Edited by
Francesco de Leo and
Matthias Vollbracht

CSR Index

Peter Brabeck-Letmathe
Robert G. Eccles
Daniel Esty
Michael Gawthorne
Gerd Goetz
Jürgen De Graeve
Theresa Lötter
Francesco de Leo
Francis Quinn
Wolfgang Scheunemann
George Serafeim
Thomas Voigt
Matthias Vollbracht

2011

CSR Index 2011

Editors
Francesco de Leo & Matthias Vollbracht

INNOVATIO Publishing Ltd.

Beirut Boston Pretoria Tianjin Zurich

Electronic copy available at: http://ssrn.com/abstract=1910965

Contents

	Introduction by Francesco de Leo	1
1.	**CSR Trends**	
1.1.	Corporate Social Responsibility: A Key to Rebuilding Trust by Theresa Lötter	24
1.2.	After the Financial and Economic Crisis: What is the State of CSR Topics in Germany? by Matthias Vollbracht	43
1.3.	Copenhagen or Bust The Perceived Failure at Copenhagen and its Consequences for the Environmental Agenda by Michael Gawthorne	51
2	**Best Practice**	
2.1.	Profitable Corporate Social Responsibility by Roland Berger Strategy Consultants	58
2.2.	Accelerating the Adoption of Integrated Reporting by Robert G. Eccles and George Serafeim	70
2.3.	PUMA and PPR HOME announce first results of unprecedented Environmental Profit & Loss Account by Ulf Santjer	93
2.4.	Water – A New Role for the Private Sector by Peter Brabeck-Letmathe	105
2.5.	L’Oreal Sustainability Strategy & Best Practices “For a More Beautiful World” by Francis Quinn	120

2.6. Factory of the Future – The World's First Profit-Orientated Social Business Established in Bangladesh by Thomas Voigt 131

2.7. CSR Must Fit the Core Business – Industry-relevant Topics and Credible Communication by Wolfgang Scheunemann 135

2.8. Green Comm Challenge: A Race against Time by Francesco de Leo 146

2.9. Economy, Ecology, Emotions – the Perfect Trilogy The Audi Approach to Corporate Social Responsibility by Jürgen De Graeve 162

2.10. Our Planet, Our Partners, Our People by Gerd Goetz 170

2.11. The Environmental Performance Index by Daniel Esty 193

Contributors 201

2.2. Accelerating the Adoption of Integrated Reporting by Robert G. Eccles and George Serafeim

Interest in and adoption of integrated reporting regarding a company's financial, environmental, social, and governance performance is growing rapidly. Although still largely a voluntary practice in most countries, it already is (South Africa) or soon will be (France) required of all listed companies. The European Union is poised to mandate ESG (environmental, social, and governance reporting) within the next year, a significant step towards mandated integrated reporting. Various initiatives are under way to create more visibility for integrating reporting, including getting this topic on the agenda of the G20 meeting being hosted in France in November 2011, and at the Earth Summit being held in Rio de Janeiro in June 2012.

The first company to issue an integrated report, nearly 10 years ago, was the Danish bio-industrial products company, Novozymes. Natura, a Brazilian cosmetics and fragrances company, issued its first integrated report in 2003. The Danish diabetes care company Novo Nordisk did so the next year. Today a number of European companies are producing integrated reports and creating more integrated websites. During the past few years, even a few U.S. companies (such as American Electric Power, Pfizer, Southwest Airlines, and United Technologies Corporation), notoriously risk averse to voluntary disclosures given heavy financial reporting requirements and fears of litigation, have started to practice integrated reporting.

A sustainable society requires the vast majority of its companies to have sustainable strategies, defined as those that create value for shareholders over the long term while meeting the needs of other stakeholders and not taking excessive or uninformed risks. Integrated reporting is both the most effective way to communicate a company's performance in implementing a sustainable strategy and a form of discipline to ensure that it has a sustainable strategy in the first place. Universal adoption of integrated reporting needs to

happen soon. The rapid and broad adoption of high-quality integrated reporting is an imperative for our capital markets and our society. A combination of market and regulatory forces will be required to make this happen, with the balance varying across countries.

In our view, integrated reporting should be a universal practice by all listed companies within the next five years.

This chapter describes the concept of integrated reporting, provides a brief history of its development, reviews the current state of practice, presents a strategy for institutional change that will accelerate the adoption of integrated reporting in order to meet the five-year objective, and concludes with a call to the reader to do whatever he or she can to speed the adoption of integrated reporting.

The Concept of Integrated Reporting

On August 2, 2010 The Prince's Accounting for Sustainability Project (A4S) and the Global Reporting Initiative (GRI) announced the formation of the International Integrated Reporting Committee (IIRC).[2] The mission of the IIRC (www.theiirc.org) is "To create a globally accepted integrated reporting framework which brings together financial, environmental, social and governance information in a clear, concise, consistent and comparable format"[3] in order to "help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing."[4] Integrated reporting involves reporting both financial and nonfinancial (environmental, social, and governance [ESG]) information in a single document, ideally showing the relationship between the two in terms of how good performance on ESG issues contributes to good financial performance and vice versa, and the potential trade-offs that a company might be facing

---

[2] http://www.integratedreporting.org/sites/default/files/Press%20Release.pdf, accessed July 2011. Eccles is a member of the Steering Committee of the IIRC.

