TOWARDS INTEGRATED

Paul Sharman conducts an interview with Eleanor Bloxham, CEO of The Value Alliance and Corporate Governance Alliance.

REPORTING—COMMUNICATING VALUE IN THE 21ST CENTURY

PAUL SHARMAN AND ELEANOR BLOXHAM

The International Integrated Reporting Committee (IIRC) is an organization that was formed in 2010 by The Prince's Accounting for Sustainability Project (A4S) and the Global Reporting Initiative (GRI). In September 2011, the IIRC released a discussion paper "Towards Integrated Reporting—Communicating Value in the 21_{st} Century." Here are views from thought leader Eleanor Bloxham on the report.

Paul Sharman.

What are your overall views on the discussion paper and its importance?

Eleanor Bloxham.

Clearly, the IIRC does not stand alone in "Towards Integrated Reporting—Communicating Value in the 21_{st} Century" in calling for a new kind of reporting to replace what has been a persistent, unyielding focus on accounting numbers. This persistent focus is one that companies—and their financial stakeholders, like shareholders and creditors—have clung to despite its inadequacies and despite calls for change.

In my 2002 book entitled *Economic Value Management: Applications and Techniques,* I advocated a holistic view of the corporation. For that reason, much of the discussion in this paper was dÉjà vu for me. The IIRC discussion paper advocates a philosophy that is quite familiar to me—the idea of integrated reporting rather than separate reporting for different purposes. This approach is important in my view because it helps to

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create a different mindset and a different way to view the corporation.

The definition of economic value management I outlined in my 2002 book is that it is "an integrated approach to managing any organization, one that is based on stewardship (and the inexorable consequences of failed stewardship)." The September 2011 IIRC paper says they want companies to report in an integrated way to "provide a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value."

I felt I was reading an echo.

My book advocated a view of the corporation as broader than its legal limits, with roots and branches that extend into the communities in which it operates and to the other stakeholders on which it depends and from whom it gathers sustenance—and sustainability. In 2010, my approach to value and the corporation was accepted as a legitimate, distinct approach to valuation in the book *Corporate Valuation* by Bob Monks and Alex Lajoux. I think this is important to the work of the IIRC because it provides a recognized approach to valuing the firm on which the IIRC work can stand. That foundation already exists.

Along similar lines to my book, the paper recognizes various forms of capital. My book describes the following forms of capital: debt, equity, regulatory, and risk as well as special forms of capital, such as human, customer, and product, and how to address them in thinking about capital investments in the firm. The IIRC paper outlines the following forms of capital, which companies should think about: "financial, manufactured, human, intellectual, natural and social."

The benefits I suggested could be gained from viewing and managing the corporation in an integrated way are the same as the paper suggests that integrated reporting will provide: "a meaningful assessment of the long-term viability of the organization's business model and strategy; . . . the information needs of investors and other stakeholders; and . . . the effective allocation of scarce resources."

So in a number of ways, the ideas in this paper are not new ideas at all, and I stand in agreement, as I have been a proponent of integrated thinking, managing, and disclosure for quite a long time.

As others that have come before it, this paper addresses what goes underreported, the aspects of the corporation for which there is often little transparency.

So what I see is this: with this discussion paper, the IIRC is attempting to codify something quite logical. That said, it may seem foreign to those who aren't familiar with the ideas or haven't thought about how natural it all really is.

Paul Sharman.
Why have they issued this paper now?

Eleanor Bloxham.
That's an interesting question—and it is one of the areas where I have a philosophical difference with the IIRC.

In their paper, they say the current business reporting model is inadequate. I think most everyone can agree on that. The long-term consequences of corporate actions are very difficult to discern from standard current reporting.

Where I differ with the IIRC is that they say the changes they are advocating are needed because business has changed. "The world has changed. Reporting needs to keep pace," the paper states.

The paper cites "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" as changes that make this new kind of reporting a requirement.

I do not agree.

Businesses have always had a tremendous influence—and been influenced strongly by—the societies in which they operate. What has changed is the ability of stakeholders to recognize this.

But I think it is important to not kid ourselves. I think it's important to recognize that the fundamentals of business and its impacts are not new.

What was done before in terms of reporting was never adequate. The view of the corporation was never robust enough. What is different now is that these lapses are now intolerable to many more people.

Paul Sharman.
What are some of the other issues this new paper addresses?

Eleanor Bloxham.
The guiding principles behind integrated reporting outlined in the paper make sense. As outlined in the paper they include: "strategic focus, connectivity of information, future orientation, responsiveness and stakeholder inclusiveness, and conciseness, reliability and materiality."

Something else I like about this IIRC effort is that one of the critical elements of presentation includes "governance and remuneration." I have paid a lot of attention to incentives and governance in my book and other writings, and I think this emphasis is warranted. The other elements outlined in the paper include: "organizational overview and business model; operating context, including risks and opportunities; strategic objectives and strategies to achieve those objectives; performance; and future outlook."

I think the IIRC is right to focus on the long term, integrated thinking, and stewardship of all forms of capital.

Paul Sharman.
Do you see some challenges for integrated reporting?

Eleanor Bloxham.
Besides the normal human challenges of any new approach, I think there are a number of challenges worth noting.

First, the framework outlined sets out to accomplish several objectives that likely will conflict with each other and will represent challenges to resolve.

