Who will go first?

By Robert G. Eccles

I have been studying and trying to change corporate reporting for 25 years; for many of these years I have felt like Don Quixote tilting at the windmill of established reporting practices.

The conundrum of voluntary corporate reporting

I have written four books, two of which are on integrated reporting, and many articles and cases on the topic. Since the early 1990s, I have seen my interest in extending the traditional financial reporting model go from a kind of “lunatic fringe” activity to something that is beginning to generate attention from the mainstream business community including companies, the accounting firms who audit their financial reports, and investors and other stakeholders who use the information in these reports. The reports based on or which include information on a company’s environmental, social and governance (ESG), so-called “nonfinancial performance”, go by many names: sustainability report, corporate social responsibility report and, more recently, integrated report, being some of the most common terms.

If you want to find an objection, you’ll surely find one

During this period of time I have probably heard every conceivable objection there is for why a company shouldn’t report any information beyond what is required by the relevant regulatory authorities. In the US, for example, this is the Securities and Exchange (SEC) commission. In Switzerland it is the Swiss Financial Market Supervisory Authority (FINMA) as you are probably well aware. Here are seven of the most common reasons cited by companies, whose relative importance varies by country, not all internally consistent with each other. I have heard these reasons a countless number of times in the conversations I’ve had with companies over the past 25 years. These reasons are further supported by various surveys I and others have done.

1. “Providing additional information will increase my litigation risk”.
2. “Gathering and reporting this additional information is expensive”.
3. “There are no clear standards for how to measure and report on nonfinancial performance”.
4. “Once I start doing this I won’t be able to stop”.
5. “If my performance goes down on a nonfinancial metric it will hurt my stock price”.
6. “Investors only care about financial performance”.
7. “I want proof that my stock price will go up before I do this”.

I’ve got reasonable answers to all of these objections, but that’s not the point. I find that these objections are often excuses for not doing things differently for a variety of reasons. Most companies simply don’t want to change their reporting practices until they perceive the risk of doing so to be low and the benefits to be conclusively clear – yet without acknowledging that the benefits will be a function of how effectively they do this reporting and how good the nonfinancial performance is that the reporting is about. Corporate reporting is this odd combination of being seen as a somewhat tedious and technical topic for specialists while also being a treacherous third rail of potential execution.

And when it comes to corporate reporting I find companies in general to be somewhat schizophrenic. They often complain about the yoke of regulation and the costs it imposes on them, how reporting requirements only increase and never decrease. Then, in almost the same breath, they say they need clearer regulatory guidance on what they have to report, both so they know how to stay out of trouble and to make sure the playing field is
a level one and they aren’t reporting information their competitors aren’t.

Why are you afraid of voluntary reporting?

I often find myself scratching my head when I compare the reluctance of companies to extend their corporate reporting model to the enthusiasm with which many companies engage in merger and acquisition activity. While the data on the benefits of voluntary reporting are admittedly preliminary, because the practice is relatively new, the data on M&A activity is quite conclusive. Most deals fail to live up to expectations and the majority destroys value for the acquirer. Yet companies continue to enthusiastically engage in M&A activity, prodded on by their investment bankers who have the ear of ambitious CEOs. Just don’t ask the CEO to include a few pieces of voluntary nonfinancial information in their annual report.

Progress in voluntary corporate reporting – GRI, IIRC, SASB

Yet despite the objections and the reluctance of most companies to push the boundaries of corporate reporting, over the past 15 years some real progress has been made. Much of the credit for this must go to Global Reporting Initiative (GRI), an organisation founded in 1997 to provide guidance for companies issuing sustainability reports, now based on the G4 Guidelines. Today there are thousands of companies all over the world publishing sustainability reports; for the most part, all of them doing so on a voluntary basis. But these thousands began with a few leaders. Only a handful of companies were issuing sustainability reports in the early 1990s. In 2013, 116 Swiss organisations published a sustainability report. This is large on a proportional basis compared to the 501 reports in the United States, a country with a GDP 25 times larger, but small in comparison to Spain, a country with a few pieces of voluntary nonfinancial information in their annual report.

The other key organisation providing support to the integrated reporting movement is the Sustainability Accounting Standards Board (SASB) which was established in 2011. Since the material nonfinancial issues from an investor’s perspective vary by sector, SASB is taking a sector-based approach (10 sectors subdivided into approximately 80 industries) to identifying what these material issues are and the key performance indicator to be used in reporting on it. Whereas the standards for the financial information in an integrated report will be based on what a company is required to use (such as IFRS or US GAAP), a company can use the SASB standards for guidance on the nonfinancial information used in its integrated report. Like the IIRC, SASB is focused on investors.

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A call for leadership

For the movement to gain momentum, it needs companies in different countries and different sectors to show leadership and start publishing an integrated report. Today not a single Swiss company is doing so, somewhat surprising given the number of important global companies in this country. This short article is a very public appeal for at least one company to show leadership and do so. If you’re interested, I’d love to talk. Inevitably one Swiss company will go first and that, in my view, is true leadership. Waiting until others have ploughed the new ground, or waiting even longer until the trend is clear or it’s a regulatory requirement, isn’t leadership. It’s called “catching up”. And it’s not like this company would be the first one in the world to do so. There is an even bigger opportunity for a Swiss company to show leadership in corporate reporting. That is for a company to be the second
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one in the world to have its board issue a “Statement of Significant Audiences and Materiality (The Statement)”. (The Dutch financial services company Aegon issued the first one in March of this year.) This idea is described in detail in chapter 5 of my new book “The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality” (see description of book). I know that members of the Center for Corporate Reporting are already familiar with it— their “perfect” Christmas gift.

Since the fiduciary duty of the board is to represent the interests of the corporation—not shareholders as is commonly but mistakenly believed—it is the duty of the board to determine which audiences are most significant to these interests. Audience and time frames are the basis on which a company determines the issues that are material for both management and reporting purposes. Thus the audiences the board deems most significant, and the time frames in which company assesses performance should be declared in “The Statement” which then forms the basis for management to prepare an integrated report.

Sooner or later, one or a few Swiss companies will show corporate reporting leadership through having its board issue “The Statement” and its management team issue an integrated report. Someone needs to go first. Why shouldn’t it be you?

DESCRIPTION OF BOOK:
“The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality” (with Michael P. Krzus and Sydney Ribot) describes the current state of the integrated reporting movement, along with four concrete recommendations for accelerating its momentum. It introduces two concepts that companies can use to help them effectively practice integrated reporting and integrated thinking. The first is an annual board “Statement of Significant Audiences and Materiality.” The second is the “Sustainable Value Matrix,” a management tool to guide decisions making around resource allocation, stakeholder engagement, innovation, and reporting.

MEET PROF. DR. ROBERT G. ECCLES AT THE GESCHÄFTSBERICHTE-SYMPOSIUM

Bob Eccles will be the keynote speaker at the Symposium hosted by the Center for Corporate Reporting on 11 June 2015, in Zurich (GDI / Rueschlikon). In an exclusive fireside chat on 10 June, he will be introducing his Statement to a select circle of Swiss business leaders (CEOs, CFOs, board members) together with Prof. Rolf Watter, who has provided the legal perspective for Switzerland. Eccles’ Statement already has the backing of the UN Global Compact and the Principles for Responsible Investment PRI. In various one-on-ones with corporate executives and their management Prof. Eccles will also discuss the challenges and benefits of Integrated Thinking, Leading and Reporting.

If you are interested in participating in any of those formats, please contact us: info@corporate-reporting.com