[3] http://www.theiirc.org/the-iirc/, accessed July 2011.

[4] http://www.theiirc.org/about/, accessed July 2011.

across financial and nonfinancial performance. Today all listed companies are required to report on their financial performance on at least an annual basis, but reporting on nonfinancial performance is a voluntary exercise in most countries. We believe that integrated reporting of both financial and nonfinancial performance should ultimately be mandated. Ioannou and Serafeim (2011) have shown the benefits of mandated ESG reporting to both companies and society.[5] The same will be true of integrated reporting and even more so.

Integrated reporting is about more than a static document. It also entails providing performance information in a more integrated way on the company's website, along with providing more detailed information of particular interest to shareholders and other stakeholders. Analytical tools for exploring the relationship between financial and nonfinancial performance using data from the company and other sources and comparing the company's performance to its competitors can also be provided. Finally, the company's website can also be used to improve its dialogue and engagement with all stakeholders. Integrated reporting is as much about listening as it is talking.[6]

The fundamental premise behind integrated reporting is that a sustainable society, defined as one which can meet the needs of both present and future generations, requires most (if not all) of its companies to have sustainable strategies which can create value for shareholders and other stakeholders in both the short and long term. This may involve sacrificing the former for the latter.[7] Four

---

[5] Ioannis Ioannou and George Serafeim, "The Consequences of Mandatory Corporate Sustainability Reporting," Harvard Business School, Working Paper 11-100, 2011.

[6] Robert G. Eccles and Michael P. Krzus, "The Internet and Integrated Reporting," in *One Report: Integrated Reporting for a Sustainable Strategy*, (New York: John Wiley & Sons, Inc., 2010), Chapter 7 and Robert G. Eccles and Kyle Armbrester, "Two Disruptive Ideas Combined: Integrated Reporting in the Cloud," IESE Insight, no. 8, 2011.

[7] Robert G. Eccles and Michael P. Krzus, "Sustainable Strategies for a Sustainable Society," in *One Report: Integrated Reporting for a Sustainable Strategy* (New York: John Wiley & Sons, Inc., 2010), Chapter 5.

factors account for the current sense of urgency to ensure a sustainable society: (1) recurring global financial crises, (2) an increasing awareness of the effects of climate change and natural resource limitations, such as water and certain minerals, (3) the growing importance of human capital to value creation in developed economies and of human rights in developing countries, and (4) the recognition of the essential role of good corporate governance and risk management to prevent major corporate disasters such as through fraud, corruption, and major operating blunders.

Long-term sustainable value creation requires the company to take a holistic view of its decisions and the consequences of these decisions regarding financial, natural, and human resources in terms of how decisions about each type of resource affect the other ones. It also requires good governance and risk management in order to ensure that decisions producing short-term performance do not threaten the company's long-term performance or even existence. As expressed by the IIRC, through integrated reporting, a company is able "to demonstrate the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. The IIRC's Framework will support an organization in addressing, in a clear and concise manner, the material issues affecting its ability to create and sustain value in the short, medium and longer term."[8]

In the fall of 2011 the IIRC anticipates publishing a Discussion Paper that will be a first draft of this framework. (South Africa has already released a Discussion Paper on the framework developed there, received public comment, and is in the process of revising it.) In the summer of 2011 the IIRC also launched a complementary Pilot Program that will involve approximately 100 companies from different sectors and countries all over the world.[9] Companies participating in this program will use the draft framework to create their own integrated report and, based on their experience, provide

---

[8] http://www.theiirc.org/wp-content/uploads/2011/06/BriefingIntegratedReportingPilotProgramme.pdf, accessed July 2011.
[9] Ibid.

feedback for revising the framework. This Pilot Program, which will run through October 2013, will also include an Investor Group that will provide feedback and guidance to companies participating in the pilot program and to the IIRC itself. Through this program and other initiatives around the world regarding integrated reporting, the IIRC hopes "to create a new global standard in Integrated Reporting."[10]

A Brief History of Integrated Reporting

The origins of integrated reporting are based on two prior ideas, each traceable back to the mid-1990s that eventually converged. The first is that companies should supplement the financial information they are required to report that is based on accounting standards with other nonfinancial information that is of interest to shareholders such as on customers, human capital, innovation, and other intangible assets. Common reasons cited by those making this shareholder-focused argument for voluntary transparency include: (1) financial information is a lagging indicator, a "rear-view mirror" of the company's performance and an imperfect predictor of future financial performance, (2) nonfinancial information can provide insights into the company's expected future financial performance, and (3) for most companies their market value exceeds their book value so additional reporting can provide information on a company's intangible assets that are not captured on the balance sheet.[11]

The second idea is that companies have an obligation to report information to stakeholders other than shareholders, even if share-

---

[10] Ibid.

