

Understanding the value of transparency and accountability

The Corporate Reporting Dialogue (the Dialogue) was established to facilitate discussion between the respective participants on their frameworks as the basis for further advancing corporate reporting. In order to achieve this progress, Dialogue participants work together to better understand and align their respective frameworks where appropriate and to develop common views on corporate reporting and its future.

As part of the discussion, Dialogue participants have explored areas where further alignment could be clarified and developed. These areas include the concepts and principles underpinning the frameworks, the interrelations between the frameworks and the specific disclosures called for in the frameworks.

For all Dialogue participants, greater **transparency** and **accountability** lie at the heart of their reporting frameworks. These attributes, which form a common foundation, facilitate bigger-picture effects, such as enhanced decision-making by capital markets (and others) or serving the public good. For some of our participants they relate to changing behaviour.

In the view of the Dialogue **transparency** and **accountability** are also critical elements to achieve high-quality governance mechanisms and empowerment of stakeholders in modern societies and markets.

Value of this paper to report preparers and users

This paper will show to users and preparers alike that our participants' frameworks are built on the same fundamentals and therefore can be used in conjunction with each other. It will demonstrate that, whereas the individual frameworks each have their specific requirements, they stem from compatible principles.

For preparers, the common principles outlined in this paper should therefore serve as an aid and reference point in case they perceive inconsistencies – as the principles guide the more detailed requirements.

Furthermore, this paper provides evidence of the value that **transparency** and **accountability** bring not only to report users but also to report preparers.

The paper also elaborates on the value of transparency and accountability for better performance and long-term business success.

The objectives of transparency and accountability

The work of the Dialogue participants consists to a large extent of issuing frameworks for organizations to report against in relation to certain topics in a defined or structured way. The objective of the work is to enable others to use the disclosures that are founded on the frameworks as the basis for their further assessment and/or actions.

The frameworks each address selected topics (i.e. products, sustainable development, financial position, value creation), differing user groups (investors, other financial stakeholders, wider society, other specific user groups) and differing media (reports, databases, certificates).

Dialogue participants have in common, however, that participants deploy their frameworks with the objectives of achieving transparency and accountability.

The Dialogue recognizes that these cannot be achieved in isolation by individual frameworks. It supports therefore each of the frameworks' role in reporting and disclosure and has an interest in integrated reporting as a concept.

For the Dialogue, transparency is an open way of communication by an organization on the topic concerned, such that the information is sufficiently accurate, complete and understandable to enable the user to make relevant decisions.

As outlined above, each of the participants' frameworks addresses particular user groups. The remit to assist these user groups with participants' frameworks is based on the premise that organizations should accept and demonstrate responsibility for their behaviour and performance to particular groups that are their constituents. Each of the frameworks detail this accountability for their respective topics, missions and user groups in order to ensure sufficient disclosure by organizations to enable users to take well founded decisions.

The common objectives of transparency and accountability form the basis for the underlying outcome goals of Dialogue participants: to enable better decision-making by market parties and in so doing, to serve the public good.

In order to achieve these outcomes, it is the Dialogue's view that the two go hand in hand. Accountability can only be fulfilled if those held accountable disclose their behaviour and

performance such that those looking for accountability can actually hold the other to account. Accountability therefore needs transparency. Equally transparency needs accountability in order to drive effective behaviour or performance: disclosing in itself is not enough if those holding to account do not have the power to influence the behaviour or performance, do not have an incentive to take actions or do not have a relationship with those accounting.

As shown below, Dialogue participants' missions are highly complementary.

The International Accounting Standards Board brings transparency, accountability and efficiency to financial markets that foster trust, growth and long-term financial stability in the global economy.

CDP focuses investors, companies and cities on taking urgent action to build a truly sustainable economy.

The Climate Disclosure Standards Board's mission is to create the enabling conditions for material climate change and natural capital information to be integrated into mainstream reporting, which will enhance the efficient allocation of financial capital.

The Sustainability Accounting Standards Board has the objective to enhance investors' decision-making to sustain value creation.

The International Integrated Reporting Council's goal is to align capital allocation and corporate behaviour to wider goals of financial stability and sustainable development.

The Global Reporting Initiative's mission is to empower decisions that create social, environmental and economic benefits for everyone.

International Organization for Standardization strives to create high-quality, safe and efficient products as the basis for enabling trade.

Value of transparency and accountability

The above outlines how enhancing transparency and accountability lies at the heart of the Dialogue as the basis for achieving the ultimate missions of our participants.

The value of disclosure is seen in numerous ways.

