Comments on
“Consultation Draft of the International <IR> Framework: Integrated Reporting”

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Key points

The IIRC is perpetuating an outdated, inappropriate, and potentially dangerous concept: *the presumption of eternal growth*. By focusing throughout the Framework on “value creation,” and similar language of increase, the Framework embodies – written into virtually every section – a presumption that growth is the ultimate goal.

Right now we are at a point in human history where humanity’s ecological footprint has completely outstripped the capacity of the planet. Further economic “growth” is not only mythology, but is suicidal. We must instead turn our focus on creating a peaceful shift to economic “de-growth,” until such time as humanity’s overall consumption practices descend to levels which this one small planet can support. After that point, we will need to shift again, to a concept of “steady-state” economy, or maintenance mode.

Most sections of the Draft Framework need reworking to eliminate the presumption of economic growth. Language which conveys unidirectional increase, such as “value creation,” must be replaced with language which both allows for and presumes that value will both increase and decrease. Throughout the entire Framework, every time the phrase “creating value” is used, the Framework needs to be redrafted to make room for de-growth and steady-state.

Question 1: Should any additional principles-based requirements be added or should any be eliminated or changed?

At paragraph 1.5 the Fundamental Concepts (and therefore all Guiding Principles) should be redrafted to refer to “value offered”, “being valuable” and other such phrases which do not presume “creation” or growth-oriented, increase-oriented language.

The final bullet at paragraph 1.5 might be revised to read "Support integrated thinking, decision-making and actions that focus on the ~~creation~~ *expression* of value over the short, medium and long term, *including integrated decision-making and actions that facilitate the overall phasing-back of human consumption of planetary resources into alignment with the ecological footprint defined by one single planet.*

The second portion of paragraph 1.8 is in many cases untrue. "*Those providers of financial capital who take a long term view of an organization's continuation and performance are particularly likely to benefit from <IR>. ~~Their interests are likely to align over time with the interests of other stakeholders because both are focused on the creation of value in the short, medium and long term.~~*"

The interests of the providers of financial capital are most likely to be interested in the growth of financial capital, because ultimately it is only financial capital which provides the cash flow for their interest payments and return on investment.

The interests of other stakeholders (for example, residents in an area being polluted by the company's operations; or generations of the future who are heavily impacted by the company's global warming pollution) may quite likely be IN CONFLICT WITH the interests of the providers of financial capital.

Question 3: If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard-setters and others, which references should be included?

- Natural and social capital: indicators used in Worldwatch's *State of the World*
- Social capital: Pay ratio between the highest and lowest paid (example: Mondragon Co-Operative Corporation, Spain)
- Social capital: resilient local communities, as custom measured by community according to locally appropriate measurements. Indicators and measurement methods are being developed by local initiatives within the UK-based Transition Network.
- Natural capital: Rather than *net* carbon credits or carbon trading (which truly create license to pollute), reveal *gross* carbon emissions from the organization's operations – past and present, plus the organization's future targets and how it plans to achieve them. For every proposed new venture, new expansion, new build-out, new product line, etc., reveal how the organization will achieve it without increasing its carbon emissions over current overall levels.
- Natural capital: a product's embodied energy, as calculated by organizations such as Rocky Mountain Institute, *Cradle to Cradle*, the Association for the Study of Peak Oil and Gas, the UK's BSRIA and others.
- Natural capital: zero waste, as calculated by California waste management professionals

Question 4: Other comments about Chapter 1

The paragraphs at 1.17 attempt to draw a contrast between "silo thinking" and integrated thinking, yet this set of paragraphs misses its own point. The Framework, as specifically outlined at Paragraph 2.17, is attempting to describe or capture more of a closed-loop system of reporting. Within a closed-loop system, increases to one aspect of the system (for example: growing financial capital) typically result in decreases in another aspect of the system (for example: stripping out natural capital or social capital). The concept of "ability to create value over time" is mythology; you simply cannot increase everything at once. Like double-entry bookkeeping, it has to come from somewhere. Rather than "creating value," what most organizations are doing at this point in economic history is instead *converting* value over time – in other words, converting public goods such as natural and social capital into private property such as financial, manufactured, and intellectual capitals.

Paragraph 1.17 might more appropriately say: "[Integrated thinking] takes into account the connectivity and interdependencies between the range of factors that have a material effect on an organization's *value to humanity*, including: …"

In paragraph 1.17, first bullet, the following substitution should be made: "The capitals the organization ~~uses~~ *converts* and affects, and the critical interdependencies, including trade-offs *of value*, between them"

With respect to paragraph 1.17, second bullet: somewhere in the Framework it should be made clear that "stakeholders" are far more than just the financial partners, shareholders, and providers of financial capital. Every organization operating on this planet has a fiduciary responsibility to world citizens in general (for example: with respect to the organization's global warming emissions, ozone depletion, etc.). The organization's governance structure must respond to the legitimate needs, interests, and expectations of world citizens.

