

30. März 2017

Berlin, Rotes Rathaus

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CSR in einer Welt im Umbruch

Integrated Thinking and Reporting to increase Value Creation

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International Integrated Reporting Council



"INTEGRATED THINKING IN A WORLD OF UPHEAVAL"

SPEECH OF RICHARD HOWITT, CHIEF EXECUTIVE OFFICER, INTERNATIONAL INTEGRATED REPORTING COUNCIL, AT THE GERMAN CORPORATE CITIZENSHIP AND CSR NETWORK, BERLIN TOWN HALL, 30 MARCH 2017.

Good Evening.

Thanks to UPJ, in particular Peter Kromminga, for inviting me here and for accommodating some last minute changes to my schedule.

It has been a pleasure to be part of this conference and with all the businesses here.

[German translation: It is a pleasure to be in Germany, to express my support for the work of German businesses, for your commitment to social responsibility and your support for integrated reporting.]

This is the third time I've been in Germany in the last two months, in my capacity as a member of the B20 group of international business leaders, and given Germany's current presidency of the G20.

It makes the point that Germany and German business has a specific responsibility at this point, which I know you will fulfil.

And having been described myself as the architect of the EU's Non-Financial Reporting Directive, I am aware that earlier this month, the Bundestag passed this in to Germany's law. Within the terms of the directive, the information may be integrated into the annual report, published parallel to the annual report or published later than the annual report, within a defined time limit.

Our aim in passing the directive was to be enabling not prescriptive. To enable companies to use existing international frameworks, including the integrated reporting framework, rather than impose new requirements.

But my appeal to businesses in the room is to implement the directive not just according to the terms, but the spirit. Use this opportunity to make a major step forward to integrated reporting.

At the beginning of my speech, I'd also like to congratulate UPJ specifically on the work you have done with young people, on brokering social investment in local communities, on supporting CSR in small business and in working with European programmes here in Germany.

And I pride myself in my long personal association with CSR Europe, your sister organisation across the whole of the European Union.

At their twentieth anniversary last year, I was proud to help them launch their 'Pact for Youth'.

I also express my support for CSR Europe's Sustainable Business Exchange – its platform for action towards the UN Sustainable Development Goals.

It was an honour to serve as European Rapporteur for Corporate Social Responsibility over twenty years.

It gave me a unique insight in to the true meaning of CSR.

In those years, I witnessed a shift from CSR being seen as voluntary, charitable actions undertaken by companies to benefit communities, to the idea that companies have an unavoidable responsibility for their impacts – positive and negative – on all their stakeholders.

At the same time, I became increasingly convinced that business had a distinct contribution to make in tackling some of the major challenges in the world, that it was not possible for government on its own to achieve.

But I became equally convinced that this would never be achieved if it was perceived to be against the business interest.

And at the time there were plenty of people who said that. Less so today, but such voices are still sometimes heard.

So in those early days there emerged what was called the 'business case for CSR'.

Positive change which, at one and the same time, also benefitted the business.

But there were two problems with that.

First, it was easy as saying there was a business case, but then it would happen anyway, and all the efforts being put to discussing it would be a waste of time. Instinctively we knew that this just wasn't true. It was more difficult than that.

And second, it left the suspicion amongst those critics of business, that businesses were just intent on doing what they wanted to do anyway.

Hence we had the accusations of 'greenwash', that CSR was just a public relations exercise by business, with no fundamental change in the way the business operated.

What combined both of these interests - those for business from inside and those critical of business from outside - was the call to bring CSR in to the 'mainstream', part of the core business.

And I and many people at the time were also becoming convinced about the power of disclosure as a driver.

But what we learnt was that publishing CSR or sustainability information at the same time or even a single report with the company's financial data, might be a step towards the mainstream, but still not sufficient.

If you like, the report becomes a volume of short stories by the same author, but with no necessary connection, one to another.

What really we wanted was to make it a novel, a single story, in which each part inter-relates to the other.

Hence we came upon the concept of 'integration'.

Why I have now gone to lead the International Integrated Reporting Council.

Integration.

At one level, this is just common sense.

Having a broad and connected view of the business.

Looking forward as well as back.

Working out what is really material to the future of the business.

Understanding what is driving value in your business.

Then making all of that part of your business strategy.

That's just good management.

But it's good management in a modern age.

In the integrated reporting movement, we have called that 'integrated thinking'.

If you do think about it, how many of us and of our colleagues are trapped in to short-term thinking, working as well as possible within our own area of responsibility, but frustrated from making a better overall contribution by fragmentation or compartmentalisation within the company or the organisation?

Having a connected, holistic view is indeed common sense.

Challenging rather than accepting existing mindsets.

It's what they teach in Business Schools but, let us be honest in asking ourselves: how often does this apply in practice?

Then, at another level, this really is an evolution from the business case for social responsibility.

Because it's not just saying it - it's doing it.

It says that there are six 'capitals' which the business can grow or deplete.

That each can represent both risk and opportunity for the business.

That each can drive value creation.

That applying this - through the concept of materiality again - is fundamental to your business model.

