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In This Issue: **Sustainability and Shareholder Value**

Meaning and Momentum in the Integrated Reporting Movement

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Many exciting developments have taken place since we published the first book on integrated reporting five years ago. We called the book *One Report: Integrated Reporting for a Sustainable Strategy*. Our main argument was that companies needed to better understand and report on the relationship between their financial performance and their environmental, social, and governance (ESG) performance. This "connectivity of information" is the essence of integrated reporting. Although ESG performance is often referred to as "nonfinancial performance," a number of ESG factors are increasingly affecting companies' financial performance and thus their ability to create value for their shareholders over the long term. Shareholders and other stakeholders want to know what companies consider to be their "material" ESG issues, and what they are doing to manage them.

The problem, however, is that both the companies that are providing this information and the investors and others who would use it have been hampered by the absence of general measurement standards and reporting requirements of the kind that have long governed and guided financial disclosure. In the case of financial reporting, such a measurement and reporting "infrastructure" has been in place for decades, with, of course strong support from the state. Without such reporting infrastructure, we wouldn't have the deep and liquid capital markets that we have today. But without the equivalent infrastructure for nonfinancial performance and an understanding of how it is related to financial performance, we may not have the capital markets we need to support the society we want today and in the future.

Fortunately, some exciting developments have occurred in the past four years that are helping to put in place the infrastructure necessary to support high-quality integrated reporting. The International Integrated Reporting Council (IIRC) was formed in 2010 with the declared aim of making integrated reporting part of "mainstream business practice in the public and private sectors."[1] The Sustainability Accounting Standards Board (SASB), whose mission "is to develop and disseminate sustainability accounting standards that help public corporations disclose material, decision-useful information to investors,"[2] was started a year later. In 2012, the Climate Disclosure Standards Board (CDSB) updated its 2010 Climate Change Reporting Framework. And in 2013, Global Reporting Initiative (GRI) released its G4 guidelines "to help reporters prepare sustainability reports that matter."[3] Thanks to these developments, integrated reporting is becoming a powerful management process that supports "integrated" thinking and strategic planning. The goal of such planning is to help companies address pressing environmental, social, and governance issues in ways that enable them to prosper over the long term to the benefit of both their shareholders and society at large.

In the rest of this article, we provide excerpts from our second book on integrated reporting, which was published in November 2014. We decided to write a second book for two main reasons. The first was to offer our view of how the abovementioned (as well as other) organizations are contributing to the momentum of the integrated reporting movement—and we identify it as a "movement" in part because all of these organizations are nonprofit organizations with no financial or political backing from the state. And it is this absence of state support that is the basis of the second main reason for writing another book: namely, to present specific recommendations to accelerate the widespread adoption of integrated reporting.

We begin by discussing what we identify as "the four phases of meaning" in the integrated reporting movement, a movement whose beginnings are traced to the early 2000s. Next, we describe the main sources of momentum for the movement. In the third and final section we make four specific recommendations aimed at accelerating this momentum and bringing about the widest possible adoption of integrated reporting.

The Four Phases of Meaning

We view the integrated reporting movement as evolving through four continuous, overlapping phases, each conveying a somewhat different meaning and message to a somewhat different, though steadily growing, audience (see Figure 1). The first phase is identified with the efforts of a handful of public companies in the early 2000s to produce their first integrated report. This development, which we refer to as "company experimentation," represents the *initiation into practice* of the idea of integrated

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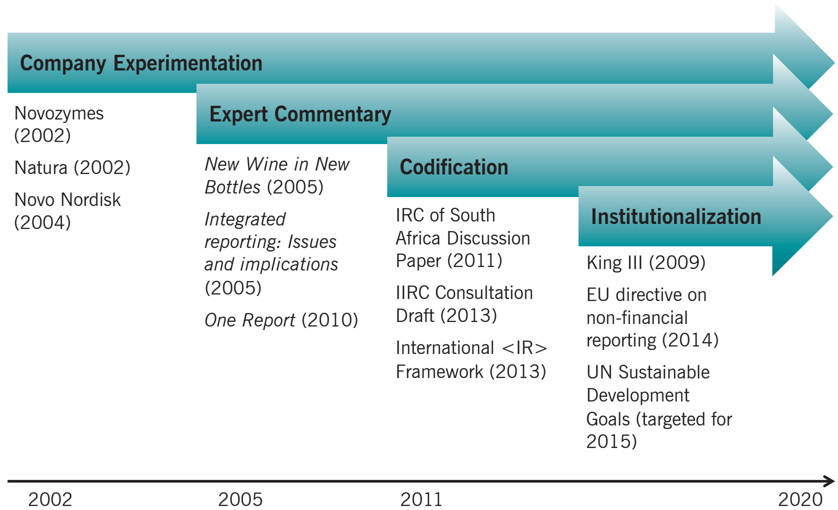
1. *http://www.theiirc.org/the-iirc/*, accessed April 2015.

2. *http://www.sasb.org/sasb/vision-mission/*, accessed April 2015.

3. *https://www.globalreporting.org/reporting/g4/g4-developments/Pages/default.aspx*, accessed April 2015.

Figure 1 **Four Phases in the Evolution of Integrated Reporting Meaning**



reporting. The second phase, which we call "expert commentary," was launched by consultants, academics, and other experts who began to establish basic principles of integrated reporting based on their observations of corporate practices. Featuring lessons about the costs, benefits, and challenges of integrated reporting and how to overcome them, this *theory-building* phase started in the mid-2000s. The beginning of the third phase, "codification," takes place in the late 2000s when NGOs begin to work with companies, investors, and accounting firms to develop frameworks and standards. The fourth and most recent phase, which we call "institutionalization," consists of efforts launched in the past few years by many of the same groups to influence both the regulatory and the market environment to make them more conducive to the practice of integrated reporting. The main focus during this phase has been on formulating voluntary codes of conduct and, in some instances, encouraging the passage of regulations and laws.

