

## Key proposition

If we as auditors wish to continue to play a significant role in the future of integrated reporting, we must reinvent ourselves

## Intro

If you ask the average European what he or she associates with the term 'Wall Street', there's a strong chance you'll get this man:

*Gordon Gekko from the film Wall Street*

Immortalised by his motto *Greed is Good!*

*(The fragment of the film in which Michael Douglas quotes this motto can be downloaded from YouTube at <http://www.youtube.com/watch?v=MEaJYeRpl1g>, duration 7 seconds)*

Watching this film, you would think that big business, and the financial sector in particular, is all about money. Preferably LOTS of money!

And, indeed, making money is still the main ambition of many companies.

Integrated Reporting makes short work of this misconception.

Companies exist to benefit not only their shareholders, but *all* their stakeholders. Doing business shouldn't be all about earning money, but about creating value for society. The global crisis has made it all too clear that our current economic system and the lifestyle associated with it are no longer sustainable. We have learned that money is not everything. It is a *means* rather than the aim that for years it was thought to be – and it isn't even the *only* means. Money is just one of the capitals that companies have, and not necessarily the most important one. In the economy of the future, Profit can only exist by the grace of other capitals, such as People and Planet. This means we are going to have to re-evaluate the playing field and the relationships between the three Ps. Integrated Reporting makes these relationships crystal clear, which is why it has a vital role to play as we design a new and more sustainable economic order.

## Part 1

### IR as a Disruptive Change-maker

As auditors we have reached a crossroad, perhaps the most important crossroad in our history. We have all grown up with the idea that our profession is about money. Auditing is going hand in hand with financial reporting and shareholder value. That is what we do and what we are good at.

But if we stand back for a moment and look at the bigger picture, we'll see that our profession is about something far more fundamental: namely value creation.



And about the question of whether, as a company, you genuinely add something to society, something of real value. And if so, what exactly, for whom, and in what way is that evident?

These aren't silly questions? They are questions that touch upon the *raison d'être* of organisations – the reason they exist. The answer given by many companies is this: we exist for our shareholders. But

that is 'old school' thinking. If you want to be taken seriously as a company in the future, you will need to be able to show that you deliver genuine added value in areas that matter. So, for example, you might provide a solution to major societal problems, or you might contribute to the social cohesion in your neighbourhood. Here's the bottom line: that you leave the planet a little better off than you found it. And to do this, companies and auditors need to look beyond the financial picture. Genuine value creation is only possible if we recognise that non-financial elements also carry weight, which brings us back to Integrated Reporting.

For many people, IR is a headache: it means new rules, having to do everything differently, great complexity... But you can also see it as an opportunity. An opportunity to do something that really makes a difference. I see IR not as a threat but as a '**Disruptive Change-maker**', something with huge potential. Given time, IR has the power to lift company reporting beyond the two-dimensional world of corporate finance. It challenges companies to produce a clear, concise story that shows what they really have to offer, the difference they are making and the nature of their value creation, over the short, medium and long term: their potential to make the world a better place.

### **Rembrandt and Jobs**

Moments in history that really qualify as a 'fundamental change' are few and far between. Radical change often involves the coincidence of various things: a sense that the time is right, people with vision, and technical possibilities. Changes that happen at the interface of these circumstances often have a massive impact. But they are rare. And that's why these moments and the people they involve often become famous forevermore.



Rembrandt was one such game-changer. He was working at a time when tradition was a powerful force. His contemporaries had clear ideas about what constituted the art of painting, and particularly 'good painting'. Yet when the time was ripe, Rembrandt deliberately abandoned these notions, because he thought art could be done differently and better. In an era in which the art of painting was ruled by tradition, he set his own course and produced his own definition of 'great art'. No more still and formal compositions, but action scenes rich in perspective and movement. It was a complete break with tradition and it didn't win Rembrandt a lot of appreciation among his contemporaries, but he has since come to be regarded as one of the great masters of Dutch art. Someone, who changed the rules of art for good, and by doing so, created masterpieces.

