'But does sustainability need capitalism or an integrated report' a commentary on 'The International Integrated Reporting Council

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'But does sustainability need capitalism or an integrated report' A commentary on 'The International Integrated Reporting Council: a story of failure' by Flower, J.

Key words
Corporate reporting; integrated reporting; sustainability accounting.

"One report to rule them all. One report to bind them. One report to integrate all and in the darkness blind them" The Author with apologies to Tolkien.

Introduction

Flower (2014) offers a comprehensive analysis of the IIRC project and arrives at the pessimistic conclusion that it will fall substantively short of its original objectives. Flower's critique is based on a comprehensive content analysis of key IIRC documents. His analysis identifies a shift away from its founding sustainability infused objectives to a weak, diluted, business-as-usual reporting framework embedded within an explicit capitalist ideology. Tracking subtle (and not so subtle) changes in the Integrated Reporting narrative Flower clearly demonstrates that Integrated Reporting in 2014 is a far cry from the Integrated Reports envisaged in 2009.

The scope of Flower's analysis is diverse, and at times idiosyncratic, drawing on conventional theories of financial reporting, regulatory theory, agency theory, Kantian ethics, decision-usefulness, stakeholder theory, capitalism, political economy and even insights from the wisdom of a Baseball Hall of Famer[1]. Whilst it would be easy to dismiss Flower's critique on the basis of his unconventional, almost scattergun, theoretical framework, this would result in overlooking a set of critical insights into a complex, multi-dimensional, fast-moving object of study. Flower's identified a number of serious contradictions between the IIRC objectives and the emerging practices and despite the lack of a coherent theoretical framework it is difficult to disagree with his conclusions. In this commentary, I highlight a number of areas that largely complement Flower's main thesis that IIRC has been professionally captured and can no longer claim to be a credible form of sustainability reporting.

IIRC and Integrated Reporting: Intentions and Contradictions

It is difficult to argue against IIRC's objective to create a globally accepted reporting framework which integrates financial, environmental, social and governance information in a clear, concise, consistent and comparable format. The shift from a single to a multiple capitals with a future rather than a historic orientation is consistent with research that challenged the value (and values) of conventional annual reporting. This commentary does not dispute that an Integrated Report could improve corporate reporting, but similar to Flower (2014), questions whether it can achieve the following environmental and social objectives.

"*Integrated Reporting demonstrates the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, Integrated Reporting can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing."* (http://www.accountingforsustainability.org/connected-reporting[2,])

It is impossible to predict with certainty the future impact of Integrated Reporting. However, the Integrated Report is the latest in a long line of proposed reforms to Financial Reporting and bears similarities to The Corporate Report (ASSC, 1975), Corporate Social Accounting (Estes, 1976), Making Corporate Reports Valuable (ICAS, 1975), The Greening of Accountancy (Gray, 1990), and more recently the Global Reporting Initiative and Connected Reporting Framework (Hopwood et al. 2012). Despite developments in corporate social,

[1] Yogi Berra was elected to the Baseball Hall of Fame in 1972 and one of the all-stars of US Baseball as a player and manager. He is also as famous for his 'yogiisms' see The 'Yogi Book: I didn't really say everything I said' (2010). He was also voted in 2005 as one of the 50 wisest fools of the past 50 years by The Economist.

[2] accessed March, 2014

environmental and ethical accounting there is very little evidence that these intiatives have substatively reduced the negative social and environmental impacts of corporations and other social institutions (Gray, 2002, 2010). In the words of Yogi Berra, Integrated Reporting appears to be deja vu all over again.

Therefore it is important to ask how Integrated Reporting differs from these previous developments and whether IIRC have learned how to avoid the pitfalls experienced by standard setters, professional institutes, practitioners and reported on by researchers. Flower's analysis based on his extensive knowledge of the accounting research literature suggests the Integrated Report is unlikely to significantly reduce the unsustainable consequences of corparate actions. Solomon & Maroun (2012) have already flagged this specific concern.

'Although the concept of an integrated report should embed sustainability reporting into the heart of the primary corporate reporting vehicle, the annual report, this does not necessarily imply that the reporting will fulfil its potential for transforming corporate behaviour or will not produce merely empty rhetoric.' Solomon & Maroun, 2012, page 14.

Flower's paper correctly problematises the incompatibility of conventional reporting practices, the business case, investor dominance, capitalism and sustainability. The extent of the transformation sought by the IIRC is apparent when you are welcomed to their website with the following quotation:

"*Capitalism needs financial stability and sustainability to succeed. Integrated Reporting will underpin them both, leading to a more resilient global economy'* Jane Diplock, Singapore Exchange[3.]