[11] Robert G. Eccles, "The Performance Measurement Manifesto," *The Harvard Business Review*, v. 69, is. 1, 1991, p. 131-137. See also Robert G. Eccles and Sarah Clay Mavrinac, "Improving the Corporate Disclosure Process," *MIT Sloan Management Review* 36, no. 4 (summer 1995): 11-25.; Robert G. Eccles, Robert H. Herz, E. Mary Keegan, and David M.H. Phillips. *The ValueReporting Revolution: Moving Beyond the Earnings Game*. (New York: John Wiley & Sons, Inc., 2001); and Robert G. Eccles and Samuel A. DiPiazza, Jr. *Building Public Trust: The Future of Corporate Reporting*. (New York: John Wiley & Sons, Inc., 2002).

holders are not interested in this information, on their environmental, social, and governance performance in what is often referred to as a "corporate social responsibility" or "sustainability" report.[12] In 1997 John Elkington coined the term "triple bottom line"[13] whereby a company reports on its economic, environmental, and social performance.[14] The single most important event to turn this idea into a reality was the creation in 1997 of the Global Reporting Initiative (GRI) by Robert K. Massie (then head of the Coalition for Environmentally Responsible Economies, now known as CERES) and Allen L. White, of the Tellus Institute where he is now a Vice President and Senior Fellow. Originally housed with CERES, in 2001 the GRI was spun off into a separate organization. The GRI's mission is "To make sustainability reporting standard practice by providing guidance and support to organi-

---

[12] Terminology regarding the reporting of nonfinancial information is inconsistent and confusing. Some people use the terms "corporate social responsibility (CSR)" and "sustainability" interchangeably whereas for others they mean different things. Each term also has different meanings. For some companies, their CSR report is about philanthropic contributions and community activities. For others, it is about their ESG performance more broadly. Similarly, for some companies their sustainability report is solely about carbon emissions and other environmental concerns while for others it is about ESG performance more broadly. We will use the term "sustainability report" to refer to the entire range of ESG performance information. For a discussion of the origins of the concepts of corporate social responsibility and sustainability see Chapter 5 in Eccles and Krzus (2010).

[13] Elkington, John, *Cannibals with Forks: The Triple Bottom Line of 21st Century Business*, (Capstone Publishing: Oxford, hardback 1997, paperback 1999).

[14] As with corporate social responsibility and sustainability, the terminology regarding economic and financial performance is inconsistent and confusing. Generally, financial performance, clearly a part of economic performance, refers to measure that appear in a company's income statement and balance sheet that are based on accounting standards and on its stock price performance. Economic performance refers to non-accounting based measures such as market share and measures derived from accounting-based measures, such as revenues per employee.

zations."[15] In 2010, 1861 companies issued sustainability reports[16] using the GRI's "G3 Guidelines."[17]

The emergence of the concept of integrated reporting represents a convergence of these two ideas. Investors are increasingly recognizing the importance of ESG performance for financial performance and other stakeholders are recognizing that financial performance is a necessary, although certainly not sufficient condition, to accomplish ESG objectives that are important to them. The first company to issue an integrated report was the Danish bio-industrial products company Novozymes in 2002. In 2005 White wrote about the "integrated, balanced and candid reporting" in the Danish pharmaceutical company Novo Nordisk's 2004 report which contained both financial and nonfinancial information.[18] That same year a visionary, and largely forgotten report since it was just a few years ahead of its time, sponsored by the Canadian cooperative bank Vancity, appeared called "integrated reporting: issues and implications for reporters ."[19] The first U.S. company to produce an integrated report was United Technologies Corporation in 2008.[20] In 2010 Robert G. Eccles of the Harvard Business School and Michael P. Krzus of Grant Thornton published the first book on integrated reporting.[21] In October of that same year "A Workshop on Integrated Reporting: Frameworks and Action Plan" was

---

[15] http://www.globalreporting.org/aboutGRI/, accessed July 2011.

[16] http://www.globalreporting.org/NR/rdonlyres/954C01F1-9439-468F-B8C2-B85F67560FA1/0/GRIReportingStats.pdf, accessed July 2011.

[17] http://www.globalreporting.org/ReportServices/GRIReportsList/accessed July 2011.

[18]http://www.businesswire.com/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/services/ir_and_pr/ir_resource_center/editorials/2005/BSR.pdf, accessed July 2011.

[19]https://www.vancity.com/SharedContent/documents/IntegratedReporting.pdf, accessed July 2011.

[20] Robert G. Eccles and Michael P. Krzus, "United Technologies Corporation," in *One Report: Integrated Reporting for a Sustainable Strategy*, (New York: John Wiley & Sons, Inc., 2010), Chapter 2.

