

IIRC QUESTIONS AND MARTIN THOMAS'S ANSWERS

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

It is my belief that the world needs a framework of performance measurement and reporting that is applicable to **all** sorts of organisations. Our focus should be on changing what we and organisations do, not just on what we report or how organisations "represent" themselves.

We need to address all forms of value creation; environmental, social and economic and how they interact. The administrative demands need to be proportionate to the size and nature of the organisation. However, we should be aware that we are dealing with very long time scale changes, since new values are needed to be developed, shared and translated into action in learning organisations around the world. My suggestion is therefore to forget linear approaches of best practice and set about agreeing a set of principles that all organisations can start to develop internally to learn from doing and thinking differently.

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

As the world has become one market place, it is vital that we act cohesively internationally. Fragmented nation-state action will create confusion, misunderstanding and heavy workloads in search of comparability.

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

No, for the following reasons

1. The definition tries to do the impossible: implementation will fall short of expectations as a consequence. For example no-one can "communicate the full complexity of the value-creation process(es)", simply because they are complex beyond our means of representing them (or any other complex adaptive systems) adequately.
2. The definition makes no reference to the context in which the organisation is operating. Without taking explicit account of the carrying capacity of the environment (economic, social and natural) in which the organisation works, it is impossible to determine whether it is sustainable or not. Integrated reporting that fails to show sustainability must fall short of all other long-term objectives of external reporting.
3. The definition focuses on external reporting, diminishing the vital importance of management information for action towards sustainable futures, e.g. "The main output of Integrated Reporting is an Integrated Report: a single report...". No; the main output is sustainable behaviour. The main external evidence is a single report.

1

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

I strongly support the development of an IIR Framework now because it is an urgent global need and we must not be deluded into awaiting perfection. We need organisations of all sorts to start reporting triple bottom line performance (or some such) so that they (and the rest of us) can learn from their experience. However, I believe it to be essential that the IIR Framework should have intellectual integrity as an integrated conceptual framework. The concept of capital maintenance is well known to economists, and it can be extended to all the Vital Capitals (economic, social and environmental). The communication of such principles underpinning a whole IIR Framework seems to me to be more important than legislating for detail.

It is my belief as a change manager that a major reason for the very poor adoption of sustainability accounting to date is that there has been no valid integrated conceptual framework developed. I may of course have missed it, but if it has been developed, it has not yet been widely communicated to users as a compelling reason to adopt it. The lack of this fundamental principle eats away at the unconscious minds of individuals and of organisations contemplating trying to measure sustainable performance.

Without such a conceptual framework, social and environmental reports are at best lists of what has been done or will be done. They fail to answer the question of whether it is enough or not. Capital maintenance answers that question. If the capital is maintained it is enough: performance has been sustainable. For a fuller exposition of this idea, please refer to McElroy and van Engelen (Earthscan 2011) Corporate Sustainability Management.

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?

1 No (larger companies) and 2 No (investors).

1. The initial focus should in my opinion be on agreeing a conceptual framework that is applicable to all organisations of all sizes in all countries. In my opinion that requires an explicit acknowledgement of the context and within it a process for assessing social, environmental and economic capitals and what is needed for their capital maintenance. It is my belief that such a conceptual framework can be developed now.

2. Investors are not the most knowledgeable community in matters of sustainability. Also, unless managers understand the metrics and concepts of sustainability, any integrated reporting they may publish will be externally papering over the internal cracks. The best place to start any new reporting concept is internally in management reporting. It should start with concepts which should then be translated into operational plans before measuring actual performance. Only after some test-run cycles should the data be meaningfully communicated to analysts and other external stakeholders.

[\(b\) 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?](#)

The very nature of triple bottom line reporting lends itself to organisations NOT set up primarily to maximise economic capital (e.g. hospitals and universities, NGOs and charities, local and central governments). In most cases they would be expected to have social maximisation objectives with economic and environmental constraints. It would in my opinion be a gross error of judgement to overlook the happy coincidence that integrated reporting should allow them to plan and report using the same conceptual frameworks, albeit with different strategic aims. This in itself will tend to accelerate the adoption of integrated reporting, by widening the general understanding of the concepts across countries and across sectors. Therefore, I see it as a MUST that the concepts should apply to small and medium enterprises, the public sector and not-for-profit organizations.

[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?](#)

(a) In my opinion, it is unwise to set too much store by a description of a business model. As Gareth Morgan pointed out in "Images of Organization" (1997) a "business model" is only a metaphor used to describe in (over-)simplified terms a complex set of adaptive inter-relations. Its benefit is that it provides an easily accessible image of an on-going and constantly changing reality. Its drawback is that once that limited image resides in our minds, our actions and thought processes tend to be shaped by it. It can therefore limit our ability to see the reality in different terms to the original metaphor. (New leaders will take great delight in choosing a new metaphor to distinguish them from their predecessors. Does all this not detract from the substance of what an organisation seeks to do?)