A more contemporary game-changer is Steve Jobs from Apple. He made his mark on our time like no one else. We can't imagine the 21st century without the iPod, the iPhone, the iPad and iTunes. Each of these is a tangible result achieved by someone who coupled technological ingenuity with a clear vision, in an era that was ready for change – even before his contemporaries were aware of that. Jobs's greatest accomplishment is probably that he was able to change the status quo in the field of computing by calling into question things that had previously been taken for granted. Initially he

seemed like a Don Quixote in his battle against the ruling elite, but these days no one can imagine a world without swiping. That is game-changing of the highest order.

In fact, we are facing the very same challenge today. We've had to contend with all kinds of crises in recent years, but that experience hasn't been a pointless one. A crisis is a sign that the time has come to ask some fundamental questions. In that sense, the crises we've experienced may well be a blessing in disguise because they have forced us to examine our lifestyle and to re-evaluate our business principles.

The one-sided focus on financial factors, short-term gain and shareholder value has pushed our world off balance. The financial crisis, the impending shortage of raw materials, fossil fuels, water and food and the growing gulf between rich and poor are forcing us to take a long hard look at ourselves and ask whether we are using the right parameters to create our society.

Integrated Reporting has arisen from the idea that the answer to that question is 'no' and that there's more to the world than the financial universe. Companies, citizens, governments and investors all hope IR will enable them to understand the importance of non-financial factors. That's not a threat, it's an opportunity, an opportunity to start doing things differently and better. Is that revolutionary? It may well seem so but actually we are simply going back to the roots of our profession: ethical conduct.

## **Part 2 Then and Now**

### **A The emergence of the auditing profession**

We are used to the idea that auditing is all about figures and money. But the origins of the profession have at least as much to do with ethical conduct. In the Netherlands the auditing profession originated as a direct response to mismanagement and fraud. It arose from a genuine need for honest, transparent services. The immediate cause was the fraud committed by the Rotterdam harbour baron Lodewijk Pincoffs in about 1880. Investors in his African Trade Company lost considerable sums due to falsified figures. This prompted demands for an independent third party that would check the company's books. This was corporate social responsibility *avant la lettre*.

Initially, this independent third party operated on a completely voluntary basis, without any legal framework and simply motivated by the belief that it must surely be possible to do business in an honest manner. In 1883 this led to the creation of the first auditing firm in the Netherlands, bureau Confidentialia. At around that time, similar concepts were emerging elsewhere in the world. So, the profession started from a clear ethical perspective. That is an interesting point. In times of crisis you often see people returning to their core principles as part of an effort to find their bearings. It takes courage to say aloud that in the case of the auditing sector, those core principles are ethical principles – not those of Wall Street or Gordon Gekko...

### **B Time for the next step**

Today we are standing at a crossroad. We need to take the next step in the development of our profession. Research, surveys and round-table discussions are showing that interest is growing in society for a type of reporting that is not limited to financial factors. Investors want additional, preferably verified input, so that they can form as complete as possible a picture of the value companies are creating. They want integrated material on which they can base their decisions. Much of this information is about sustainability issues. That's only logical, given the increasing pressure on

the planet's limited resources. Continuing on our present path towards the permanent exhaustion of those resources is not an option. Consequently, paying heed to sustainability is a non-negotiable precondition for future reporting. The same applies to information about the People aspect. Although this issue is considerably lower on most agendas, dealing well with people is just as important to sustainable business and therefore deserves greater attention. Public demand for the reporting of non-financial information cannot be ignored. As players in the business community and as auditors, we have to take that on board.

### **3 The role of leadership and the role of auditors**

Implementing Integrated Reporting in a financially-motivated world is no picnic. It is something that requires courage on the part of all those involved. A great deal of courage. The implementation of changes of this magnitude requires leaders with vision, strength and guts. According to Peter Bakker, CEO of the World Business Council for Sustainable Development, leadership today requires someone skilled in the original sense of the word: as a pathfinder. When interviewing him for my book on leadership he said: *'We really need to devise completely new solutions and to go in new directions. So when I talk about leadership now, I'm talking primarily about a combination of courage – daring to leave familiar paths – and a willingness to seek new paths. As a leader you have some idea of the right direction, but no more than that, because there's no map to guide you to that future.'*

In his view we need to move towards redefining the concept of value. He calls this: the revolution of capitalism. Bakker believes that the 'triple bottom line' once conceived by Elkington is now bankrupt because the emphasis placed on the financial part of the Triple P has turned out to be much stronger than the emphasis on the non-financial Ps of Planet and People. This is precisely why it is important that we create a new definition based on Integrated Reporting in which the three Ps – natural, social and financial capital – are integrated and carry equal weight. Leaders are faced, therefore, with the task of changing the system in which decisions are taken. And if they achieve this, over time, they will change the decisions themselves that are made.