[21] Robert G. Eccles and Michael P. Krzus, "United Technologies Corporation," in *One Report: Integrated Reporting for a Sustainable Strategy*, (New York: John Wiley & Sons, Inc., 2010), Chapter 2.

held at the Harvard Business School. Following the workshop, a free e-book was published based on contributions from the workshop participants representing companies, analysts and investors, regulators and standard setters, NGOs, and the academic community. The purpose of this e-book was to provide a current snapshot of the state of integrated reporting and recommendations for how to speed its adoption.[22]

On January 25, 2011 at a press conference in Johannesburg, South Africa, the world's first guidance document for companies practicing integrated reporting was issued. Starting in March of that year, every company listed on the Johannesburg Stock Exchange was required to file an integrated reporting or explain why it was not doing so. This was a result of the *King Report on Governance for South Africa 2009 (King III)* produced under the leadership of Professor Mervyn King.[23] The 2010 French Grenelle II Law "requires that companies include in their annual reports a section on the social and environmental consequences of their activities and set forth their commitment to sustainable development.[24] On January 28, 2011, the European Commission (EC) officially closed its public comment period which had sought feedback on the existing European Union (EU) regime on corporate disclosure of environmental, social, and governance (ESG) information and subsequently published a "*Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions",* which stated that "In order to ensure a level playing field, the Commission will present a legislative proposal on the transparency of the social and environmental information provided by companies in all sectors."[25]

---

[22] http://cache.smashwire.com/bookCovers/a8955657f7027c8a908f5652ce6df946e4f103a9, accessed July 2010.

[23] http://www.ecgi.org/codes/documents/king3.pdf, accessed July 2011.

[24] http://www.loc.gov/lawweb/servlet/lloc_news?disp3_l205402159_text, accessed August 2011.

[25] COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS, Single Market

The State of Integrated Reporting Today

As explained above, since no universally accepted framework for integrated reporting exists and it is still largely a voluntary practice, exactly what it means for a company to produce an "integrated report" is not well defined. Still, it is possible to get a sense of the degree to which companies are attempting to integrate the reporting of their financial and nonfinancial performance, and how this varies across countries in several ways. For example, of those 1,861 companies using the GRI's G3 Guidelines, 237 are self-declared integrated reports.[26]

Another way to assess the degree to which companies are attempting to put the concept of integrated reporting into practice is through a proprietary database of 2,255 companies that Sustainable Asset Management (SAM)[27] has kindly made available to us.[28] We used data from 2009 in which SAM analysts coded whether a company was integrating information on its environmental and so-

---

Act, Twelve levers to boost growth and strengthen confidence, "Working together to create new growth" {SEC(2011) 467 final}, Brussels, 13.4.2011, COM(2011) 206 final, p. 15.http://www.lex.unict.it/eurolabor/en/documentation/com/2011/com_206_2011_en.pdf, accessed July 2011. For an analysis of the responses to the consultation see COMMISSION STAFF WORKING PAPER Overview of responses to the public consultation on the Communication 'Towards a Single Market Act'
Accompanying document to the COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS A Single Market Act Twelve levers to boost growth and strengthen confidence "Working together to create new growth," Brussels, 13.4.2011, SEC (2011) 467 final.
http://www.lex.unict.it/eurolabor/en/documentation/com/2011/sec_467_2011_en.pdf, accessed July 2011.

[26] http://www.globalreporting.org/ReportServices/GRIReportsList/, accessed July 2011.

[27] Sustainable Asset Management (SAM) is an international investment company with a specific focus on sustainability investments. The company is based in Zurich, Switzerland and considers economic, environmental and social criteria in its investment strategies. In addition to asset management, the company constructs stock market indexes and is active in private equity.

[28] In particular we would like to thank Cecile Churet and Iordanis Chatziprodromou.

cial performance with financial information. This integration could be in terms of either or both of narrative information and quantitative key performance indicators (KPIs). For environmental information, 20.13 percent of the companies were integrating both narrative and KPI information, 0.49 percent KPIs information only, and 27.63 percent narrative information only. Thus 48.25 percent were practicing some degree of integration in the reporting of their financial and nonfinancial performance and the other 51.75 percent were practicing none. The results were similar for social information: (1) 19.87 percent for both narrative and KPIs, (2) 0.80 percent for KPIs only, (3) 24.30 percent for narrative only, (4) 44.07 percent are practicing some degree of integration, and (5) 55.03 percent are practicing none. The very low percentages for KPI information only suggests that integrating financial and nonfinancial information requires some narrative explanation. Conversely, precision is added when narrative information is accompanied by quantitative KPIs.

The SAM database makes it possible to examine variations across countries. For both environmental and social information, we calculated an index for each country based on the percentage of companies integrating both narrative and KPI information minus the percentage of companies integrating neither. The larger the number, the greater the degree of integration.

The results are shown in Table 2.2.1. For environmental information 14 countries have a positive score, meaning that more companies are integrating both narrative and KPI information than those that are doing neither, and the remaining 15 have a negative score. The United Kingdom ranks first – followed by France, Denmark, Sweden, Finland, Portugal, and Brazil – and the United States ranks last. Joining the U.S. at the bottom of the rankings are South Korea, China, Canada, Hong Kong, and India. For social information, 13 countries have a positive score and 16 have a zero or negative one. Here too the United Kingdom ranks first – followed by Brazil, Germany, Sweden, and France – and the United States ranks last. Joining the U.S. at the bottom of the rankings are South Korea, Colombia, Canada, Greece, and Japan.

