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When CSR and Financial Reporting Meet: Integrated Reporting

Breakout Session Summary

Friday, November 5, 2010 | 10:30-11:30 a.m.

Speakers

- » **Malin Ekefalk**, Associate Director CR, AstraZeneca
- » **Adam Kanzer**, Managing Director and General Counsel, Domini Social Investments
- » **Laura Commike Gitman**, Director, Advisory Services, BSR (moderator)

Highlights

- » Integrated reporting is in its nascent stages, and shaping and defining it will require effort on behalf of companies and investors.
- » Business needs to be a driving force in creating a demand for sustainability information among investors and analysts.
- » Integrating sustainability and financial reporting provides greater context for understanding a company's operations and impacts.

Memorable Quotes

"It is important for stakeholder groups to see the full picture and see how their interests relate to each other and to the business." —Adam Kanzer, Domini Social Investments

"When you are faced with a crisis the size of what we are facing on the sustainability front, there are always opportunities." —Adam Kanzer, Domini Social Investments

"We need to collect stakeholder opinions, look at the list of issues, look at our business priorities, and identify which of the CR issues on the list will enable delivery of our business objectives and which will block us from delivering on our business objectives." —Malin Ekefalk, AstraZeneca

Overview

Commike Gitman started off the conversation about integrated reporting with acknowledgement that we are in the very early stages of a trend that will require a lot of work on behalf of companies and investors. At the moment, we see many approaches to integrated reporting and no single definition of what it is or how to best accomplish it.

AstraZeneca has practiced integrated reporting for several years. There came a point, Ekefalk said, when the company could no longer justify having separate reports. Sustainability had to be a part of the story it was telling its investors about the company's financial performance. The company has always had a drive to integrate sustainability and wanted to report its financial and non-financial risks, the strategies for meeting those risks, metrics and progress against goals, and the skills and resources it would need to achieve those goals.

Ekefalk pointed out that AstraZeneca's history of having its environmental and social information and metrics assured by a third-party provider enabled the inclusion of this information in its financial report. The information was easier to represent side by side because AstraZeneca's sustainability reporting achieved the same rigor as its financial disclosures.

Kanzer quoted a UN Global Compact survey of CEOs in which 93 percent of respondents said that sustainability is critical to their future success. This raises the question: If sustainability is integral to the business, why not make it integral to business reporting as well? He pointed out that one of the challenges with integrated reporting is that we lack consensus. We are in the early phase of defining what we mean by integrated reporting, and we have many different ways of practicing it.

According to Kanzer, one of the biggest concerns about integrated reporting is that important elements of sustainability reporting will be subordinated to the financial reporting. The challenge, he said, lies in the maturity of the two. Financial reporting is well established with clear guidelines; CSR information needs to be just as well defined.

Even the simple measure of stapling the sustainability report to the annual report, possibly the least integrated way of “integrated” reporting, indicates that a company is incorporating sustainability into its business practices. This step also changes the mainstream analysts’ relationship to the information. While mainstream analysts frequently do not pay attention to sustainability information, ignoring information that is handed to you is more difficult than failing to search for it.

Ekefalk said the general consensus is that investors are starting to identify ESG risks as material, yet AstraZeneca has not experienced a demand for that information from its mainstream investors. Kanzer agreed that many companies are not asked by investors for sustainability information, commenting that one aspect of a long-term sustainability strategy might be creating a demand among investors for the information. One way of doing this may be to have the CFO present sustainability information on earnings calls, explaining how it is material to the business. In this case, integrated reporting may offer an opportunity to shift the conversation with investors, and it has the added benefit of involving senior company management in sustainability communications.

Integrated reporting also counters a lack of clarity that can be inherent in fractured reporting. When sustainability and financial information are communicated separately, readers may not be able to see the full picture of what a company does. Context is vital. If companies do not provide this, then it continues to enable analysts to ignore critical information. It is important for report readers to understand how concerns relate to each other.

It has taken a long time for many of these sustainability issues to become crises, and it will take a long time to reverse the effects. However, long-term factors can also be short-term risks. For example, buying BP stock proved to be a short-term risk for investors who acquired it the day before the Gulf oil spill.

Kanzer closed the session by advising the audience not to confuse great reporting with great performance. While being transparent is an important first step worthy of recognition, companies must ultimately be judged on their performance and whether they are capitalizing on the benefits that they can provide to society.

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