Preamble:

The Harvard Business School’s first conference on integrated reporting (October 14/15, 2010) has been sort of déjà vu for me since it reminded me of some of the early workshops I attended between 1998 and 2000 when GRI was working on the first generation of its GRI Sustainability Reporting Guidelines. At that time I was with Siemens, working on the business case for sustainability and transparency, but also bringing in views from the perspective of a European industry expert to GRI’s emerging multi stakeholder process. Between 2002 and mid 2008 I had great pleasure to help the GRI as Associate Director Business Engagement and later as their CFO/COO/CIO, to prepare and deliver the G3 Guidelines and making the GRI a self-sustaining independent organization. Since 2008 I am Director Sustainability Strategies at Deloitte, working both on the Deloitte’s internal sustainability and also advising relationship and audit clients towards integrated CR and a holistic approach on sustainability. So, here’s the déjà vu: when I looked around in the conference room at Harvard I saw at least half of the people that I also met in 1998, many of them companions and partners in the strides towards more and more accurate sustainability reporting. The other half were part of the great new generation of advocates for sustainability, ranging from IT companies, proactive companies leading in various industry sectors, regulatory body representatives, consulting and assurance experts, and finally more representatives from the financial markets and accounting standard setters.

I observed that I was one of the very few that have played a role in this community from three different perspectives: that of a representative of a multinational heavyweight enterprise, of a non-for-profit multi stakeholder initiative (somewhat NGOish, although GRI would see it more sort of a platform and networking organization), and finally as someone working for one of the Big Four accounting firms. My contribution to the Harvard e-book is therefore based on this “triangular view” and written as a proactive contribution to help increase the speed of the immense challenge in front of the IIRC, that is to come up with ONE standard for overall company reporting. These views do not necessarily constitute a Deloitte view; they should be seen as my personal contribution deriving from 20 years’ experience in the field of sustainability and transparency.

Language

Interestingly, and still astonishing to us experts, sustainability is still a blurry concept to many. While sustainability reporting has helped quite a bit to structure the aspects, issues, information demands and process steps towards “triple bottom line” reporting over the years, there are more concepts out there. Not all of them cover the full holistic of sustainability, but are prominent contributors as well, e.g. the ecological footprint concept or the new “Ruggie Framework,” introducing human rights due diligence, amongst others. Even GRI recently started to shift language and profiles so-called ESG (Environmental,
Social, and Governance) disclosure as a step towards a coming GRI G4 Guideline. One could say this is just a slight recalibration of the importance of certain parts within the existing G3 Guidelines, but I observe a growing number of people that ask what this sudden shift is all about. Is the economic dimension less important in the future? Does it mean that GRI decided to only focus on financial markets where ESG is better known and the focus on governance is better understood? Examples like these add additional questions and language to the discussion as we are now starting to also discuss and try to develop structure for integrated reporting. This also means that the sustainability experts need to (again?) dive deeper into the vocabulary of the financial world. In short, we are still far away from understanding each other. I believe, although this may sound as extra homework, a first task within the IIRC should be to achieve a necessary level of language alignment, a sound compendium or glossary of terms used in the several constituencies involved in the IIRC process. It may look somewhat odd to recommend this since the parties do talk to each other for quite some time already, but still I do think it merits extra attention at the beginning of the process to pay some extra attention to the overlaps and the gaps that are still caused by language and to constantly focus on needed updates of this compendium as we go forward over the years; 10 years is a long timeframe.

**Funding**

The IIRC process will need a proper funding basis from the beginning of the process. GRI and A4S will need to put focus and resources to the development process while they still drive forward their own developments, e.g., G4, as an interim step to better cater standards alignment. This means extra money! To my firm belief, seeing many companies already experimenting with integrated reporting, the chances are good to secure a proper funding basis at the beginning of the process coming from corporations. Having observed the difficulties in the ISO 26000 process to secure the availability of NGOs/civil society around the table and enabling a proper and balanced working process (the ISO 26000 process suffered a multi-year delay which was in my view heavily based on—partially financial—shortcomings at the beginning of the process), I strongly recommend a multi-year financial plan and roadmap how to get to that stable situation. A process of that magnitude and time span can’t live off from just in-kind donations by the organizations behind the steering committee and the working group. Having the strong backing of the Prince of Wales for this initiative and seeing the stronger links to the governance community through Mervyn King, I recommend revisiting the idea of an endowment fund for the IIRC, mainly charged by corporate contributions and foundations. I am less positive to believe that the European Commission or governments are willing to support through finance, although more and more governments look into the movement and see what their neighbors are doing. Great to see first examples of countries that demand integrated reporting, but they would normally rather support their country-specific approaches than an overarching non-regulatory initiative (starting in tough financial times for governments). Addressing the G20 next year in Paris in November is great for the necessary political commitment, but won’t guarantee monetary support, and if yes, it will take a year to two before money is actually made available, so securing a certain upfront commitment is crucial to not delay the overall movement towards the 2020 “North Star” goal.
Scope