Table 2.2.1. **Integration of Environmental and Social Information by Country**

Rank	Country	Environmental score	Rank	Country	Social score
1	UNITED KINGDOM	54.5	1	UNITED KINGDOM	48.2
2	FRANCE	54.3	2	BRAZIL	48.0
3	DENMARK	46.2	3	GERMANY	46.8
4	SWEDEN	45.5	4	SWEDEN	45.5
5	FINLAND	44.4	5	FRANCE	42.9
6	PORTUGAL	44.4	6	FINLAND	33.3
7	BRAZIL	40.0	7	SOUTH AFRICA	30.8
8	RUSSIAN FEDERATION	33.3	8	ITALY	29.2
9	GERMANY	29.8	9	DENMARK	23.1
10	LUXEMBOURG	25.0	10	BELGIUM	16.7
11	SOUTH AFRICA	23.1	11	IRELAND	11.1
12	NETHERLANDS	9.1	12	SPAIN	6.7
13	SWITZERLAND	8.1	13	NETHERLANDS	6.1
14	SPAIN	6.7	14	LUXEMBOURG	0.0
15	BELGIUM	-5.6	15	MALAYSIA	0.0
16	ITALY	-8.3	16	SINGAPORE	-4.3
17	IRELAND	-11.1	17	SWITZERLAND	-5.4
18	MEXICO	-12.5	18	MEXICO	-12.5
19	GREECE	-18.2	19	HONG KONG	-17.1
20	AUSTRALIA	-19.7	20	AUSTRIA	-22.2
21	JAPAN	-20.0	21	INDIA	-26.3
22	SINGAPORE	-21.7	22	CHINA	-26.7
23	AUSTRIA	-22.2	23	AUSTRALIA	-33.3
24	INDIA	-31.6	24	JAPAN	-39.0
25	HONG KONG	-31.7	25	GREECE	-45.5
26	CANADA	-46.2	26	CANADA	-49.5
27	CHINA	-53.3	27	COLOMBIA	-50.0
28	KOREA (SOUTH)	-59.0	28	KOREA (SOUTH)	-64.6
29	UNITED STATES	-79.0	29	UNITED STATES	-81.1

Source: Sustainable Asset Management (SAM) database

We would caution against overly interpreting the strict rank order given data and methodological limitations. However, the general pattern is clear and consistent with expectations. In general, the highly ranked countries for both environmental and social information are European and Brazil. This is consistent with the fact that 45% companies practicing integrated reporting according to the GRI list are European. Along with the U.S. and Canada, most of the especially low-ranked countries are from Asia. The explanation for the U.S. and Canada is that companies in both countries remain skeptical about the important of sustainability in their strategies, to some extent exacerbated by the short-term nature of their capital markets. Companies in the developing economies of China, India, and Korea are more focused on pursuing the substantial short-term

growth opportunities they are facing and thus less concerned about long-term sustainability.

A common complaint of companies practicing integrated, or even separate sustainability, reporting is general investor indifference. What is the point, they ask, of pursuing strategies for sustainable long-term value creation if investors do not care because they are simply focused on short-term financial results? Furthermore, why prepare an integrated report if this will have no impact on investors? While some in the investment community, particularly the Socially Responsible Investment (SRI) funds, have expressed vocal support for integrated reporting, this topic is not yet at the top of the agenda of most "mainstream" investors. Using data kindly made available to us by Bloomberg[29], while it is not possible to assess investor interest in integrated reporting *per se*, we *can* evaluate the degree to which investor interest in ESG information varies across countries. Bloomberg supplied us with data showing the number of times investors in 23 countries accessed a long list of environmental, social, and, governance metrics. While two quarters may seem like a short period of time, there were a total number of hits of around 34 million, a substantial amount of data. Controlling for total country market cap, we then produced the rank order, shown in Table 2.2.2.

[29] In particular we would like to thank Curtis Ravenel.

Table 2.2.2. **Investor Interest in Environmental and Social Information by Country, Controlling for Market Cap**

Rank	Country	Environmental interest	Rank	Country	Social interest
1	SWITZERLAND	1.778	1	CANADA	0.314
2	UK	1.063	2	UK	0.253
3	CANADA	0.824	3	SWITZERLAND	0.210
4	SPAIN	0.502	4	SPAIN	0.144
5	DENMARK	0.320	5	SINGAPORE	0.116
6	SINGAPORE	0.303	6	JAPAN	0.104
7	JAPAN	0.289	7	GERMANY	0.086
8	INDIA	0.219	8	INDIA	0.065
9	UNITED STATES	0.156	9	UNITED STATES	0.058
10	GERMANY	0.131	10	GREECE	0.046
11	GREECE	0.114	11	ITALY	0.039
12	BRAZIL	0.090	12	BRAZIL	0.036
13	FRANCE	0.083	13	HONG KONG	0.029
14	ITALY	0.075	14	FRANCE	0.027
15	AUSTRALIA	0.073	15	AUSTRALIA	0.026
16	SWEDEN	0.066	16	SOUTH KOREA	0.025
17	SOUTH AFRICA	0.047	17	SOUTH AFRICA	0.017
18	SOUTH KOREA	0.047	18	SWEDEN	0.017
19	NETHERLANDS	0.036	19	NETHERLANDS	0.013
20	HONG KONG	0.035	20	DENMARK	0.013
21	CHINA	0.019	21	CHINA	0.011
22	BELGIUM	0.016	22	FINLAND	0.008
23	FINLAND	0.012	23	BELGIUM	0.007

Source: Bloomberg

Investors in Switzerland, UK, Canada, and Spain are the most interested in environmental information. In contrast, investors in Netherlands, Hong Kong, China, Belgium, and Finland are the least interested. Investors in Switzerland, UK, Canada, and Spain are also the most interested in social metrics. In contrast, investors in Netherlands, Denmark, China, Belgium, and Finland are the least interested. Investors in the U.S. rank in the middle in terms of relative investor interest in environmental and social information. An interesting thing to note here is that integration of company information and investor interest, in social and environmental information, are not perfectly aligned. For example, Canadian companies tend not to integrate ESG information but investors seem to care about this information relative to investors in other countries.

