

The IIRC's 2013 International Integrated Reporting *Framework*:



An evolution in sustainability
reporting or a captured process?

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Outline of Paper



- Purpose
- Theory and method
- Originality/value
- Background to integrated reporting
- The International Integrated Reporting Council (IIRC)
- From integrated reporting to <IR>
- Findings and discussion
- Further research

Purpose



- To provide insights into processes and influences of IIRC's version of IR, referred to as <IR>
- <IR> a new reporting mode (2010)- 'evolution'
- <IR> claimed by IIRC and others to represent a 'fundamental shift' away from traditional financial reporting, to be its future replacement
- <IR> and IIRC criticized in recent literature –
- Flower (2014), Brown & Dillard (2014), Thomson (2015)
 - ✦ IR described as 'failure',
 - ✦ Claims that IR not neutral and objective, but shaped to serve interests of particular industry groups, fails to engage with broad stakeholders
- Our aim to assess empirical evidence for opposing views

Theory and Method



Neo-institutional Theory (NIT) and Capture Theory

- Sociological perspective: integral relationship between patterns of institutional norms and behaviours and broader political and social structures within which institutions exist (eg. Scott, 1995; Powell & DiMaggio, 1991)
- Individual firms influenced by rules, norms and belief systems prevalent within particular operating environment
- Homogenizing pressures within industry – isomorphism
- Firms motivated to adopt advantageous behaviours and seek to optimize benefits to organization
- Dominant firms in particular industry act collectively to ‘**capture**’ regulatory process in interests of industry

Theory and Method



Regulatory Capture Theory

- Offshoot of NIT
- Organizations in industries potentially exposed to negative impacts of proposed new regulation, or changes to regulation, will choose to expend resources on attempting to deflect, or to influence the form of regulation in their own interests
- Eg. Industry bodies lobbying government, networking, PR campaigns, political influence, participation in processes of developing regulation, advertising, setting up or taking over civil society groups and charitable organizations to influence public opinion, submissions to regulatory bodies, stacking advisory boards with industry representatives, celebrity endorsement, offering hospitality, gifts and other benefits to decision-makers

Theory and Method



Our Research

- Both theoretical and empirical analyses conducted on submissions made to successive stages of <IR> development
- Textual and quantitative techniques applied to submissions and to reports
- Identified and compared particular industries comprising body of early adopters of <IR> on IIRC database and Pilot Study
- Identified and compared particular industries comprising body of submitters to IIRC 2011 Discussion Paper and 2013 Consultation Draft
- Analysis of integrated report contents to identify initial patterns in reporting

Theory and Method



- Integrated reports published on the IIRC database in the years 2013 to 2015 analysed for company information, report information and report content
- Evaluated as to extent these adhere to <IR> 5 Guiding Principles and 6 Content Elements.
- Evaluated as to extent these report on <IR> 6 Capitals
- Submissions to Sept 2011 Discussion Paper ‘Towards Integrated Reporting – Communicating Value in the 21st Century’ analyzed on variables of industry type and content.
- Submissions to the April 2013 Consultation Draft of the Framework were analyzed on variables of industry type and content.
- Analysed changes in IIRC objectives from 2010 - 2015

Context of Development of Integrated Reporting

- 1980s: increasing globalization and growth of large multinational organizations – social and environmental “externalities”
- Perceived threats of climate change and other global impacts
- Growing demand by consumers and civil society groups as well as investors demanding CSR information from corporates
- Stakeholder demand for more information than provided in conventional corporate financial reports
- 2007 Global Financial crisis – perception of governance and regulatory ‘gaps’
- Threat of imposition of regulatory intervention
- Increasing number of organizations voluntarily provide some ESG information since the 1980s eg. *KPMG International Survey of Corporate Responsibility Reporting* 2011, 2013
- Recognition of business case for CSR eg. WBCSD –
- Perceived costs of government intervention in CSR reporting



- Growth of TBL reporting, CSR, SEA, sustainability reporting, sustainable development reporting, environmental reporting, carbon and water reporting, etc over past 3 decades
- Information provided either in separate report, within conventional financial report, director's statement, or company website etc
- Reporting not regulated – wide variation in information reported
- Guidelines such as GRI, but voluntary, no enforceable standards
- Most CSR not assured – wide range of types, styles and quality of information reported
- Most merely PR corporate greenwashing – ‘not worth the paper they're printed on’
- Growing dissatisfaction with CSR, as no correlation between reported claims and actual performance
- Increasing pressure on many governments to impose some form of regulatory requirements to mandate reporting of some social and environmental reporting and assurance, eg. carbon reporting

International Integrated Reporting Council (IIRC)



- The integration of social and environmental information into annual report not a new concept - mooted initially in the early 1990s, eg. 'triple bottom line' but concept of IR claimed to be 'fundamentally different'.
- King III Report (King Code of Governance for South Africa 2009) - Mervyn King IIRC formed in UK in 2010 – Mervyn King now Chair of IIRC
- Established by interested parties as a purpose-driven body to actively promote <IR> eg Prince of Wales's Accounting for Sustainability Project (A4S)
- IIRC does not have the powers of a regulatory authority but is influential over regulatory bodies such as International Accounting Standards Board (IASB) – IIRC has support from influential bodies including IASB, GRI, big 4 major accounting firms, and other groups; likely to become mandated in future
- Development of a globally applicable Framework for Integrated Reporting has been the key project for the IIRC
- IIRC stated it would respond to needs of its stakeholders in developing <IR>

