Speech by Paul Druckman to the United Nations Economic and Social Council (ECOSOC)

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Building accountability in an interconnected world

Your Excellency, it would be impossible to speak to this audience without first expressing my huge admiration for ECOSOC, and its dedication to finding solutions to some of the hardest and most intractable problems the world faces in the early part of the 21st century. Every aspect of your work includes a vital human dimension: at the sharp end of poverty relief, health challenges, economic development and the environment. These challenges have found a common voice, first through the Millennium Development Goals and, now, through the historic agreement to implement the 17 Sustainable Development Goals by 2030. And at the heart of the process for delivering the Goals is a set of principles. Collaborative, universal and inclusive – these principles are crucial to building the cross-sector institutional partnerships that cut across governments, NGOs and the private sector to ensure every goal has the support and resources it needs to be achieved.

It is a privilege to be part of your discussions today and, in particular, to be invited to address you this lunchtime.

I am also proud of the IIRC's collaboration with the Global Partnerships Forum under Amir Dossal's leadership. As you may know Amir is a Chartered Accountant by background and a member of the Institute of Chartered

Accountants in England and Wales (ICAEW). It is through this route that I have got to know Amir (as a past President of the Institute). What you may not know is that Amir has been recognised with the ICAEW's Outstanding Achievement Award in 2016 for applying his accountancy training to so many different areas, not least his 25 years of distinguished service with the UN. I cannot do better than to quote Amir's own words in a recent interview about the role of the accountancy profession:

"*Accountants are critical because they can demonstrate the value-driven approach of smart philanthropy and social investment. It is a timing difference – instead of saying I am working for Wall Street and tomorrow's results, the City should be asking about long-term sustainability measures. We need results measured on that basis and not short-term performance. Accountants can extrapolate that and `make it clear cut'.*"

I cannot think of a better expression of the role accountants can play as the 'glue' between the macro-economy, our capital markets system and the disclosure that brings information to investment decision-making. Critically, Amir alludes to the different time horizons over which measures of performance should be assessed – I would translate that to "the short, medium and long-term" in the language of Integrated Reporting.

Building accountability in an interconnected world

Ladies and gentlemen, we are living in strange times. On the one hand, the world has never been more interconnected. To illustrate the point, the Cambridge Centre for Risk Studies in the UK conducted a risk assessment of the impact of war in the South China Sea – a 200 kilometre-wide channel of which sees around 50% of global oil tanker shipments passing through it at any one time. The study found that, what sounds at first like it would be a regional conflict, would in fact have profound economic and social impacts on countries such as Chile, not to mention many European economies and North America. This rather graphic risk study illustrates a vital point: that it is impossible to isolate risk, and the impact of that risk, by geography or type – financial or non-financial. We do, as the World Economic Forum has said, need new systems and sharper tools to make sense of this interconnected global environment.

Yet in some quarters there are pressures – political and civil society forces – to pull apart societies and civilizations at just the time in our development when we know that collaboration, partnership and solidarity deliver the social, political and economic leverage to resolve conflict, famine, environmental degradation and inequality.

As Christine Lagarde, Managing Director of the International Monetary Fund, has said, "The risk is of a world that is more integrated—economically, financially, and technologically—but more fragmented in terms of power, influence, and decision-making. This can lead to more indecision, impasse, and insecurity—the temptations of extremism—and it requires new solutions".

I cannot think of a single major challenge facing the world today which can be tackled in isolation. It is therefore right in my view to assert the value of partnerships through this Forum, and to share information and experiences about strengthening the accountability of institutions – and particularly the relationship between governmental and non-governmental organizations – that can act to mobilise support and deliver against the 2030 challenge.

Integrated Reporting and the power of information

So what can be learnt from our own experience in bringing about change to the reporting landscape?

In short, the International Integrated Reporting Council is trying to advance a world articulated so brilliantly by Amir – where the measurement of business performance can be assessed and explained more broadly and over different time horizons. Today, our capital markets are in two “disclosure traps”. The first relates to the breadth of information organizations are disclosing. We know that up to 80% of the value of a business is accounted for by intangible factors such as its intellectual property, productivity rates, brand and reputation. Yet the reporting formality required of businesses has, until now, largely been dominated by financial transactions. Integrated Reporting enables businesses to articulate their value creation story by reference to six “capitals” – human, intellectual, social and relational, natural, manufactured and financial. It is the first Framework of its kind to give parity to the different sources of value creation, which helps to build a more cohesive bridge between businesses, investors and civil society.

The second disclosure “trap” relates to the disclosure horizon. Because of the first focus on financial transactions, corporate reporting has essentially been backward-looking: it has been focused on lagging, rather than leading, indicators of value creation. This makes it hard for investors – particularly

Sovereign Wealth Funds, Development Banks or large pension funds – to make substantial investments in major infrastructure or other long-term investments because they have little visibility over the factors that will impact on future value creation. This is a particularly acute problem for those investments that have a social or environmental dimension.

Mark Carney, Chairman of the Financial Stability Board, has described this situation as the "tragedy of the horizon" – the market failure caused by the inability of markets to take into account the impact of risks, even when these risks are known to us, because we are trapped in a short-term disclosure straitjacket. Built into the International <IR> Framework is the principle of 'future orientation': businesses must explain their value creation story over the short, medium and long-term.