A Strategy for Change

What must be done to ensure the universal adoption of integrated reporting by all listed companies within the next five years? It will require a combination of market and regulatory forces.

One important market force is voluntary adoption by companies because they see the benefits in doing so. These include a better understanding of the relationship between financial and nonfinancial performance, improved internal measurement and control systems for producing reliable and timely nonfinancial information, lower reputational risk, greater employee engagement, more committed customers who care about sustainability, more long-term investors who value sustainable strategies, and improved relationships with other stakeholders.[30] To the extent that leading companies with established reputations of being well managed voluntary adopted integrated reporting, others in their sector will be compelled to do so in order to emulate these leaders and adopt "best practices."

Because no global framework for integrated reporting currently exists, voluntary adoption by companies will play an important role in helping to create one. Experimentation and innovation by companies which, after all, bear the ultimate responsibility for integrated reporting, are essential to giving meaning to the very concept of integrated reporting. Through the efforts of early adopters, knowledge will be developed regarding exactly what the essential elements are of an integrated report, what the barriers and challenges are to producing one, and how these can be overcome. Unlike financial reporting, where IT systems and organizational processes have been developed and fine-tuned over many years, the systems and processes for producing an integrated report are still being developed. The pilot program of the IIRC, discussed

---

[30] Robert G. Eccles and Michael P. Krzus, "United Technologies Corporation," in *One Report: Integrated Reporting for a Sustainable Strategy*, (New York: John Wiley & Sons, Inc., 2010), Chapter 6, and Robert G. Eccles and Kyle Armbrester, "Two Disruptive Ideas Combined: Integrated Reporting in the Cloud," *IESE Insight*, no. 8, 2011.

above, recognizes the important role companies have in creating a useful and practical framework for integrated reporting.

Another market force that will encourage the voluntary adoption of integrated reporting is pressure from large institutional investors active in both the public and private equity markets. In the public markets, investors that own a significant proportion of a company's stock can put pressure on the company to implement integrated reporting in various ways such as raising the issue at the Annual General Meeting or even getting the topic on the proxy statement. Large institutional investors in their role as limited partners (LPs) in private equity funds can encourage these funds to provide them short integrated reports at the portfolio company level. On their own initiative, the general partners of these funds can also implement integrated reporting for their portfolio companies, laying the groundwork for an integrated report when the exit is an IPO, or spreading the practice when the exit is to a strategic buyer. The knowledge they gain about the relationships between financial and nonfinancial performance can be shared with their LPs who can then apply this knowledge in their public equity portfolios.

Two other market forces can play an important role. The first is customers, both individual consumers for "B-to-C" businesses and companies as customers for "B-to-B" businesses. Individual consumers who buy from companies with more sustainable strategies and more sustainable products will both contribute to their success and put pressure on companies that have less sustainable business practices. Corporate customers can encourage integrated reporting in their supply chain and even make it a requirement in requests for proposal (RFP). More and more companies are including questions about sustainability in their RFPs and making it an important part of their sourcing decision

But voluntary adoption by companies out of self-interest enhanced by market forces is not enough for two reasons. The first is that the rate of adoption is likely to be too slow. A sustainable society cannot be created if simply a small percentage of leading companies are practicing integrated reporting, no matter how large and important they are in terms of revenues, market capitalization, and repu-

tation. These early adopters are most likely to be companies that already have sustainable strategies. For them, integrated reporting is the logical way to report on these strategies. The companies least likely to adopt integrated reporting are those that have the unsustainable strategies, such as through the negative environmental and social externalities created by their operations and excessive risk taking in pursuit of short-term profits due to poor corporate governance. These companies will only adopt integrated reporting when they are required to do so and for them it will be a useful discipline to help create a more sustainable strategy.

The second reason that regulation is necessary is that the full value of integrated reporting will only be realized when it is done in a way that enables comparison of results across companies, at least within a sector. Our capital markets would not be as large and efficient as they are today (despite their obvious problems) without accounting standards which establish "apples-to-apples" comparisons that enable investors to allocate capital to those companies that will make the best use of it. Accounting standards also enable companies to benchmark their performance against their peers and encourage continuing improvement. Thus regulation will be necessary to specify the framework for integrated reporting and what standards should be used for reporting on nonfinancial information.

