THE LANDSCAPE OF INTEGRATED REPORTING
REFLECTIONS AND NEXT STEPS

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Achieving truly integrated reporting is far more than a technical exercise. It is challenge to mesh of two fundamentally traditions of corporate disclosure—financial reporting (FR) and sustainability reporting (SR)—that embody distinctly different definitions of the nature of the firm.

On the side of FR is the view that the firm is a “nexus of contracts” among boards, managers, employees, suppliers and other actors whose core purpose is maximization of returns to investors. On the side of SR is a broader concept of the firm defined variously as: a community of interdependent stakeholders who come together to create value as a collectivity; a “team production” entity bound by a commitment to create long-term value for all stakeholders including, but not primarily, shareholders; or an organization created to harness private interests to serve the public interest while equitably rewarding all actors in accordance with their contributions to the created by the organization.

If integrated reporting is to evolve into more than the casual juxtaposition of financial and sustainability information in paper or electronic format, these two traditions must converge toward a reporting architecture that builds on the strengths of both while enabling assimilation of new knowledge, new issues and new metrics that flow from the social, environmental and economic dynamics in the 21st century.

While the chasm is wide, it is not insurmountable. A basis for fruitful engagement begins with the recognition of three commonalities shared by FR and SR:

- **Complexity:** FR faces the continuing challenge of keeping pace with the complexity of 21st century economic transactions, sources of value, financial instruments and financial obligations, e.g., intangible assets, derivatives, hedges, stock options, pension fund obligations. SR faces an equally daunting challenge but of a different kind of complexity—articulation and measurement, both qualitatively and quantitatively, of the social, environmental and governance

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performance of the firm, as well as the quality of strategy and management that underpin such performance.

- **Diverse beneficiaries:** While FR is designed primarily to meet the needs of investors, other stakeholders regularly utilize such disclosures for purposes other than investment decision-making, e.g., employees, host communities, NGOs, suppliers, standard setters. SR, too, serves multiple audiences, some overlapping and some distinct from FR, e.g., employees, host communities, consumers, NGOs, government procurement offices, investors.

- **Materiality:** For FR standard-setters, regulators and companies, not all possible disclosures are material disclosures. Meeting the dual test of materiality—information that is both relevant to a company’s activities and of a magnitude sufficient to affect an investor’s decisions—is a continuing challenge in a fast-changing global economy. New risks and opportunities constantly challenge reporters to avoid information overload through judicious selection and clear presentation of material information. This is no less true for SR. Specific risks and opportunities are not equally relevant to all firms across all sectors. The weightiness of climate change, occupational health and human rights varies widely, challenging reporters to think carefully and make tough choices about what emphasis each issue warrants in a sustainability report.

Recognizing these and other commonalities is a helpful first step in the search for a mutually acceptable architecture for integrated reporting. These commonalities should not mask the opposing views of the nature of the firm described above. But they can and should serve as lubricant to begin the process of engagement required to build an integrated reporting regime.

With these in mind, and taking into account the traditions and language of FR and SR, one may imagine a future integrated reporting framework built on the concept of capital stewardship. In this future, capital stewardship is defined as the preservation and enlargement of multiple forms of capital, all of which contribute to long-term value creation by the firm. Using the language of capital has the distinct advantage of using a vocabulary familiar to a broad spectrum of stakeholders who will be served by credible, comprehensive and timely disclosures all of which are rooted in a shared conceptual foundation, namely, capital stewardship.

How might capital stewardship be operationalized? One approach is to unbundle the concept into five components which for shorthand we call “INFOS”—intellectual, natural, financial, organizational and social capital. An INFOS framework would not negate conventional reporting approaches typically organized around stakeholders and/or issues. Instead, capital stewardship would provide unifying theme that cuts across stakeholders and issues to frame how a company’s activities serve to undermine, protect or expand the stock of various forms of capital.
Consider the following working taxonomy and illustrative sustainability and financial issues germane to each:

**Intellectual capital:** Intangibles such as capacity to innovate, patents, software and management systems and relational assets such as the quality of relationships with suppliers and joint venture partners. Reporting issues include: governance structure in relation to its capacity to monitor sustainability performance targets; integration of sustainability in compensation structures; expenditures on sustainability-related R&D; capacity building with the supply chain to achieve company-wide sustainability targets and standards.

**Natural capital:** Goods and services provided by the natural environment such as biodiversity, clear air, clean water, forests, fisheries, and arable land. Reporting issues include: a company’s understanding and integration of the value of ecosystems services in product design; climate change strategy; carbon emissions expressed in absolute terms and relative to national and/or global commitments; biodiversity protection policy; application of lifecycle analysis and product design and stewardship policy.

**Financial capital:** Funds, either owned or borrowed by the firm, that are available for productive uses. Reporting issues include: explication of relationship between financial risks and liabilities associated with future current or future government regulations; risk associated with the application of new or unproven technologies; financial implications associated with pending or recent legal actions taken by or against the firm.

**Organizational capital:** Systems, procedures, protocols and codes that enable work to be accomplished at continuously higher levels of productivity. Reporting issues include: nature and performance of occupational health and safety systems; adoption of generally-accepted sustainability-related codes and norms, and monitoring and enforcement mechanisms to track compliance with such codes and norms; quality, reach and efficacy of social compliance audits in the supply chain.

**Social capital:** Cohesion, cooperation and community among individuals in a network that enhance individual and collective well-being. Reporting issues include: mechanisms for stakeholder engagement and methods for assessing their effectiveness; content and enforcement of human rights policies throughout the value chain; policies for protecting privacy of employees and customers.

For integrated reporting, a new architecture built on a foundation of INFOS would require a reporter to analyze and disclose three linked aspects of its performance: (1) the company’s ownership, control and influence on various forms of capital; (2) change in the stock of each form of capital from one reporting period to the next; and (3) how change in each form of capital affects changes in the others.
A future integrated reporting standard-setter, of course, will have to set forth principles and rules for addressing these three issues, undeniably a formidable task especially in the early years of a new initiative. It also would have to establish measurement protocols in order to drive the new system toward comparability and consistency across reporting entities.

Some undoubtedly will see INFOS as too radical a departure from extant FR and SR frameworks. We take a different view here. A new architecture that honors the traditions of FR and SR at the same time it offers a new, multiple capitals lens on company performance will, in the long-term, better serve the interests of investors and all stakeholders. INFOS provides a point of departure for imagining the contours of a new architecture, one that overcomes the artificial silos of FR and SR and, instead, mirrors the connectivity and interdependencies of the 21st century.