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CSR Index



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Presenting the CSR Index 2010 at the Reputation Lab in Davos 2011 provided the impression that the corporate world was not only willing, but also able to finally embrace sustainability as a key value driver. Regardless of who led the debate during the session – Francis Quinn of L’Oreal, Francesco de Leo with his Green Comm Challenge team or Jürgen de Graeve from Audi – the overall sentiment was certain that the corporate sector was strong enough to stop abusing CSR activities as a PR gimmick and, instead, was ready to utilize them as driver to improve the bottom line.

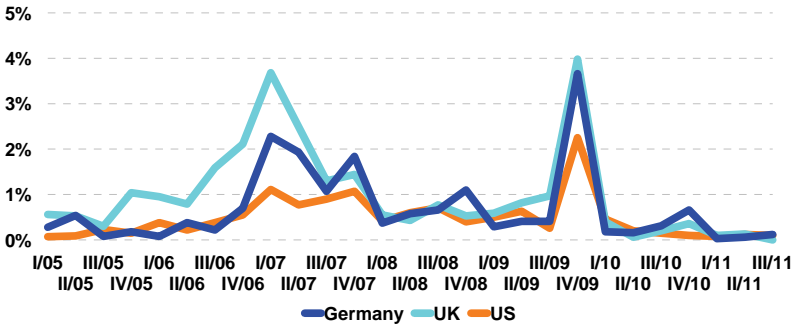
A day after the white paper was launched, the Arab Spring started. After the positive change in Tunisia, 100,000 enthusiastic citizens gathered in Cairo to make change happen. Just as when 20 years earlier the Wall finally came down because people in East Germany, the Czech Republic, Hungary and other Eastern European countries no longer wanted to accept living in authoritarian regimes, the media were overwhelmed by the positive energy breaking out in Egypt, Yemen, Tunisia, Bahrain, Jordan.

But there was another similarity to 1989. All of a sudden there seemed to be no more time to discuss CSR-related topics. In 1989 there had also been a strong movement to connect academia and the corporate world by highlighting the fact that companies can no longer operate based on short-term perspectives. But the fall of the Wall cut that discussion from the agenda not only in the media, but also in the corporate world. Too many old school leaders had the impression that this new situation wanted the old solutions, such as those which had helped create the “German Wirtschaftswunder” after World War II. This basically meant giving the masses a proper currency, getting the logistics done and assuming the rest would follow.

However, 2011 seemed to be different. The earthquakes and floods in Australia and New Zealand destroyed the Christchurch Cathedral along with other familiar landmarks, and the tsunami in Japan offered the potential to keep environmental concerns on the agenda and prevent them from being washed away by short term business arguments.

But as ongoing research by Media Tenor illustrates, television media around the world again banished CSR from screens in the US, and Europe.

Chart 1: Salience of climate change in TV news, I/2005-III/2011

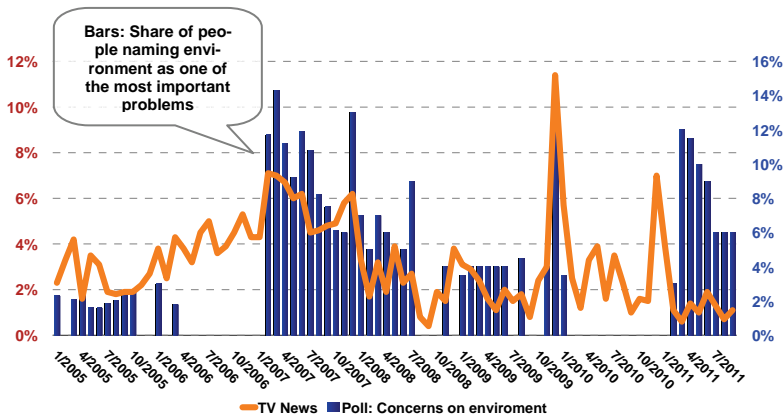


Basis: 599,855 news stories in 13 international TV news shows

What is not covered by the evening news rarely makes it onto the agenda of governments. With fewer stories underlining the open questions regarding guaranteeing access to water, dealing with climate challenges, and, finally, finding better ways of dealing with pollution and waste, opinion leaders around the world were taken off the hook regarding presenting answers and convincing solutions to these significant questions. Even the corporate sector lost momentum. This, despite the way business leaders love to present themselves as being independent from the need to please the public because they are not voted into office through elections but rather keep their jobs based on stock markets success.

For the media, there was no need to cut CSR and environmental topics from the agenda, as audiences, in contrast to the news selection by TV journalists, seemed to remain interested in the topic, as highlighted by the following chart:

Chart 2: **Salience of climate change in TV news and public concerns on environment, I/2005-III/2011**



Basis: 247,537 news stories, 1,257 focusing on climate change in 5 German TV news shows / FG Wahlen poll

While the orange line shows how little airtime TV journalists gave environmental topics, the blue bars highlight the interest of people in staying informed after Fukushima and other events, such as the BP oil spill a year previously.

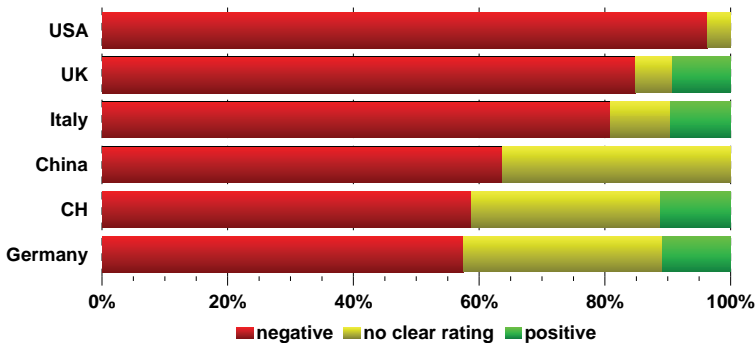
How would editors respond when asked about cutting sustainability issues from the news agenda? “It’s the economy, stupid,” seems to still be the refrain still by journalists almost 20 years after Bill Clinton hammered his campaign motto into the heads of the press corps back in 1992.

Ongoing headlines coming out of Greece, Italy and Spain about the debt crisis, as well as the Obama administration inability to tackle its own challenges regarding a sustainable budget seemed to be an excuse to reduce airtime regarding topics like improving production quality, global standards for the management of supply chains, and improving dealing with precious resources like water. If journalists only knew how many liters of water are wasted by Coca-Cola to produce a single can of Coke, this would change.

The way television media framed the economy around the world led to the only place it could: a perception of total uncertainty. 90% of economic news focused on the Euro debate, unsolved problems with unguided financial markets and governments hoping that the natural law of

balanced spending would not count for their countries. But at the same time this media reality ignored facts which would explain that, in contrast to headlines, the world had not come to an end and was far from being comparable to 1928 or 1946. Stock markets remained far from their falls after the Internet bubble burst back in 2001 and when Lehman collapsed in 2008. Companies around the world announced increased profits in 2011. Most importantly, ongoing surveys regarding private wealth and employment indicate that the business world has at least learned some lessons after 2008. Yet, this news didn't reach people who build their opinions based only on TV news.

Chart 3: Evaluation of the state of the economy in international TV news, October 1-15, 2011



Basis: 667 reports about the state of the economy in international TV news

The news 2011 selection seems to provide the same excuse for a dichotomy which has been presented as true since the revolution in Eastern Europe in November 1989: When people have nothing to eat they are not interested in the nice-to-have ideas offered by CSR representatives.

Really?

Ask the people in Fukushima if they think it makes a difference if you die from hunger or from poorly managed nuclear power companies. Tepco, the Japanese company running the power plants in Fukushima, had been alerted long before the tsunami hit the region that they had irresponsibly saved money by not investing in European standards to make the plants secure against natural catastrophies like floods. Short term thinking once again cost lives and caused a massive environmental and economic disaster.

Therefore, a recently published working paper by Harvard Business School professors Bob Eccles and George Serafeim, as well as London Business School professor Ioannis Ioannou (Nov 4, 2011 <http://www.hbs.edu/research/pdf/12-035.pdf>) is providing the right answer for overcoming the old excuses. As one of the most important questions regarding sustainability is its impact on financial performance, they proved in an empirical study of two matched sets of firms covering an 18-year period that there is strong evidence that high sustainability firms significantly outperform the low sustainability firms, as measured in both accounting and stock market terms. The authors had privileged access to a database created and maintained by Sustainable Asset Management (SAM), which enabled them to show significant differences in corporate governance and stakeholder engagement between the two sets of firms. They also showed that high sustainability firms have a longer-term time horizon, have more long-term investors, and place a greater emphasis on measuring and reporting nonfinancial information.

Professor Eccles has been publishing for decades in order to guide CEOs and CFOs around the world into understanding that short term management leads to less impressive results than those from a company run based on a more holistic view. This means that 12 years ago there was already an understanding that annual reports need improvement since they only make 30% of all relevant values of a company transparent. Writing “The Value Reporting Revolution” in 1999 put Eccles at the forefront of those scholars that would no longer let corporate leaders get away with short term management.

Along with a range of contributions from business leaders, analysts and scholars, we are honoured to publish in this CSR Index 2012 the relevant text on integrated reporting in which Bob Eccles and his Harvard Business School colleague George Serafeim lead the way to enriching annual reports with additional values like intangibles. This might also help to explain why a growing number of asset managers are moving money to funds which have a strong understanding of sustainable economics, as Dr. Joachim Faber, CEO of Allianz Global Investors pointed out back in 2004. After the Lehman collapse, he was asked whether he still believed that green investments could become an alternative to traditional asset management. He then pointed at AIG and its need for a bailout in contrast to European insurance companies that did not fall into the trap of short term investments.

Zurich, November 8, 2011 – Roland Schatz

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Introduction

by Francesco de Leo

The world is getting more fragile, and whatever role you play, either in the corporate world or in public administration, you need to take into account that this time of transition we are living through will produce a durable impact on how we work and live.

This overall degree of fragility is the result of a combination of a number of different factors:

1. the end of cheap oil, which allowed the economy to grow beyond any reasonable expectation over the last 30 years;
2. the digital transformation, which is based on ever more powerful connective technologies and the proliferation of distribution platforms, in the form of a multiplicity of smart devices and tablets, which are imposing a toll on energy consumptions across societies;
3. the impact of climate change, which creates new challenges in terms of managing the logistics of global businesses across different regions which are facing sudden disruptions;
4. the emergence of new forms of organizing collective actions and harnessing knowledge which call for a more responsible, transparent and equitable use of available resources while creating new challenges for both governments and corporations.

No matter how these factors play out, sustainability will not be just an environmental issue, but will soon become the managerial challenge of our age and civilization; the world, as we know it, is about to change in surprising and unpleasant ways, which can be addressed if governments and corporations are capable of defining new ways of cooperation.

