

Integrated reporting for a sustainable strategy: One Report has the potential to significantly change how companies operate and investors think, shifting the focus from that of meeting short-term financial goals to developing a long-term business strategy that not only makes a commitment to corporate social responsibility, but also to a sustainable society.

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In light of the current economic and social climate, many companies are now publishing voluntary corporate social responsibility or sustainability reports that highlight environmental, social and governance issues pertaining to their business and industry. Such reports typically serve as a supplement to the company's annual financial reports.

While these organizations may have the right intentions, in most cases there is little linkage between the information published in these separate reports, which greatly limits either document's overall value.

It's an oversight that some companies are beginning to acknowledge and correct. There is an emerging international trend in business where a few innovative companies spanning different countries and industries have looked beyond separate reports for financial and nonfinancial results, integrating this information into a single document referred to as "One Report."

The majority of these organizations are new to the integrated-reporting arena, producing such a document for only the past year or two. Nonetheless, it appears that these frontrunners have caught the attention of stakeholders and other companies alike, as many organizations are now looking to follow their lead.

### **What is One Report?**

One Report does not mean only one report. Yes, by simplest definition, One Report combines a company's key financial and nonfinancial information into a single document. However, the integration of financial and nonfinancial reporting is about much more than simply issuing a paper document. Namely, One Report serves as a means of reporting financial and non-financial information in a way that reveals their impact on each other,

answering a fundamental question: Just how does non-financial performance contribute to financial performance, and vice versa?

One Report has the potential to significantly change how companies operate and investors think, shifting the focus from that of meeting short-term financial goals to developing a long-term business strategy that not only makes a commitment to corporate social responsibility, but also to a sustainable society.

Integral to One Report and its success is Internet utilization, serving as a platform to provide more detailed data than what is available only in hard copy. In leveraging the Internet and its Web 2.0 tools and technologies--such as extensible Business Reporting Language (XBRL) tagging, Wikis, blogs, podcasts and forums--users gain the ability to perform their own analysis of financial and nonfinancial information, as well as communicate their thoughts and opinions with other stakeholders.

### **The Value to Stakeholders**

Reporting matters. It communicates to the world a company's current performance--both positive and negative--and sets the stage for the future. In some cases, particularly with environmental performance, this information includes externalities that the company's operations place on society. Carbon emissions, water pollution and ecosystem degradation are very prominent concerns, and a high priority for many industries.

With One Report, the relationship between financial and nonfinancial performance and the extent to which financial performance imposes social or environmental externalities becomes more apparent. The result is improved information provided to stakeholders about the company's performance and how it is being achieved--including its costs and benefits--that can ultimately lead to the following:

- \* The creation of an internal discipline necessary for embedding sustainability into a company's strategy and operations;
- \* Better company understanding that governance, strategy and sustainability are inseparable;
- \* Acknowledgment that a company is responsive to the risks and opportunities created by the need to ensure a sustainable society; and
- \* Enhanced corporate disclosure and transparency.

It is important to note that One Report is not a silver bullet for making sustainability a reality. Rather, One Report is a vehicle for better communicating and understanding the risks and opportunities created by environmental and social issues and trends. The responsibility of taking this

information and responding to it in a meaningful way is still in the hands of the company and its stakeholders.

## **Value to the Company**

When a sincere commitment to sustainability exists, One Report then becomes a cornerstone for improvement, providing a point of focus and discipline. By actively practicing integrated reporting, companies can anticipate several major operational benefits that mutually reinforce the development and implementation of a sustainable business strategy. They include:

\* **Greater Clarity About Relationships and Commitments.** It is easy for a company to make the sweeping statement "We believe that sustainability is good for our shareholders." However, sustainable strategies are not easily implemented, often requiring that trade-offs be made. For example, investments to improve energy efficiency and reduce carbon emissions can have a positive return on investment but hurt earnings and cash flow in the short term.

As a company develops a better understanding of the relationship between financial and nonfinancial performance through modeling and analysis, and improving internal systems and measurement methodologies as necessary, it can also reevaluate its categories of risks, opportunities and choices. As management does this, its capability to develop and implement sustainable strategies will improve.

\* **Better Decisions.** In determining the relationship between financial and nonfinancial outcomes, companies inevitably find that for some, good metrics do not exist. For others, they are very hard to develop. Regrettably, this can too easily serve as an excuse for not doing the hard analytical work necessary to specify and validate the relationships that are believed to exist. The better response is to improve poor measurement methodologies and invent new ones for those useful metrics yet to come.

Developing the supporting metrics to test and validate these relationships requires a high level of internal collaboration across functions and business units. As each unit sees its role in a broader context and begins to better understand the consequences of its decisions on other units, better decisions that reinforce a sustainable strategy will be made for the company as a whole.

\* **Deeper Engagement with All Stakeholders.** As companies realize the benefits of increased internal collaboration, they will naturally seek to obtain these same benefits from higher levels of external collaboration, as a means of better understanding expectations and improving communication among its stakeholders. In doing so, stakeholders can gain a more holistic perspective of a company and its sustainability--understanding that an

organization's ability to earn profits over the long term will require investments that come at short-term costs or even value transfers.