The proposition that sustainability is subordinate to capitalism is highly controversial and strips sustainability of its radical vision. Integrated Reporting appears to relegate sustainability to a footnote of contemporary neo-liberal governing, similar to Orsata and Clegg's (2005) description of ecological modernisation as another neo-liberal ideology dressed up in green camouflage. Integrated Reporting reduces sustainability into five sources of corporate value, but sources of value that need to be better managed in order to increase the wealth of individual investors not society's prosperity.

Integrated Reports and Organisational Change.

The Integrated Report is an accounting practice intended to govern novel risks that confront corporations (Miller et al. 2008) and included in these risks are elements of the scientific and political sustainability discourses (see Bebbington and Larrinaga, 2014). Therefore the Integrated Report could be considered to be an accounting-sustainability hybrid practice (Bebbington and Thomson, 2007; Thomson, et al., 2014) that builds on the strengths of accounting, such as robust quantitative evidence gathering, relevance, materiality, reliability, comparability and assurability, to translate the sustainability discourse into a "language" understandable to organisational decision-makers. Integrated Reporting could create greater visibility and knowledge of the financial consequences of consuming capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and provide a different lens to re-evaluate organisational practices in order to support the development of integrated thinking. However, Integrated Reporting is also intended to align reported information investor needs, provide accurate non-financial information, develop trust with key stakeholders, facilitate better resource allocation decisions, reduce costs, enhance risk management, manage reputational risk, lower the cost of capital and improve access to capital. The Integrated Report shares more characteristics with conventional management accounting practices such as the Balanced Scorecard (Kaplan and Norton, 1992) and Strategy Mapping than to accounting-sustainability practices intended to embed sustainability into everyday business practices.

The stated objectives of Integrated Reporting are diverse, 'unintegrated' and arguably 'unintegratable'. Flower's documentary analysis identifies the conflicting nature of these objectives and the difficulty to fulfil them all in a single report. He also identifies a clear shift away from the desire to integrate sustainability into the Integrated Report. Achieving IIRC's objectives is assumed to somehow emerge from the provision of new

[3] www.theiirc.org, accessed March 2014

information to the same decision makers using substantively the same corporate decision making routines to manage the same risks within the same neo-liberal discourse, as evidenced by the following quote.

"The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability." IIRC, 2013 page 3

Transformation in corporate behaviour is largely based on a faith in managerialism, enlightened self-interest, the market and with passing reference to ecological modernisation. Unfortunately there is very little evidence supporting the effectiveness of this assemblage driving the necessary change associated with sustainability (Gray, 2002, 2010, Everett, 2204; Everett and Neu, 2000; Hajer, 1997; Luke, 1999; Oels, 2005;Russell and Thomson, 2009;). Burns and Contrafatto (2013) report on a 10 year case study of the complex interactions between accountants and managers in organisational sustainable transformations and identify obstacles to change despite a long term programme that adopted most of the ten principles of integrated thinking[4]. Sustainable organisational change is far from trivial and cannot be assumed to occur from the voluntary provision of new information (see Adams, 2004 for an insightful exploration of the limitations of voluntary corporate disclosure).

Integrated Reporting's implied pathway to 'sustainability' is that, if profitable ('value-creating') corporations, investors' wealth and capitalism are sustained through better risk management, then beneficial social transformations will follow. This is an extension of the much critiqued 'trickle down' theory, where any benefits accruing to a large corporation will eventually pass down to smaller businesses and consumers. This 'trickle-down' social and environmental change is dependent on the assumed power of individual to control large corporations and governments. Mervyn King[5] articulated how the Integrated Report will empower citizens to hold corporations to account and combined with changes in management will drive change.

"The greatest shareholder today is no longer the wealthy family, but it is the individual via his or her financial institution and pension fund. The same individual is also the employee of the company; the customer who chooses between the products of company A or company B; the voter for the government of the day and for the trustee of the pension fund. In addition, the individual is also a citizen of a country who expects his or her neighbor to act as a decent citizen, and as a consequence today, the individual citizen expects the corporate citizen to act as a decent citizen". (IFAC, 2011 page 5)

Integrated Reporting is premised on the assumption of powerful citizens able and willing to monitor, reward, discipline and punish large self-interested organisations using dividing practices associated with corporate decency. There is some appeal in the concept of an annual report of corporate (in)decency, but we need to consider whether the Integrated Report is sufficient to enable citizens to hold corporations to account for acts of indecency and reward acts of decency. There is also the question to which I will return to later as to whether accounts of 'decency' are enough to deal with the pressing, wicked problems of our unsustainable world.