Fragility and sustainability are key issues in regard to long-term competitiveness.

The world is becoming an increasing fragile place, where unexpected disruptions affecting infrastructure which we take for granted may face

sudden breakdowns, affecting the everyday life of millions of citizens and customers across the world.

Governments and corporations have to face the harsh reality that fragility is the underlying force that will shape the world for years to come.

To address the challenge of an increasingly fragile world, the public and the private sectors have to embrace sustainability as a guide for elaborating new policies, and for redefining and re-inventing industries which will be severely affected by irreversible changes in the global competitive landscape.

Industries that have been a sizeable presence in our everyday lives, such as the automobile, telecommunication, information technology and the consumer goods industries are going to be restructured by the powerful combination of the end of cheap energy and the emergence of sudden disruptions in the logistics of how goods and products are transferred across the world, due to the impact of climate change coupled with unexpected breakdowns in basic infrastructures.

Although we expect these challenges to be most severe of our age and civilization, we are also convinced that these changes will enable progress and innovation, which will improve the state of the world and the global economy.

As in every transition, there will be winners and losers. Competitiveness at the country-level will be affected by how political elites engage multiple constituencies across society to promote policies which will allow room for restructuring key industries such as transportation, energy, communications and distribution to cope with the new reality where energy efficiency and climate change require a redistribution of available resources and national investments.

There will be little room to play catch-up games as was the case in the past. There is a difference in quality, and not just in magnitude, with regard to the transitions we have observed so far. This time governments and corporations will have to act fast to avoid losing precious time before getting to the point of no return. Because these changes will have an irreversible impact on how industries are organized and technology and products flow across the world, basic infrastructures will be redefined and re-engineered to reduce the level of fragility on a global scale. National or global scale investments in fundamental infrastructures take

seven to ten years in terms of design and engineering (e.g., GSM, as a global standard for mobile communications) and six to eight years in terms of deployment. If we consider that return on investment of this scale take around 15-20 years, such as in the case of the Eurotunnel, there is little room to postpone decisions that will affect the growth prospects of the future generations.

We are still far behind in our understanding of how this transition will take shape. What we know is that it is now surfacing in different industries and different corners of the world, often in unexpected ways. The demise of the automotive industry as we know it started out at the end of 2008 when GM and Chrysler underwent deep restructuring plans, and SAAB was rescued by Spyker, a manufacturer of high-end sports cars, together with a group of financial investors. It is unrealistic to predict how the automotive industry will look ten years from now, but we can be sure it will be different from what it is today in terms of business models, technologies, and distribution platforms.

To address the fundamental changes that will impact not just the economy, but also the very way we live and work, we have to elaborate how the framework of sustainability will translate into public policies and managerial practices. To this end, we need to think of sustainability not just as an environmental issue, but as a competitive driver. Sustainability is at the core of strategy, and it should be a guiding principle for both corporations and governments to reduce the level of fragility of an increasingly inter-dependent world. Being green, and promoting a green corporate agenda, is not about feeling good or being a good corporate citizen, but it is the roadmap for business's new reality and for protecting and preserving the value creation capabilities of corporations and nation-states.

To map out the impact of sustainability as a driving principle for strategy I will focus on three different layers:

- the evolution of industry;
- the corporate challenge;
- and the way governments can promote change and international cooperation to adjust to the new reality, as well as how we can measure progress by adopting a global sustainability index which will complement the global competitiveness index.

There are four levers both corporations and governments will have to acquire to address these changes:

- innovation – how to foster innovation on a global scale by pushing for the convergence of industries, such as the telecom, energy and transportation sectors, to create a new generation of basic infrastructures;
- finance – how to redirect resources to support the adoption of clean-tech and energy efficiency technology on a massive scale by engaging the leaders in corporate philanthropy to make available patient capital;
- education – how to train and educate new generations of leaders capable of inspiring and driving the shift towards a more sustainable economy, while coping with an increasingly fragile world;
- media – how to make the media community have a more proactive role in promoting the reporting of the status of global initiatives aimed at addressing sustainability.

Industry Evolution

Regardless of the industry in which you operate, you need to accept that we still live in fossil fuel-based economy, and you will be facing an increasingly fragile world where basic infrastructures enabling industries to expand globally will force realignment and rebalancing on a massive scale.

Industries tend to vary in terms of their collective capability to adjust to the need of increasing energy efficiency in the way products and services are delivered across the world and the time-span needed in order to cope with the dynamics of change.

The question is not about whether sustainability of industries will be an issue, but how much time is left in order for them to adapt. Whoever takes for granted that the core industries as we know them today will be here ten years from now, is not taking into account that industry evolution has been taking place over the last 200 years in dramatic ways, often with significant social impact (e.g., the Boston ice companies and the fishing of killer whales for oil for city-illumination).

The reality is that we know little about industry's evolution and its capability for thriving on change, so we still have to improve our understand-

ing of how different scenarios will play out in asymmetric ways, enabling a few industries to expand their reach while others decline and, eventually, disappear.

However, taking for granted that there are issues you can't control for and competitive drivers which are also beyond your control and additionally outside your industry of reference, there are a few fundamental questions you should address:

1. To what extent is your industry sustainable as it is organized today? Will face increasing pressure for large scale change due to government intervention, collective customers' actions, increasing needs for energy efficiency, and fragility affecting basic infrastructures?
2. What is the weakest link in your industry that will most severely impact its overall sustainability given the time constraints that are in place for the industry to change the way it is organized?
3. To what extent will the concentration of specific industries within key regions of the world will be affected because of sudden and irreversible breakdowns due a mix of energy inefficiencies and disruptions in basic infrastructures, particularly those which are at the point of no return (i.e., no matter how much money and resources are invested to restore sustainability the regions will not be able to serve, again, as the global hubs they once were)?
4. How will national policies aimed at addressing energy efficiency and the reduction of carbon footprints impact industries in asymmetric ways, creating opportunities for growth for some and reducing the chances for survival for others?
5. How will the combination of increasingly high shipping costs, together with the fragility of logistics infrastructures unfit to become more energy efficient, redistribute manufacturing capabilities across regions of the world? How will this create the need for in-sourcing key competencies and skills to serve markets on a more local basis?
6. How will industries be able to address the difficult balance between transferring bits of information and sending goods/bundles of physical components? How will they serve different market constituencies, which will be increasingly aware of the energy efficiency and carbon footprint of any given industry?

No matter how a number of different scenarios will play out, we can expect that new industries will become the drivers of economic growth on a global scale and that these industries will be the result of a process of convergence which will affect the energy, telecommunications, transportation and consumer goods industries.

The Corporate Challenge

If you are a CEO, a member of a corporate board, or a lead stakeholder, you have a fiduciary duty and a moral obligation to address what sustainability means for you, how it will impact the long-term prosperity and survival of your own organization, and how quickly you need to act to adapt to a more uncertain competitive environment, before the future catches you, and your organization, beyond a point of no return.

This is not about being emotional, feeling good about promoting green values across your corporate agenda, or addressing the concerns of those constituencies which are now an integral part of your world. Instead, it is about asking yourself what makes your organization resilient in the face of a more fragile world.

You have to realize that you are facing an increasing number of daunting challenges. There is the brutal reality that you are in charge of leading an intricate transition where the only issue that counts for you, your people, and your stakeholders is how you can succeed in building a business capable of surviving the test of time.

The combined impact of being more energy efficient while facing a more fragile world due to a mix of sudden disruptions and the influence of climate change, is, by now, affecting your suppliers, your prospective sales, your margins, your capacity to generate free cash flow, your EBIDTA, and, even more importantly, the long term viability of your customer base.

We could even go so far as to say that there is no strategy if it is not a strategy for sustainability.

If you are the CEO of a global corporation you have to expect that your board and your shareholders will start asking you what your strategy for sustainability is. That is, what plans for action do you have in place to make your organization more capable of adapting to a competitive environment where energy efficiency across the industry and the increasing

fragility of fundamental infrastructures will change the status quo in irreversible ways? When we say across the industry, we mean that, by now, you should be harnessing intelligence about how sustainability impacts your suppliers, your competitors and your customers. Industries we have become used to will decline and, eventually, disappear because the supply chain will not adapt quickly enough to avoid irreversible disruptions. Here, competitors will not cooperate to set common goals in terms of how the industry will address governments and international regulatory agencies with a roadmap for change (such as in the case of greenhouse gas emissions). Customers may not be able to afford your products and services due to the impact of sustainability on their choices and their wallets.

Though we need to take for granted that our world will require increasing energy efficiency across the value chain, and we should be building organizations with built-in adaptability to a more fragile competitive environment, we have to acknowledge that we still know little about the impact of sustainability on strategy.

In terms of a more global perspective, you need to take into account that sustainability will drive new forms of scarcity, both in terms of resources and time, and it will impact how likely you'll be to be able to stay in the game, in the subsequent stages. Scarcity has been considered one of the drivers of competitive advantage; we have always preached that if you want to win you need to identify, protect and preserve uniqueness in terms of resources, competences and access to key markets. We have to inspire students and managers to seek proactive ways to make unique competitive drivers irreplaceable and difficult to duplicate.

This time you will not choose scarcity, but scarcity will choose you; resources and time will not be infinite, nor will they be evenly distributed across industries and corporations. The very notion of scarcity will require more refinement. Different levels of scarcity will impact the sustainability of your business or organization, both in terms of how key resource drivers will find economically viable substitutes and how much time you have left before hitting a no-return stage, where, once reached and no matter how much money you invest, you will not have a chance to restore the sustainability of your business or of your industry.

The impact of scarcity on sustainability will be reflected across financial markets, both with respect to the volatility of equity values, and the assessment of risks associated with the market for corporate bonds.

In your role as a CEO of global corporation you will be facing ever increasing scrutiny from the financial community with respect to three key drivers of overall sustainability:

1. the assessment of industry-related risks, which are going to affect the stability of your industry in terms prospective sustainability related to the daunting challenges of energy efficiency and fragility in the overall industry structure;
2. the evaluation of corporate risks related to your ranking in the industry in terms of sustainability, and your track record in terms of corporate reputation in leading change instead of being a follower;
3. the impact of region-specific risks, which are related to the key geographies where your organization is based, and where it carries out the majority of its business. We expect different regions to show different levels of adaptability to the new competitive environment due to a mix of ineffective public policies or lack of corporate leadership in restoring and preserving country-specific advantages, because of a gap in investment in new infrastructures.

The impact of these different levels of sustainability-related risks will re-direct financial investments to those industries, corporations and regions where a mix of sectors more likely to succeed in addressing this transition will attract a disproportionate share of financial resources. Additionally, corporations which have shown strong leadership and have been investing sizeable resource endowments to change the way they operate, and regions which have reduced their level of fragility by re-engineering their basic infrastructures to make them more energy efficient, will also succeed in this regard.

