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Corporate Integrated Reporting: More than a Reporting Revolution

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EXECUTIVE SUMMARY

This study takes a first step towards addressing the influence of integrated reporting (IR) at the firm level. It provides a down-to-earth picture of how corporate practitioners and non-corporate practitioners perceive IR as well as its development in Canada, aiming to figure out where the Canadian companies are with respect to IR and what the implications of the situation to the boards of directors in discharging their responsibilities. The research uses qualitative interviews as the main research method.

In this report, IR represents the industry-driven reporting practice that embeds different corporate performance aspects into the core business processes and integrates different reporting aspects into one report. IR not only provides a reporting framework, but also asks for a mindset change in management strategies and integrated thinking. Integrated thinking is an integrated component of IR. It is about breaking down internal silos and focusing on long-term success of the corporation. IR marks a fundamental conceptual as well as methodological change from conventional corporate reporting. Although IR is built on corporate responsibility (CR) foundations and is fully compatible with CR reporting, the two have very different objectives. IR focuses on the core of the business. It reflects the overall performance of the organization, with providers of financial capitals, mostly investors, as the targeted audience.

Globally, the development of IR has been remarkable. That said, the growth of IR in Canada does not seem to match the global trend. Canadian capital market has its own characteristic that must be considered before any action is taken to push the IR agenda. The research finds that the Canadian business setting in general has not adequately prepared itself for a more integrated model of corporate reporting, because knowledge, mindset and constructive preparedness, the three preconditions that necessitate IR-friendly environment, has yet to be fully shaped in the Canadian soil. The insufficiencies of prerequisite knowledge on IR, the profit-centered mentality and the constructive deficiencies have placed major Canadian companies at a less vantage point in terms of integrated management and decisionmaking.

In addition to the insufficiency of knowledge, mindset and constructive preparedness, the research finds that Canadian boards of directors may face two legal dilemmas associated with IR. They might get challenged legally by their business decisions on whether the company should adopt IR. Additionally, they might be held liable for misstatement of forward-looking information in the secondary market.

In the face of these two areas of obstacles, in order to have more Canadian companies benefited from the entire notion of integration, this report encourages companies to adopt a more integrated corporate governance approach, whether or not they choose to practice IR for the time being. Integrated governance is the governance model of an organization that ensures the management of all performance aspects in an integrated way. Integrated governance requires corporate directors to embed key non-financial issues into the core business processes and operations, and it focuses on creating long-term value for all stakeholders. In this vein, establishing a few best practices can help to ensure integrated governance is in place.

It is recommended:

- that practitioners prepare themselves with prerequisite knowledge on IR and take a visionary stance towards IR so as to position themselves appropriately in discharging responsibilities;

- that practitioners get rid of the dichotomous thinking between corporate financial and non-financial matters and treat sustainability issues as an integral part of the core business affairs;
- that companies set a balanced budget for the distribution of resources between financial and non-financial aspects and between short-term and long-term projects in their corporations;
- that corporate boards have an open discussion with management on IR and worked closely with management to find an appropriate balance between costs and benefits associated with corporate reporting;
- that companies that decide to practice IR use cautionary language to identify the forward-looking information as such in the integrated report, highlight the material factors that could cause uncertainties, clearly explain the material assumptions that have been applied in making the projection and demonstrate that the company has a reasonable basis for making the projection or forecast;
- that companies develop long-term metrics to measure profitability, using both financial and non-financial components of valuation;
- that companies establish a board-level sustainability committee and identify action owners of non-financial performance targets, linking non-financial performance targets to executive remuneration.

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Corporate Integrated Reporting: More than a Reporting Revolution

Management is typically focused on today's issues and a board can often fall into the trap of just looking as what has happened, rather than at helping management focus on looking forward. —Purdy Crawford, CC QC

PART I. INTRODUCTION

When people talked about corporate reporting twenty years ago, more often than not, they meant corporate financial disclosure pursuant to the statutory requirements of securities law. However, when talking about corporate reporting now, the natural reaction of a great many practitioners is to ask, "Which one?" This contrast vividly shows that the corporate reporting paradigm has been shifted to become more diverse in today's world. One outcome of the paradigm shift is the rise of a new reporting initiative, corporate integrated reporting (IR), which advocates for the embedment of different corporate performance aspects into the core business processes and the integration of different reporting aspects into one report.

It is amazing to watch IR grow from a novel and somewhat utopian idea to an actualized reporting framework within just a few years' time. This newly developed approach to corporate reporting is powerful in the sense that IR is more than the physical integration of different corporate reporting components and an end product of an integrated corporate report. Rather, it requires the alignment of business reporting with business strategy, governance, performance and prospects.[1] In other words, IR is not only a reporting issue, but also a corporate governance issue. A fully integrated corporate report is inseparable from integrated governance structures and operations. This explains why boards of directors ought to care about the issue of IR. Another call for attention of IR comes from the market, representing the demand side. The IR approach can be convincingly viewed as a response to meet the evolving information needs of investors, especially a large number of institutional investors, who look to a firm's overall performance metrics beyond its financial statements in making investment decisions.