Company Experimentation: Examples from the First Integrated Reports

Like many new management ideas, integrated reporting was begun by corporate practitioners.[4] When companies began to produce integrated reports in 2002, the idea of combining financial and nonfinancial data in a meaningful way arose independently and simultaneously. The earliest integrated reporters were two Danish companies, Novozymes and Novo Nordisk, and a Brazilian company, Natura. Each of these three companies offered essentially the same reason for the change: sustainability issues had become essential to the long-term success of the business, and integrated reporting was the best way to communicate this new reality. The value of an integrated report lay in its capacity to help a company demonstrate to its investors that it was managing sustainability from a business perspective, and that such corporate investments, aimed in part at addressing environmental and social problems material to the company, did not merely represent "transfer payments" from shareholders to stakeholders. Because integrated reporting was a new practice, general understanding of what it meant or represented was quite limited as investors struggled to understand the content of an integrated report. As a consequence, further questions arose about the content and structure of such reporting. Although the then newly organized Global Reporting Initiative (GRI) was providing companies and investors with guidance on sustainability reporting, there was nothing at that time to guide companies intent on preparing integrated reports.

Expert Commentary: The First Reflections on Integrated Reporting

Not long after the first integrated reports were published, a think tank, a consulting firm, and an academic working with an accountant began to reflect on the experiences of the pioneering companies. In 2005 two publications, an article[5] and a report by a consulting firm[6] that appeared within a few months of each

4. Mol, Michael J. and Julian Birkinshaw. *Giant Steps in Management*. London: Financial Times Prentice Hall, 2007, pp. 2, 3 and 182-199. Bloomberg Business. "A History of Big Ideas," http://images.businessweek.com/ss/09/03/0312_game_changing_timeline/index.htm, accessed May 2014.

5. White, Allen L. "New Wine, New Bottles: The Rise of Non-Financial Reporting." A Business Brief by Business for Social Responsibility, 2005, http://www.bsr.org/reports/200506_BSR_Allen-White_Essay.pdf, accessed May 2014. Although White's piece primarily focused on nonfinancial reporting, he explicitly mentioned the term "integrated reporting." He did not specifically define the concept but described it as "embryonic" compared to the "pre-adolescence" stage of nonfinancial reporting.

6. Solstice Sustainability Works, Inc. "Integrated reporting: Issues and implications for reporters," August 2005, https://www.vancity.com/lang/fr/SharedContent/documents/IntegratedReporting.pdf, accessed January 2014. The report defined integrated reporting as a fusion of financial and sustainability reporting into a single document: "The working definition of integrated reporting for this research was reporting that meets the needs of both statutory financial reporting and sustainability reporting. In practical terms, this will usually mean one annual report containing sustainability performance information and financial statements."

other, initiated the second phase of meaning for the movement: expert commentary.[7] Five years later, the first book on integrated reporting was published by two of the present writers.[8] Although each of these three publications provided a somewhat different definition of the concept of integrated reporting, they all identified the benefits and challenges facing companies adopting it, and made suggestions about what would be needed to be done to bring about large-scale adoption of the practice.

Codification: Creating Common Meaning

Following the efforts of individual companies or commentators to formulate and express their own views, the next phase in defining the meaning of integrated reporting involved the emergence of bodies with sufficient authority and influence to set up a multi-stakeholder process whose aim is to produce an agreed-upon meaning of the concept of integrated reporting—a concept that can then be supported by principles and guidelines for implementation. If the authoritative body that establishes the meaning of integrated reporting is an organ of the state, the legitimacy and acceptance of the concept is assured. But if the standard-setting body is an NGO or other private organization, then other organizations are of course free to decide whether to adopt this view or not. The degree of credibility necessary for codification to occur will depend upon the perceived legitimacy of the process for fashioning it, as well as the expertise, status, and influence of the individuals and organizations involved in the process.

The first attempt at codification was a "Framework for Integrated Reporting and The Integrated Report—Discussion Paper"[9] that was produced in 2011 by the Integrated Reporting Committee of South Africa a multi-stakeholder group. "An integrated report," as defined in the paper,

… tells the overall story of the organisation. It is a report to stakeholders on the strategy, performance and activities of the organisation in a manner that allows stakeholders to assess the ability of the organisation to create and sustain value over the short-, medium- and long-term. An effective integrated report reflects an appreciation that the organisation's ability to create and sustain value is based on financial, social, economic and environmental systems and the quality of its relationships with stakeholders.[10]

The second major codification effort—and the most globally significant one to date—was "The International <IR> Framework" (<IR> Framework), which was published in December 2013 by the International Integrated Reporting Council (IIRC).[12] Based on a foundation of seven "Guiding Principles" and eight "Content Elements," the <IR> Framework's definition of an integrated report was very similar to that of South Africa's IRC. "An integrated report," it says, "is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term."[11] But unlike the South African version, the IIRC's 37-page Framework does not present an integrated report as a fusion of a financial report and a sustainability report. In fact, the word "sustainability" appears only three times in the IIRC document.[12]

Sources of Momentum

Although the universal adoption of integrated reporting is by no means assured or inevitable, its current trajectory is encouraging. Though less mature than sustainability reporting, integrated reporting is at its core a social movement.[13] When put into practice by companies and used by the audience of investors as well as other important corporate stakeholders, it has the potential to transform the way resource allocation decisions are made inside companies and markets across the globe. Its social goal is to use corporate reporting as a means to influence both companies and investors in such a way that they consider the consequences of the positive and negative externalities associated with corporate investment and operating decisions (particularly those that concern the social and environmental issues that generally come under the rubric of "sustainability"[14]), all the while recognizing the growing importance of intangible assets such as corporate brand and reputation. A critical step in realizing such goals is success in fostering longer-term corporate thinking—strategic planning that takes explicit account of all six

7. Given the timing of the White and Solstice papers, it is highly unlikely that either author knew about the other's work. This is yet another example of how separate events occur simultaneously when an idea's time has come.