If you are not fortunate enough to be at the right intersection among industries, corporate sustainability and region-specific resilience and the right moment, chances are that you'll experience an unavoidable drop in corporate equity values and ever increasing interest rates when accessing the market for corporate debt. Being unable to raise your productivity rates when addressing energy efficiency, and reducing your level of dependence of fragile infrastructures, will make your equity value evaporate, and it will destroy the purchasing power of your own customer base.

Though we expect a sharp volatility and eventually a steep decline in corporate equity values, given the impact of sustainability on the reduc-

tion of cash flow generation across the board, as in every market transition we see the emergence of winners and losers within the same industry or across closely related industries. The gap in equity values between leaders and laggards will be disproportionate, making room for rampant arbitraging and financial speculation; new fortunes will be made and lost in the space of few years.

The market for corporate debt will face a dramatic level of restructuring. Financial investors will become more selective in their understanding of the impact of sustainability on corporate performance in terms of future cash flow generation, margins and prospective levels of EBIDTA.

Industries will be restructured because corporate bondholders will influence the selection of winners and losers in the race for sustainability. In your role as CEO you have to come to terms with the issue of how increasing energy needs and fragility in your environment will affect the volatility of your revenue streams, your capability to predict your future cash flow generation, and how likely it is that your level of debt will be controllable.

Bondholders will favor corporations which show a consistent track record in terms of leadership in undertaking boundary breaking sustainable initiatives and will make the cost of debt unbearable for those ones which lag behind. We expect a worsening of the relationships between bondholders, top management teams and equity holders in these cases which may cause irreversible disruptions in how likely lagging corporations survive.

Sustainability: Agenda-setting and the Role of Government

The massive scale of the challenges we collectively face and the time constraints imposed by ever increasing energy efficiency needs, coupled together with the overall fragility of global infrastructures will shape government agendas for the next foreseeable future.

The key challenge for governments is to create the conditions to attract disproportionate resources in terms of financing and innovation with a goal of building a more sustainable economy. Failing to do so will imply an irreversible decline in terms of competitiveness at the country level due to a lack of resources to address the sustainability of core industries, such as energy, telecommunications and transportation, and an increasing

fragility of basic infrastructures, which will impact negatively on the chance of survival of existing businesses.

Those countries that fall behind will be tempted towards a new wave of protectionism that claims to protect green jobs creation while producing the opposite effect by isolating themselves from sources of collective innovation.

The scale of the challenges imposed by the need to restore sustainability, and the time constraints we are facing as a civilization before hitting the point of no return, require a mobilization of resources and brainpower, together with a reengineering and re-building of global infrastructures for which we have no comparable experience in the endeavors of the last 200 years.

There is a need to work for more global coordination and more international cooperation between states, as well as between the public and the private sector.

To track progress towards a more sustainable world, we need first to agree on how to measure sustainability with much finer granularity. We believe that there should be an overall agreement about the metrics and the methodology to promote a global sustainability index aimed at monitoring how countries are mobilizing internally to promote a sustainable agenda aimed at reducing the overall fragility we find ourselves hurtling towards.

Monitoring progress in how industries, corporations, and states are moving towards a more sustainable world is key to creating the conditions for financial resources to be deployed on a selective basis. We still know too little and we have scant data points available on how much is invested in research, development and deployment of technologies aimed at improving the energy efficiency and reducing the carbon footprint of the key industries and businesses which represent the backbone of the world today. We know even less about how innovations tend to coalesce in clusters located in specific regions of the world. If we take for granted that resource and time scarcities will be dominant characteristics of the competitive environment, we have to expect that countries will have no chance to invest across the board in a variety of technologies aimed at fostering sustainability over time, but will instead be forced to choose those in which they can build a region-specific advantage. China is now

leading the world in supporting wind technology, and Brazil has been increasingly attracting the vast majority of investment in bio fuels.

The need for focusing investments in a few select areas will create a significant degree of specialization within specific regions of the world because no country will have a chance to excel in more than few technology areas. The challenge of addressing the fragility of the world economy, because of the emergence of sustainability as a driving force for future growth, will make the global economy even more interdependent.

To accelerate the pace of deployment for innovations aimed at improving the overall sustainability of the world economy, countries will have to rely on each other's strengths and they will have to agree on a set of key policy goals and a collective roadmap for aligning their respective endeavors.

A good starting point would be an international consensus on:

1. how to standardize metrics to track progress towards sustainability;
2. how to harmonize fiscal policies aimed at creating long-term incentives to invest in innovation;
3. and how to promote benchmarking within and across industries and within and across regions of the world to accelerate the diffusion of best practices on a global scale.

The setting of global standards can take different shapes, as little but as specific as standardizing the chargers for cellular devices which currently waste around 80% of the energy we get from the plug. But they can stretch as far as rethinking how data centers should be fundamentally re-engineered, how a variety of national grids can be rebuilt in more efficient ways, and how industries such as the automotive and public transportation ones will have to identify opportunities for closer integration.

Though we still know very little about how these endeavors should be aligned, and there is scant evidence about how successful the governments are in reaching consensus of global issues, the impact of sustainability will not allow further delays in taking action.

One of the things we know is that governments and corporations are way behind when it comes at investing in game-changing technologies aimed

at improving sustainability and reducing the overall fragility of the world economy.

There a number of reasons why this is the case, but the critical one has to do with the longer time span needed to reap rewards for investments in sustainability, which takes decades as opposed to years.

We can expect that the response of national governments in addressing the impact of sustainability will vary across countries and regions. The need for alignment of different investment initiatives on a massive scale will impact the flow and the pace of innovation and technology deployment across countries. We expect some degrees of polarization to surface, with countries more open to trade technologies and innovation, and the parallel emergence of new forms of green protectionism aimed at protecting suboptimal local standards for reasons of national security and the protection of national employment levels.

Countries which fail to engage into the process of setting a global agenda will do so at their own peril. We expect financial markets to become more selective in evaluating the long-term sustainability of sovereign debt by factoring into the analysis the impact of increasing levels of structural weaknesses and diminishing appeal in terms of the attraction of new investments.

If you have worried about the recent currency wars as they became part of the financial landscape towards the end of 2010, you have seen nothing, yet.

We expect the market for sovereign debt to be deeply affected by the stances, aimed at the reducing the overall fragility of the local economies, taken by local governments regarding sustainability. Countries which choose to adopt green protectionism for national security and job market preservation reasons will slip away from the global flow of capital and innovation and will progressively slide into isolation. All in all, we expect these countries to see a precipitous downgrade of their sovereign debt due to overall concerns about their sustainability over the long term and given the increasingly higher interest rates caused by a perception of risk related to local economies.

These effects will not just impact countries, but will also resonate across regional clusters. We should try to evaluate the impact on the euro zone, given that there are economies, such as those of Germany and France,

which are already making progress towards building a more sustainable economy, and those, like Greece and Italy, which are lagging behind both in terms of government support towards sustainability and in terms of a lack of foreign investments in sustainability-driven technologies. In the end, those countries that are lagging behind on reestablishing a path towards sustainability will make the cost of doing business for industries and corporations alike too high to be affordable.

How to Address the Challenge of Sustainability

No matter how daunting the challenges imposed by sustainability are on our civilization and the increasing fragility of the world economy, we still have a chance to lead fundamental changes in how countries, industries, corporations, and communities of individuals can act jointly together to make progress towards a more sustainable world.

The scale and size of the mobilization of brainpower and resources we need to see in place across generations is such that no country or region in the world can succeed in addressing these challenges by moving ahead on a stand-alone basis.

No matter how significant the hurdles we have in front of us, and no matter how challenging the lack of a successful track record in addressing international cooperation both at the country and corporate level, the only way we have forward is to promote change on a global scale by joining forces across nations on innovation, finance, education and media.:

Innovation

Though we face many unknowns, one of the few things we do know is that our civilization is collectively under-spending in its way into the future. Due to a mix of a protracted, narrow focus on quarterly reporting, a lack of public spending caused by a reduced government capacity to channel resources towards investment in new technologies, and a shrinking role for the public sector across the world, the pace of innovation is slowing down on a global scale.

While raising the level of investment in innovation is going to take time given the current status of the world economy, we have to act quickly to speed up the efficiency of current innovation endeavors.

To achieve the kind of massive scale innovation required to address the transition from a world economy structurally based on an oversized abuse of energy and natural resources, to a world dominated by scarcity and fragility, we have to leverage collaborative technologies with a level of efficiency that is well beyond what we have experienced so far.

We have identified four areas that need to see fundamental improvements:

- the role of the Web as a way to tap and enhance the impact of innovation on a global scale;
- the flow of capital and ideas and the intellectual property rights system;
- the shift towards science-based innovation;
- and the convergence across different disciplinary domains.

The web as an enabling technology to foster knowledge transfer across industries and regions of the world shows great promise to accelerate the diffusion of innovation and technology deployment.

Policy coordination should take place on a global level to provide the ground for massive investments in new technologies and knowledge transfer from mature economies to the emerging world.

Two of the most significant shifts in regard to the past will take place with a new wave of science based innovations that will produce boundary-breaking changes in the processes of carrying out basic science. Convergence across a number of different disciplinary domains will emerge as a dominant feature of a new class of innovations.

If tinkering with technologies within mechanics/manufacturing, chemistry, and information technology by a fragmented constituency of individual innovators has been the dominant characteristic of the world economy so far, we expect a new generation of scientists/entrepreneurs to lead the charge towards sustainability and the creation of new industries.

The very nature of this new class of innovations will require massive injections of capital, and rapid access to sizeable markets to achieve the critical mass needed to produce a measurable impact on the level of sustainability on a global scale.

Finance

The massive changes we need to see in place to support the journey towards a more sustainable world and a less fragile economy require a new framework to enhance the role of patient capital in supporting the path to innovation, along with a progressive reduction of the uncertainty related to investing in sustainability given the overall fragmentation of the global regulatory environment.

If we take as fact that the world is clearly under-spending its way into the future, we have to first address how to redirect financial resources of the public and the private sector towards investments in new technologies aimed at improving sustainability.

The world witnessed two decades of unprecedented growth in terms of stock market returns before it plunged into recession, and it will take time before the financial community gets used to waiting for longer profit horizons, given the infrastructural nature of investment in technologies focused on raising the level of sustainability.

To avoid a slow down in the pace of technological progress, governments should cooperate to support global coordination of policies aimed at creating incentives for investors to plug resources into boundary breaking technologies through a progressive reduction of perceived risk and a shrinking of time to investment recoupment by providing fiscal incentives and supporting the setting of global standards.

