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"One Report" - Is there a Transparency Panacea?

By CSRwire contributing writer Elaine Cohen

The upsides, and downsides, of integrated financial and sustainability reporting, as proposed by "One Report", a new book by Eccles and Krzus.

If you are an investor, shareholder or financial analyst, with an interest in sustainability, you will probably enjoy the recent publication, "One Report - Integrated Reporting for a Sustainable Strategy" by Robert G. Eccles and Michael P. Krzus. If you are anyone else, your enthusiasm, as mine, may be tempered with a little caution. In this book, the authors offer a strong endorsement of integrated reporting, claiming a "compelling case" for this to be adopted "all over the world, by public and private companies alike". A tall order, no doubt, given the state of non-financial reporting today.

Full disclosure: I am a consultant who advises businesses on sustainability strategy and writes sustainability reports. My interest is in advancing business sustainability and transparency. My experience is that the focus and process required to produce a dedicated sustainability report adds tangible business value.

Eccles and Krzus define an integrated report as, simply, "one report that integrates the company's key financial and nonfinancial information". This, say the authors, "must be produced using the Internet to provide integrated reporting in ways that cannot be done on paper" so that "the user can do his or her own analysis of financial and non-financial information". The reasons quoted for producing One Report are: (1) "It is a key element of taking sustainability seriously" and (2) "a single message to all stakeholders is a key element of improving corporate disclosure and transparency." One Report, the authors say, brings four benefits: greater clarity about relationships and commitments, better decisions, deeper engagement with all stakeholders and lower reputational risk.

Much of the pressure for integrated reporting, we are told, comes from the financial and investment community - Eurosif, SIF, SEC, European Federation of Financial Analysts, large accounting firms, etc. - who advocate inclusion of ESG (Environmental, Social, Governance) data in financial reporting. The authors strongly recommend legislation in favor of integrated reporting, which already happens in some countries.

"One Report" quotes examples of "integrated reporting," including Novozymes, Natura, Novo Nordisk, UTC and others. While there is a mix of approaches and sophistication in the reports referenced, a couple shine out as models - Novozymes' and Natura's Annual Reports are in my view outstanding examples of integrated disclosure, supported by websites that enable navigation to a high level of detail. These companies have been integrated reporters for several years, so they have certainly had time to iron out the creases.

And yet, my expression of caution is prompted by several thoughts:

Beyond making a case for integrated reporting, Eccles and Krzus do not recommend how this should be done. Most of the so-called "integrated reports" are simply Annual Reports which include selective environmental, workforce and community investment data. This is combination, perhaps, but not integration.

Even in the better examples, we are hard-pressed to find a clear relationship between the business performance and sustainability initiatives. If, as the authors envisage, an integrated report should be used for assessing the impact of non-financials on business performance, then the absence of this connection in the disclosure defeats the purpose.

One of the main arguments in the case for One Report is the deepening of a company's relationship with its stakeholders. Yet, almost everything in this book points to shareholders, and not all stakeholders. Nowhere is there any indication that anyone other than those who have a financial holding in the company would gain any benefit from reading page after page of mandatory financial data. The fact is that most stakeholders are not interested in detailed financials, so the appeal of integrated reporting for them is low.

Employees look at income, profit and executive compensation packages. That's it. Customers and consumers will not analyze a balance sheet before purchasing a new bottle of shampoo or reviewing a new enzyme technology. Suppliers are unlikely to analyze their customers' financial accounts before offering their services, and NGO's, local communities, local councils, human rights activists and environmentalists will not engage around a set of numbers. The interests and influence of all these stakeholders lie primarily in the non-financials.

Furthermore, if, as we can observe in the integrated reports referenced, the breadth and depth of sustainability information is seriously curtailed, the very stakeholders whom the business should engage through integrated reporting will find their interests marginalized and their basis for engagement reduced. The CEO of UTC, for example, opens their 2009 integrated Annual Report with a message to "Dear Shareowners". Enough said.

The key challenge for business performance reporting is not about presentation of information. The core problem is the inadequacy of most businesses in developing a comprehensive business strategy based on embedded sustainable principles and practices, and transparency for all stakeholders.

The solution is not necessarily "One Report" but a thorough revision of business leadership. While One Report is an encouraging concept, and intuitively may seem the right thing to do, I am not sure it provides the answer for all stakeholders. It has the potential to become the box-ticking Sarbanes-Oxley of Sustainability Reporting. The authors offer no evidence beyond aspirational declarations that this approach has actually delivered tangible benefits so far.

Separate Sustainability Reporting does have issues. The good-news nature of Sustainability Reports has become boring. The use of the GRI framework is inconsistent. "One Report" makes a valuable contribution to the reporting debate, inviting us to consider the inter-relation of sustainability and business information, and the ways these should be more integrated. Higher frequency of reporting on essential metrics using web-based updates is an attractive proposition. There is room for stronger legislation on reporting of sustainability metrics, and a need for greater financial context. However, the questions remain: Will integrated reporting be a catalyst for embedding sustainability leadership? Will it materially change the way the investment community assesses businesses? Will it be a turn-off for anyone other than investors and analysts?

Given the maturity of sustainability leadership today, and the separation of interests of diverse stakeholder groups, there is still a long road ahead before integrated reporting becomes the transparency panacea that is suggested in this book.

Elaine Cohen (Beyond Business and blogger on sustainability reporting.