Within King's 'great shareholder' world there are a number of ways the citizen can exercise power. Citizens can exercise their power through their role as an employee, a good neighbour, voting in a democratic country, through the choices they make when consuming and their savings and pensions. Sadly, on Planet Earth a citizen with steady employment, savings, a pension, substantial consumer choice, reasonable levels of disposable income, able to participate in free and fair elections in countries make up a very small percentage of world citizens. Only 11.3% of the world's population live in full democratic state[6], 48% of the world are in vulnerable employment (ILO, 2014), half the adult population do not have a bank account and 22% use it for savings[7,] only 30% of Middle Class Americans have a pension plan and what purchasing power do 3 billion of our fellow citizens have with their daily income of $2.50. The power of the mythical great shareholder appears to be considerably less than is implied in the IIRC's discourses. Flower's (2014) analysis clearly identifies a disconnect even between King's notion of the great shareholder and the type of investor specified in the IIRC

[4] http://www.accountingforsustainability.org/embedding-sustainability/10-main-elements-to-embed-sustainability accessed March 2014.
[5] Chair, International Integrated Reporting Committee.
[6] www.eiu.com/public/topical_report.aspx?campaignid=democracyindex12, accessed March 2014.
[7] Measuring financial inclusion: the Global Findex Database, World Bank.

Framework document. Once again drawing on the wisdom of Yogi Berra it appears that ' In theory there is no distinction between theory and practice. In practice there is.'

Concluding Comments

Integrated Reports privilege a neo-liberal programmatic and incorporate the elements of sustainability that are aligned with underlying principles of capitalism. This does not mean that Integrated Reporting and Thinking will not produce some positive social and environmental changes. However, the content of an Integrated Report constructs the points of common reference between the sustainability programmatic and local corporate practices and provides a frame (or structural constraint) within which sustainability can be embedded (or resisted) into the corporation. In line with Flower (2014) I argue that current format of the Integrated Report excludes too much of the sustainability programmatic and does not allow for any substantive redistribution of power.

It is difficult to understand how these unregulated integrated reports could enable system level sustainability reforms. It is much easier to understand how Integrated Reporting could silence the radical elements of the sustainability and potentially reframe unsustainable corporate practices as sustainable. Prior research has demonstrated how accounting practices suppress the fields of visibility, forms of knowledge and techniques of governing considered essential for any sustainable transformations (e.g., Cooper, 1992; Cooper et al., 2005; Gray, 2010; Larrinaga-Gonzalez and Bebbington, 2001). Using accounting to construct the points of common reference from which any integration of economic, social, environmental and ethical issues into corporate practices without explicit efforts of programmatic reform is likely to result in marginal change or to entrench existing unsustainable behaviours (e.g. Gray, 2002, 2010; Puxty, 1991; O'Dwyer, 2003; Russell and Thomson, 2009). Sustainable change depends on the extent to which 'integrated thinking' and 'integrated accounting' can confront, challenge and colonise the 'unintegrated thinking' and 'unintegrated accounting' that dominates contemporary business governing. Flower (2014) comprehensively problematises the ability of the latest IIRC proposals to effectively confront, challenge or colonise business thinking or accounting.

If Integrated Reporting is an authentic attempt to improve the capacity of corporations to make more sustainable decisions then it should embrace and meet the urgent challenges posed by our unsustainable world (Bebbington and Larrinaga, 2014). An integrated report should consider the characteristics of what would constitute a sustainable corporation operating in a sustainable world. An Integrated Report should account for all the unsustainable consequences of their actions and intentions. An Integrated Report should integrate the voices and values of different communities and the natural world, not a narrow range of corporate dialects. An Integrated Report should inform others how (or whether) the organisation is contributing towards sustainable transformation by making visible the inter-relationships and consequences of that entity's actions and intentions on social, ecological and economic systems. Integrated Reports should be mandatory, plausible, understandable, truthful and reliable. Integrated Reports accounts should be an appropriate blend of scientific, economic, financial, statistic, ethical and aesthetic narratives which enable reflexive engagements involving different stakeholders representing a plurality of interests, epistemological and ontological perspectives (Gray, 2010).

There is a need for IIRC to develop a deeper understanding of the sustainability programmatic (political and scientific), construct a "sustainability case" for business and then build sustainability-accounting practices (Bebbington and Larrinaga, 2014, Gray, 2010, Thomson et al, 2014). Integrated Reporting appears to be a well-intentioned initiative that reflects a pragmatic desire to do something and I hope it does fulfil some of its potential. However, this potential is limited as it is too deeply rooted in the business case for sustainability rather than the sustainability case for business. I will reserve the last words to Yogi Berra who once stated that 'when you come to a fork in the road take it.' Flower's analysis adds to a growing body of evidence that points to IIRC having taken the wrong fork if they want to travel towards a sustainable future.

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