8. Eccles and Krzus, *One Report: Integrated Reporting for a Sustainable Strategy*, 2010.

9. The Integrated Reporting Council of South Africa Discussion Paper, published in January 2011, should not be confused with the IIRC Discussion paper, which was released in September 2011.

10. Integrated Reporting Committee of South Africa. "Framework for Integrated Reporting and the Integrated Report," January 25, 2011. http://www.sustainabilitysa.org/Portals/0/IRC%20of%20SA%20Integrated%20Reporting%20Guide%20Jan%2011.pdf, accessed January 2014.

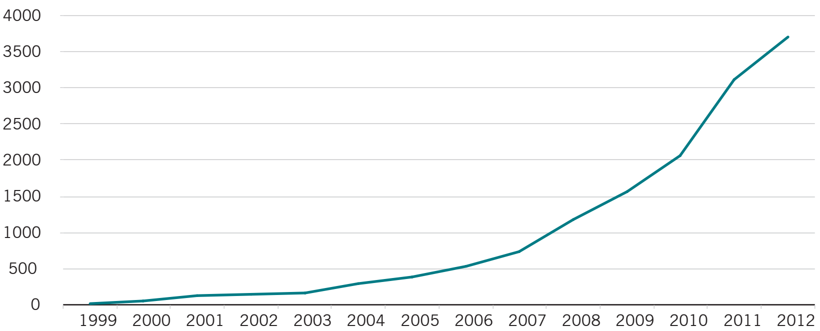
11. International Integrated Reporting Council. <IR> Framework, p. 7, http://www.theiirc.org/international-ir-framework/, accessed May 2014.

12. The first mention seems to refer to the sustainability of the capital markets: "The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability." Ibid. p. 2. The second time is to emphasize that an integrated report is more than producing a single report that contains information on both financial and sustainability performance: "An integrated report is intended to be more than a summary of information in other communications (e.g., financial statements, a sustainability report, analyst calls, or on a website); rather, it makes explicit the connectivity of information to communicate how value is created over time." Ibid. p. 8. The third time is in saying that information in the integrated report should be compatible with information in other reports: "For example, when a KPI covers a similar topic to, or is based on information published in the organization's financial statements or sustainability report, it is prepared on the same basis, and for the same period, as that other information." <IR> Framework, p. 30.

13. Encyclopedia Britannica. Social Movement, http://www.britannica.com/EBchecked/topic/551335/social-movement, accessed January 2014.

14. Sustainability has many definitions. For us, we focus on defining it from the perspective of a company. A sustainable strategy is one that enables a company to create value for its shareholders over the long term while contributing to a sustainable society. It is one that can meet the needs of the present generation without sacrificing those of future ones.

Figure 2 **Number of GRI Reporters 1999-2010**



Data Source: Global Reporting Initiative. Excel Spreadsheet of Sustainability Disclosure Database.

of the different forms of "capital" (financial, manufactured, natural, human, intellectual, and social and relationship) that companies make use of and impact in the process of creating value.

We evaluate the momentum of integrated reported using three criteria: adoption, accelerators, and awareness. Because the company is the unit of analysis for integrated reporting, we use its *adoption* by companies outside of South Africa, the only country in which integrated reporting is mandatory, as a litmus test of the movement's progress. A*ccelerators* of momentum include regulation, multi-stakeholder initiatives and organizations, and endorsements of integrated reporting by prominent organizations and individuals.[15] Finally, *awareness* reflects the extent to which integrated reporting has received broad visibility in the business world and public sphere. *Accelerators* help to speed the *adoption* of integrated reporting, which in turn works to raise the level of *awareness*.

Adoption

While it is difficult to assess the number of companies that have embraced integrated reporting or the rate at which this is happening, we have found three rough indicators of the level of adoption: (1) the increasing number of corporate sustainability reports; (2) the small but growing number of "self-declared" integrated reports; and (3) the increasing presence in corporate annual reports of information that is clearly consistent with the "spirit" of integrated reporting. At present, there are two main difficulties in identifying growth in the last two categories: (1) the lack of clear criteria for what qualifies as an integrated report; and (2) difficulty in determining how many annual or other types of reports fit these criteria.

Trends in Sustainability Reporting

Companies that publish sustainability reports have taken a big step towards voluntary transparency. In many cases, they have implemented systems to gather nonfinancial performance information. For this reason, they represent a pool of candidates that are likely to be receptive to integrated reporting. Most companies that today issue integrated reports have done so only after publishing sustainability reports for a number of years.[16]

Although only 1.3% of the world's 46,000 listed companies were self-declared integrated reporters in 2012,[17] many more companies have been producing sustainability reports for years, and their numbers are still growing rapidly (as can be seen in Figure 2). In 1999, only 11 companies produced a sustainability report using GRI Guidelines. By 2012, the number of such reports had grown to 3,704, for a compound annual growth rate of 56.5%. The growth rate in Asia (68.3%) was higher than in Europe (54.0%) and North America (43.5%), indicating a growing interest in sustainability reporting there. According to Peter DeSimone of the Sustainable Investments Institute, although only eight S&P 500 companies issued an integrated report in 2013, 89% (450) of the S&P 500 engaged in sustainability reporting, up from 76% in 2012.[18] What's more, in 2013 43% of the S&P 500 made

15. These accelerators can act both directly and indirectly from a company-push (i.e., encouraging or demanding companies to practice integrated reporting) or demand-pull (e.g., encouraging shareholders, stakeholders, and regulators to call for integrated reporting by companies) perspective.