Though this is a fundamental step towards reducing the volatility of investments in new technology, it will not be enough to promote the kind of massive scale investments needed to bridge the gap between where the world is today and where it should be 20 years from now in terms of energy efficiency and reducing the overall fragility of the economy.

One critical step forward will be the opening of markets to cross-border investments. Instead of working in isolation and pretending to lead the charge towards sustainability on a stand alone basis, countries and political elites should acknowledge that the kind of progress we need to see will require building on each other's strengths. Because we expect some degree of specialization to emerge across different technology fields in terms of region-specific advantages, industry clusters will thrive in different corners of the world and will be nurtured by specific talent pools.

To prevent cross-border investments will create disruptions in terms of deployment and, eventually, lead to diminishing returns on investment.

Given that we realize we do not live in a perfect world, polarization will end up being a dominant feature of the competitive landscape, with regions attracting a disproportionate amount of financial resources, and others lagging behind, due to increasing level of green protectionism.

Education

If we look at the fundamental role of education in addressing this challenge we have to create the conditions in which to educate a new generation of leaders both in the corporate world as well across the political establishment, so that they are capable of taking risk and willing to engage across constituencies well beyond what we have experienced so far.

The overall view we share is that educational systems need major reforms. We are still busy training students to perform obsolete tasks and jobs which will not be there when they have a chance to impact the business environment. Accounting and bookkeeping, as managerial disciplines, emerged as core skills to manage a more integrated economy centered on shipping, at the time of the East Indian Company, while, after the end of World War II, logistics and operations research became key drivers for the growth of business schools as we know them today. We need to come to terms with the reality that we are not promoting sustainability as a frame for developing managerial theory in the field of innovation management, as we should be, given the challenges that we collectively face.

Education reform should be centered on the goal of creating a new generation of managers who are more fluent in the language of science and more capable of dominating the dynamics of investing in science-based innovation.

Basic concepts, such as what do we mean by business model and what is the meaning of industry evolution should provide new managerial frameworks to deal with the uncertainty related to the impact of sustainability on the mix of industries which will drive growth in the future.

Though business schools and universities have been carrying out a critical role in preparing the current generation for the challenges we were facing 20-30 years ago, we run into the risk that without a selective in-

vestment in education reform, we will end up with a new generation of leaders and managers still trained into the disciplines that were relevant to address the problems of the last two decades instead of the next two.

If science-based innovation is the way towards a sustainable future, and new industries emerge at the intersection of traditional domains (e.g., smart grids) with the progressive convergence of telecommunications, energy and transportation to open up new market spaces, business schools will need to embrace change on a massive scale.

There has been, so far, little contamination between management and the basic sciences, and there has been an even lesser impact in addressing how computational science will impact the process of scientific discoveries as well as the future of management in information-intensive environments. What we have been experiencing over the last ten years, due to the impact of the likes of Google on collecting, storing, sharing and analyzing massive quantities of data in real time, has produced minimal changes in the way management has evolved as a discipline.

At the same time, the need for mobilizing ideas and innovations on a cross-border scale by fostering a level of global integration that enables countries and industries to build on each other's strengths will require a new generation of leaders capable of leveraging new collaborative technologies while being fluent in the kind of soft skills aimed at engaging with different constituencies in a multi-national, multi-cultural environment.

To speed up the transition towards a more sustainable future, business schools will have to integrate science, and the process of scientific discovery, into the theory and practice of management. To do so, we expect business schools to open up to a much closer interaction with a number of disciplinary domains well beyond the traditional boundaries of management as we know it today, such as in the case of physics, artificial intelligence, biotechnology and biochemistry.

Computational science, and the new challenges imposed by large-scale information-intensive environments are due to impact the way science and management are carried out. The appreciation of the intricacies of the process of scientific discovery, and the need for rapid commercialization, will influence the management of innovation in terms of more granularity in the perception of risk, as well as in regard to the financial dynamics of innovation cycles.

A closer integration between science and management will tear down the barriers regarding the financial world. The next generation of technologies aimed at improving sustainability will require the injection of venture capital and private equity capital in massive ways, well beyond the level we experienced during the first wave of the Internet economy.

Business schools will have to sort out how to train a new generation of leaders capable of speaking the language of science and finance to provide the ground for assessing risk and return on investments for large-scale projects aimed at accelerating the transition towards sustainability.

Agenda-Setting: The Media

We need to rely on the media community to raise the bar and the level of awareness on a global scale. Governments and global corporations do not show a consistent track record when addressing transparency, and media can play a critical role in influencing the agenda setting process by sustaining the transition to a more sustainable economy.

This role has nothing to do with political or emotional feelings, but more with the monitoring role that the media community can play to contribute to the debate on the need for structural change when adapting to a more fragile world.

Transparency, interdependency and reputation will affect the overall quality of reporting on controversial issues such as the wide-ranging transformations that our societies will have to face to have a chance at a more sustainable future. In a world divided into constituencies supporting conflicting agendas, with industry lobbies more focused on short-term gains than on the overall sustainability of the economy and political elites more concerned about domestic affairs to protect jobs within national borders, we need to have a media community capable of raising the level of alert about progress towards a less fragile economy.

We expect the media community to play a key role in enabling public opinion to keep a fact-based perspective on how the world is progressing in the journey towards sustainability. As in every transition, we will see ups and downs, successes and failures, and rampant green-washing, as a way to escape public scrutiny. There is nothing wrong with reporting missteps and drawbacks as far as the media's promotion of global awareness. Experimentation and progress are inevitably exposed to trial and error, and keeping the current transition in perspective is what the world

needs to accelerate along the collective learning curve which will drive the transition towards a more sustainable environment.

To do so, the media community should expand the coverage of issues related to sustainability and science. Up until now, the vast majority of news reported by different media platforms has been biased towards the coverage of catastrophic events taking place across different corners of the world, with little room left for in-depth analysis of the impact on our society at a global level. The front pages of world class magazines and journals, as well as broadcast channels and websites have been keen to provide striking and shocking images which tend to be forgotten as soon as the next disruptive event takes place.

There is evidence that issues like science and sustainability have been receiving scattered attention so far. A study carried out by the Project for Excellence in Journalism (2008) shows that over a random sample of five hours of cable news, reporting on science is less than one minute, whereas celebrity and entertainment is more than ten minutes and accidents and disasters garner approximately twelve.

We see the media community as a key player in raising the level of scientific literacy on a global scale. Coverage of science and technology, and their impact on sustainability, should receive more attention. By engaging the new generation of readers, the digital natives, media can shape a sense of authenticity and responsibility when it comes at addressing the very challenges that will have a significant impact on future generations. As today's magazines and journals are divided in to sections such as the economy, internal affairs, sport, leisure and entertainment, we expect science and sustainability to become mainstream sections across different media outlets.

Instead of just being reactive, covering disrupting events while they are taking place, the media could contribute by providing insights into our future challenges by informing the public debate on the impact of sustainability on our economies and societies.

Conclusions

As sustainability has been clearly under-evaluated in its impact on the overall fragility of the world economy, and on the chances for our civilization to find its way into the future, we see room for improvement.

The massive scale mobilization of innovation and financial resources we need to see in place over the next few years requires a much deeper understanding of the competitive and social drivers that will contribute to large scale changes in the world economy.

No one country or corporation can expect to win alone. Though we still know very little on how governments, institutions, communities and individuals can work together to address the daunting challenges we face together as a civilization, we know that the time to act is now.

Failing to do so will reduce the chances of a successful journey towards a better future.

2. The Next Level: Integrated Reporting Accelerating the Adoption of Integrated Reporting by Robert G. Eccles and George Serafeim

Interest in and adoption of integrated reporting regarding a company's financial, environmental, social, and governance performance is growing rapidly. Although still largely a voluntary practice in most countries, it already is (South Africa) or soon will be (France) required of all listed companies. The European Union is poised to mandate ESG (environmental, social, and governance reporting) within the next year, a significant step towards mandated integrated reporting. Various initiatives are under way to create more visibility for integrating reporting, including getting this topic on the agenda of the G20 meeting being hosted in France in November 2011, and at the Earth Summit being held in Rio de Janeiro in June 2012.

The first company to issue an integrated report, nearly 10 years ago, was the Danish bio-industrial products company, Novozymes. Natura, a Brazilian cosmetics and fragrances company, issued its first integrated report in 2003. The Danish diabetes care company Novo Nordisk did so the next year. Today a number of European companies are producing integrated reports and creating more integrated websites. During the past few years, even a few U.S. companies (such as American Electric Power, Pfizer, Southwest Airlines, and United Technologies Corporation), notoriously risk averse to voluntary disclosures given heavy financial reporting requirements and fears of litigation, have started to practice integrated reporting.

A sustainable society requires the vast majority of its companies to have sustainable strategies, defined as those that create value for shareholders over the long term while meeting the needs of other stakeholders and not taking excessive or uninformed risks. Integrated reporting is both the most effective way to communicate a company's performance in implementing a sustainable strategy and a form of discipline to ensure that it has a sustainable strategy in the first place. Universal adoption of integrated reporting needs to happen soon. The rapid and broad adoption of high-quality integrated reporting is an imperative for our capital markets and our society. A combination of market and regulatory forces will be required to make this happen, with the balance varying across countries.

In our view, integrated reporting should be a universal practice by all listed companies within the next five years.

This chapter describes the concept of integrated reporting, provides a brief history of its development, reviews the current state of practice, presents a strategy for institutional change that will accelerate the adoption of integrated reporting in order to meet the five-year objective, and concludes with a call to the reader to do whatever he or she can to speed the adoption of integrated reporting.

The Concept of Integrated Reporting

On August 2, 2010 The Prince's Accounting for Sustainability Project (A4S) and the Global Reporting Initiative (GRI) announced the formation of the International Integrated Reporting Committee (IIRC).² The mission of the IIRC (www.theiirc.org) is "To create a globally accepted integrated reporting framework which brings together financial, environmental, social and governance information in a clear, concise, consistent and comparable format"³ in order to "help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing."⁴ Integrated reporting involves reporting both financial and nonfinancial (environmental, social, and governance [ESG]) information in a single document, ideally showing the relationship between the two in terms of how good performance on ESG issues contributes to good financial performance and vice versa, and the potential trade-offs that a company might be facing across financial and nonfinancial performance. Today all listed companies are required to report on their financial performance on at least an annual basis, but reporting on nonfinancial performance is a voluntary exercise in most countries. We believe that integrated reporting of both financial and nonfinancial performance should ultimately be mandated. Ioannou and Serafeim (2011) have shown the benefits of mandated ESG reporting to

² <http://www.integratedreporting.org/sites/default/files/Press%20Release.pdf>, accessed July 2011. Eccles is a member of the Steering Committee of the IIRC.

