

Integrated Reporting and the Collaborative Community: Creating Trust through the Collective Conversation

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As we enter the second decade of the 21st century, the creation of one report integrating social, environmental and financial data will help companies succeed by building trust within their stakeholder communities. Conversely, companies that restrict reporting to only financials or disclose financial and non financial information separately as if the variables are unrelated will risk losing credibility in the marketplace.

Corporations that are ready to take control of their own futures will embrace the process of open and rigorous integrated reporting. Effective reporting will demonstrate how both material financial and non financial variables are affecting the performance and long-term health of the company. In the process, these companies will increase their trustworthiness with their stakeholders.

Why Integrated Reporting?

Currently all publicly held companies are required to file annual financial reports. And many also voluntarily release corporate social responsibility reports (CSR). However the content and format of the CSR documents differ considerably. Many are still “feel good” reports on corporate philanthropy. Others contain qualitative narrative concerning environmental efforts. Most do not demonstrate a business case for the activities represented. Alex Hausman, CSR Reporting Manager for the Timberland Company stated, “As the corporate landscape changes and ‘doing good’ is no longer good enough, the challenge is to apply the ‘return on investment’ mindset to the service we do in the community, to protecting human rights in our contract factories and to lessening our impact on the environment.”¹ Effective integrated reporting would do just that—show the relationships between financial and non financial drivers of corporate performance.

Proponents of integrated reporting are arguing for more than just changes in documentation. Kzrus and Eccles in their book *One Report* assert that companies should move from producing a static document to ongoing reporting about the company’s financial and nonfinancial successes and failures. They state that integrated reporting is “about a collective conversation between companies acting as corporate citizens; analysts and investors; standards setters and regulators; and civil society, as represented by NGOs (nongovernmental organizations), associations of many kinds, and individual citizens.”²

¹ Alex Hausman. Finding Value In CSR Reporting. *Environmental Leader*. [Online] February 12, 2008. [Cited: November 3, 2010.] <http://www.environmentalleader.com/2008/02/12/finding-value-in-csr-reporting/>.

² Eccles, Robert & Krzus, Michael. *One Report*. Hoboken, New Jersey: John Wiley & Sons, Inc., 2010.

Companies that are willing to interact transparently with their stakeholders can achieve the kind of trust which builds cooperation, loyalty and long-term collaborative relationships.

Organizations in Integrated Networks

Increasingly the global landscape is a web of relationships and associations. Corporations live in this integrated space along with many and varied stakeholders who assert their own concerns. The boundaries between who is “inside” and who is “outside” of any given organization have blurred. The organizational structure that is emerging in this post bureaucratic era is an open, collaborative community characterized by people and organizations coming together to create shared value.³ For example, lateral networks such as cross-functional teams within a company typify this type of organization. Likewise, complex supply chains and business alliances exemplify this new model as do corporate relationships with non-profits (NPOs) and non-governmental organizations (NGOs). In fact corporations exist in collaborative communities with all of society where the various stakeholders are attempting to balance self-interest with common interest.

In her book *Supercorp*, Rosabeth Moss Kanter stated, “As the world becomes more globally connected, assumptions that used to guide organizations are rapidly being consigned to the trash bin of history. Boundaries that kept things simple and contained are being breeched. Organizational structures are flattening, and hierarchies are giving way to networks.”⁴

These networks are held together by webs of mutual expectations and the belief that all have value to bring to the community. Success depends on the degree to which trust is established and maintained throughout the web. Integrated reporting can serve as a tool for facilitating this trust. Through the integrated reporting process, businesses can demonstrate to all stakeholders that their social and environmental goals aren’t competing with the financial agenda.⁵ And those companies that are willing to reveal both successes and failures as they attempt to balance the variables are likely to increase their credibility within the community.

Integrated reporting cannot be accomplished without integrated management. Therefore integrated reporting is likely to increase stakeholders’ trust that the company is embedding social and environmental factors into its business strategy. Stakeholders will get a holistic view of company performance and health, and the company will have a clearer picture of the value that the variables bring to the bottom line as well as to the collective community.

³ Heckscher, Charles & Adler, Paul S. *The Firm as Collaborative Community*. New York: Oxford University Press, 2006.

⁴ Kanter, Rosabeth Moss. *Supercorp : How Vanguard Companies Create Innovation, Profits, Growth and Social Good*. New York: Crown Business, an imprint of the Crown Publishing Group, a division of Random House, Inc., 2009.

⁵ Eccles, Robert & Krzus, Michael. *One Report*. Hoboken, New Jersey: John Wiley & Sons, Inc., 2010.

