The IIRC welcomes comments on all aspects of the Discussion Paper from all stakeholders, whether to express agreement or to recommend changes. Your answers to the Consultation Questions, and any other comments you would like to make, should be submitted on this form (submitted electronically at end of document) or sent via email to dpresponses@theiirc.org.

For the purpose of analysis, you are asked to identify the organization to which you belong and where it is located. All comments received will be considered a matter of public record and will be posted on www.theiirc.org.

**Comments should be submitted by Wednesday 14th December 2011.**


| | |
|---|---|
| Name | Mark W. McElroy, PhD |
| Title | Executive Director |
| Organization | Center for Sustainable Organizations |
| Country | USA |
| Email | mmcelroy@vermontel.net |


Type of Stakeholder (please tick one as appropriate)

- ○ Academic
- ○ Analyst
- ○ Assurance Provider
- ○ Business
- ○ Consultant
- ○ Government
- ○ Inter-Governmental Agency
- ○ Investor
- ○ Labour Representative
- ○ Non-Governmental Organization
- ○ Professional Body
- ○ Rating Agency
- ○ Standard Setter
- ○ Student
- ○ Think Tank
- ○ Trade or Industry Association
- ○ Other, please specify below

## Key Points

If you wish to express any key points, or to emphasise particular aspects of your submission, or add comments in the nature of a covering letter, then the following space can be used for this purpose.

Throughout my comments, you will see an over-arching concern that the state of the art for non-financial measurement and reporting is still too deeply problematic for it to be integrated with the more mature state of financial reporting. Of most concern is the failure of leading international standards for sustainability reporting to adequately include treatment of what GRI refers to as 'sustainability context' but fails to enforce. Without such context taken properly into account, sustainability reports fail on their face to express sustainability performance at all. The absence of context also affects the proper determination of materiality in such reports, which means that most sustainability reports prepared today either include discussion of impacts that are not material, or exclude discussion of impacts that are. Before transferring these problems into an integrated reporting format they should be corrected. To transfer them without making such corrections would be irresponsible in the extreme.

## The World has Changed – Reporting Must Too (page 5 of the Discussion Paper)

Q1. (a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?

I believe action is required to help improve the way organizations measure and report their performance. Calling it 'value creation' seems pertinent to financial performance, but not as pertinent to non-financial performance. This has the unintended effect (I presume it's unintended) of subordinating non-financial performance to financial performance which I think would be deeply misguided and damaging to human interests.

Q1. (b) Do you agree that this action should be international in scope? Why/why not?

Yes, because our economy is a global one as are many of the social and environmental systems we rely on for our well-being.

## Towards Integrated Reporting (page 6 of the Discussion Paper)

Q2. Do you agree with the definition of Integrated Reporting on page 6? Why/why not?

I would extend the first sentence as follows "...operates, and its duties and obligations to have and/or manage its impacts on vital capital resources in the world of importance to stakeholder well-being."

This will better tie into your discussion of vital capitals later on in the draft, while putting a clear stake in the ground right up front that the conceptual foundation for integrated reporting is capital theory broadly construed. I wholeheartedly support that. It is the correct theory to use.

## An International Integrated Reporting Framework (page 8 of the Discussion Paper)

Q3. Do you support the development of an International Integrated Reporting Framework? Why/why not?

I support it in principle, but not without significant improvements to the fundamentals of non-financial, or sustainability, reporting. Of particular urgency is the need to flesh out the 'sustainability context' principle advocated (but not explained or enforced) by GRI, in its own standard; and also the corresponding treatment of materiality, which is a function of sustainability context. To help explain how this should work, please see my recent book entitled 'Corporate Sustainability Management' (McElroy and Van Engelen, Earthscan, 2012).

Q4. (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/why not?

I think the focus should be on publicy-held or traded companies and the needs of their stakeholders, of which investors are only one group. You should be going out of your way to avoid the perception that integrated reporting is a creature of the shareholder primacy doctrine, and instead is designed to support the legitimate needs and interests of all stakeholder groups.

Q4. (b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?

Yes, their purpose and charter has nothing to do with their social and environmental impacts, since organizations of all kinds can have such impacts.

## Business Model and Value Creation (page 11 of the Discussion Paper)

Q5. Are: (a) the organization's business model; and (b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/why not?