Conversely, other stakeholders will learn that companies must make a profit in order to survive and grow.

\* Lower Reputational Risk. Not surprisingly, as corporate social responsibility and sustainability have increased in importance, so has the focus on reputational risk. In implementing integrated reporting, a chain of events can occur, helping companies to more effectively manage this risk area. That is, integrated reporting provides greater clarity about cause-and-effect relationships, enabling a company to better understand the impact of its strategic choices on society. Better decisions improve the allocation of resources across all stakeholder groups in order to optimize the collective outcome.

Lastly, deeper engagement ensures that a company's strategy is attuned to society's needs as a whole. By combining all of these elements, reputational risk is reduced and the likelihood that a company is sustainable over the long term is increased.

## **Getting Started**

It is no secret that the adoption of One Report and high-quality integrated reporting requires work. But the end result is well worth the effort--the greater the number of companies implementing sustainable strategies, the more sustainable the society that ultimately is created.

In beginning the process of integrating financial and nonfinancial information, there are a few areas on which a company should focus, including:

\* Leadership Support. Critical to the development of One Report is a strong commitment from leadership. Beginning at the top of an organization, the chief executive officer has the ultimate responsibility for delivering information to its stakeholders and ensuring that the message regarding integrated reporting is coordinated and consistent.

Other executives who have key roles to play include the chief operating officer, the chief financial officer, the head of investor relations, the chief information officer and the head of corporate communications.

Once leadership has made a commitment to integrated reporting and received the support of the board, someone must be given the responsibility for making it happen. There is no single obvious choice for facilitating the internal coordination process, but whoever plays this role will need access to certain resources. Assuming the necessary systems and Web platform already exist, the required resources will be mostly time and coordination costs. If the appropriate systems are not in place, investments will have to

be made in these areas.

\* Innovation. Also integral to the creation of One Report is innovation. Among the most important areas requiring innovation is the development of a new business model that challenges management and shareholders to take a more strategic, long-term view of the company.

Vision is also needed to not only recognize the interests of all stakeholders, but to also incorporate these interests in the company's future agenda.

In making these alternations, value is created, providing necessary insight for creating new products, processes and services to increase sustainability.

This may include, for example, software for measuring nonfinancial performance and integrating financial and nonfinancial information systems; models, tools and consulting advice for better understanding the relationship between financial and nonfinancial performance; advice on internal and external communications and stakeholder engagement; and assurance methodologies for providing an integrated audit opinion for an integrated report.

\* Web Integration. At its core, One Report is the integrated presentation of financial and nonfinancial data in determining the relationship between the fiscal, social, environment and governance issues that a company faces. Unfortunately, there are severe limitations to this presentation when it is only communicated in paper form, making the incorporation of the Web central to this process.

In utilizing the Internet, a company--thanks to the "drill-down" capabilities the Web provides--supplies stakeholders with more detailed information regarding financial and nonfinancial outcomes and the relationships between them.

Moreover, the Internet and its associated Web 2.0 tools and technologies make it possible to shift from a one-way information push to a mutual conversation and ongoing dialogue between a company and all of its stakeholders, thereby adding much greater dimension to the idea of One Report. This higher degree of integration and interaction is made possible by an online presence that is user-friendly, engaging, collaborative and secure.

Doing this well typically involves the integration of Web sites beyond that of the company since much of the collective conversation online is taking place throughout a plethora of different Internet channels such as social media sites, blogs and news sites.

### **What's Next?**

During an invitation-only meeting last September at St. James's Palace in

London, hosted by The Prince's Accounting for Sustainability Project, about 20 people representing organizations with a range of different perspectives-- including investors, standard setters, companies, accounting bodies, United Nations representatives and civil society--met to discuss how best to achieve the integration of financial and nonfinancial reporting.

It was reported that robust discussion took place about the idea and meaning of One Report, including the challenges of implementing integrated reporting at the company level and in gaining broad adoption for it at the public policy level.

One output of the discussion in London (and follow-up meetings in December) was the agreement that an appropriate international body should initiate a process with those organizations that have the relevant expertise and recognition in the area of transparency, accounting and reporting to consider the development of an integrated sustainability and financial reporting framework as a critical step toward a sustainable economy.

It was also agreed that now is the time to have the same level of coordinated international response to the current environmental crisis as occurred with the financial crisis. At this time, financial reporting systems do not provide the necessary information needed to address environmental or societal challenges.

Therefore, bringing together those organizations that have responsibility for financial accounting and reporting with those widely recognized as leaders in nonfinancial accounting and reporting would make possible the establishment of a process, governance structure and guidelines under which an appropriate integrated framework could be developed.

The journey does not end here. In order to gain further momentum, support for One Report must also come from the investment community, requiring that a large proportion of assets under management be based on long-term investment strategies that support sustainable development. In addition, the creation of standards for integrated reporting is also essential, as is the implementation of legislation and regulation.

Finally, just as accelerating the broad adoption of One Report requires the support of the investment community, it also requires the support of civil society, encouraging others to act and further adopt the concept of integrated reporting.