16. As the relationship between integrated reporting and sustainability is better understood, however, this could change. Using the GRI database, the average number of years a company produces a sustainability report before publishing an integrated report is 2.1. Global Reporting Initiative. Excel Spreadsheet of Sustainability Disclosure Database, https://www.globalreporting.org/reporting/report-services/sustainability-disclosure-database/Pages/Discover-the-Database.aspx, accessed April 2014.

17. Based on the World Federation of Exchanges, the number of listed companies in 2012 was 46,332. World Federation of Exchanges, 2012 WFE Market Highlights, http://www.world-exchanges.org/files/statistics/2012%20WFE%20Market%20Highlights.pdf accessed April 2014. Definition: "Number of companies which have shares listed on an exchange at the end of the period, split into domestic and foreign, excluding investment funds and unit trusts. A company with several classes of shares is counted just once. Only companies admitted to listing are included." World Federation of Exchanges, Number of Listed Companies definition, http://www.world-exchanges.org/statistics/statistics-definitions/number-listed-companies, accessed April 2014. Based on GRI data, 596 companies in 2012 produced integrated reports – approximately 1.29% of all listed companies.

18. "This includes all companies who voluntarily report sustainability information on their websites, from a policy or two or summaries of practices to full-blown reports with five-plus years of data on key metrics." Peter DeSimone, email correspondence with Robert Eccles, January 26, 2014.

use of GRI Guidelines, up from 36% in 2012.[19] Even in the U.S., the strong trend towards sustainability reporting could provide momentum for integrated reporting.[20]

Self-Declared Integrated Reports

Although integrated reporting principles were discussed as early as 2005, the first formal definition with reporting criteria did not appear until, as already noted, the Integrated Reporting Committee of South Africa published its 2011 discussion paper. There is no database that attempts to track how many reports fit these criteria. Nevertheless, Global Reporting Initiative's (GRI) Sustainability Disclosure Database for the period 2010-2013 provides a useful indicator of the rise in the number of integrated reporting companies—one that is based on "self-declared" integrated reports.

According to the GRI database, the number of organizations that either self-declared or were identified by GRI staff as having published an integrated report grew from 287 in 2010 to 596 in 2012. In 2013—for which we did not have a complete count at the time of this writing—61% of the organizations making such a declaration were listed companies; 31% were unlisted, for-profit entities; and the remaining 8% were other organizations such as non-profits and municipal governments. Two-thirds of these organizations were classified by GRI as "large" and another quarter as "multinationals." While the main focus of the integrated reporting movement is listed companies, these statistics reveal that the idea has broader application—notably, for instance, to city governments.

The Spirit of Integrated Reporting

In 2009, RobecoSAM, the organization that has prepared the Dow Jones Sustainability Indices (DJSI) since 1999, began to look for evidence of integrated reporting. [21] Using annual reports for 2011 and 2012, RobecoSAM recently conducted a Corporate Sustainability Assessment[22] of 2,000 of the world's largest companies in which the main point was to determine the number of companies that provided data on environmental and social initiatives that have led to cost savings or increased revenues. While not the same as a fully integrated report, this is an indicator of companies putting some of the principles of integrated reporting into practice, particularly the <IR> Framework's "connectivity of information."[23] It is consistent with the "spirit" if not the "letter" of integrated reporting.

Reasoning that only data from the main sections of annual reports signify true integration—whereas data in a sustainability section suggests a "combined" rather than integrated report—RobecoSAM found that only 12% of the companies provided an example of environmental or social cost savings or revenue generation in 2012. Still, this was up from 8% in 2011—a 50% increase.[24] Seventy-four percent of the 2012 examples concerned environmental initiatives, which were split evenly between cost savings and revenue generation. Two-thirds of the social initiatives involved revenue generation and one-third produced cost savings.[25]

In support of our use of these examples, a far greater proportion (72%) of them were part of strategic, group-wide initiatives related to the company's core business, as opposed to sustainability programs focused on non-core business activities or activities carried out isolated in a single location (28%).[26] But reflecting the difficulty in quantifying these relationships between financial and nonfinancial performance, 60% of these examples were discussed entirely in qualitative terms—that is, with no supporting numbers.[27]

Accelerators

In any given market, the momentum of the integrated reporting movement can be either aided or limited by the interactions of four market and regulatory forces: regulation, multi-stakeholder initiatives, organizations, and endorsements. At the moment, these interactions all appear to be working in the right direction.

Regulation

As the only accelerating force to invoke the power of the state, regulation changes company behavior directly. But a regulatory

19. The criterion used was that the company declared its annual report to shareholders to also be their sustainability report. The eight companies were AEP, Clorox, Dow Chemical, Eaton, Ingersoll Rand, Pfizer, Southwest Airlines and United Technologies Corporation (UTC). Only UTC was not a GRI reporter. Data for 2012 are from IRRC Institute and Sustainability Investments Institute. "Integrated Financial and Sustainability Reporting in the United States," http://irrcinstitute.org/projects.php?project=63, accessed May 2014. Data for 2012 are from IRRC Institute and Sustainability Investments Institute, "Integrated Financial and Sustainability Reporting in the United States" and data for 2013 are from Peter DeSimone, email correspondence with Robert Eccles.