I think the central theme of reporting should be to report the performance of organizations, recognizing that performance has both financial and non-financial dimensions to it. Further, performance of both types reduces to impacts on vital capital resources in the world in ways that can affect stakeholder well-being. Thus, performance reporting is reporting that identifies such impacts and compares them to norms, standards or thresholds for what they should be in order to help ensure stakeholder well-being. This is where context and materiality come into play, since it is context (properly understood and analyzed) that is the source of such norms, standards and thresholds, and which then informs materiality determinations.

Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?

I find the concept of multiple capitals more than helpful in this regard; it is indispensable! It has been woefully missing from GRI for years, and yet is the most important conceptual foundation in performance measurement and reporting, and the starting point for putting an organization's non-financial performance, in particular, in the proper 'sustainability context'.

Here I would also observe that there is no need to separately list intellectual capital. It is generally understood to be a component of both human and social capital, so listing it separately is redundant and possibly confusing.

## Guiding Principles (page 12 of the Discussion Paper)

Q7. Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added? Why/why not?

Because of the conceptual commitment to capital theory as explained on pages 10 and 11, I would consider adding another principle entitled "Context and Capitals". This would explain the importance of focusing on impacts on specific capitals as such capitals are required for stakeholder well-being. Further, it is the impacts on such capitals relative to norms, standards or thresholds for what they should be that constitutes the all-important idea of context, and the effects it has on making materiality decisions for treatment in a report. Again, see my book that explains all this.

## Content Elements (page 15 of the Discussion Paper)

Q8. Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report– are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added? Why/why not?

In the performance section, I would add language to the effect that performance is also measured against norms, standards or thresholds for what its impacts on vital capital resources needs to be in order to address stakeholder well-being. Again, this is the role that context plays in reporting. It tells us who the stakeholders are, the vital capitals affected by an organization's operations (or that should should be affected), and what the related standards of performance are, or should be, for having and/or managing its impacts on the resources involved.

## What Will Integrated Reporting Mean for Me? (Reporting organizations – page 21, Investors – page 22, Policymakers, regulators and standard-setters – page 23, Other perspectives – page 24 of the Discussion Paper)

Q9. (a) From your perspective: Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?

Yes, I think it is quite good, mainly because it covers all of the stakeholder bases.

Q9. (b) From your perspective: Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?

I think the Reporting Organization Perspective should include mention of the challenge of engaging at the appropriate level with stakeholders so that so that norms, standards and thresholds for performance (i.e., from the analysis of context) can be properly identified.

Q9. (c) From your perspective: Do you agree that Integrated Reporting will drive the disclosure of information that is useful for integrated analysis (from the perspective of investors)? Why/why not?

Yes, but why ask the question with the narrow interests of investors in mind? What about the interests of other stakeholders? This narrow concern with the interests of investors worries me, and if others perceive it as I do, it could serve to undermine the effectiveness of what you are trying to do.

## Future Direction (page 25 of the Discussion Paper)

Q10. (a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/why not? Are there other significant actions that should be added?

I think a special effort should be made in the short-term to address the context and materiality methodology issues I have raised. You have time and opportunity to do so, and so I think it would be a mistake to move in the direction of rolling out a draft that includes such known defects in it. Why do that when you know about them and have a chance to correct them?

Q10. (b) What priority should be afforded to each action? Why?

Number 1 priority is to expand treatment of context and materiality. Take your commitment to capital theory and follow it through to its logical implications. Capital theory leads to context, and context leads to materiality.

Q11. Do you have any other comments that you would like the IIRC to consider?

Not at this time, thanks.

Additional questions: These are NOT compulsory but will help with analysis if completed

I have provided feedback that reflects:

- [x] Personal interest
- [x] Interest of an organization, please provide the name of the organization:

  Center for Sustainable Organizations, and NGO.

Which best describes your involvement with sustainability reporting?
Please tick all that apply.

- [ ] Reporter (prepare a report for my own organization)
- [ ] Consultant (report preparer on behalf of a third party)
- [ ] Assurance provider
- [ ] Report reader (read reports for the purpose of evaluating or analyzing organizations)
- [x] Other, please specify:

  Researcher and developer of sustainability metrics. ED of related N

Please indicate how many years of experience you have with sustainability reporting:

- ( ) No experience
- ( ) Less than 1 year
- ( ) 1-5 years
- (•) More than 5 years

**Submit to the IIRC**