³ <http://www.theiirc.org/the-iirc/>, accessed July 2011.

⁴ <http://www.theiirc.org/about/>, accessed July 2011.

both companies and society.⁵ The same will be true of integrated reporting and even more so.

Integrated reporting is about more than a static document. It also entails providing performance information in a more integrated way on the company's website, along with providing more detailed information of particular interest to shareholders and other stakeholders. Analytical tools for exploring the relationship between financial and nonfinancial performance using data from the company and other sources and comparing the company's performance to its competitors can also be provided. Finally, the company's website can also be used to improve its dialogue and engagement with all stakeholders. Integrated reporting is as much about listening as it is talking.⁶

The fundamental premise behind integrated reporting is that a sustainable society, defined as one which can meet the needs of both present and future generations, requires most (if not all) of its companies to have sustainable strategies which can create value for shareholders and other stakeholders in both the short and long term. This may involve sacrificing the former for the latter.⁷ Four factors account for the current sense of urgency to ensure a sustainable society: (1) recurring global financial crises, (2) an increasing awareness of the effects of climate change and natural resource limitations, such as water and certain minerals, (3) the growing importance of human capital to value creation in developed economies and of human rights in developing countries, and (4) the recognition of the essential role of good corporate governance and risk management to prevent major corporate disasters such as through fraud, corruption, and major operating blunders.

Long-term sustainable value creation requires the company to take a holistic view of its decisions and the consequences of these decisions re-

⁵ Ioannis Ioannou and George Serafeim, "The Consequences of Mandatory Corporate Sustainability Reporting," Harvard Business School, Working Paper 11-100, 2011.

⁶ Robert G. Eccles and Michael P. Krzus, "The Internet and Integrated Reporting," in *One Report: Integrated Reporting for a Sustainable Strategy*, (New York: John Wiley & Sons, Inc., 2010), Chapter 7 and Robert G. Eccles and Kyle Armbruster, "Two Disruptive Ideas Combined: Integrated Reporting in the Cloud," IESE Insight, no. 8, 2011.

⁷ Robert G. Eccles and Michael P. Krzus, "Sustainable Strategies for a Sustainable Society," in *One Report: Integrated Reporting for a Sustainable Strategy* (New York: John Wiley & Sons, Inc., 2010), Chapter 5.

garding financial, natural, and human resources in terms of how decisions about each type of resource affect the other ones. It also requires good governance and risk management in order to ensure that decisions producing short-term performance do not threaten the company's long-term performance or even existence. As expressed by the IIRC, through integrated reporting, a company is able "to demonstrate the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. The IIRC's Framework will support an organization in addressing, in a clear and concise manner, the material issues affecting its ability to create and sustain value in the short, medium and longer term."⁸

In the fall of 2011 the IIRC anticipates publishing a Discussion Paper that will be a first draft of this framework. (South Africa has already released a Discussion Paper on the framework developed there, received public comment, and is in the process of revising it.) In the summer of 2011 the IIRC also launched a complementary Pilot Program that will involve approximately 100 companies from different sectors and countries all over the world.⁹ Companies participating in this program will use the draft framework to create their own integrated report and, based on their experience, provide feedback for revising the framework. This Pilot Program, which will run through October 2013, will also include an Investor Group that will provide feedback and guidance to companies participating in the pilot program and to the IIRC itself. Through this program and other initiatives around the world regarding integrated reporting, the IIRC hopes "to create a new global standard in Integrated Reporting."¹⁰

A Brief History of Integrated Reporting

The origins of integrated reporting are based on two prior ideas, each traceable back to the mid-1990s that eventually converged. The first is that companies should supplement the financial information they are required to report that is based on accounting standards with other nonfinancial information that is of interest to shareholders such as on custom-

⁸ <http://www.theiirc.org/wp-content/uploads/2011/06/BriefingIntegratedReportingPilotProgramme.pdf>, accessed July 2011.

⁹ Ibid.

¹⁰ Ibid.

ers, human capital, innovation, and other intangible assets. Common reasons cited by those making this shareholder-focused argument for voluntary transparency include: (1) financial information is a lagging indicator, a “rear-view mirror” of the company’s performance and an imperfect predictor of future financial performance, (2) nonfinancial information can provide insights into the company’s expected future financial performance, and (3) for most companies their market value exceeds their book value so additional reporting can provide information on a company’s intangible assets that are not captured on the balance sheet.¹¹

The second idea is that companies have an obligation to report information to stakeholders other than shareholders, even if shareholders are not interested in this information, on their environmental, social, and governance performance in what is often referred to as a “corporate social responsibility” or “sustainability” report.¹² In 1997 John Elkington coined the term “triple bottom line”¹³ whereby a company reports on its economic, environmental, and social performance.¹⁴ The single most impor-

¹¹ Robert G. Eccles, “The Performance Measurement Manifesto,” *The Harvard Business Review*, v. 69, is. 1, 1991, p. 131-137. See also Robert G. Eccles and Sarah Clay Mavrinac, “Improving the Corporate Disclosure Process,” *MIT Sloan Management Review* 36, no. 4 (summer 1995): 11-25.; Robert G. Eccles, Robert H. Herz, E. Mary Keegan, and David M.H. Phillips. *The ValueReporting Revolution: Moving Beyond the Earnings Game*. (New York: John Wiley & Sons, Inc., 2001); and Robert G. Eccles and Samuel A. DiPiazza, Jr. *Building Public Trust: The Future of Corporate Reporting*. (New York: John Wiley & Sons, Inc., 2002).

¹² Terminology regarding the reporting of nonfinancial information is inconsistent and confusing. Some people use the terms “corporate social responsibility (CSR)” and “sustainability” interchangeably whereas for others they mean different things. Each term also has different meanings. For some companies, their CSR report is about philanthropic contributions and community activities. For others, it is about their ESG performance more broadly. Similarly, for some companies their sustainability report is solely about carbon emissions and other environmental concerns while for others it is about ESG performance more broadly. We will use the term “sustainability report” to refer to the entire range of ESG performance information. For a discussion of the origins of the concepts of corporate social responsibility and sustainability see Chapter 5 in Eccles and Krzus (2010).

¹³ Elkington, John, *Cannibals with Forks: The Triple Bottom Line of 21st Century Business*, (Capstone Publishing: Oxford, hardback 1997, paperback 1999).

¹⁴ As with corporate social responsibility and sustainability, the terminology regarding economic and financial performance is inconsistent and confusing. Generally, financial performance, clearly a part of economic performance, refers to measures that appear in a company’s income statement and balance sheet that are based on accounting standards and on its stock price performance. Economic performance refers to non-accounting based measures such as market share and measures derived from accounting-based measures, such as revenues per employee.

tant event to turn this idea into a reality was the creation in 1997 of the Global Reporting Initiative (GRI) by Robert K. Massie (then head of the Coalition for Environmentally Responsible Economies, now known as CERES) and Allen L. White, of the Tellus Institute where he is now a Vice President and Senior Fellow. Originally housed with CERES, in 2001 the GRI was spun off into a separate organization. The GRI's mission is "To make sustainability reporting standard practice by providing guidance and support to organizations."¹⁵ In 2010, 1861 companies issued sustainability reports¹⁶ using the GRI's "G3 Guidelines."¹⁷

The emergence of the concept of integrated reporting represents a convergence of these two ideas. Investors are increasingly recognizing the importance of ESG performance for financial performance and other stakeholders are recognizing that financial performance is a necessary, although certainly not sufficient condition, to accomplish ESG objectives that are important to them. The first company to issue an integrated report was the Danish bio-industrial products company Novozymes in 2002. In 2005 White wrote about the "integrated, balanced and candid reporting" in the Danish pharmaceutical company Novo Nordisk's 2004 report which contained both financial and nonfinancial information.¹⁸ That same year a visionary, and largely forgotten report since it was just a few years ahead of its time, sponsored by the Canadian cooperative bank Vancity, appeared called "integrated reporting: issues and implications for reporters."¹⁹ The first U.S. company to produce an integrated report was United Technologies Corporation in 2008.²⁰ In 2010 Robert G. Eccles of the Harvard Business School and Michael P. Krzus of Grant

¹⁵ <http://www.globalreporting.org/aboutGRI/>, accessed July 2011.

¹⁶ <http://www.globalreporting.org/NR/rdonlyres/954C01F1-9439-468F-B8C2-B85F67560FA1/0/GRIReportingStats.pdf>, accessed July 2011.

¹⁷ <http://www.globalreporting.org/ReportServices/GRIReportsList/> accessed July 2011.

¹⁸ http://www.businesswire.com/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/services/ir_and_pr/ir_resource_center/editorials/2005/BSR.pdf, accessed July 2011.

¹⁹ <https://www.vancity.com/SharedContent/documents/IntegratedReporting.pdf>, accessed July 2011.

²⁰ Robert G. Eccles and Michael P. Krzus, "United Technologies Corporation," in *One Report: Integrated Reporting for a Sustainable Strategy*, (New York: John Wiley & Sons, Inc., 2010), Chapter 2.

Thornton published the first book on integrated reporting.²¹ In October of that same year “A Workshop on Integrated Reporting: Frameworks and Action Plan” was held at the Harvard Business School. Following the workshop, a free e-book was published based on contributions from the workshop participants representing companies, analysts and investors, regulators and standard setters, NGOs, and the academic community. The purpose of this e-book was to provide a current snapshot of the state of integrated reporting and recommendations for how to speed its adoption.²²

On January 25, 2011 at a press conference in Johannesburg, South Africa, the world’s first guidance document for companies practicing integrated reporting was issued. Starting in March of that year, every company listed on the Johannesburg Stock Exchange was required to file an integrated reporting or explain why it was not doing so. This was a result of the *King Report on Governance for South Africa 2009 (King III)* produced under the leadership of Professor Mervyn King.²³ The 2010 French Grenelle II Law “requires that companies include in their annual reports a section on the social and environmental consequences of their activities and set forth their commitment to sustainable development.”²⁴ On January 28, 2011, the European Commission (EC) officially closed its public comment period which had sought feedback on the existing European Union (EU) regime on corporate disclosure of environmental, social, and governance (ESG) information and subsequently published a “*Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions*”, which stated that “In order to ensure a level playing field, the Commission will present a legislative proposal on the transparency of the

²¹ Robert G. Eccles and Michael P. Krzus, “United Technologies Corporation,” in *One Report: Integrated Reporting for a Sustainable Strategy*, (New York: John Wiley & Sons, Inc., 2010), Chapter 2.

²² <http://cache.smashwire.com/bookCovers/a8955657f7027c8a908f5652ce6df946e4f103a9>, accessed July 2010.

²³ <http://www.ecgi.org/codes/documents/king3.pdf>, accessed July 2011.

