materiality, assurance and comparison between companies remains difficult.

3. Insufficient External Demand

Politics and local culture play a role in management and stakeholder thinking and therefore corporate priorities. As the Vice President, Corporate Responsibility of a U.S. company states:

> European consumers care much more about these issues than average American consumers and pension funds in Europe tend to care much more about these issues than pension funds in the U.S. I think we in the United States are always slow to adopt what I think of as a more global mindfulness around society, resources and otherwise. (personal communication, March 1, 2013)

Despite Bloomberg and others reporting on ESG performance, the U.S. companies and consultants working in the U.S. all stated that the majority of investors are still not requesting information on ESG performances. Until it becomes a top priority for investors, it will not be at the top of many corporate agendas. In addition, it is felt that the SEC is still focusing on the aftermath of the 2008 financial crisis, not integrated reporting that meets the standards of accountability. Several suggested that unless the SEC becomes more involved, they do not see a critical mass of companies adopting a proposed framework in the U.S.

4. Proof of Business Case

Interviewees suggest that companies are looking for further evidence of the business case for integrated reporting. They want proof points of how it helps strategically to create value. Proof would be the ultimate argument for boards, CEOs and CFOs to adopt integrated reporting. Several interviewees acknowledge the recent work of Eccles and Serafeim (2013) emphasizing that transformative innovation connected to the integration of social and environmental indicators into the decision-making process can have a positive impact on financial performance.

> Assuming that integrated reporting takes off, then we'll find the good companies doing it and the bad companies will be pressurized to do it because they will find that there is an investment premium for those companies which are seen to be well managed. This is a way of demonstrating that it's a well-managed company.
>
> (CEO, Accounting Body, Europe, personal communication, May 1, 2013)

Communication Function in the Process

Producing an integrated report requires the collaboration of many functions within an organization. One early adopter states that during initial conversations the company brings together people to represent many different paths of the organization, including communications. By having conversations every year about what goes into the report and what performance bases will be used, the company invites discussions about its overall priorities and direction.

In several companies the report is the collective responsibility of a number of functions including sustainability, corporate social responsibility, communications, investor relations, the legal function and representatives from the business groups. Other interviewees state that the communication department plays more of a supporting role by developing internal and external strategies to get the word out about the integrated report. A member of the pilot study, based in Europe, states that the communication team plays a crucial role "in creating awareness around the need to make cultural change - both managerial cultural change and employee cultural change" (personal communication, June 24, 2013).

It would appear that the role of the communications team in the integrated reporting process is not clearly defined and varies from company to company. A senior, U.S. based consultant specializing in reputation and corporate responsibility suggests that the communication or public affairs function has a more pivotal role to play in the process:

> As it operates at the interface between the organization of the company and society, it should be the membrane that brings in insights as to how society is evolving, what the publics and the stakeholders are expecting and demanding, and how that would affect

> policy and performance - and then in a symmetrical fashion communicates outwards. This is continuous and almost momentarily continuous with social media these days. So the role of the communication department is crucial.
> (personal communication, April 10, 2013)

Reputation

> Reputation and trust are an output of the way in which you manage your company. It is a consequence of how you create your business value, how you invest in your people, and how you operate in the workplace.
> (CSO, IIRC Pilot Study Member, Europe, personal communication, May 24, 2013)

Reporting cannot be seen as a panacea for reputation and interviewees believe that reputation should not be the driver of the process. However, they agree that if a company follows the integrated reporting process then the outcomes in terms of cultural change and new decision-making processes will positively affect reputation.

Integrated Reporting is a tool that encourages companies to identify potential reputational risks early in the process and take steps to mitigate them. Interviewees also describe it as an important channel that drives the view of the organization. Integrated reporting exposes both strengths and weaknesses. If the organization reports openly and transparently on the material aspects of the business, outlines its commitments and reports on progress towards those commitments (positive and negative), trust and reputation should follow. Stakeholders will hold the organization to standard, which will drive action and performance on environmental and social issues in addition to financial performance. This will ultimately drive reputation.

Doorley (2003) describes integrity as a measure of responsibility, reliability, credibility and trustworthiness, four traits that directly influence reputation (Fombrun, 1996). Several interviewees linked integrated reporting to integrity and trust and therefore reputation. A U.K. based CEO, whose organization has recently produced its first integrated report, believes that integrated reporting can help rebuild trust. He states:

> As far as integrity is concerned, integrity is at the heart of business. Trust in business has never been lower. The ability to rebuild that trust is crucial and a part of that rebuilding can be in the form of integrated reporting. When you think about it, it is trust in what management is saying, what the board is saying, it is trust that the quality of the decision-making is good, that they use the right data and the right analysis to support their decision-making - so integrity is at the heart of all of this.
> (personal communication, May 1, 2013)

Critics have described some sustainability and CSR reports as green washing. Interviewees emphasize that employees are the best ambassadors of an organization, but they are also quick to call the organization out if its motives are not authentic. How the employees view the organization becomes a critical driver of how all stakeholder groups view the organization. Integrated reporting focuses the organization around its purpose, explains its relationships with society and the environment, and increases accountability.