First of all, we believe that the frameworks deliver on their basic promise, which is to enable better decision-making by users. The majority of participants' frameworks inform investors and others about the risks and opportunities associated with non-financial value drivers. This information delivers the basis for the assessment of the company's situation and outlook as well as its value, and assists good decision-making in relation to providing resources to the entity.

Application of the Global Reporting Initiative (GRI) Standards for example equally allows internal and external stakeholders to form opinions and make informed decisions about an organization's contribution to the goal of sustainable development.

The transparency and accountability components that each of our participants' frameworks deliver not only result in improved decision-making, but also assist in higher levels of trust being built and maintained between companies and their stakeholders.

For investors who are accountable to their beneficiaries, transparency about the portfolio investments, as enabled by the investees, allows the investors in turn to demonstrate stewardship of the invested funds to the beneficiaries.

Trust is a fundamental benefit that is strengthened by the application of robust, well-governed frameworks. The Dialogue frameworks make information more easily accessible, more trustworthy and better comparable. The higher levels of trust then form the basis for stronger relationships with regulators, suppliers, customers, investors and others.

At the market level, the disclosures delivered by application of the Dialogue frameworks foster more efficient as well as more resilient capital markets. Also, the sustainability of our economic, social and environmental systems improves by better decision-making at all market levels.

There is vast literature on the role of reporting as a constructed and constructing tool, shaping both management practices and society that supports thisⁱ.

The work of Dialogue participants also benefits the reporting organization itself. Generally, for each of our participants' frameworks, organizations gain better insight into their activities and use that for improved management and strategic decision-making. For example, studies show that accounting (and with that reporting) influences strategyⁱⁱ.

As stated before, Dialogue participants show interest in integrated reporting as a concept. Taking into account broader risks in addition to direct financial risks enriches the overall view of the company. Not only can it show additional risks and opportunities, it can also be used to review the dependencies between these. Including the other capitals, as outlined in the <IR> Framework issued by the International Integrated Reporting Council (IIRC), in management cycles can provide a holistic view of the company. Such a holistic view on value creation can support strong strategic management that addresses all disciplines represented in the Dialogue.

This could further drive better connections between departments and improved internal processes. Effectively, these benefits have been reported by the companies that participated in the IIRC pilot project in 2011-2013ⁱⁱⁱ.

In conclusion, the Dialogue collectively recognizes the joint objectives and common foundation of *transparency* and *accountability*. These deliver real world value such as better management and stewardship, supporting the ultimate goals of the frameworks represented in the Dialogue.

Achieving better performance

The above-mentioned benefits of transparency and accountability do leave a critical question open, which is whether the work done by our participants' frameworks and their application by organizations in fact result in improved performance – or, in other words, more efficient

allocation of capital, financial stability and/or a true sustainable economy (e.g. an economy that ensures sustainable living conditions). These are amongst the priority goals, to which our participants' frameworks aim to contribute.

To demonstrate the relationship between reporting and actual improved performance is more challenging than providing evidence on the impact it has on decision-making, valuation and trust as described above. Still, the Dialogue has collated illustrative evidence that demonstrates that participants are achieving the ultimate goals of their frameworks.

Steps towards a truly sustainable economy can start at the companies' level. They are responsible for taking the necessary actions to enable investors and other stakeholders to price future outcomes into present day decisions (i.e. net present value), establishing a healthy balance sheet and contributing to a truly sustainable economy.

It is common practice for companies to account for financial flows, assets and liabilities as part of good management and good governance. And, of course, companies use accounting information such as defined by the International Accounting Standards Board (IASB) to take decisions on future investment and activity and to optimize their finance structure or performance.

Environmental, Social and Governance (ESG) information alongside information on other non-financial aspects should also form the basis for decisions on better performance. The ESG-related frameworks of the Dialogue (CDP, Climate Disclosure Standards Board (CDSB), GRI, Sustainability Accounting Standards Board (SASB)) include requirements to report on performance and related targets for material KPIs. We know from practice that many companies who start reporting against any of these frameworks take a journey that goes from reporting on actual performance to setting targets and improving performance to meet these targets. Whereas the frameworks do not determine performance as such, the requirements of the frameworks and peer reporting practice on that basis drive insight into actual performance and stimulate action once the information is publicly available.

Focusing on globally material sustainability issues is a critical part of the ESG-related frameworks that participate in the Dialogue. A recent study that reviewed companies' financial returns against the extent to which they addressed material sustainability issues found that companies with high performance on material issues and low performance on immaterial issues in financial terms outperformed companies that focused on immaterial issues or did not focus on material issues^{iv}.

With respect to integrated reporting, illustrative evidence suggests that companies who adopt integrated reporting show greater improvement in future cash flow estimates and higher market-to-book values than similar companies^v.