It seems to me that a sound analysis of the organisation's context, its stakeholders and its vital capitals is much more helpful to setting standards for the maintenance of the vital capitals. This creates a narrative that is relevant and normative and should be more compelling to stakeholders than the "business model".

(b) The ability of the organisation to create and sustain value seems to me to be entirely appropriate, so long as we understand that to mean creating value in **all** the vital capitals.

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

Yes. The concept of multiple capitals seems to me to be a description of the reality and not a metaphor. It is not so much HOW it creates value as WHAT it creates.

Once we can describe what it means to maintain those capitals and establish that capital created over and above maintenance is similar in nature to economic capital created over and above the cost of capital (i.e. economic value added) the concept of maintaining multiple capitals has immense value to many people in a wide range of organisations. Capital maintenance lies at the heart of the ecological argument; conservation means conserving a vital capital. However, the idea is less easily grasped for social capital, but McElroy and van Engelen describe it well and show how to measure it in a local context. Stakeholder-based carrying capacity is their approach to defining vital social capitals.

My own view is that "three capitals" (social, natural and economic) has the advantage of simplicity, and roughly equates to People, Planet & Profit (triple bottom line mnemonics). But it is of course possible to break them down into a very large number of separately defined capitals within these three categories.

[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?](#)

They may be fine, but do they need to be prescribed for all organisations?

[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?](#)

They may be fine, but do they need to be prescribed for all organisations?

*Q9. From your perspective**(a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?***(9.a.1) Only integrated reporting of context-based capital maintenance embracing “profit, people and planet” can determine whether an organisation is performing sustainably or not.**

This cannot be considered a side-benefit of organisational reporting: it is the essential question that we need to answer. Unless the proposals of the IIRC provide a framework that offers a route for organisations of all sorts to answer this question, it may justifiably be said to be ducking the key issue. GRI mentions the need to take into account the context of the organisation, but it too has so far failed to incorporate it as a means to determining whether an organisation is sustainable.

Once the IIRC can develop and offer such a framework, it will justifiably be able to claim that one of its benefits is a test of sustainability. This would be a huge benefit as it would confer upon IIRC the status of prime mover and therefore the de facto global standard setter. I would be delighted to see it make that claim, but only when it can be substantiated by a rigorous conceptual framework. So far this is missing.

(9.a.2) I am also missing the benefits resulting from engaging actively with stakeholders in the local context to determine all the vital capitals and what is needed to maintain them. One benefit of this is of course that the **creation of shared value** benefits both stakeholders and the organisation itself as Porter and Kramer pointed out in Harvard Business Review (Jan 2011). Life is not a zero-sum game: the shared value creation that results from collaborating with stakeholders should not necessarily detract from the value which accrues to owners. More total value can be created by collaborative strategies.

(9.a.3) Engaging with stakeholders to conserve vital capitals builds direct links between the organisation and its transactional environment (i.e. entities in the social, environmental and economic spheres). This creates a mechanism to **build adaptive capacity** as well as to influence other actors in the environment. In order to avoid falling into Hyper-Turbulence (McCann & Selsky 1985) the development of adaptive capacity to deal with “relevant uncertainty” is the key to success. Complexity theory also supports the need for organisations to be responsive to their environments. IIRC might consider that integrated reporting proposals that “influence and nudge” or “disturb and develop” are more likely to gain wider acceptance than those which try to “command and control”.

(9.a.4) In turbulent times, the development of **new values** that reflect the needs of society as a whole helps dissimilar organisations collaborate to attenuate the turbulence. (Emery & Trist 1965 quoted by Thomas in Business Planning for Turbulent Times, Edited by Ramirez et al, Earthscan 2010 see Table 1.) Integrated reporting that explicitly requires the maintenance of collective capitals provides a dialogue mechanism for the development of such new values. These become power fields in turbulent times, replacing the “business as usual” reversion delusion that many organisations mistakenly seek when they have failed to recognise the paradigm shift that has taken place in society.

In the longer term, when the values throughout society (including markets and investors) have evolved to understand that organisations that create shared capital value have much higher resilience and life expectancy, these organisations will be more highly sought after as employers, suppliers, customers and investment opportunities. Stakeholders will see them as prime responsive innovation partners. Such competencies cannot be developed overnight, but IIRC should not be shy of promoting such benefits in the longer term.

(b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?

I see the main challenge for the IIRC to be the development of a conceptual framework for the measurement of context-based capital maintenance sustainable performance towards which we should all work. The building blocks are all there in the literature, but the challenge is to pull them together into a coherent whole.

Within this challenge, I foresee that the issue of shareholder primacy may be a stumbling block. The drafting of the discussion document indicates to me that the dominance of shareholder interests remains all-pervasive. It seems to me that the triple bottom line capital maintenance concept expresses strategic aims that all reasonable leaders should embrace. Who could claim that their organisation should exist only at the cost of not maintaining their fair share of natural and social as well as economic capitals? Nevertheless, the challenges of the education and the dialogue required seem to be hugely understated in the paper.