20. Global Reporting Initiative. Excel Spreadsheet of Sustainability Disclosure Database.

21. We are grateful to Cecile Churet and her colleagues at RobecoSAM for providing us the data to do this analysis. "Founded as the first asset manager focused exclusively on Sustainability Investing, SAM was acquired by Robeco Group in 2007 in-line with Robeco's strategic ambition to further develop into the thought leader in the field. With Robeco's global presence, SAM has grown into one of the world's most prominent Sustainability Investment groups. In 2013, SAM was renamed RobecoSAM as part of Robeco's strategy to further align its group-wide Sustainability Investing activities. With approximately 130 specialist staff located in Zurich and Rotterdam, RobecoSAM offers clients a comprehensive range of differentiated and complementary Sustainability Investing solutions including indices, actively managed diversified and thematic equities, private equity, active ownership and corporate sustainability benchmarking services. RobecoSAM's long-standing experience in assessing companies and developing and managing successful sustainable investment strategies and Robeco's more than 80-year history of serving institutional investors and private investors with investment solutions across a broad range of asset classes are ideally complementary to each other. Leveraging Robeco's global network of sales, service and investment professionals, our Sustainability Investing products and services are represented in over 20 countries." RobecoSAM, http://www.robecosam.com/en/about-us/about-robecosam.jsp, accessed April 2014.

22. For detail on the CSA methodology see Eccles, Robert G. and Cecile Churet. "Integrated Reporting, Quality of Management, and Financial Performance" *Journal of Applied Corporate Finance*, Winter 2014, Volume 26 Number 1, p. 2 and http://www.robecosam.com/en/sustainability-insights/about-sustainability/robecosam-corporate-sustainability-assessment.jsp, accessed February 2014.

23. The Guiding Principle of Connectivity of information states, "An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time." "International Integrated Reporting Framework," http://www.theiirc.org/international-ir-framework/, accessed April 2014.

24. Ibid, p. 10.

25. Ibid., p. 11.

26. Ibid., p. 9.

27. Ibid., p. 11. Roughly two-thirds of the program examples were qualitative for both program and strategic examples.

mandate is likely to be a double-edged sword. To the extent that mandating integrated reporting risks relegating it to the status of a compliance exercise, many companies, constrained in their ability to "tell their own story," may well respond by adhering to the "letter" rather than the "spirit" of the law. Although only South Africa requires integrated reporting, regulations that support sustainability reporting are increasingly cropping up around the world. In a joint 2013 report called "Carrots and Sticks," KPMG, the Centre for Corporate Governance in Africa, Global Reporting Initiative, and the United Nations Environment Programme considered some 180 policies in 45 countries. The study reported finding that, by 2013, 72% of the policies had become mandatory, as compared with 62% of the policies in 32 countries examined in 2010, and 58% of the policies in 19 countries in 2006.[28]

The most recent piece of legislation covering a large geographical territory was initiated on April 16, 2013, when the European Commission announced proposals[29] to amend the Fourth[30] and Seventh[31] Accounting Directives to improve business transparency and corporate performance on social and environmental issues. A year later, on April 15, 2014, the plenary of the European Parliament adopted this Directive by a vote of 599 to 55 from its 28 member states. The Directive specifies that listed companies with 500 or more employees "will need to disclose information on policies, risks and outcomes as regards environmental matters, social and employee-related aspects, respect for human rights, anti-corruption and bribery issues, and diversity in their board of directors."[32] The Directive is expected to affect some 6,000 companies, including some unlisted firms as well as listed companies.[33]

At the time of the legislation, only around 2,500 large EU companies were disclosing environmental and social information on a regular basis.[34] Moreover, such companies could choose whether to include this information in their annual report (at least leading to a "combined report") or in a separate report.[35] They could also choose among various standards and guidelines for reporting this information, but were not required to do so.

Multi-Stakeholder Initiatives

Multi-stakeholder initiatives change behavior by influencing those who can do so directly (the state) or indirectly, such as a club or industry association that can use moral suasion, membership criteria, and their recommended "best practices" to encourage companies to adopt a practice. Two initiatives particularly important to the integrated reporting movement are the Sustainable Stock Exchanges Initiative (SSE) and the Corporate Sustainability Reporting Coalition (CSRC).[36]

Sustainable Stock Exchanges Initiative

As noted by Ernst Ligteringen, former CEO of GRI, "Stock market regulators are uniquely placed to drive change in [the sustainability arena] by smart regulation through listing requirements."[37] In most countries, the local stock exchange has regulatory powers that are conferred directly by legislation or deeded to it by the local securities commission. Because exchanges can change the behavior of every company listed on them, they are good targets for multi-stakeholder initiatives. The Sustainable Stock Exchanges Initiative[38] (SSE) is one of the most important and promising.[39]

Pressure exerted through stock exchange listing requirements represents a moderate form of compulsion. Although companies can choose to delist if they do not want to comply, delisting or moving to another exchange is not always easy. Over the past 10 years, the number of environmental and social reporting requirements led by stock exchanges around the world has increased[40]—the best known of these being the Johannesburg Stock Exchange's "apply or explain" require-

28. KPMG, Centre for Corporate Governance in Africa, Global Reporting Initiative, and UNEP (United Nations Environment Programme). "Carrots and Sticks: Sustainability reporting policies worldwide—today's best practice, tomorrow's trends," 2013 edition, https://www.globalreporting.org/resourcelibrary/Carrots-and-Sticks.pdf, accessed February 2014, p. 9.

29. European Union. "DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, amending Council Directives 78/660/EEC and 83/349/EEC as regards disclosure of non- financial and diversity information by certain large companies and groups," http://ec.europa.eu/internal_market/accounting/non-financial_reporting/, accessed January 2014.