In addition to the direct benefits for performance, the Dialogue believes that transparent reporting also results in a lower cost of capital due to a lower risk profile as a result of a better insight into the organization. Also, illustrative evidence from the South African market shows that analysts can make more accurate forecasts and thus agree with a lower income on capital allocated when companies issue a report aligned with the <IR> Framework^{vi}.

Addressing all relevant factors for business success in reporting can result in a more favourable reputation and branding, particularly amongst investors and analysts.

A South African study shows that companies with higher quality scores for their integrated report appear to have higher valuations compared to lower quality reporters. Also, market

liquidity is shown to improve with increasing quality. As the study concludes, investors associate higher reporting quality scores with better investment decisions^{vii}.

It is well recognized financial, sustainability or otherwise core-business related events that become public, can result in negative corrections of company value. Examples include the significant impact on Union Carbide in 1984 after the Bhopal incident and the financial impact on retailers whose apparels were produced in the collapsed Rana Plaza, Bangladesh in 2013. On the financial side, a number of scandals in the first decade of this century such as the Enron failure in 2001 (a loss of more than US\$ 60 billion at the time) show that investors and other stakeholders respond to information on negative company behaviour by financial or other actions.

In conclusion, we are convinced that the collective efforts of our participants make a difference in actual behaviour of markets and people. We have already seen evidence of positive change in performance, both in terms of companies' own performance on sustainability and financial issues and in financial markets. Furthermore, practice has shown that information on negative company behaviour has implications as well, suggesting that stakeholders take both financial and non-financial information into account when assessing and taking action with or against companies.

Alignment on principles for reporting

As outlined in this paper, Dialogue participants' efforts support the objectives of transparency and accountability to drive change, enable better-decision making or serve the public good. The Dialogue has set further alignment between the frameworks as one of the ambitions of the Dialogue's efforts. In order to achieve a similar quality of the results of our work, it is critical that participants, where possible, subscribe to equal or similar principles to achieve the objectives; furthermore, that participants have a similar understanding of the content of these principles.

In that context, we have considered whether our participants have defined common principles to fill in the overall objectives of transparency and accountability. Some of the participants have not made their overall principles explicit. However, we have assessed that each of the Dialogue participants' frameworks incorporates principles that we see as fundamentally qualified principles for corporate reporting in general.

We notice that some frameworks include specific principles that are not embedded in other frameworks. As far as we have assessed in the context of this paper, these do not identify gaps in the other frameworks, but rather show a specific aspect of the applicable framework. Furthermore, our participants' frameworks use different wording for the principles and their further explanations. However, we address similar 'concepts' within each of the frameworks.

The principles that participants commonly believe are fundamental are outlined on page 8. In addition, each individual framework has its own unique principles that may not be present in (all) other frameworks. We have included a brief description for each. This is not to be seen as the common definition by the Dialogue, but serves only the purpose to briefly clarify the principles:

Materiality this regards relevant information that is (capable of) making a difference to the decisions made by users of the information.

Completeness all material matters identified by the organization for the relevant topic(s) should be reported upon.

Accuracy (free from material error) the information reported should be free from material error.

Balance (neutral) the information does not have bias, i.e. is not presented in such a way that the probability would be increased that it will be received favourably or unfavourably by the users.

Clarity the information will be understandable and accessible to the users; this includes a certain level of conciseness.

Comparability, including consistency information is reported on the same basis and applying the same methodologies year-on-year. Also, the information enables comparison against other organizations.

Reliability in preparing the information processes and internal controls are in place that ensure the quality of the information and allow for examination of the information reported.

These common principles are a reminder that the Dialogue participants have similar expectations from companies in preparing and disclosing information. This implies an alignment at the fundamental level of the frameworks.

On page 9 we provide an overview of the terminology used by each framework. It is noted that the table shows the similarities and does not intend to suggest that the frameworks would have exactly the same definition and understanding of the principles in all detail. In fact, the principle of materiality in particular appears to show different explanation and application.