When it comes to changing behaviour, information is power – it is the lifeblood of capital markets and the transmission system for effective decision-making. Translating business activities, their inputs, outputs and outcomes into different dimensions and over different time horizons, will contribute towards sustainable development and financial stability. The Framework has been developed and trialled within the timeline of Rio+20 in 2012 to the completion of the SDG process in 2015. Many of those organizations that are today attempting to realign their corporate strategies to the 2030 vision are the pioneers in Integrated Reporting.

Building accountability through effective governance

Having explained what we are setting out to achieve, I would like to devote the final part of my remarks to an issue I know is of great importance to the Partnership Forum – the question of accountability. I believe accountability is critical to building trust, retaining confidence and achieving scale. For me, it has two dimensions. First, at an institutional level. Second, through embedding high quality "integrated thinking". I want to explain what I mean by both.

I have been influenced greatly by a major lecture delivered by Christine Lagarde in February 2014 called "A new multi-lateralism for the 21st Century", in which she argued: "The new multilateralism also needs to be agile, making sure that soft and hard forms of collaboration complement rather than compete with each other. It needs to promote a long-term perspective and a global mentality, and be decisive in the short term—to overcome the temptation toward insularity and muddling through. Fundamentally, it needs to instill a broader sense of social responsibility on the part of all players in the modern global economy. It needs to instill the values of a global civil market economy—a global "guild hall", as it were".

I think that idea of the global "guild hall" is very close to what we created at the IIRC with our multi-stakeholder Council. This Council includes agencies of "hard" power such as capital market regulators and stock exchanges, as well as "softer" NGOs and representatives of civil society. The capital markets make up the third element – multi-national companies, institutional investors and accounting bodies. We have been fortunate to have Professor Mervyn King, an expert in corporate governance, as our Chairman for the last five years. We have examined our constitution and governance to ensure we can guarantee the independence of decision-making and challenge by our Board. This has resulted in a strengthened IIRC constitution in 2015, with a refreshed independent board reflecting the diversity of our constituency, and a clear division of responsibilities between our Board, Council and executive team. So my first point about accountability is: think about whether you can justify your governance arrangements externally and whether they meet global best practice. Governance can be the best ally on the road to acceptance.

The three stages of thinking

My second point relates to "thinking". Once the coalition is assembled, how do you create the level of "integrated thinking" necessary to enable high quality decisions to be made? One lesson I have learnt, something that can be embedded, is the art of integrated thinking.

For me there are "three stages of thinking" for any organization and we apply this analysis to ourselves as the IIRC, as well as the capital markets as a whole.

The first stage of thinking is what we know as Einstein's definition of insanity: "Doing the same thing over and over again and expecting a different result". The Global Financial Crisis is a good example of this kind of thinking and we are all guilty of it. We have tried something and failed and then tried again in exactly the same way – and failed again!

In my own world of corporate reporting, this stage of thinking is embodied in those who believe only financial capital can determine value creation and performance. Despite repeated warnings and an explanation of the evidence, they ignore the red warning lights on the dashboard.

From an accountability perspective it leads to chronically poor decision-making, the disengagement of key stakeholders, very little diversity of opinion or challenge, heightened risk and almost certain failure.

The second stage is thinking is where you know there is a problem you are reaching for new solutions, but these solutions are based on old thinking. As Einstein again reminds us, “We cannot solve our problems with the same thinking we used when we created them”.

This is the "something must be done" school, but quite often results in thrashing about for solutions because the fundamental thought processes have not evolved.

Again, from the corporate reporting world, this would be akin to discussing strategy, but relying only on financial metrics to do so, or creating a conversation about corporate social responsibility, but not linking it to strategy or performance.

This level of thinking leads to improved accountability but still within narrow silos and remains sub-optimal.

The third stage is what I would call inclusive and integrated thinking. This is where silos, if they exist at all, are a deliberate tool of management rather than the default culture. In fact, there will be a deliberate effort to minimise silos and create clear information flows within the organization. In this form of thinking all the resources or "capitals" are put to work, the business model is explained and understood and decision-making is based on this new understanding. Decisions are taken with knowledge.

In this governance system there are clear lines of sight and accountability, which transforms the organization's ability to respond to new risks and opportunities, and because capital is being managed in a holistic way integrated thinking is absolutely consistent with the SDGs and the 2030 agenda.

Creating value through partnership

For too long – indeed for most of my adult life – we seem to have lived in a world where society has served our economic system. If the economic system ignored a risk to society's wellbeing or to our environmental sustainability, it was ignored by everyone because we were all bought in to what Hillary Clinton has called "the tyranny of quarterly capitalism". To have set ourselves up in this way is tragic because, as the Creating Shared Value movement is demonstrating, when business puts its energy behind solving societal problems, it is the most powerful social reformer of all.

And this phenomenon speaks to the importance and power of inclusive partnership. Because if this generation can harness and combine the efforts of those willing and able to make a difference across boundaries and sectors, then it will unleash reserves of untapped potential that can be put to the good of all of us. That is what I believe is required to deliver the 2030 agenda and I stand behind your efforts, in spirit and in practice, to build the partnerships that will deliver these real and profound benefits to our world. Thank you.

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