They will be considerably helped by a sound conceptual framework that lay-people across the world can understand and welcome. New values cannot be cascaded by regulation. At present, many leaders and others know that the way we are working is not sustainable, but they cannot see a clear and simple vision of a different future. IIRC needs to provide that clarity of vision. The current paper misses the key issue and tends to confuse readers with peripheral concepts (e.g. building blocks and content elements).

[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? \(b\) What priority should be afforded to each action? Why?](#)

Priority number one is the development of a context-based capital maintenance conceptual framework. Without it we cannot answer the very basic question of whether or not performance is sustainable. With a convincing conceptual framework there will need to be a huge effort at all levels put into communicating it as a sound basis to measure performance of organisations of all sorts around the world. Integrated reporting can then move from a technical issue to protect investors to an urgent global solution.

[Q11. Do you have any other comments that you would like the IIRC to consider?](#)

Shareholder primacy and an organisation's duties to other stakeholders have not been addressed.

Contributor Biographical Footnote

Martin Thomas MA, MSc, FCMA, FCIS set up call4change in 1999 as a consulting and interim management business after 34 years internationally in Unilever, including three years leading corporate planning. His MSc in 2005 was from the Oxford & HEC Paris change management programme, following which he was founding member and initial chair of Oxford-based The Change Leaders Ltd and more recently MD of New Angles sarl.

He has since 2009 been a co-chair of the practitioner group of the Centre for Social and Environmental Accounting Research based at St Andrews University, better known as CSEAR.

His comments and answers above are his own and do not represent any other entity.

Table 1 below is copyrighted by the author.

TABLE 1 CAUSAL TEXTURES: ENVIRONMENTS & ORGANISATIONS

Type	Environment	Characteristics	Successful Strategy	Organisations	Learning Consequences
1	Placid Randomized Emery & Trist	Economist's Classical Market. Static.	<u>Tactics</u> (= Strategy) "Optimal strategy is just doing one's best on purely local basis."	Distributed	Optimal position is learned by trial and error.
2	Placid Clustered Emery & Trist	Economist's Imperfect Competition. Stable.	<u>Strategy</u> dominates over Tactics. Keys are distinctive competencies & "optimal location"	Central control & coordination grow central hierarchies	Knowledge of the environment becomes critical to success.
3	Disturbed Reactive Emery & Trist	Economist's Oligopolistic Market. More than one big player seeking same pot of resources. Dynamic.	<u>"Operations"</u> (campaigns of tactical initiatives) between Strategy & Tactics. Key is capacity to move more or less at will to make and meet competitive challenge.	Flexibility needs decentralisation. Premium on quality and speed of decision at peripheral points. Interdependence emerges.	"One has to know when NOT to fight to the death." Dynamic stability is obtained by a coming to terms between competitors.
4	Turbulent Fields Emery & Trist	Not just the interaction of organisations; "The ground is in motion". Increased reliance on R&D to build learning capability Interdependency between economic & other social spheres.	<u>Values</u> become "power fields" over-riding both Strategy and Tactics. Effective emerging values create ethical codes that enable simplified action to diverging causal strands. "Institutionalization" (embodying society's values) becomes Strategic Objective	Individual organisations cannot adapt alone. Collaborative relationships between dissimilar organisations, "Organisational Matrix" help to attenuate effects of turbulence. Values must be shared between all parts of the matrix for this to be effective	1. Increase in "relevant uncertainty". 2. Unpredictable results of actions; may not fall off with distance, but be amplified. 3. Emergent environmental forces may attenuate strong action. <u>NB</u> changes in values take about a generation to develop.
T R A N S I T I O N A L	Hyper-Turbulent McCann & Selsky	Partitioned. "Enclaves" attract scarce resources. "Vortices" are left without resources or skills needed to adapt to the environment.	<u>Adaptive capacity</u> to deal with the "relevant uncertainty" is the determinant of short term success (enclave formation). Social triage – deliberate partitioning of the field	Field partitioned by triage policy into enclaves and vortices, with minimal interaction between them	Decoupling of interdependencies Dysfunctional vortex relationships threatening to affect enclaves.
5	Vortical Baburoglu	Failure of active adaptation Reversion to maladaptation: 1 Monothematic dogmatism 2 Stalemate and 3 Polarisation.	<u>Double-loop learning</u> to develop new skills & more resources are needed for long term removal of vortices. Collective & external strategy is needed. Maybe temporary or permanent <u>surrender</u> .	Apparently sealed-off from the environment, but not really. Parts effectively immobilise each other.	Decline of vortices depends on external forces, as internal adaptive capacity is inadequate. Surrender may lead to re-emergence .