Reflecting the discussion at Harvard, there was quite some attention given to the overall scope of reporting and if the current financial accounting system should be used as a starting point at all? Some in the room interpreted the current accounting system as “broken” and also asked to think about a “New Theory of the Firm in the 21st Century.” Well, while there is in my view merit to rethink what the purpose of an organization should be in the long-term and in how far it contributes to preserve the global public goods in time of a more and more crowded planet and in which social entrepreneurism is slowly developing as the third pillar of the economies, it would much delay the framework needed for creating integrated reporting. I would rather say that an iterative process in the next years will be more effective to reaching the 2020 timeline.

In my view it all starts by admitting that the current financial accounting systems serves its purpose, but that this purpose—delivering financial statements for the short-term—are unsatisfactory to answer what success of an organization really means, especially for the mid-term to long-term. Additional components are needed, and it will be part of the multi-year process

- to test out in how far these components can or have to be interwoven in the current setup of the financial accounting or remain separate modules in the context of a multi-faceted success measurement landscape in which non-monetary indicators remain to describe the success of an organization as well (will this be accepted to be called integrated reporting?),

- if—given these tests—the rationale behind many of the existing financial accounting rules can remain or have to be adapted or dropped because they fail to define the purpose to define short-, mid-, and long-term success (how much revolution is possible, how much evolution is needed?),

- if new paradigms are by any chance globally applicable and accepted, e.g., the whole idea of the internalization of external effects is ongoing for 30 years, but only recently reached some traction to really think about their internalization (will success be defined by how much we can agree to a global level playing field in measurement of success?),

- if the necessary assurance mechanisms can be developed for all of these coming modules, in which the ISEA 3000 and the AA 1000 AS are the existing starting point, but will most likely need to develop in parallel to the IIRC integrated reporting journey (will assurance of any reporting be a market-driven mandatory component?).

New purpose – planetary limits – the micro/macros link

Admitting that the scope of the existing financial reporting is too much single-purpose focused (even with the existence of additional sustainability reports that are often delinked with the annual reports, so don’t enjoy the same status internally) asks for a better definition of a “good” purpose. In my view the time has now finally come to again take up the idea to focus reporting towards the impact of any organization against certain planetary limits. One of the major shortcomings of the existing reporting—even the financial reporting—is to respond to the one essential question: what IS actually GOOD performance and against
what set of criteria? Today we can only answer if one company is better than the other regarding certain existing indicators, and benchmark and rank them mostly really only within their industry. We are not connecting micro performance against macro targets, but that will have to be the big difference in the purpose of future reporting: in which way does an organization contribute positively or negatively against set global, regional, or local targets, and what is the consequence of non-performance? Thriving financially will remain one essential criteria describing success, but that can only be the translation of the following underlying assumptions: with what resources and in what manner has this success been achieved, looking at the given limits? In my view we can’t let the IIRC work (so far the microcosm) be disconnected to the developments of the macrocosm, and in that sense the work of the IIRC also needs to focus on making that link and promote the development of that specific sustainability context. We simply can’t wait another 5 to 10 years after the IIRC concludes its journey to let the macrocosm develop their own universe of statistical data or let them move into different directions; a parallel development is crucially needed.