²⁴ http://www.loc.gov/lawweb/servlet/lloc_news?disp3_l205402159_text, accessed August 2011.

social and environmental information provided by companies in all sectors.”²⁵

The State of Integrated Reporting Today

As explained above, since no universally accepted framework for integrated reporting exists and it is still largely a voluntary practice, exactly what it means for a company to produce an “integrated report” is not well defined. Still, it is possible to get a sense of the degree to which companies are attempting to integrate the reporting of their financial and nonfinancial performance, and how this varies across countries in several ways. For example, of those 1,861 companies using the GRI’s G3 Guidelines, 237 are self-declared integrated reports.²⁶

Another way to assess the degree to which companies are attempting to put the concept of integrated reporting into practice is through a proprietary database of 2,255 companies that Sustainable Asset Management (SAM)²⁷ has kindly made available to us.²⁸ We used data from 2009 in which SAM analysts coded whether a company was integrating informa-

²⁵ COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS, Single Market Act, Twelve levers to boost growth and strengthen confidence, “Working together to create new growth” {SEC(2011) 467 final}, Brussels, 13.4.2011, COM(2011) 206 final, p. 15.
http://www.lex.unict.it/eurolabor/en/documentation/com/2011/com_206_2011_en.pdf, accessed July 2011. For an analysis of the responses to the consultation see COMMISSION STAFF WORKING PAPER

Overview of responses to the public consultation on the Communication ‘Towards a Single Market Act’

Accompanying document to the COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS A Single Market Act Twelve levers to boost growth and strengthen confidence “Working together to create new growth,” Brussels, 13.4.2011, SEC (2011) 467 final.
http://www.lex.unict.it/eurolabor/en/documentation/com/2011/sec_467_2011_en.pdf, accessed July 2011.

²⁶ <http://www.globalreporting.org/ReportServices/GRIReportsList/>, accessed July 2011.

²⁷ Sustainable Asset Management (SAM) is an international investment company with a specific focus on sustainability investments. The company is based in Zurich, Switzerland and considers economic, environmental and social criteria in its investment strategies. In addition to asset management, the company constructs stock market indexes and is active in private equity.

²⁸ In particular we would like to thank Cecile Churet and Iordanis Chatziprodromou.

tion on its environmental and social performance with financial information. This integration could be in terms of either or both of narrative information and quantitative key performance indicators (KPIs). For environmental information, 20.13 percent of the companies were integrating both narrative and KPI information, 0.49 percent KPIs information only, and 27.63 percent narrative information only. Thus 48.25 percent were practicing some degree of integration in the reporting of their financial and nonfinancial performance and the other 51.75 percent were practicing none. The results were similar for social information: (1) 19.87 percent for both narrative and KPIs, (2) 0.80 percent for KPIs only, (3) 24.30 percent for narrative only, (4) 44.07 percent are practicing some degree of integration, and (5) 55.03 percent are practicing none. The very low percentages for KPI information only suggests that integrating financial and nonfinancial information requires some narrative explanation. Conversely, precision is added when narrative information is accompanied by quantitative KPIs.

The SAM database makes it possible to examine variations across countries. For both environmental and social information, we calculated an index for each country based on the percentage of companies integrating both narrative and KPI information minus the percentage of companies integrating neither. The larger the number, the greater the degree of integration.

The results are shown in Table 2.1. For environmental information 14 countries have a positive score, meaning that more companies are integrating both narrative and KPI information than those that are doing neither, and the remaining 15 have a negative score. The United Kingdom ranks first – followed by France, Denmark, Sweden, Finland, Portugal, and Brazil – and the United States ranks last. Joining the U.S. at the bottom of the rankings are South Korea, China, Canada, Hong Kong, and India. For social information, 13 countries have a positive score and 16 have a zero or negative one. Here too the United Kingdom ranks first – followed by Brazil, Germany, Sweden, and France – and the United States ranks last. Joining the U.S. at the bottom of the rankings are South Korea, Colombia, Canada, Greece, and Japan.

Table 2.1. Integration of Environmental and Social Information by Country

Rank	Country	Environmental score	Rank	Country	Social score
1	UNITED KINGDOM	54.5	1	UNITED KINGDOM	48.2
2	FRANCE	54.3	2	BRAZIL	48.0
3	DENMARK	46.2	3	GERMANY	46.8
4	SWEDEN	45.5	4	SWEDEN	45.5
5	FINLAND	44.4	5	FRANCE	42.9
6	PORTUGAL	44.4	6	FINLAND	33.3
7	BRAZIL	40.0	7	SOUTH AFRICA	30.8
8	RUSSIAN FEDERATION	33.3	8	ITALY	29.2
9	GERMANY	29.8	9	DENMARK	23.1
10	LUXEMBOURG	25.0	10	BELGIUM	16.7
11	SOUTH AFRICA	23.1	11	IRELAND	11.1
12	NETHERLANDS	9.1	12	SPAIN	6.7
13	SWITZERLAND	8.1	13	NETHERLANDS	6.1
14	SPAIN	6.7	14	LUXEMBOURG	0.0
15	BELGIUM	-5.6	15	MALAYSIA	0.0
16	ITALY	-8.3	16	SINGAPORE	-4.3
17	IRELAND	-11.1	17	SWITZERLAND	-5.4
18	MEXICO	-12.5	18	MEXICO	-12.5
19	GREECE	-18.2	19	HONG KONG	-17.1
20	AUSTRALIA	-19.7	20	AUSTRIA	-22.2
21	JAPAN	-20.0	21	INDIA	-26.3
22	SINGAPORE	-21.7	22	CHINA	-26.7
23	AUSTRIA	-22.2	23	AUSTRALIA	-33.3
24	INDIA	-31.6	24	JAPAN	-39.0
25	HONG KONG	-31.7	25	GREECE	-45.5
26	CANADA	-46.2	26	CANADA	-49.5
27	CHINA	-53.3	27	COLOMBIA	-50.0
28	KOREA (SOUTH)	-59.0	28	KOREA (SOUTH)	-64.6
29	UNITED STATES	-79.0	29	UNITED STATES	-81.1

Source: Sustainable Asset Management (SAM) database

We would caution against overly interpreting the strict rank order given data and methodological limitations. However, the general pattern is clear and consistent with expectations. In general, the highly ranked countries for both environmental and social information are European and Brazil. This is consistent with the fact that 45% companies practicing integrated reporting according to the GRI list are European. Along with the U.S. and Canada, most of the especially low-ranked countries are from Asia. The explanation for the U.S. and Canada is that companies in both countries remain skeptical about the important of sustainability in their strategies, to some extent exacerbated by the short-term nature of their capital markets. Companies in the developing economies of China, India, and Korea are more focused on pursuing the substantial short-term growth opportunities they are facing and thus less concerned about long-term sustainability.

A common complaint of companies practicing integrated, or even separate sustainability, reporting is general investor indifference. What is the point, they ask, of pursuing strategies for sustainable long-term value creation if investors do not care because they are simply focused on short-term financial results? Furthermore, why prepare an integrated report if this will have no impact on investors? While some in the investment community, particularly the Socially Responsible Investment (SRI) funds, have expressed vocal support for integrated reporting, this topic is not yet at the top of the agenda of most “mainstream” investors. Using data kindly made available to us by Bloomberg²⁹, while it is not possible to assess investor interest in integrated reporting *per se*, we *can* evaluate the degree to which investor interest in ESG information varies across countries. Bloomberg supplied us with data showing the number of times investors in 23 countries accessed a long list of environmental, social, and, governance metrics. While two quarters may seem like a short period of time, there were a total number of hits of around 34 million, a substantial amount of data. Controlling for total country market cap, we then produced the rank order, shown in Table 2.2.

²⁹ In particular we would like to thank Curtis Ravenel.

Table 2.2. Investor Interest in Environmental and Social Information by Country, Controlling for Market Cap

Rank	Country	Environmental interest	Rank	Country	Social interest
1	SWITZERLAND	1.778	1	CANADA	0.314
2	UK	1.063	2	UK	0.253
3	CANADA	0.824	3	SWITZERLAND	0.210
4	SPAIN	0.502	4	SPAIN	0.144
5	DENMARK	0.320	5	SINGAPORE	0.116
6	SINGAPORE	0.303	6	JAPAN	0.104
7	JAPAN	0.289	7	GERMANY	0.086
8	INDIA	0.219	8	INDIA	0.065
9	UNITED STATES	0.156	9	UNITED STATES	0.058
10	GERMANY	0.131	10	GREECE	0.046
11	GREECE	0.114	11	ITALY	0.039
12	BRAZIL	0.090	12	BRAZIL	0.036
13	FRANCE	0.083	13	HONG KONG	0.029
14	ITALY	0.075	14	FRANCE	0.027
15	AUSTRALIA	0.073	15	AUSTRALIA	0.026
16	SWEDEN	0.066	16	SOUTH KOREA	0.025
17	SOUTH AFRICA	0.047	17	SOUTH AFRICA	0.017
18	SOUTH KOREA	0.047	18	SWEDEN	0.017
19	NETHERLANDS	0.036	19	NETHERLANDS	0.013
20	HONG KONG	0.035	20	DENMARK	0.013
21	CHINA	0.019	21	CHINA	0.011
22	BELGIUM	0.016	22	FINLAND	0.008
23	FINLAND	0.012	23	BELGIUM	0.007

Source: Bloomberg

Investors in Switzerland, UK, Canada, and Spain are the most interested in environmental information. In contrast, investors in Netherlands, Hong Kong, China, Belgium, and Finland are the least interested. Investors in Switzerland, UK, Canada, and Spain are also the most interested in social metrics. In contrast, investors in Netherlands, Denmark, China, Belgium, and Finland are the least interested. Investors in the U.S. rank in the middle in terms of relative investor interest in environmental and social information. An interesting thing to note here is that integration of company information and investor interest, in social and environmental information, are not perfectly aligned. For example, Canadian companies tend not to integrate ESG information but investors seem to care about this information relative to investors in other countries.

A Strategy for Change

What must be done to ensure the universal adoption of integrated reporting by all listed companies within the next five years? It will require a combination of market and regulatory forces.

One important market force is voluntary adoption by companies because they see the benefits in doing so. These include a better understanding of the relationship between financial and nonfinancial performance, improved internal measurement and control systems for producing reliable and timely nonfinancial information, lower reputational risk, greater employee engagement, more committed customers who care about sustainability, more long-term investors who value sustainable strategies, and improved relationships with other stakeholders.³⁰ To the extent that leading companies with established reputations of being well managed voluntarily adopted integrated reporting, others in their sector will be compelled to do so in order to emulate these leaders and adopt “best practices.”