> If your employees see you doing the right thing because it is the right thing - not just because you're being forced to do it - then they're going to feel better about the organization and be more engaged and that will drive market share because they will

> recommend the company, they will drive positive community relations and they'll drive retention and acquisition of key talent. That's going to drive the reputation of the organization. (U.S. based consultant, personal communication, June 18, 2013)

The majority of interviewees believe that improved reputation is a byproduct of integrated reporting, but that it would be a mistake to focus on reputation as the main outcome. They emphasize the importance of the internal changes in organizational thinking that lead to increased engagement, business innovation, cost savings and competitive advantage which will improve financial performance in addition to addressing societal issues. But, financial performance is also a driver of reputation.

In looking at the possible impact of integrated reporting, it is important to note that several U.S organizations that have embedded sustainability into their business models, and that take sustainability reporting seriously, did not feel that integrated reporting is necessary to achieve the reported reputational benefits. They suggest it is about good leadership and doing the right thing.

Additional Insight

Dobowski-Joy and Brockland (2013) highlight common practices of the more developed integrated reports. This study did not examine individual reports, but the in-depth interviews highlighted a number of recurring themes focused on general principles about sustainable business practices and more specific points about the integrated reporting practice. They are divided into general principles and specific applications:

General Principles of Sustainable Business Practice

None of the following principles are new, but all merit reiteration.

- **Long-term Value Creation**

The focus is shifting from shareholder to stakeholder. Companies must look beyond short-term profits to long-term value creation that takes into consideration the impact of business decisions on all its stakeholders. But, long-term value creation does not depend solely on the performance and actions of the company. It is influenced by external factors including the company's relationships with society and the availability and quality of resources or capitals. The company needs to identify its stakeholders and determine what is important to them. There is no one-size-fits-all strategy for managing in the stakeholder era.

- **Embedding Sustainability**

Companies that take sustainable business development seriously integrate and embed ESG considerations into their business models and strategies. The ability to achieve this is a reflection of leadership and management thinking, which drives the values, purpose and culture of the organization. Frequently, organizations need measures to drive their understanding and behavior. This is an important benefit of the integrated reporting process.

- **Engagement**

Companies need to think less about managing issues when they arise and more about managing their relationships with society. Proactive engagement with stakeholders and initiating conversations are crucial. In this social and digital age it is inevitable that the conversation is going to happen with or without the company's input. Engagement helps manage risk, identify opportunities and foster the multi-stakeholder problem-solving approach required for sustainable business practice.

> The demand for information about your company that's integrated and coordinated and complete is only going to increase. So why not be prepared for that inevitability - a transparent world where you're participating in the conversation rather than being the target of the conversation?
>
> (CCO, U.S. Company, personal communication, May 28, 2013)

- **Collaboration**

Systemic sustainability should not be a place for competition. Companies need to learn from each other and work together to develop solutions. If a company reduces its carbon footprint significantly, it has a responsibility to share how it achieved this with others. "Collaboration comes from transparency and connecting up and down the value chain and across the value chain with your competitors" (CSO, private company, personal communication, July 11, 2013). In addition to cross-company collaboration, companies need to work with governments, social leaders and NGOs to identify problems and bring solutions to the table.

Specific Applications of Integrated Reporting

- **Comparability and Consistency**

For integrated reporting to be of real value, comparability is essential. This means comparability of performance over time for a specific company and comparability of performance between companies within an industry sector. To achieve comparability, companies need to report with consistency using the same performance indicators and outcome measures.

True comparability between companies will not become a reality until a universally adopted set of standards is available.

- **Relevance and Materiality**

Checked boxes, data overload and lengthy reports do not provide accurate assessments of ESG risk and performance. Companies must identify material ESG issues - ones that, if not addressed, have the potential to present a financial risk to the company. The tipping point from mild awareness to potential risk can occur anywhere between nascent discussions and a full-blown media campaign or boycott (Hespenheide & Koehler, 2013). To provide transparency and accountability, reports must demonstrate relevance and contain information on material matters, which, if omitted, could affect the reader's evaluation of the company and its ability to create long-term value.