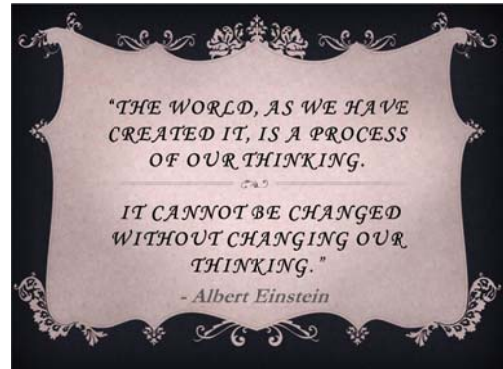
The audit profession has an important role to play in all this. Peter Bakker: *'Accountants will save the world'*. A good system for providing insight into People and Planet is vital if sustainability is to be raised to a higher level. Accounting ensures that everyone knows exactly how you have calculated things where financial capital is involved. There's no discussion about that. Natural and social capital however, require the same approach. If you have a good and clear system in place for processing all the relevant information in an integrated manner, you'll no longer need to talk about how you have calculated something, and the conversation can turn instead to the data itself and what it means. That discussion will shed light on what is needed to create policy that is sustainable in every respect. And in time that will lead to better decisions, to the right value being placed on things and, ultimately, to a better world.

### **4 There's work to be done before we reach that stage**

We can see that an enticing prospect lies ahead. IR has the potential to be a genuine game-changer on the scale of Rembrandt, and to change fundamentally both society and the business community. But whether things will actually get that far is debatable, because the path to Integrated Reporting is strewn with questions, reservations and obstacles.

I'll mention just a few.

- *Is society actually eager to embrace Integrated Reporting?* Isn't it the hobby horse of a few large companies that have seen the light and are now imposing their vision on the world as the new standard? If IR is to have a chance, it must not be imposed from above by the (IIRC), but be supported wholeheartedly by the entire business community – which must also take the necessary measures to implement it. Integrated Reporting requires Integrated Thinking! Companies will have to change the way they think about things. That means that they must put other things on the agenda and engage in different discussions.



- *How can you measure People and Planet?* We still have no set of instruments that we could use to gain a clear insight into the Ps of People and Planet (never mind to give assurance on them). We shall have to devise other, new ways of revealing these elements.
- *What about an assurance process?* It's not enough to simply require companies to conduct integrated reporting. To ensure that they actually fulfil their commitments in this respect, it must be possible to assure the assertions and compliance to the framework. This requires an audit or assurance framework. And that raises the next question:
- *Who will then perform the assurance?* Is the old-style auditor the best person to verify an integrated report? Verifying a company's historical financial information is one thing, providing assurance on its value creation and social impact is quite another, and requires a different type of expertise. Who possesses that IR expertise? The McKinseys of this world? ISO certifiers or verifiers? Or the government? The party to be given responsibility for IR must be chosen with due care.
- Whatever role auditors will play in the future, we must ensure that they are equipped for their new task. This requires thorough initial and further training, and cooperation with partners other than those they have worked with until now. Integrated reporting also requires an integrated way of working, an integrated audit. No more 'island culture' and competitive thinking. A sustainable future calls for engagement, trust and partnership across company boundaries and that also counts for the audit profession as a whole.



Finally, once we have jointly established that this is what we want as well as what is needed to bring it about, we'll see the start of a tense but exciting period, a period in which a great deal will change, in both the business world and the audit profession. Amidst all the uncertainty, one thing is very clear to me: if we as auditors wish to continue to play a significant role in the future of integrated reporting, we must reinvent ourselves.