And that ultimately - in this modern age - it's what investors want.

Now I know that in this audience will be a fair number of sustainability or CSR managers in companies who may or may not yet have adopted this approach of integrated reporting.

What I say to you is: If you really want your CEO or CFO to 'mainstream' the work that you are doing, this is the way to do it.

There may be times where this exposes some aspirations which stakeholders or wider society may want, but where the business does not.

That may lead us in to uncomfortable territory.

But that enables us to be honest with ourselves.

However, where it helps the business to understand where and how it is in the business interest to pursue societal aims, it provides the most powerful framework with which to deliver them.

That values have value.

Now tonight, I have been asked to talk about this in the context of what the title of this conference is calling a time of 'upheaval'.

Financial reporting is deeply embedded both in the history of accountancy dating back 500 years and in commercial law dating back over 200 years.

But like so much else in the current times, established practices are being fundamentally questioned.

On the negative side: whether conventional reporting is fit for purpose?

On the positive: how integrated reporting can be much better?

But this is only one of a series of the conventional assumptions which are being fundamentally questioned in these unprecedented times.

On climate change.

The assumption that economic growth on the conventional measures of GDP we have used, can continue without boundaries.

On social progress.

That the benefits of that economic activity will lead to growing equality and social cohesion.

On international collaboration.

That the gradual opening of markets and expansion of international trade will raise the living standards of the poorest and most vulnerable people on our planet.

In each of these assumptions, there was always a debate about how far and how quickly?

But there was an assumption of inevitability that these things would happen.

But as they say of the human condition: the only thing that really is inevitable is death.

So forgive me if I concentrate not on what is inevitable, but on what might change?

For example, I'm incredibly enthused by a company like Arcelor Mittal whose integrated report shows how a business involved in heavy manufacturing which is clearly going to have a relatively high carbon footprint, can address the challenge of climate change by extending the longevity of its product, harnessing recycling and making a reality of the concept of the circular economy.

Or the bank Unicredit, who spoke this morning, and whose integrated report shows how their support for financial inclusion can directly benefit those excluded from our economy, including women.

Or BASF, whose work in plant science is highlighted in their integrated report, showing how more efficient and environmentally friendly agriculture is making an important contribution towards the SDG of ending hunger and promoting food security.

I'm sorry I haven't got time to quote more of the companies here.

But in each of those cases and more, not only have I learnt that from company integrated reports, but the companies have learnt it for themselves, from the whole process of integrated reporting.

A process which has led them to being more successful businesses too.

Is that upheaval, maybe?

But it is a good upheaval.

Yet I do not suggest all the problems have or can easily be solved.

With the rise of populism, a loss of trust in business and the threat of a return to economic nationalism, this new, different, integrated message from business must not just be found in its reporting, but seen in a different process of communicating the information found in the report.

We live in an age not of inevitability but of its opposite: of uncertainty.

And it is uncertainty which businesses love least.

Investment. Recruitment. Training. Research. Acquisitions.

The search for new ideas, new products and new markets.

Uncertainty is the enemy of each of these.

So in the last part of what I say to you, let me ask what should be the response of the responsible business in this era of upheaval and uncertainty?

First, don't 'cut and run.' If business 'opts out', then the economic problems which have underlain this challenge to orthodoxy will simply get worse. And so will the problems themselves.

Second, keep looking for the market opportunities. Some businesses have always prospered in difficult economic times by taking what has been called 'counter cyclical' action.

That underpins the 'Pact for Youth' and action for the Sustainable Development Goals.

Is there a clear short-term business case for all companies to do this?

Arguably, not.

Is there a long-term business case for companies to do so?

Definitively, yes.

Third, we have to open ourselves up to new thinking. To question some of our own assumptions. To listen and to learn from shifts in public opinion.

To be prepared to adopt new and different ways of working.

That is fundamental to the work on integrated reporting, in which I am involved.

Change is always hard, but it is not new to business. It is part of succeeding in the market. The challenges may be new and daunting. But I do not doubt the capacity of business to do this.

But to listen to and to address current criticism must not always mean to agree with it.

We should accept that there will be change and reform. But that does not mean we should simply stand by silently, as this is determined.

So fourth, let's not just embrace change within our own business.

But - as businesses together - we have to be advocates of change in society.

There is a proper demand for business to be transparent in lobbying for public policy positions, and we will hear more about that in the next speech.

And we should be fully willing to be held to account for our views.

Integrated reporting has grown in the world by companies championing it. Speaking out. Showing that we do have answers to the challenges there are in the world and for business.

If we do not champion our own view of 'better business in a better world', others will define their own solutions.

And those solutions are more likely to obstruct business than to enhance it.

So in these words to you tonight, I have tried to show how I believe that we have been willing:

- To challenge the existing mindset;
- To understand and demonstrate a different concept of value;
- To be champions of change.

As the champion of integrated reporting, I say: We have a good story to tell. We should tell it.

I know that is your commitment as companies and it has been an honour to be invited to come here and to share these words with you.

Good luck with all your endeavours.

Keep thinking and keep being champions of change.

ENDS.