Paragraph 1.17, third bullet, might broaden its context beyond traditional business language of "opportunities and risks" to include trade-offs of the non-financial kinds of capital. The phrase "as well as major changes in its external environment" should be changed to "as well as *reducing [the organization's] negative effects and impacts upon* its external environment."

The fourth bullet, rather than simply saying "value drivers," should instead draw focus onto "*The appropriateness of* the organization's value drivers… *for humanity's* past, present, and future."

Question 6: Other comments about Section 2B

When paragraph 2.17 defines "social and relationship capital," it overlooks cultural stories, cultural practices, cultural resources, and cultural treasures like heritage seed varieties that people have handed down through generations. Social and relationship capital also includes community relationships, such as the value of a diversity of local mom-and-pop businesses to a small town or local neighborhood. Social and relationship capital also includes messages that people communicate to each other and to the next generation, such as which foods are health-building. Paragraph 2.17's definition of "social and relationship capital" overlooks The Commons. None of these social goods are ever given a currency equivalent, so there is currently no reporting of the depleting or pillaging of them in an organization's drive to "create value" in financial, intellectual, and manufactured capital.

Additionally, at this point in human history, the definition of "social and relationship capital" needs to include local community resilience. We are at the end of the age of cheap oil, and we are entering an age of extreme wild weather brought on by planetary climate change. This deadly combination turns most conventional presumptions upside down: Without cheap oil, "globalization" is no longer an asset. With climate change, farming is undergoing radical change, and the conventional food supply is no longer secure. There is a such thing as "too big to fail." And ultimately, as these crises advance, each of us will be forced to rely much more heavily on local resources within local communities.

Meanwhile, the single-minded focus on financial capital of recent decades has stripped most of our local communities bare: stripped of small manufacturing, stripped of small farmers, and in many cases stripped of raw materials and basic resources like spring water. Rebuilding our social fabric – restoring resilience to our local towns and communities, rebuilding "social and relationship capital" – is an absolute necessity to keeping peace and societal order as these crises deepen. And <IR> can provide measurement and reporting to assure that the job gets done, while we still have time, before things worsen significantly.

At 2.17, the third sub-bullet under "social and relationship capital" is stated too briefly ("an organization's social license to operate"), and should be expanded to encompass whether the organization is even of benefit to mankind.

Given the current state of planetary disrepair, and the widespread disregard for carbon emissions, the list of sub-bullets under "Natural capital" at 2.17 should specifically call out "the atmospheric concentrations of global warming emissions."

The final sentence of paragraph 2.18 is incorrect. The way that IIRC has defined these forms of capital, all organizations interact with these capitals to a greater or lesser extent. All organizations are converting natural capital and utilizing human capital. All organizations must consider social capital/social impact. The way it is currently stated in the Framework at paragraph 2.18 is license for organizations to continue to disregard these impacts on the human experience. Over the past century, that disregard was how humanity has gotten into the crises it faces. IIRC cannot condone an organization's disregard any longer.

Lastly, Figure 4 is misleading. Given the way intellectual capital has been defined by Framework paragraph 2.17, "intellectual capital" means *that which has become proprietary, internal to the organization being reported upon*. Thus intellectual capital should be depicted together with manufactured capital and financial capital in the innermost, light-blue circle (representing things internal to the organization). Human capital and social/relationship capital might embrace and support these, as the medium tone of blue. Natural capital is correctly placed, in that its health and robustness is necessary to support all life on the planet (and thus by association, all economic activity). The inner circles might more appropriately be centered within natural capital, signifying that the natural world surrounds all.

Question 7: A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26). Do you agree?

I disagree. See my discussion of "creating value" and its inherent growth presumption, which I discussed at "Key Points". See also my discussion of a closed-loop system, discussed at Question 4.

Question 15: Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

Paragraph 3.21 should be changed to read "Where a stewardship responsibility is not imposed by law or regulation, the organization may nonetheless ~~accept~~ *be ethically obligated to exercise* stewardship responsibilities …" This would reflect the obligation to respond to citizen stakeholders, which I explained in my answer to Question 4.

Question 23: If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?

First and foremost, address the presumption of growth, as I explained in "Key Points." IIRC can contribute significantly to the state of the world by helping create the culture shift away from single-minded focus on financial capital. IIRC can contribute significantly to the state of the world by helping to create a culture where restoration of natural capital, and building increased resilience into our social capital/social fabric, are significant indicators of a VALUABLE organization.

Secondly, circulate widespread education about the different types of capital (paragraph 2.17), since these are not yet part of the common vernacular.

Thirdly, IIRC will need to promote the desirability to shifting to <IR> over the old-fashioned, financial-only accounting systems.