30. The Fourth Directive provides the requirements for content and presentation of annual accounts and reports. European Union. Fourth Directive: annual accounts of companies with limited liability, http://europa.eu/legislation_summaries/internal_market/businesses/company_law/l26009_en.htm, accessed January 2014.

31. The Seventh Directive provides the requirements for the consolidation of company accounts. European Union. Seventh Directive, Seventh Directive: consolidated accounts of companies with limited liability, http://europa.eu/legislation_summaries/internal_market/businesses/company_law/l26010_en.htm, accessed January 2014.

32. European Commission. The EU Single Market, Accounting, Non-Financial Reporting, http://ec.europa.eu/internal_market/accounting/non-financial_reporting/index_en.htm, accessed April 2014.

33. Unlisted companies include banks, insurance companies and other companies that are so designated by Member States because of their activities, size or number of employees. European Union. Europa, Press releases database, http://europa.eu/rapid/press-release_MEMO-14-301_en.htm, accessed April 2014.

34. Ibid.

35. Examples cited were the UN Global Compact, ISO 26000, and the German Sustainability Code.: ec.europa.eu/internal_market/accounting/non-financial_reporting/index_en.htm, accessed April 16, 2014.

36. Though materiality was not defined by either one of these initiatives, it was highlighted in the CSRC. While not directly "about" integrated reporting, the CSRC is focused on changing corporate reporting in a way that helps shape the context to make it easier for companies to adopt integrated reporting.

37. CK Capital. "2013 Trends in Sustainability Disclosure: Benchmarking the World's Stock Exchanges," October 2013, "Foreword" by Ernst Ligteringen (no page number).

38. Sustainable Stock Exchanges Initiative. http://www.sseinitiative.org, accessed May 2014.

39. A similar initiative was announced not long before this book was sent to the publisher. The Ceres-sponsored Investor Initiative for Sustainable Exchanges is seeking to engage global stock exchanges via the World Federation of Exchanges (WFE) to establish possible uniform reporting standards for sustainability reporting by all exchange members. http://www.ceres.org/press/press-releases/world2019s-largest-investors-launch-effort-to-engage-global-stock-exchanges-on-sustainability-reporting-standard-for-companies, accessed April 2014. The recommendations are contained in the report "Investor Listing Standards Proposal: Recommendations for Stock Exchange Requirements on Corporate Sustainability Reporting," https://www.ceres.org/resources/reports/investor-listing-standards-proposal-recommendations-for-stock-exchange-requirements-on-corporate-sustainability-reporting/view, accessed April 2014.

40. Initiative for Responsible Investment at Harvard University. Our Work, Global CSR Disclosure Requirements, http://hausercenter.org/iri/about/global-csr-disclosure-requirements, accessed January 2014.

ment for integrated reporting.[41] To provide a platform for collaboration among investors, regulators, and companies, and to address corporate transparency-related ESG issues, the UN launched the Sustainable Stock Exchanges Initiative in 2009.[42] Today, the SSE Partner Exchange comprises nine exchanges: in addition to the Johannesburg Stock Exchange, the others are the BM&FBOVESPA in Brazil; Bombay Stock Exchange Ltd.; Borsa Istanbul Stock Exchange; Egyptian Exchange; NASDAQ OMX; Nigerian Stock Exchange; NYSE; and Warsaw Stock Exchange.[43]

Corporate Sustainability Reporting Coalition

Convened by Aviva Investors and announced in a September 20, 2011 press release, the Corporate Sustainability Reporting Coalition (CSRC)[44] used a series of timely and informative publications to play an integral role in facilitating the dialogue that surrounded both the 2014 EU Accounting Directive and the UN Conference on Sustainable Development in 2012 (Rio + 20).[45] With a membership that includes investors,[46] companies, NGOs representing a range of environmental and social interests (including GRI and the IIRC), accounting organizations, and UN-affiliated organizations, the CSRC seeks to influence legislation that serves as the basis for regulation. While the SSE focuses on mobilizing existing regulators and stock exchanges, the heavy contingent of NGOs has made the CSRC more campaign-oriented.

Organizations

Accelerating organizations include entities whose main mission is the adoption of integrated reporting—notably the IIRC—and those whose mission is supportive of and broadly consistent with it, such as CDP, CDSB, GRI, and the Sustainability Accounting Standards Board (SASB). In addition to these two groups are organizations whose recommendations carry some weight of authority, including the Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB), the Big Four and other accounting firms, and the professional accounting associations. All of these organizations have the potential to speed adoption by lending institutional legitimacy to the concept, and by encouraging companies to adopt it, and providing them with frameworks, tools, education, and advice.

While a number of NGOs play key roles, we regard the IIRC as the principal accelerator because its explicit mission is global adoption of integrated reporting through its <IR> Framework. GRI, SASB, CDSB, and CDP, in its role as Secretariat to the CDSB, support its efforts by pursuing missions that involve developing standards and frameworks for the measurement and reporting of nonfinancial information that can be used in integrated reporting. Complementing the various reporting programs is the Global Initiative on Sustainability Ratings (GISR), whose mission is to accredit sustainability ratings that use as input for their analytical models information that is reported according to the standards of the above organizations, as well as other sources. Unlike SASB, whose standards are designed for companies listed on a U.S. stock exchange, both the IIRC and GRI promote standards that are intended for global adoption and use. With an appropriate level of collaboration, the differences in jurisdiction and approach among these organizations should give each of them enough space to operate effectively, while complementing the work of the others.