Because no global framework for integrated reporting currently exists, voluntary adoption by companies will play an important role in helping to create one. Experimentation and innovation by companies which, after all, bear the ultimate responsibility for integrated reporting, are essential to giving meaning to the very concept of integrated reporting. Through the efforts of early adopters, knowledge will be developed regarding exactly what the essential elements are of an integrated report, what the barriers and challenges are to producing one, and how these can be overcome. Unlike financial reporting, where IT systems and organizational processes have been developed and fine-tuned over many years, the systems and processes for producing an integrated report are still being developed. The pilot program of the IIRC, discussed above, recognizes the important role companies have in creating a useful and practical framework for integrated reporting.

Another market force that will encourage the voluntary adoption of integrated reporting is pressure from large institutional investors active in both the public and private equity markets. In the public markets, investors that own a significant proportion of a company’s stock can put pres-

³⁰ Robert G. Eccles and Michael P. Krzus, “United Technologies Corporation,” in *One Report: Integrated Reporting for a Sustainable Strategy*, (New York: John Wiley & Sons, Inc., 2010), Chapter 6, and Robert G. Eccles and Kyle Armbruster, “Two Disruptive Ideas Combined: Integrated Reporting in the Cloud,” *IESE Insight*, no. 8, 2011.

sure on the company to implement integrated reporting in various ways such as raising the issue at the Annual General Meeting or even getting the topic on the proxy statement. Large institutional investors in their role as limited partners (LPs) in private equity funds can encourage these funds to provide them short integrated reports at the portfolio company level. On their own initiative, the general partners of these funds can also implement integrated reporting for their portfolio companies, laying the groundwork for an integrated report when the exit is an IPO, or spreading the practice when the exit is to a strategic buyer. The knowledge they gain about the relationships between financial and nonfinancial performance can be shared with their LPs who can then apply this knowledge in their public equity portfolios.

Two other market forces can play an important role. The first is customers, both individual consumers for “B-to-C” businesses and companies as customers for “B-to-B” businesses. Individual consumers who buy from companies with more sustainable strategies and more sustainable products will both contribute to their success and put pressure on companies that have less sustainable business practices. Corporate customers can encourage integrated reporting in their supply chain and even make it a requirement in requests for proposal (RFP). More and more companies are including questions about sustainability in their RFPs and making it an important part of their sourcing decision

But voluntary adoption by companies out of self-interest enhanced by market forces is not enough for two reasons. The first is that the rate of adoption is likely to be too slow. A sustainable society cannot be created if simply a small percentage of leading companies are practicing integrated reporting, no matter how large and important they are in terms of revenues, market capitalization, and reputation. These early adopters are most likely to be companies that already have sustainable strategies. For them, integrated reporting is the logical way to report on these strategies. The companies least likely to adopt integrated reporting are those that have the unsustainable strategies, such as through the negative environmental and social externalities created by their operations and excessive risk taking in pursuit of short-term profits due to poor corporate governance. These companies will only adopt integrated reporting when they are required to do so and for them it will be a useful discipline to help create a more sustainable strategy.

The second reason that regulation is necessary is that the full value of integrated reporting will only be realized when it is done in a way that enables comparison of results across companies, at least within a sector. Our capital markets would not be as large and efficient as they are today (despite their obvious problems) without accounting standards which establish “apples-to-apples” comparisons that enable investors to allocate capital to those companies that will make the best use of it. Accounting standards also enable companies to benchmark their performance against their peers and encourage continuing improvement. Thus regulation will be necessary to specify the framework for integrated reporting and what standards should be used for reporting on nonfinancial information.

There are significant challenges to accomplishing both of these objectives, particularly doing so on a global basis. The IIRC has taken upon itself the responsibility for producing a draft framework for integrated reporting that will be subject to public exposure and debate. We are optimistic that this process will ultimately yield a principles-based framework that companies, investors and others will find useful. Accomplishing this will require the active participation and engagement by both companies and institutional investors. While some may argue that in doing so they are incurring private costs to create a public good, those who do so will benefit by shaping the framework and putting themselves in a position to obtain the benefits from using it ahead of their peers.

More difficult is the problem of determining standards for nonfinancial information. Various groups have made substantial contributions here, such as the Global Reporting Initiative, the Carbon Disclosure Project (in its role as Secretariat of the Climate Disclosure Standards Board), and The Society for Investment Professionals in Germany through the European Federation of Financial Analyst Societies. Organizations seeking to establish standards for nonfinancial information, typically NGOs or professional associations, both cooperate and compete with each other. Competition can spur innovation and produce alternatives so that the best choice becomes clear. But it can also result in repeating history as happened when accounting standards were set by each country and there were multiple versions of Generally Accepted Accounting Principles (GAAP).³¹ Currently no country has a government agency, such as an

³¹ Today the two main forms of GAAP are U.S. Generally Accepted Accounting Principles, established by the Financial Accounting Standards Board, and International Financial Reporting Standards established by the International Accounting Standards Board.

accounting standards board or securities regulator, charged with the responsibility of specifying what the standards should be for nonfinancial information, whether using existing ones or developing their own. Establishing and enforcing reporting standards is a difficult and contentious terrain, especially doing so at a global level. We suggest that this problem be put on the agenda of the IIRC to eventually make a recommendation regarding which body or bodies should be responsible for nonfinancial reporting standards, as well as the standards for providing assurance on them.

There are three ways that regulation can speed the adoption of integrated reporting. The first is through *legislation*, such as the anticipated legislation from the EU regarding mandatory ESG reporting referred to above. Multilateral organizations, such as the G20, can help coordinate this at a global level so that country-based legislation is largely similar. The second is through *regulatory actions*, such as through the national securities regulator (e.g., the Securities and Exchange Commission in the United States and the Chinese Securities Regulatory Commission in China). A similar coordination and homogenization function can be played by the International Organization of Securities Commission (IOSCO). The third is through stock exchange *listing requirements*, as has already happened in South Africa. As a first step, a stock exchange might want to start with a “voluntary filing program” for companies that wish to file integrated reports; in doing so the exchange will gather useful knowledge about “best practices” and develop the procedures and systems it needs when taking this to scale by making it mandatory.³² In the stock exchange world, the World Federation of Exchanges could play a role similar to that of the G20 and IOSCO.

A third force that can speed the adoption of integrated reporting is the voice of civil society, such as represented by NGOs. They can add momentum to both market forces, through what Waygood calls “capital market campaigning” to exert influence on both investors and compa-

Both groups are working together on a “convergence project” to produce a single global set of accounting standards. For a discussion of “Global GAAP” see Chapter 2 in Robert G. Eccles and Samuel A. DiPiazza, Jr. *Building Public Trust: The Future of Corporate Reporting*. (New York: John Wiley & Sons, Inc., 2002).

³² Robert G. Eccles and Mervyn E. King, “Integrated reports voluntary filing,” *Focus*, June 2010: 3-6, <http://www.world-exchanges.org/news-views/views/integrated-reports-voluntary-filing>, accessed July 2011.

nies.³³ NGOs can also exert pressure on governments, securities and other regulators, and stock exchanges to encourage them to support the integrated reporting movement.

Finally, market intermediaries, such as accounting firms, sell-side analyst firms, rating agencies, and, we would add, boards of directors also have an important role to play in enabling companies to implement integrated reporting and investors to use the information made available to them. Accounting firms can contribute to the development of measurement and reporting standards, as well as the development of methodologies for providing assurance on them. Integrated reports will be most credible when they are accompanied by an integrated assurance statement. Sell-side analysts can incorporate ESG information into their analysis and recommendations. This might divert capital to its most productive ends from a long-term perspective, since companies with better ESG performance will be regarded as a better investment opportunity. Rating agencies should also factor ESG factors into their ratings since they are an increasingly important component of risk. Finally, boards of directors, who have a fiduciary duty to shareholders and other stakeholders, need integrated reports in order to properly fulfill their duties. They can also encourage or even require management to make them available externally.

The most effective mix of market and regulatory forces will vary according to a country's particular circumstance. By combining data from SAM and Bloomberg, we can classify countries into one of four categories, for each of environmental and social performance, as shown in Tables 2.3. and 2.4. Based on this classification scheme, we suggest the appropriate balance between market and regulatory forces for each category.

³³ Steven Waygood, "Civil Society and Capital Markets" in *Sustainable Investing: The Art of Long-Term Performance*, edited by Cary Krosinsky and Nick Robins, Earthscan, 2008: 178.

Table 2.3. **Integrated Reporting of and Investor Interest in Environmental Information**

Integrated Reporting by Companies

		Low	High
<i>Investor Interest</i>	High	Canada Greece India Japan Singapore United States	Denmark UK Germany Spain Switzerland
	Low	Australia Belgium China Hong Kong Italy South Korea	Brazil Finland France Netherlands South Africa Sweden

Source: Bloomberg and Sustainable Asset Management (SAM)

In *Sustainable* countries – such as Germany and the United Kingdom – there is a high degree of integrated reporting by companies and a high level of investor interest in nonfinancial performance metrics. Companies and investors in these countries are on the vanguard of integrated reporting and should continue to exercise *leadership* in order to help create a more sustainable global society. In these countries, market forces are playing a dominant role. The implicit market support for integrated reporting suggests that regulatory actions supporting investor interest or stock exchange listing requirements supporting the leading companies and encouraging others to do better are the best way to mandate integrated reporting.

Table 2.4. Integrated Reporting of and Investor Interest in Social Information

Integrated Reporting by Companies

		Low	High
Investor Interest	High	Canada Greece India Japan Singapore Switzerland United States	UK Germany Italy Spain
	Low	Australia China Hong Kong Netherlands South Korea	Belgium Brazil Denmark Finland France South Africa Sweden

Source: Bloomberg and Sustainable Asset Management (SAM)

In *Sustainable Companies* countries – such as Brazil, South Africa, and Sweden – there is a high degree of integrated reporting by companies but very little interest by investors in nonfinancial performance metrics and so the dominant market force lies with companies. Companies in these countries need to *educate* investors on the importance of nonfinancial metrics in evaluating company performance and making investment decisions. Investors can leverage experiences from investors in other countries and learn emerging practices on ESG integration and engagement. In these countries, market forces on the company side are providing substantial momentum that needs to be supplemented by greater market forces on the part of investors. Stock exchange listing requirements mandating integrated reporting will award those already doing so and put pressure on those who are not in order to maintain access to the capital markets.

In *Sustainable Investors* countries – such as India, Japan, and the United States – there is very little integrated reporting by companies but a high level of interest by investors in nonfinancial performance metrics and so the dominant market force lies with investors. Investors in these coun-

tries need to *demand* more integrated reporting by the companies they invest in. In these countries, market forces on the company side are providing substantial momentum that needs to be supplemented by greater market forces on the part of investors. Regulatory actions mandating integrated reporting, such as by the securities commission, can support this investor activism.