One of the goals outlined for integrated reporting in the discussion paper that is important but may be a challenge to resolve with another goal is demonstrating "connectivity of information" while being "concise." While technology may help with this, building the bridges to connect information and the implications of that connectivity will take words as well as pictures. One can much more easily be concise making one point rather than demonstrating how three inter-relate.

So, too, creating reports that are "technology enabled" and "consistent" while at the same time are "adaptive" and "responsive to individual circumstances" will be a challenge. Technology is often today used to ossify old ideas, to make rote what is no longer a good way of analyzing or presenting information. This ossification of old ideas, which is common, is helpful to the revenues of old-styled software firms but not useful in creating adaptive environments.

I think another big challenge will come from the use of a framework at all. Part of the power of integrated thinking and stewardship, which I outline in my book, is the importance of the development process itself in creating "a-ha" moments.

The advantage of a framework is providing some specificity as to what should be addressed.

At the same time, much of the value in undertaking integrated thinking is the actual process of discovery of what is important for one's self, not following prescriptions by others.

At the end of my book, I refer to this problem by pointing to a story in a book called *The Way to Love: The Last Meditations of Anthony DeMello,* in which he tells this parable:

> Imagine a group of tourists in a bus. The shades of the bus are down and they don't see or hear or touch or smell a single thing from the strange exotic country that they are passing through, while all the while their guide chatters away, giving them what he thinks is a vivid description of the smells, sounds and sights of the world outside. The only things they will experience are the images that his words create in their heads.

I close my book saying: "It is my fervent hope that rather than a bus tour guide, this book is the brochure that will cause you to buy a bus ticket, pull up the shades, and look outside for yourself, experience the digging and the discovery, and really see."

And so that is my concern with this framework or any framework. People follow the guidance rather than looking for themselves.

Personality tests demonstrate that by far (around 80 percent of) people have a preference to deal with specifics and the tangible rather than concepts and intangibles. The integrated reporting framework will push individuals out of that comfort zone by forcing discussions away from what is known and real and tangible to that which is less visible but may be more important.

At the same time, the framework will need to fight against the natural prescriptive tendencies of people in general and especially of the population set likely to be involved in reporting.

Rather than follow the requirements of accounting—or the recent 200 page GRI guidance—this discussion paper proposes that the integrated reporting "framework will provide high-level guidance to organizations that prepare integrated reports."

Given the likely mix of personalities involved, will this guidance be so high level as to be untranslatable for those requiring a path to move forward? Or will the guidance be so specific that it squashes newer insights and exciting new paths—that it becomes a rote rather than adaptive process?

These are some of the main challenges I think that the IIRC will need to overcome in implementation.

The IIRC paper addresses others they see as well. For those producing the report, they outline the challenges of "regulation, directors' duties, directors' liability, commercial confidentiality, capacity building, and information systems."

Regarding directors' duties (versus legal requirements), I think the concerns the paper expresses of differences from location to location are overblown.

The OECD principles of corporate governance are generally accepted and provide a framework for basis and assessment of governance and boards worldwide. While legal requirements may differ, duties at a high level really do not.

The report also outlines the challenges for readers of the report.

Paul Sharman. Do you have other comments on the discussion paper related to the questions it poses for commentators?

Eleanor Bloxham. Yes, one question it poses is whether the idea of integrated reporting applies equally "to small and medium enterprises, the public sector and not-for-profit organizations." This is something my book addressed in the first chapter.

These concepts do apply to all kinds of organizations—and in the first chapter and throughout the book I show how the same connections can be made and the same principles applied for different kinds of organizations.

Paul Sharman. Other thoughts on the content and what they are recommending?

Eleanor Bloxham. Yes, two other thoughts. One issue I see is a need for them to expand their thinking on the business model and stakeholders.

In terms of the business model, at a high level, what they have outlined in the discussion paper mirrors much of what I outlined in my book. The discussion paper says, as my book does, that "value is not created by or within the organization alone"—or, as I would put it, not the organization alone as it is has normally been viewed.

The discussion paper says value is "influenced by external factors (including economic conditions, societal issues and technological change) that present risks and opportunities, which create the context within which the organization operates, co-created through relationships with others (including employees, partners, networks, suppliers and customers), and dependent on the availability, affordability, quality and management of various resources, or 'capitals.'"

But this is a narrow list of co-creators.

Shareholders and creditors belong on this list, as do regulators, the community, and a group I call external observers or critics, including, for example, "analysts who comment on and give buy, hold, or sell recommendations for a company's stock, rating agencies that assess the safety of the organization's bonds, consumer groups who rate the safety and effectiveness of the organization's products, surveyors who rank the company's employee friendliness, journalists who provide critiques of the business, [and] special interest groups who rate the organization's environmental policies or its ethics."

I think it is important to focus the mind and attention on all these relationships—and the framework for integrated reporting should advocate that.

The other big issue I see—and this is a big one—is not completing the task I have outlined in my book and elsewhere.

It is all very well to provide reporting as outlined from the company's perspective. But that is not really new—and that is not sufficient. Real integrated reporting would encompass reports from the stakeholders as well.

What do customers think of the organization? What do the media think? How about governance rating agencies? What do shareholders and environmentalists think? How about credit rating agencies? What do regulators think? How about employees? Self-reporting and analysis is one thing. But views directly from stakeholders?

That would make what they recommend a truly integrated report, based on real data and information. It would move integrated reporting away from being a bus tour guide with the shades pulled down—to a bus ride with the shades pulled up.

The real question is: Are they ready to take on that challenge? ■