There are significant challenges to accomplishing both of these objectives, particularly doing so on a global basis. The IIRC has taken upon itself the responsibility for producing a draft framework for integrated reporting that will be subject to public exposure and debate. We are optimistic that this process will ultimately yield a principles-based framework that companies, investors and others will find useful. Accomplishing this will require the active participation and engagement by both companies and institutional investors. While some may argue that in doing so they are incurring private costs to create a public good, those who do so will benefit by shaping the framework and putting themselves in a position to obtain the benefits from using it ahead of their peers.

More difficult is the problem of determining standards for nonfinancial information. Various groups have made substantial contri-

butions here, such as the Global Reporting Initiative, the Carbon Disclosure Project (in its role as Secretariat of the Climate Disclosure Standards Board), and The Society for Investment Professionals in Germany through the European Federation of Financial Analyst Societies. Organizations seeking to establish standards for nonfinancial information, typically NGOs or professional associations, both cooperate and compete with each other. Competition can spur innovation and produce alternatives so that the best choice becomes clear. But it can also result in repeating history as happened when accounting standards were set by each country and there were multiple versions of Generally Accepted Accounting Principles (GAAP).[31] Currently no country has a government agency, such as an accounting standards board or securities regulator, charged with the responsibility of specifying what the standards should be for nonfinancial information, whether using existing ones or developing their own. Establishing and enforcing reporting standards is a difficult and contentious terrain, especially doing so at a global level. We suggest that this problem be put on the agenda of the IIRC to eventually make a recommendation regarding which body or bodies should be responsible for nonfinancial reporting standards, as well as the standards for providing assurance on them.

There are three ways that regulation can speed the adoption of integrated reporting. The first is through *legislation*, such as the anticipated legislation from the EU regarding mandatory ESG reporting referred to above. Multilateral organizations, such as the G20, can help coordinate this at a global level so that country-based legislation is largely similar. The second is through *regulatory actions*, such as through the national securities regulator (e.g., the Se-

---

[31] Today the two main forms of GAAP are U.S. Generally Accepted Accounting Principles, established by the Financial Accounting Standards Board, and International Financial Reporting Standards established by the International Accounting Standards Board. Both groups are working together on a “convergence project” to produce a single global set of accounting standards For a discussion of “Global GAAP” see Chapter 2 in Robert G. Eccles and Samuel A. DiPiazza, Jr. *Building Public Trust: The Future of Corporate Reporting*. (New York: John Wiley & Sons, Inc., 2002).

curities and Exchange Commission in the United States and the Chinese Securities Regulatory Commission in China). A similar coordination and homogenization function can be played by the International Organization of Securities Commission (IOSCO). The third is through stock exchange *listing requirements*, as has already happened in South Africa. As a first step, a stock exchange might want to start with a “voluntary filing program” for companies that wish to file integrated reports; in doing so the exchange will gather useful knowledge about “best practices” and develop the procedures and systems it needs when taking this to scale by making it mandatory.[32] In the stock exchange world, the World Federation of Exchanges could play a role similar to that of the G20 and IOSCO.

A third force that can speed the adoption of integrated reporting is the voice of civil society, such as represented by NGOs. They can add momentum to both market forces, through what Waygood calls “capital market campaigning” to exert influence on both investors and companies.[33] NGOs can also exert pressure on governments, securities and other regulators, and stock exchanges to encourage them to support the integrated reporting movement.

Finally, market intermediaries, such as accounting firms, sell-side analyst firms, rating agencies, and, we would add, boards of directors also have an important role to play in enabling companies to implement integrated reporting and investors to use the information made available to them. Accounting firms can contribute to the development of measurement and reporting standards, as well as the development of methodologies for providing assurance on them. Integrated reports will be most credible when they are accompanied by an integrated assurance statement. Sell-side analysts can incorporate ESG information into their analysis and recommendations. This might divert capital to its most productive ends from a

---

[32] Robert G. Eccles and Mervyn E. King, “Integrated reports voluntary filing,” *Focus*, June 2010: 3-6, http://www.world-exchanges.org/news-views/views/integrated-reports-voluntary-filing, accessed July 2011.

[33] Steven Waygood, “Civil Society and Capital Markets” in *Sustainable Investing: The Art of Long-Term Performance*, edited by Cary Krosinsky and Nick Robins, Earthscan, 2008: 178.

long-term perspective, since companies with better ESG performance will be regarded as a better investment opportunity. Rating agencies should also factor ESG factors into their ratings since they are an increasingly important component of risk. Finally, boards of directors, who have a fiduciary duty to shareholders and other stakeholders, need integrated reports in order to properly fulfill their duties. They can also encourage or even require management to make them available externally.

The most effective mix of market and regulatory forces will vary according to a country's particular circumstance. By combining data from SAM and Bloomberg, we can classify countries into one of four categories, for each of environmental and social performance, as shown in Tables 2.2.3. and 2.2.4. Based on this classification scheme, we suggest the appropriate balance between market and regulatory forces for each category.