IIRC's Public pronouncements



- <IR> is shaped by ... business leaders and investors to drive a *global evolution in corporate reporting*.”
- “<IR> at the forefront of reporting innovation”
- “Organizations are using <IR> to communicate a clear, concise, integrated story that explains how all of their resources are creating value.”
- “<IR> is helping businesses to think holistically about their strategy and plans, make informed decisions and manage key risks to build investor and stakeholder confidence and improve future performance.”
- “<IR> is the future of corporate reporting”

IIRC's Public pronouncements



- **Initial publicity 2010:** IR to be developed to provide social and environmental information, strategy and future value creation to **wide range of stakeholders, to benefit “society”**
- Aim to support **“sustainability”**
- **Later:** In final December 2013 version of Framework this aim changed
- IR now directed to needs of investment capital providers only, not stakeholders or **“society”** more generally
- No reference in pronouncements to social and environmental **“sustainability”**

Stages of development of <IR>



- September 2011 IIRC Discussion Paper
 - 'Towards Integrated Reporting – Communicating Value in the 21st Century'
- Discussion paper outlined fundamental elements proposed by the IIRC as forming the basis for <IR>
- Sets out the IIRC's proposals for the structure of a global Integrated Reporting Framework
- Conceptual guidelines for the application, scope, content and presentation of integrated reports, and an outline of the 5 Guiding Principles, and the 6 key Content Elements
- Concept of multiple capitals - 6 types of capitals included: financial, natural, human, intellectual, manufactured, social and relationship
- Emphasized Stakeholder Inclusiveness principle

Stages of Development of <IR>



- IIRC invited feedback on discussion paper from stakeholders
- 212 submissions published on IIRC website - majority identified as 'preparers'
- Only one environmental organization responded (WWF)
- IIRC stated that these actors, i.e., the early preparer groups, were involved in *'[d]iscussions at IIRC Pilot Program conferences, webinars and regional meetings, involving participants from both its Business Network and Investor Network'*, and also had involvement in *'roundtables, seminars, presentations and workshops'*
- IIRC acknowledged that it analysed the feedback it received from submissions and made changes accordingly to the *Framework*

Pilot Programme 2011 -



- Pilot Programme commenced 2011
- 140 businesses and investors from 26 countries participated in the IIRC Pilot Programme
- Exemplar Integrated reports published on IIRC website
- Participants mostly large private multinationals
- Purpose to underpin the development of the Framework
- Paul Druckman, CEO IIRC: *"We call the Pilot Programme our "innovation hub" - made up of people who want to push the boundaries just a little bit further, to challenge, or at least question orthodox thinking, and to acknowledge the importance of reporting to the way our organizations think and behave"*.
- IIRC stated: *'The group of organizations participating in the Pilot Programme have the opportunity to contribute to the development of the Framework'*.
- IIRC acknowledged that: *'the Framework was released following extensive consultation and testing by businesses and investors'*

Emerging Examples Database 2012 -



- Emerging Examples Database has published on IIRC website since 2012 (now called Examples Database)
- Provided access to a comprehensive range of examples described as current “best practice” in reporting
- Organizations represented on this database are predominantly large, multinationals from the private sector.
- Largest single group represented by the financial services industry

IIRC Framework Consultation Draft April 2013



- Consultation Draft of Framework published April 2013
- IIRC invited submissions from stakeholders globally
- IIRC stated that it would be responsive to submissions
- Total 359 responses received - details of all submissions published on IIRC website
- Final version of the Framework published December 2013
- Incorporated consultation feedback received on the draft Framework
- Organizations that contributed to process of development of IR able to influence its outcome (IIRC stated it was responsive to submissions)
- IIRC Final Framework published Dec 2013

Findings and Discussion



- The financial services industry, particularly major international banking organizations, the largest industry group that provided submissions to the 2011 Discussion Paper and 2013 Consultation Draft of the International <IR> *Framework*.
- Integrated reports published on IIRC website also dominated by the financial services industry.
- Reporting companies failed to achieve all 5 IR guiding principles - **low level of responsiveness to stakeholder inclusiveness**.
- Suggests that the reports (and business operations) still focused only on the shareholder group's needs rather than those of stakeholders more generally.
- The process of developing IR has been dominated by large multinational financial services industry based in UK, Europe and US

Conclusions



- Banking and investment is dominant single industry type that responded to development of IR by IIRC
- Has been dominant in all stages of development of <IR>
- Providers of financial capital represent the largest single-interest industry group currently dominating the production of integrated reports.
- Within this industry group the majority of organizations are large - 52% of the companies have total assets of £10,000,000,000 (ten thousand million) and more (converted to GBP) 64% of the companies have more than 10,000 employees
- The incidence of IR not dominated by high (environmental) impact industries
- **Conclusion that there is evidence that <IR> has been captured by this industry to meet its interests**