The accounting firms Deloitte, E&Y, KPMG, and PwC, and accompanying professional accounting organizations (of which each country has one or more) increase momentum through their direct engagement with companies and, more specifically, by working with them on questions of materiality. Although the Big Four are primarily concerned with materiality in terms of auditing of financial statements, they and some major accounting associations have addressed it in sustainability and integrated reporting.[47] PwC, for example, has also produced its own "materiality matrix."[48]

Awareness

General awareness of integrated reporting as a concept and a movement can provide further, although modest, additional momentum. Compared to adoption, where actual counts (whatever their limitations) can be taken, and accelerators, where the existence of regulations, multi-stakeholder initiatives, organizations, and public statements can be definitively

41. The South African Institute of Chartered Accountants (SAICA). "An integrated report is a new requirement for listed companies." SAICA, News, News Articles and Press & media releases, https://www.saica.co.za/tabid/695/itemid/2344/An-integrated-report-is-a-new-requirement-for-list.aspx, accessed January 2014.

42. Specifically, it was launched under the auspices of the United Nations Global Compact Office, the United Nations Conference on Trade and Development, the United Nations Principles for Responsible Investment, and the United Nations Environment Programme Finance Initiative. United Nations Environment Programme Finance Initiative. http://www.unepfi.org, accessed January 2014.

43. Sustainable Stock Exchanges. Partner Exchanges, http://www.sseinitiative.org/partners/stock-exchanges/, accessed January 2014.

44. Corporate Sustainability Reporting Coalition. http://www.aviva.com/media/news/item/aviva-convenes-corporate-sustainability-reporting-coalition-13023/, accessed May 2014.

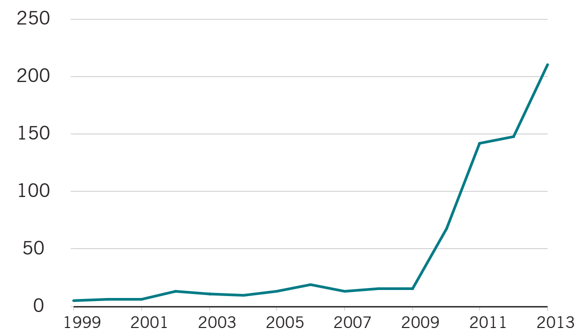
45. Aviva Investors. News Releases, Aviva convenes Corporate Sustainability Reporting Coalition, http://www.aviva.com/media/news/item/aviva-convenes-corporate-sustainability-reporting-coalition-13023/, accessed January 2014.

46. These investors represented $1.6 trillion in assets under management at the time of announcement. Aviva Investors. News Releases, Investor led coalition calls for UN declaration requiring companies to integrate material sustainability issues into reporting, http://www.aviva.com/media/news/item/investor-led-coalition-calls-for-un-declaration-requiring-companies-to-integrate-material-sustainability-issues-into-reporting-13203/, accessed April 2014.

47. Deloitte. "Disclose of long-term business value: What matters?" http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_scc_materialitypov_032812.pdf, accessed March 2014; Deloitte. "Does materiality matter? Should the principle of materiality be applied more consistently to non-financial reporting?," https://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_scc_materialitydebate_032712.pdf, accessed March 2014; Ernst & Young. "The concept of 'materiality' in Integrated Reporting," http://www.ey.com/Publication/vwLUAssets/The_concept_of_materiality_in_Integrated_Reporting/$FILE/EY_'Materiality'%20in%20Integrated%20Reporting%20April%202013.pdf, accessed March 2014.

48. PricewaterhouseCoopers. "Materiality—choosing our sustainability priorities," http://www.pwc.co.uk/corporate-sustainability/materiality.jhtml, accessed March 2014.

Figure 3 **Number of Articles Published**



established, awareness is difficult to measure. Nevertheless, we can assess it in two simplistic ways. First, we looked at the number of academic and practitioner articles in the literature (shown in Figure 3). Between 1999 and 2009, the count of articles was minimal and flat. But the year 2010 saw a substantial increase. This number doubled during the years 2011 and 2012, and 2013 again saw a steep increase to an amount triple that of 2010. While it is impossible to link the accelerators discussed above directly to this increase, integrated reporting articles have grown dramatically over the last four years. The second way we assessed awareness was through word counts of the terms "integrated report" and "integrated reporting" (shown in Figure 4). During the period 1999–2001, there was little awareness and only a very modest growth rate. This increased slightly for the period 2002–2008. Between 2008 and 2010, word count spiked, slowing somewhat and even flattening out in 2012 and 2013. Time will tell if the publication of the Framework and other contributors to momentum will reinvigorate this index of awareness.

The rising number of appearances of the term "International Integrated Reporting Council" in academic and practitioner journals yielded evidence of increasing awareness as well. Reflecting the creation and growing awareness of the IIRC, this count increased from virtually 0 in 2010 to 4 in 2011, 119 in 2012, and 268 in 2013. Given the mission of the IIRC to spread the adoption of high-quality integrated reporting, this increasing awareness is encouraging. The extent to which the awareness of the IIRC and integrated reporting itself continues to grow will be influenced by the motives of all the other actors involved in the movement.[49]

Conclusion: Four Recommendations

Given its current level of adoption, the accelerators in place, and its present visibility, it is unlikely that the movement will disintegrate any time soon. But persistence is a necessary, not a sufficient, condition for progress. Members of the integrated reporting movement want tangible, substantive changes in corporate reporting practices to influence resource allocation decisions in companies and markets. By fostering a broader, longer-term view in these decisions, they hope to help create a more sustainable society.

As discussed earlier, exactly what the movement's strategies and priorities should be in order to achieve these goals is the subject of an ongoing debate among its participants. Many necessarily pursue individual goals that do not map directly onto those of the IIRC. Participants must balance their activities—and in particular, the extent to which they should expend resources—in collaboration with each other.[50] Adding to the social movement's collective but sometimes conflicting conversation, interested observers will express

Figure 4 **Growth in Awareness of Integrated Report and Integrated Reporting**

49. These counts are based on the Factiva database of general press articles. There is no overlap between this database and the one used for counting article citations.