Table 2.2.3. **Integrated Reporting of and Investor Interest in Environmental Information**

		Integrated Reporting by Companies	
		Low	High
Investor Interest	High	Canada Greece India Japan Singapore United States	Denmark UK Germany Spain Switzerland
	Low	Australia Belgium China Hong Kong Italy South Korea	Brazil Finland France Netherlands South Africa Sweden

Source: Bloomberg and Sustainable Asset Management (SAM)

Table 2.2.4. **Integrated Reporting of and Investor Interest in Social Information**

		Integrated Reporting by Companies	
		Low	High
Investor Interest	High	Canada Greece India Japan Singapore Switzerland United States	UK Germany Italy Spain
	Low	Australia China Hong Kong Netherlands South Korea	Belgium Brazil Denmark Finland France South Africa Sweden

Source: Bloomberg and Sustainable Asset Management (SAM)

In *Sustainable* countries – such as Germany and the United Kingdom – there is a high degree of integrated reporting by companies and a high level of investor interest in nonfinancial performance metrics. Companies and investors in these countries are on the vanguard of integrated reporting and should continue to exercise *leadership* in order to help create a more sustainable global society. In these countries, market forces are playing a dominant role. The implicit market support for integrated reporting suggests that regulatory actions supporting investor interest or stock exchange listing requirements supporting the leading companies and encouraging others to do better are the best way to mandate integrated reporting.

In *Sustainable Companies* countries – such as Brazil, South Africa, and Sweden – there is a high degree of integrated reporting by companies but very little interest by investors in nonfinancial performance metrics and so the dominant market force lies with companies. Companies in these countries need to *educate* investors on

the importance of nonfinancial metrics in evaluating company performance and making investment decisions. Investors can leverage experiences from investors in other countries and learn emerging practices on ESG integration and engagement. In these countries, market forces on the company side are providing substantial momentum that needs to be supplemented by greater market forces on the part of investors. Stock exchange listing requirements mandating integrated reporting will award those already doing so and put pressure on those who are not in order to maintain access to the capital markets.

In *Sustainable Investors* countries – such as India, Japan, and the United States – there is very little integrated reporting by companies but a high level of interest by investors in nonfinancial performance metrics and so the dominant market force lies with investors. Investors in these countries need to *demand* more integrated reporting by the companies they invest in. In these countries, market forces on the company side are providing substantial momentum that needs to be supplemented by greater market forces on the part of investors. Regulatory actions mandating integrated reporting, such as by the securities commission, can support this investor activism.

In *Unsustainable* countries – including China, Unitary State Hong Kong, and South Korea – there is very little integrated reporting by companies and very little interest by investors in nonfinancial performance metrics. These countries need a *legislative shock* in order to break out of the dysfunctional equilibrium they are in. Because neither investors nor companies are paying much attention to ESG issues, it is unlikely that market forces will be sufficient to generate a change in behavior.[34] In these countries, legislation, a blunter but more powerful instrument than regulatory actions or stock exchange listing requirements, will probably be necessary, although the implementation of the legislation can be done through a body

---

[34] Classification system taken from Robert G. Eccles and George Serafeim, "Leading and Lagging Countries in Contributing to a Sustainable Society," *Working Knowledge*, May 23, 2011, http://hbswk.hbs.edu/item/6716.html, accessed July 2011.

such as the securities commission in a regulatory action or a stock exchange in terms of listing requirements.

Our view of the appropriate strategy for institutional change that will lead to integrated reporting being a universal practice in five years can be summarized as follows:

- In the short term, companies must take the lead, especially those in *Sustainable* and *Sustainable Companies* countries. Through their efforts of experimentation and innovation the concept of integrated reporting will obtain greater clarity and rigor.
- Investors, especially those in *Sustainable* and *Sustainable Investors* countries, need to actively support companies already practicing integrated reporting. They also need to encourage companies that are not doing so to make this a priority. In addition, investors need to provide input into efforts to develop frameworks for integrated reporting and standards for nonfinancial information.
- Market intermediaries can facilitate the efforts of both companies and investors.
- When the time is right (and the timing will vary by country), the appropriate legislation, regulatory action, or stock exchange listing requirements need to be put in place to mandate integrated reporting. These mandates must be principles-based and informed by market forces.
- Through effective engagement, NGOs can contribute to the momentum of both market and regulatory forces.

What You Can Do

This change strategy is expressed in terms of the role of organizations in the public and private sectors and civil society. However, in the end change requires the commitment and actions of individuals. This obviously includes people in leadership positions who have substantial influence in getting their organization to contribute in its own way to the integrated reporting movement. But every individual member of civil society can contribute to the inte-

grated reporting movement in the many roles they have: as employees (e.g., choosing a place of employment and encouraging their employer to adopt integrated reporting), customers (e.g., which products and from which companies to buy), investors (e.g., which companies to invest in and which asset managers with whom they entrust their capital), and citizens (e.g., what candidates for elective office and what policies to support).

We encourage, even importune, every reader of this chapter to think about what he or she can do to contribute to the integrated reporting movement. And after having thought this through, commit to taking the necessary actions to do so – for your own sake, for the sake of society, and for the sake of generations to come.

INNOVATIO

1985 Data Driven Solutions 2010

Jan 25 2011
5pm

Jan 26 2011
noon

Jan 27 2011
3pm

Jan 28 2011
9am

Jan 29 2011
noon

Reputation Lab

Media Tenor International

DAVOS 2011, Hotel Steigenberger Belvedere