I’d like to underscore my plea for that link with the real shortcomings of the now published sustainability reports: they begin already when a CEO or Board is incapable of answering this one crucial question: “are we part of the problems or are we part of the solutions (or maybe both)?” regarding the top planetary issues we have to solve in our industry in the next 20 years, followed by the second crucial question: “what is our vision of the world in 20 years and what/where are we going to be in 20 years from now, enabling a backtracking of the targets for the next 2 to 3 years?”. Sustainability context gives future reporting the purpose and the focus it deserves; how will a company ever thrive and have a story to tell if it remains quiet on its overall impact and its contributions? The financial success of the organization needs to be a function of the factual answers and shown performance to these questions. In consequence the consumer reactions, the market circumstances and the regulatory boundaries (including awarding and fining on positive or negative performance) and their change in the years to come until 2020 are also to be thought through by the IIRC, which is part of the micro/macro link and will ask the IIRC to advocate for developments outside of the accounting reporting and assurance boundaries.

Will the IIRC be able to be successful without governmental alignment, helping to define the planetary limits? Having worked in this field for so long I recommend an iterative steps approach, which will open the doors to come to agreements within a 10 years’ timeframe. Some would argue we would need them earlier, and I am convinced that some of them will be ready earlier, e.g., based on the environmental footprints methodology, water footprints, emission trading schemes, human rights due diligence, but also through the communities that are active from the macro-side, e.g., the whole “Beyond GDP” movement and the various groups that work on different indicator models already. Government will align, as a matter of fact, due to the growing upheaval from civil society and the massive community building (I recommend Paul Hawken’s book The Blessed Unrest, describing the “silent revolution” going on all over the world), and finally also because more companies are now vocal and ask for governments to serve the purpose they have been elected for (see reactions before and after the COP 15 summit in
Copenhagen, where for the first time in history companies and NGOs spoke with one voice, asking governments to agree on a global level playing field).

**Technical revolution requires standards’ evolution—real time reporting**

The internet has had such a big influence to the transparency agenda in the last decade already, it is now common that companies understand that if they are not transparent about certain sustainability issues, somebody else will table it for them. The GRI has helped to underscore this development by asking for “completeness” and “materiality” in reporting, enabled by “stakeholder inclusivity” and “sustainability context” as the four principles to define a report or reporting approach content. More often can one hear the famous phrase “If you’re not around the table, you’re most likely on the menu” in this context.

Information transmission has become a commodity, and standards like XBRL have moved into the mainstream financial reporting world already, decreasing the cost of information transmission by 90% or more. Bloomberg or ThomsonReuters terminals are able to capture some sustainability performance information on their screens already. This will result in consequences for the IIRC to think about:

- Accounting, Reporting and Assurance Standards need to capture the move from reports to reporting, an online and constantly updated business. The screens of the major information providers will recalibrate the visibility of certain sustainability related indicators if demanded by their clients, so will longer be hidden in the backend nirvana;
- Catering reporting for various stakeholder groups on company websites will be a service demanded, it is a question though in how far that will influence the IIRC’s mandate to come up with the one framework for reporting;
- While the focus of reports in the past was much on the usefulness of aggregated information and many omissions were used in sustainability reports why certain information didn’t make sense or was irrelevant on corporate level, technology enables the transmission of various levels of information, so disaggregated publicly available information will in my view become a demand from either local or regional stakeholders, asset managers and investors who would like to slice and dice information for specific information needs and investment decisions, regulators in various countries, or business partners or co-creators in the product or services value “cycle” of a reporting organization. We will eventually see the death of the ‘report’ apart from what is the legal minimum and still demands reasonable assurance.

**ONE report – ONE company**

I’d like to make a rather bold statement regarding the step towards integrated reporting that some companies have already made and would like to commend them for that step! Out of experience and the many contacts to companies that I have both from my GRI time and now also with Deloitte, I realize what a big step this is given the many thresholds there are to overcome. To name some:
• Integrated reporting would be a perfect fit if sustainability was really in the DNA and genes of a reporting organization. I observe that whatever far a company is, these—often made—statements have to be taken carefully. I think that I have not seen one company where this is really contested yet, apart from those who started because their business really wanted to address an environmental or social shortcoming in the first place. Sustainability is often well addressed through the necessary “technicalities,” meaning policies, management systems, data and reporting approaches, targets, objectives, KPIs etc. And still, there is the behavioral change side that very often leaves these “technicalities” seen as extra burden or—just—additionalities. If there is no comprehensive learning or leadership development that aligns with the “technicalities,” mental stereotypes, specific work or private experiences made, missing incentives, cultural perceptions, silo thinking and the personal egos and not invented here syndromes will prevail.

• We still live in times where the heads of sustainability represent the first generation of sustainability managers that have over the years found their niche and have certain reservations for an even more integrated approach. If the top management is somewhat indifferent on how to strategically embed sustainability in the core business model(s), integrated reporting will not take off the ground.