50. Because social movements are an agglomeration of a variety of actors with different objectives, they necessitate tradeoffs, particularly when it comes to resource allocation and mobilization. That is, a certain amount of disagreement is inevitable. McCarthy, John D., and Mayer N. Zald. "Resource mobilization and social movements: A partial theory." *American Journal of Sociology* (1977): 1212-1241.

their opinions about who should be doing what. As both actors in and observers of the movement, we have our own views of what should be considered the critical issues facing integrated reporting today and how to address them. To be clear, these are our personal views; the people and organizations alongside which we work are free to agree or disagree.

Balancing Experimentation and Codification

Because the balance between experimentation and codification must be well managed before market and regulatory forces can be properly addressed, this strategic issue is of primary importance. We earlier described how integrated reporting first emerged through company practice, after which it was studied and codified, most recently in the <IR> Framework. We also described how attempts at codification continue to be informed by practice, such as in the IIRC's "Pilot Programme Business Network," which had expanded to over 100 companies[51] by the time the Pilot Programme ended its work in September 2014. Early efforts at codification should be tested in practice so that these frameworks can be improved, but standards must eventually be set in order to move from codification to institutionalization, the fourth and final stage of meaning-making.

Recommendation Number One: The International Integrated Reporting Council should establish a process for companies to get voluntary certification of whether their integrated report and website qualify as "integrated reporting" under the brand of the IIRC.

Balancing Market and Regulatory Forces

Adding and changing reporting regulations is a constant source of struggle between companies and those demanding information from them. Both parties put pressure on the state based on their own concerns. Although listed companies accept reporting requirements as a prerequisite for access to capital markets, they still resist additional reporting burdens. Virtually any additional reporting requirement being considered by a country's legislature or a regulator[52] becomes the subject of a fierce debate. Companies argue that it will be costly to implement, may be irrelevant, will put them at a competitive disadvantage, or increase litigation risk—raising the question of just where the "sweet spot" falls between the extremes of irrelevance and risk. Companies insist that a proper cost-benefit analysis be done before they are required to report and point out, with some justification, that reporting requirements are never eliminated, even for issues that are no longer salient. Those in favor of a new reporting requirement will have equally strong arguments about the benefits to a particular group of having this information. Because the struggle between these forces represents the ongoing negotiation between the corporation and the state over the responsibilities of the former given by the license to operate granted by the latter, this tension is ongoing and inevitable.

Recommendation Number Two: Members of the integrated reporting movement should engage in a dialogue to establish a global strategy for the balance and timing of market- and regulatory-based strategies to speed the adoption of integrated reporting, adapting this strategy to take account of country and sector context as necessary.

Greater Advocacy from the Accounting Community

With deep expertise in financial accounting and reporting and, increasingly, sustainability reporting, accounting firms and associations have a critical role to play in the integrated reporting movement. Possessing the capabilities and global scale to conduct audits of the world's major corporations (whose combined market cap is close to 100% of equity held by investors), the Big Four accounting firms—Deloitte, E&Y, KPMG, and PwC—are especially important. The integrity of the world's capital markets depends upon audits that ensure the quality of the information investors are using to make decisions. To the extent that investors—and ultimately regulators—believe that this information can be more effectively delivered through integrated reporting than separate financial and sustainability reporting, companies will depend on their auditor to help them issue reports with the appropriate level of assurance. But these firms must become stronger advocates for all aspects of integrated reporting, including the necessity for integrated assurance.

Recommendation Number Three: The Big Four firms should work with other accounting firms and professional accounting associations to establish a proactive campaign to create awareness and understanding of integrated reporting among their clients and to develop assurance standards for integrated reporting.

51. There were 107 companies in the IIRC Pilot Programme Business Network as of April 29, 2014. International Integrated Reporting Council. IIRC Pilot Programme, IIRC Pilot Programme Business Network, http://www.theiirc.org/companies-and-investors/pilot-programme-business-network/, accessed April 2014. The IIRC Pilot Programme came to an end in September 2014 after three years of developing and piloting the principles and concepts behind <IR>. In its place, the IIRC established a business network of organizations committed to the adoption of <IR>. http://integratedreporting.org/ir-networks/ir-business-network/, accessed May 2015.

52. For example, additional reporting requirements are established by the Ministry of Finance in China and by the Securities and Exchange Commission in the U.S. HSBC Global Connections. Home, Tools & data, Country Guides, https://globalconnections.hsbc.com/united-kingdom/en/tools-data/country-guides, accessed April 2014.

Achieving Clarity Regarding the Roles of Key Organizations

The IIRC plays a central role in the integrated reporting movement, receiving strong support from GRI, SASB, and CDP. Together, these four organizations are creating the institutional infrastructure necessary for integrated reporting. They are also, however, creating some confusion in the marketplace as companies, investors, and stakeholders struggle to understand their missions and how they relate to each other. Are they complementary or competitive entities? Understandably, companies, investors, and stakeholders are also often confused about what exactly *they* are supposed *to do* in order to respond effectively to the entreaties each organization is making of them.

Recommendation Number Four: CDP, GRI, IIRC, and SASB should work together to clarify for companies, investors, and other stakeholders how their missions are related to each other; they should also form collaborations which are mutually beneficial in support of the movement.

Final Reflection

If success is defined as near-universal adoption by all listed companies, will the integrated reporting movement be successful? We are cautiously optimistic. The challenges may be great, but the necessity is even greater. While integrated reporting is not a panacea that will create a sustainable society, it is an important management practice that can contribute to this goal. We are personally dedicated to this cause as active participants in the movement.

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