In *Unsustainable* countries – including China, Unitary State Hong Kong, and South Korea – there is very little integrated reporting by companies and very little interest by investors in nonfinancial performance metrics. These countries need a *legislative shock* in order to break out of the dysfunctional equilibrium they are in. Because neither investors nor companies are paying much attention to ESG issues, it is unlikely that market forces will be sufficient to generate a change in behavior.³⁴ In these countries, legislation, a blunter but more powerful instrument than regulatory actions or stock exchange listing requirements, will probably be necessary, although the implementation of the legislation can be done through a body such as the securities commission in a regulatory action or a stock exchange in terms of listing requirements.

Our view of the appropriate strategy for institutional change that will lead to integrated reporting being a universal practice in five years can be summarized as follows:

- In the short term, companies must take the lead, especially those in *Sustainable* and *Sustainable Companies* countries. Through their efforts of experimentation and innovation the concept of integrated reporting will obtain greater clarity and rigor.
- Investors, especially those in *Sustainable* and *Sustainable Investors* countries, need to actively support companies already practicing integrated reporting. They also need to encourage companies that are not doing so to make this a priority. In addition, investors need to provide input into efforts to develop frameworks for integrated reporting and standards for nonfinancial information.

³⁴ Classification system taken from Robert G. Eccles and George Serafeim, “Leading and Lagging Countries in Contributing to a Sustainable Society,” *Working Knowledge*, May 23, 2011, <http://hbswk.hbs.edu/item/6716.html>, accessed July 2011.

- Market intermediaries can facilitate the efforts of both companies and investors.
- When the time is right (and the timing will vary by country), the appropriate legislation, regulatory action, or stock exchange listing requirements need to be put in place to mandate integrated reporting. These mandates must be principles-based and informed by market forces.
- Through effective engagement, NGOs can contribute to the momentum of both market and regulatory forces.

What You Can Do

This change strategy is expressed in terms of the role of organizations in the public and private sectors and civil society. However, in the end change requires the commitment and actions of individuals. This obviously includes people in leadership positions who have substantial influence in getting their organization to contribute in its own way to the integrated reporting movement. But every individual member of civil society can contribute to the integrated reporting movement in the many roles they have: as employees (e.g., choosing a place of employment and encouraging their employer to adopt integrated reporting), customers (e.g., which products and from which companies to buy), investors (e.g., which companies to invest in and which asset managers with whom they entrust their capital), and citizens (e.g., what candidates for elective office and what policies to support).

We encourage, even importune, every reader of this chapter to think about what he or she can do to contribute to the integrated reporting movement. And after having thought this through, commit to taking the necessary actions to do so – for your own sake, for the sake of society, and for the sake of generations to come.

Contributors

Peter Brabeck-Letmathe is Chairman of the Board of Directors, Nestlé.

- Date of Birth: November 13, 1944
- Nationality: Austrian
- Languages: German, English, French, Spanish
- Other: Degree in Economics at the University of World Trade, Vienna



Career

April 2008 handed over the office of CEO and is now Chairman of Nestlé S.A.

- April 2005 elected Chairman of the Board of Nestlé S.A.
- April 2001 elected Vice Chairman of the Board of Nestlé S.A.
- June 1997 at the Ordinary General Meeting of Shareholders of Nestlé S.A., Mr. Peter Brabeck-Letmathe was elected Member of the Board of Directors. On the same day, the Board appointed him Chief Executive Officer of Nestlé S.A.
- January 1992 appointed Executive Vice President of Nestlé S.A. with worldwide leadership of strategic business groups while simultaneously being in charge of Marketing, Communications and Public Affairs. In this role, he devised and implemented Nestlé's brand strategy, consisting of a clear hierarchy of strategic brands on the global, regional and local level.
- 1987 transferred to Nestlé's international headquarters in Vevey as Senior Vice President in charge of the Culinary Products Division.
- 1983 appointed Chairman and Chief Executive Officer, Nestlé Venezuela.
- 1981 appointed Chief Executive Officer, Nestlé Ecuador.
- 1970 national Sales Manager, later Director of Marketing, Nestlé Chile.
- 1968 joined the Nestlé Group's operating company in Austria. There, Mr. Brabeck-Letmathe started as a salesman, later becoming a specialist for new products.

Robert G. Eccles is a Professor of Management Practice at the Harvard Business School. He teaches the MBA elective “Creating and Communicating Value: Building Business Models” and the doctoral seminar “The Role of the Corporation in Society” with George Serafeim.



Daniel C. Esty is the Hillhouse Professor of Environmental Law and Policy, with appointments at both the Yale Law School and the Yale School of Forestry & Environmental Studies. He is also the Director of the Yale Center for Environmental Law and Policy as well as the Center for Business and the Environment at Yale. Professor Esty’s research has focused on “next generation” regulation and the relationships between the environment and trade, competitiveness, governance, and development. He is the author or editor of nine books and numerous articles on environmental policy issues. His recent research interests concentrate on innovation and environment, global administrative law, data-driven environmental decision-making, environmental governance, corporate environmental strategy, and environmental protection in the information age. In 2007 – 2008, he served as an Obama campaign advisor on energy and environmental issues, as a surrogate speaker and debater, and as a member of the Presidential Transition Team. In 2002, Professor Esty received the American Bar Association Award for Distinguished Achievement in Environmental Law and Policy. Prior to coming to Yale, Professor Esty served in a variety of senior positions in the U.S. Environmental Protection Agency. Professor Esty earned an A.B. from Harvard, an M.A. as a Rhodes Scholar at Oxford, and a J.D. from Yale.



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Career

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Leiter Wirtschaftspresse und Interne Kommunikation at Philips GmbH; Hamburg Education



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Career

1985-1994 Editor Bayer. Rundfunk.

1989-1990 Radio Correspondent for ARD in South America

06/1994 Spokesperson AUDI AG

2000 in the Departement for International CorporateCommunication, Strategy and Planning

2003 Audi Kommunikation, Head of Corporate and Economic Communications

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Education

1978-1980 Vocational training as banker

1980-1985 University Studies in business (Dipl.-Kaufmann) and Journalism

Hobbys

Sports, Literature

Francesco de Leo is a Senior Executive Advisor of Capgemini Consulting, and a member of the Telco, Media & Entertainment International Advisory Board of Capgemini in London.

He has been appointed Senior Executive Advisor of Vision Capital, a leading private equity firm based in London, founded by Julian Mash the former Deputy Head of Investment Banking at Smith Barney.



Francesco de Leo is the Chairman of Green River Capital Advisers, a special situation investment banking firm, based in London.

Francesco De Leo is the Executive Chairman of Green Comm Challenge, a leading advisory company which focuses on investments in green tech in the US and Europe, which has entered the 34th America's Cup.

He is a Member of the Advisory Board of SIMTONE, one of the leading providers of cloud computing solutions.

He sits on the Advisory Board of Media Tenor (Zurich, Switzerland), which focuses on media analysis and collaborates with the World Economic Forum.

Past Experience

From June 2005 till December 2008, Francesco De Leo has served as Director for Business Development and International Affairs at WIND, the third largest mobile carrier and second largest fixed line telecom operator in Italy. Later on, he served as Chief Strategy Officer and Head for Business Development and Corporate Communication.

In January 2007 he was appointed Vice-Chairman of Tellas in Athens, Greece, the second largest fixed line operator in the country, where he merged the company with WIND Hellas, at the end of 2008.

Before joining WIND, Francesco De Leo served as an Executive Director at IFIL-Exor (the Financial Holding Company controlled by the Agnelli Family) a holding company which controls FIAT Group, Worms, Cushman & WakeField, and Juventus.

Theresa Lötter is the Research Manager at Media Tenor South Africa in Pretoria. Media Tenor's research in terms of national and international media trends has been widely published in South African and international media, both in terms of political as well as economic analyses.

Theresa has a Masters Degree in Research Psychology from the University of Pretoria, having written her paper on the sustainability of community radio in South Africa.



Francis Quinn got his Ph. D. in Physics from Trinity College Dublin, and joined L'Oréal in 1996 where his main areas of research were biomimetic materials and composite polymers. Dr. Quinn has contributed to 4 books in his specialty topics, published more 20 scientific articles and has filed more than 30 patents. After having worked on the integration of The Body Shop into L'Oréal, and on risk management on environmental questions, in July 2009 he was nominated Director of Sustainable Development for the Group.



Ulf Santjer is Head of Communications at PUMA AG in Herzogenaurach, Germany.

2004 – to date	Head of Communications, PUMA AG
01/2002 – 12/2003	Corporate Communi- cations Manager PUMA AG
10/1998 – 12/2001	Deputy Head of Marketing PUMA Germany
07/1997 – 10/1998	Public Relations Manager PUMA Germany



Education

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Political science, Ph.D.
- University Göteborg, 09/1992 – 03/1993
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Wolfgang Scheunemann is CEO of dokeo GmbH, whose goal is to increase the reputation of companies and institutions in public. He initiated in 2005 the “German CSR Forum“ (<http://www.dcsrf.de>)

From 1992 to 2004 he was responsible for Daimler-Benz / DaimlerChrysler, the global technology and environmental communications. He developed in close consultation with the Board’s communication strategy to build and improve the reputation of the company in the areas of innovation and technology leadership, environmental protection and sustainability and social responsibility (CSR) and applied them to the world. From 1988 to 1991, Scheunemann at AEG in Frankfurt. Most recently he was Head of Central Division’s reputation as a “technology company” in charge.



George Serafeim is an Assistant Professor of Business Administration at the Harvard Business School. He jointly teaches the MBA elective “Creating and Communicating Value: Building Business Models” and the doctoral seminar “The Role of the Corporation in Society.” with Bob Eccles.



Thomas Voigt is Vice President Corporate Communications at Otto Group. 1984-85 editor at “W&V,” 1985-89 advertising agency owner / editorial office, 1989-93 Editor-in-chief “W&V,” 1993-97 Editor-in-chief “Horizont” and a member of the management of Deutscher Fachverlag in 1996/97, 1997-2004 Editor-in-chief of “Impulse,” 2001-2002 additionally Editor-in-chief of “Bizz,” since 04/2004 Director of Corporate Communications of the Otto Group.



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Matthias Vollbracht is Director of Economic and Business Research at Media Tenor International in Zurich/Switzerland. In his research and consulting work, Matthias Vollbracht focuses on the impact of media coverage on public opinion, individual stakeholder groups and the reputation of institutions and individuals. Furthermore, he works on studies to explore the impact of media on asset prices and economic behavior such as investors’ and consumers’ confidence as well as inflation expectations. Matthias Vollbracht received his degree in economics from the University of Mainz, Germany and has worked as a business journalist before joining Media Tenor.