GRI	IIRC	SASB	IASB	CDSB
Stakeholder inclusiveness	Stakeholder relationships	Stakeholder inclusive		
Sustainability context				
Materiality	Materiality	Materiality	Materiality	Materiality & relevance
Completeness	Completeness	Complete	Complete	[part of materiality & relevance]
Accuracy	Reliability	Fair	Free from material error	Free from error
Balance	Reliability /completeness	Neutral	Neutral	Neutral
Clarity	≈ Conciseness	≈ Useful	Understandability	Clear & understandable
Comparability	Comparability	Comparable	Comparability	Comparability
Reliability	Reliability	≈ Verifiable	Faithful representation	Verifiable
Timeliness			Timeliness	Timely
[part of comparability]	Consistency	[part of comparable]	Consistency	Consistent
	Strategic focus & future orientation			≈ Forward looking
	Connectivity of information			Connected
<ul style="list-style-type: none"> • The GRI principles have been taken as the basis for comparison • '≈' refers to a principle that relates to the other principles in the same row without fully addressing these. • As a disclosure system, CDP does not exclusively publish principles for reporting, however CDP's questionnaires and guidance on climate change aspects align directly with the GHG Protocol which is based on relevance, completeness, transparency and accuracy. 				

The table shows a solid basis for Dialogue participants to further their common work towards further alignment.

Conclusion

With this paper, the Dialogue has explored the common ground in terms of the objectives, the qualified principles for reporting and the value that is created by participants' frameworks that are built on these principles. The paper has also addressed the ultimate goals of the frameworks.

The Dialogue takes transparency and accountability as a primary objective of participants' frameworks and has found a common definition of these terms. These objectives work in close conjunction with each other for all Dialogue frameworks, whereas participants each have their own specific role in terms of topics, intended user groups and scope.

Participants' interests complement one another and are not contradictory.

Dialogue participants have related underlying objectives beyond transparency and accountability, which relate to stimulating driving change, or enabling better decision-making and, in so doing, serving the public good. It is important to have sufficient confidence that these are effectively achieved, i.e. that value is created from using participants' frameworks. Moreover, that performance is driven ultimately by applying them.

We have shown in this paper that these are being achieved: experience from practice and academic studies show that impacts such as better decision-making both by users and reporting companies, higher trust, improvements towards a sustainable economy and efficient capital market can be reasoned and demonstrated.

On the basis of these impacts, we have considered whether a common understanding exists between Dialogue participants about the qualified principles for reporting. Such common understanding exists: seven principles appear to be supported in all frameworks that currently contain a set of principles.

What does this mean?

This paper shows further alignment of the Dialogue frameworks.

The participants have expressed their commitment to promote application of these principles for the wider reporting landscape in any interactions or partnerships they may enter into. The Dialogue will also consider further alignment of the principles' terminology and underlying explanations in due course, taking into account the applicable governance mechanisms and timelines for updating the individual frameworks that exist.

For both reporters and users, the paper further demonstrates that participants' reporting frameworks' impacts go beyond the purpose of disclosure only: by supporting better decision making, they can contribute to the public good.

We are confident that the paper has clarified the reporting landscape with respect to the objectives, the value and the principles and look forward to any feedback to further develop the Dialogue's work.

This paper was prepared by:

- CDP
- Climate Disclosure Standards Board
- Global Reporting Initiative
- International Accounting Standards Board
- International Integrated Reporting Council
- International Organization for Standardization
- Sustainability Accounting Standards Board.

The US-based Financial Accounting Standards Board participates as an observer to the Dialogue and therefore its work is not included in this paper.

In order to avoid unintended claims about the official status of the products, whenever we refer in this paper to the products of our organizations, which are known as standards, guidelines or frameworks, we use the term 'frameworks'.

i See for example:

ii See for example:

Dent, J. (1990), Strategy, organization and control: Some possibilities for accounting research, *Accounting, Organizations and Society*, Vol. 15, pp. 3-25.

Roberts, J., (1990), Strategy and accounting in a UK conglomerate, *Accounting, Organizations and Society*, Vol. 15, pp. 107-126.

Skærbæk, P. and Tryggestad, K. (2010), The role of accounting devices in performing corporate strategy, *Accounting, Organizations and Society*, Vol. 35, pp. 108-124.

iii International Integrated Reporting Council, *Understanding Transformation: Building the Business Case for Integrated Reporting*

iv Khan, Serafeim and Yoon, *Corporate Sustainability: First Evidence on Materiality*, www.ratesustainability.org/wp-content/uploads/2015/04/Serafeim_etal_Corporate_Sustainability.pdf

v Carlos Martinez, (2016), University of Saint Gallen, *Effects of Integrated Reporting on the Firm's Value: Evidence from Voluntary Adopters of the IIRC's Framework*, www.papers.ssrn.com/sol3/papers.cfm?abstract_id=2876145

vi Zhou, Simnet, Green, (2017), *Does Integrated Reporting Matter to the Capital Market?* www.papers.ssrn.com/sol3/papers.cfm?abstract_id=2600364

vii Lee, Kin Wai and Yeo, Gillian H.H., (2015), *The Association between Integrated Reporting and Firm Valuation*, *Review of Quantitative Finance and Accounting*, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2839819