• There is a major imbalance regarding the capacity and budgets available for the annual reports and the sustainability reports, a factor 10 is more usual than unusual. Why should an existing sustainability team like to be “eaten up” by the rolling annual report process machinery, having to fear that “their” flagship document will be reduced to a certain number of pages, just to fit into a given design, and there isn’t enough money left for additional website support.

• Often, there is also a simple timing and data quality difference. While information for the annual report is internally audited and pulled together on monthly basis, this is by far not often the case for the sustainability data spectrum. Also, the sustainability data is very often simply not available at the needed moment for an integration into an integrated report. Closing the books on the same day is a massive challenge!

• Would the assurance provider be ready and able to accompany a reporting organization in this journey? What sort of statement will be given? How to differentiate between factual data of the past and forward-looking statements? Are the financial analysts and the internal investor relations people ready for it? And how will ranking and rating organizations see this move if it will be more difficult to find the right quotes and data given the more integrated structure of the report, meaning will the ranking position be in danger through integrated reporting?

• Would the reader base understand a move towards integrated reporting? Although shareholders are also a special stakeholder group, are the other stakeholder groups happy with a move towards integrated reporting, even if the management supports this by saying that the move towards integrated reporting would be a sign of importance and a signal pro sustainability?

To me, every company that has already taken the step without a standard clearly defining what integrated reporting really means, deserves a great applause, since they are the ones that still went for it, took the challenge and were ready to experiment and explore. Let’s note that the annual report still is the most important document an organization
normally produces for its stakeholder groups in a given fiscal year, so an integrated report is a risk, often a rewarded risk, but still a risk. The point that counts most for me is that the ONE report tries to cater the process towards the ONE company as well. The outcome of this venture might well be the report, the added value internally is based on the procedural steps taken to get there.

**Co-creation – pilot testing – scaling up**

The statements above point to the extremely positive effect it could have for the IIRC to build off of that group of very committed and experienced reporters. I would like to recommend instigating regional working groups that can support and advocate the IIRC developments. They are a great voice to the movement, and this voice should be coordinated. They would be the pilot testers, sounding boards and advocates from day one onwards; they might be the ones that are willing to fund the IIRC setup to allow the right staffing, additional research and outreach, and they can be the ones in their own environments to instigate governmental alignment for the already mentioned micro/macro link and the needed political moves to foster those.

Another great leverage for integrated reporting could be organized through the more proactive industry federations that can also work through their regional or country chapters. Although the GRI experience has shown this to be an often difficult path to go (having tried that out in several sector supplement developments myself), I see more chance for success, now that there is already a relatively broad set of companies that have experience, some publishing integrated reports for the third time already next year (and some even longer, but these are not mostly not the bigger multinationals).

**Aligned learning**

The IIRC is now starting to work towards the 2020 timeline; in the meantime the GRI is developing G4 to be adaptable and more “standard ready,” while also taking into account the new technological developments. Within these 10 years many developments are still to come, and it is difficult to assess the impact of some of the developments at this moment already, so such a time span needs to be organized aligned with a learning impulse for those outside of the IIRC working group and steering committee. Many of the standard setters have made the experience that a reduced one-way communication just to inform of what is going to be developed leaves future users with suspicion. I therefore recommend working on a learning outfit/platform that also serves as an additional sounding board of the understanding developed in those learning events. Learning events can also be a risk buffer and litmus test for interim directions that IIRC might want to take. Finally a learning arm of the IIRC can contribute to the fundraising needed for the IIRC. Learning services are well-known, e.g., GRI, AccountAbility, Social Accountability International (SAI), and many other standard setters already use these mechanisms; they could probably be used as hubs for the IIRC outreach and trainings as well.
Summary

Some say we have 20 years left to not lose control over this planet. Ten years for the development of the IIRC outcome is just half of the leftover, and then there’s 10 years left to get it all done? Is that realistic? I have simply decided to personally not stop to be a hopeless optimist. However the IIRC needs to be aware of the responsibility it is charged with, even if there is no legal mandate for it (yet). I hope that the first Harvard conference I was privileged to take part in is just the start of a huge movement and that we all understand how important the IIRC outcomes will be for all of us. I wish the IIRC process all the resources, attention and support it needs.

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