- **Context and Realism**

Comparability requires quantifiable measures, but often numbers alone do not provide sufficient information to make a full assessment about a company's ESG performance and progress over time. Frequently additional context is required. A company may be able to reduce its carbon footprint by recycling and the use of energy-saving technologies in its buildings, but ultimately be limited from achieving greater reductions because of the high levels of non-discretionary travel required by its business model and core value proposition.

Stakeholders need to fully understand the context under which a business operates and companies need to be honest about the limits to their performance or progress at any particular stage in time.

Limitations and Further Research

The author acknowledges that this study has many limitations. The number of companies that are currently producing and attempting to produce reports that integrate financial and non-financial information reporting is limited. Therefore, any thoughts and conclusions that can be drawn are limited to the small sample group in this study. As previously discussed, many of the companies that state they produce integrated reports are merely combining the information in one report. This does not necessarily reflect integrated thinking or a business strategy where sustainability is embedded rather than added on. The integrated reporters in this study are trying to follow the true definition of integrated reporting, although the reports vary as no generally accepted standardized framework is currently available.

The paper outlines the current non-financial reporting landscape and the numerous organizations involved in trying to drive sustainable business practices and the future of corporate reporting to reflect the growing demands for greater accountability and stewardship of society and our world. In most cases, academic thinking is still ahead of integrated reporting practice in Europe and the U.S., however companies in South Africa are moving into their third mandatory reporting cycle. Watson (2012) acknowledges that, although the practice is still in its infancy, some good examples of reports have emerged from companies that apply integrated thinking. From a reputation perspective, studying the effect of mandatory integrated reporting on reputation and trust in South African companies would provide greater insight into the subject.

The interviewees in this study were all working at or with large global organizations. There is a natural evolution of processes among large corporations driven by peer and stakeholder pressure. But, large corporations make up only a proportion of the entire business community. The rest of the business world is comprised of small and medium enterprises that, are generally less sophisticated, have weaker reporting structures and have less developed peer review and peer intelligence systems. To achieve sustainability on a global scale, the challenge will be to drive transparency and performance improvement throughout the business community. Further research on the progress of medium and small companies towards sustainable business practices and ESG performance disclosure would be valuable.

Conclusion

"You can't have a healthy business in an unhealthy society."

(U.S. based consultant, personal communication, July 16, 2013)

The demands for greater corporate accountability are rising. Companies can no longer operate without public support. More effective reporting frameworks are being sought to increase transparency, increase accountability, and drive change in the business community. This paper reviews current practice and lead thinking on integrated reporting in Europe and the United States. The opinions offered during the interviews support the suggestions of Eccles and Krzus (2010), that integrated reporting will improve reputation for transparency, leadership and engagement. Furthermore, they support the idea that integrated reporting – the process and the report – can help restore trust in business and improve overall reputation, in the long-term. Integrated reporting is a tool that, if used continuously and consistently, should result in a more transparent authentic reputation.

As discussed in the introduction to this paper, improved reputation whether it is for social and environmental responsibility, leadership and governance, or business innovation, can support and increase financial performance. By working to improve the lives of the people throughout their value chains and reporting transparently on their social and environmental impacts in an integrated manner, companies can also create value for themselves and ensure their own long-term sustainability.

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Appendix A

Acronyms

CDSB	Carbon Disclosure Standards Board
CDLI	Climate Disclosure Leadership Index
CDP	Carbon Disclosure Project
CIMA	Chartered Institute of Management Accountants
CPLI	Climate Performance Leadership Index
CR	Corporate Responsibility
CSR	Corporate Social Responsibility
ESG	Environmental, Social and Governance
EP&L	Environmental Profit and Loss
GRI	Global Reporting Initiative
GISR	Global Initiative for Sustainability Ratings
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
ISO	International Organization for Standardization
KPI	Key Performance Indicator
PRI	Principles for Responsible Investment
SASB	Sustainability Accounting Standards Board
SEC	Securities and Exchange Commission
TBL	Triple Bottom Line

Appendix B

Definitions

Environmental Profit & Loss Account - a means of placing a monetary value on the environmental impacts along the entire supply chain of a given business.

(Trucost n.d.)

Material Information - information that represents a substantial likelihood that its disclosure will be viewed by the *reasonable investor* as significantly altering the *total mix* of information made available.

(U.S. Supreme Court and SEC)

Sustainability – Environmental, social and governance factors that have the potential to affect long-term value creation and/or are in the public's interest.

(Sustainability Accounting Standards Board, n.d.)

Sustainable Development - Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

(Brundtland Commission, 1987)