How Integrated Reporting Can Build Trust

Interpersonal trust is rooted in beliefs that the parties are competent, open, concerned and reliable.⁶ This type of trust traditionally has developed through personal interactions and first-hand experiences that created familiarity and common history. However social conditions in our globally networked world have changed the nature of how we interact. Now we depend heavily on people whose skills and expertise we can't test. Trust in business relations is more likely to be based on impersonal and indirect information about the company such as reputation, brands, and adoption of quality standards and commitments to people and the planet.⁷

Thus sound integrated reporting over time should build trust within the stakeholder community. The ability to show the relationship between the financial and non financial less tangible variables will demonstrate *competence*. The transparency of the company in providing data will show that the company is *open*. The inclusion of not only activities but also metrics pertaining to social and environmental targets will establish the organization's real *concern*. And, over time, the company's ongoing reporting of progress towards the holistic goals will prove *reliability*.

It's All About the Process

Ultimately the methods companies employ for integrated reporting are far more critical to effectiveness than is a final document. Processes that allow the company and its stakeholders to learn more about each other and act to increase their reciprocal value are most likely to build trust. Thus, opportunities for stakeholders and the company to interact with each other provide the greatest opportunities for shared learning, innovation and trust-building.

For example, Krzus and Eccles in their book *One Report*, argued for a process that includes data reporting on the internet. They suggested that companies provide tools to allow stakeholders to analyze the data themselves according to their own needs.⁸ Some companies facilitate stakeholder exchanges by convening panels to provide input and reactions to the integrated reports. Undoubtedly companies that are committed to integrated reporting can find many creative means by which to engage stakeholders in the process.

Vancouver City Savings Credit Union (Vancity for short) is the largest credit union in Canada with over 400,000 members and more than 55 branches in Vancouver, Victoria, and surrounding areas of British Columbia. They are actively involved in environmental and community causes. Vancity made its first effort at integrated reporting with its 2010

⁶ Mishra, Anil K. Organizational Responses to Crisis: The Centrality of Trust. R. M. & Tyler, T. R. Kramer. *Trust in Organizations*. Thousand Oaks California: Sage Publications, Inc., 1996.

⁷ Lane, Christel. Introduction: Theories and Issues in the Study of Trust . C. & Bachmann, R. Lane. *Trust Within and Between Organizations: Conceptual Issues and Empirical Applications 2nd Edition*. New York: Oxford University Press , 2000.

⁸ Eccles, Robert & Krzus, Michael. *One Report*. Hoboken, New Jersey: John Wiley & Sons, Inc., 2010.

Accountability report. They are aiming for fully integrating financial reporting with their (social and environmental) bi-annual accountability reports in 2012. Vancity is one of the most trusted organizations in Canada even though they rarely talk about trust. Instead of discussing it, they engage with stakeholders to create trust. And by introducing their integrated reporting process, they are taking another step to develop the ongoing conversation with their stakeholders.

Barriers to Integrated Reporting Embedded in Organizational Culture

Clearly, integrated reporting is a tool whose time has come. However, to accrue real benefits from the process, companies must challenge assumptions that are likely to be embedded deeply in their organizational cultures. For example, boundaries that separate functions within the company, while perhaps impenetrable in the current culture, must become immaterial. Experts within departments will need to collaborate to create systems and processes that will enable integrated management as well as integrated reporting. Internal players across all internal boundaries will need to negotiate, make choices and compromise. Companies that are comfortable with cross-functional collaboration are most likely to succeed. Those that are still working in silos will be required to face significant change. Companies that cannot or will not change the silo approach to work will risk more than just failure at implementing integrated reporting. They will endanger their ability to succeed in the marketplace in comparison with their competitors who, as a result of cross-functional collaboration, are faster, more innovative, and more engaged with the complexities of the marketplace.

Perhaps the most daunting change will involve the organization's approach to external stakeholders. Effective integrated reporting demands transparency and relationships that cross traditional borders. Corporations are partnering with NGOs. Suppliers are forming tight networks with each other and with their customers. Even competitors are uniting with each other to address thorny environmental and social issues. To truly derive the benefits of integrated reporting, companies must embrace more than just transactional relationships with stakeholders.

Companies can't refuse to interact with external stakeholders even if they don't actively engage them. The informational world has opened and companies cannot hide within their own boundaries. If the company is perceived to be withholding information or using it selectively only for public relations purposes, their trustworthiness suffers in the eyes of the public. Therefore companies with isolationist cultures have much to gain by embracing change.

Conclusion

The time has come for corporations to move towards integrated reporting. It will enable them to better address the realities of this open web-related world within which they operate. The management practices that allow for integrated reporting will strengthen companies for the

long-term. The reporting processes will build trust with their stakeholders. And trust is the collateral for successful value creation within the collaborative communities. Thus integrated reporting is an invaluable tool.

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