While certain forces, such as the King Code III in South Africa and the International Integrated Reporting Council (IIRC), have already pushed IR forward, very few Canadian companies have followed the trend by releasing integrated reports or preparing to do so.[2] Likewise, the consolidated research to date on corporate reporting barely touches upon the exercise of IR within the Canadian context. The development of IR in Canada thus far appears to be slow and not in proportion to the global whole. In this regard, a thorough study on IR and its implications to Canadian companies, especially to Canadian boards of directors, is highly required. This report is thus dedicated to fill the research gap on IR in

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[1] See: IIRC, *International <IR> Framework*, 1.1, online: <http://www.theiirc.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf>

Wim Bartels, "Making Your Corporate Responsibility Report Relevant", in KPMG, *Integrated Reporting: Performance Insight Through Better Business Reporting*, online: <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/road-to-integrated-reporting.pdf>

[2] Until the conclusion of this research in August 2014, the only two Canadian companies that have published integrated corporate reports are Vancouver City Savings Credit Union (Vancity) and the Potash Corporation of Saskatchewan Inc. (PotashCorp).

Canada. The research tries to provide a down-to-earth picture of how corporate practitioners and non-corporate practitioners perceive IR and its development in Canada, aiming to figure out where the Canadian companies are with respect to IR and what the implications are for the boards of directors in discharging their responsibilities.

For the above-mentioned purpose, the research report is comprised of five sections. The first part is the introduction. The second part takes an overview of IR. It focuses on issues such as the definition of IR, the other concepts that bolster IR, the relationship between IR and other corporate reporting approaches and the current landscape of IR. The third part describes the research process and the research findings, putting emphasis on providing a snapshot of the practitioners' views on some important topics around IR, including how the concept of IR was understood, whether practitioners were prepared to embrace the IR approach, what they thought the board's role in facilitating the adoption of IR was, *etc*. It finds for now the Canadian business setting in general has not adequately prepared itself for a more integrated model of corporate reporting owing to the lack of knowledge, mindset and resource support. The fourth section expands the discussion by raising attention to the potential legal obstacles associated with practicing IR. It particularly makes a detailed discussion of how fiduciary duty and civil liability in secondary market can be connected to IR and what the corporate directors are suggested to do if they want to use the business judgment and safe harbor defenses respectively to prepare their cases. In the fifth section, the report concludes and recommends the exercise of integrated governance as a way of embedding integrated thinking and different performance aspects into the core business processes. It argues that integrated reporting should be paired with integrated governance, which is vital for the long-term business success and should be highly valued whether or not a firm chooses to practice IR.

PART II. FUNDAMENTALS OF CORPORATE INTEGRATED REPORTING (IR)

1. What Is IR

In a broad sense, IR represents the industry-driven reporting practices that use more quantifiable and monetary measures to demonstrate the financial implications of corporate intangible value and sustainability issues. Environmental profit and loss account (E P&L) launched by PUMA, ValueReporting developed by PwC and the MultiCapital Scorecard at Ben & Jerry's are all examples of this variety. In a narrow sense, IR, or more precisely <IR>, refers exclusively to the reporting approach created by the IIRC, the global coalition that advocates embedding IR into the mainstream business practice. The IIRC defines IR as "a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation".[3]

A key player in the IR movement is the IIRC, which was formed in August 2010 and has since then become the main drive of the IR initiative globally. Because of the extraordinarily high-powered character of its governing body,[4] the IIRC has been recognized as the authoritative voice of IR. Correspondingly, <IR> has been viewed as synonymous with IR and in most situations people meant <IR> when they mentioned IR. On the upside, the effort of the IIRC helps to establish a set of uniform principles of IR and

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[3] *Supra* note 1, *International <IR> Framework,* at Glossary.

[4] Among the members that form the Council were heads of major professional accountancy bodies and CFOs of major multi-national corporations. See: John Flower, (forthcoming) "The International Integrated Reporting Council: A Story of Failure", *Critical Perspectives on Accounting*.

escalates the awareness of IR through its enormously powerful network. On the downside, however, the significant leverage of the IIRC puts an element of monopoly to the regulatory space of corporate reporting, especially of IR. In fact, the IIRC only provides one way of interpreting IR and it by no means is the only way. Nevertheless, the interpretation may preclude the explanation of IR from a broader perspective and extinguishes further efforts from appearing.

For the reason discussed above, the current research finds it necessary to view IR as a staged process, which evolves from combined reporting, to financial integration reporting, and eventually to holistic reporting.[5] The beginning level is combined reports, which contain both financial statements and sustainability performance in one annual report; the truly integrated level is financial integration reports, which articulate the links between financial strategy and sustainability performance so that the financial consequences of company actions in relation to sustainability issues are clearly visible; a more advanced level is holistic reporting, which springs from a holistic mindset of the business and its stakeholders on the part of the companies, to the extent that IR becomes a "natural expression of the company's values and its approach to business".[6]

2. Associated Key Concept of IR: Integrated Thinking

What adds to the complexity is that the full meaning of IR goes beyond the literal meaning of the phrase itself. As mentioned earlier in the introduction part, what is invisible but indispensible in the concept of IR is the integration of different corporate performance aspects into the core business processes, or "integrated thinking" as the IIRC phrases. IR

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[5] See: Solstice Sustainability Works Inc., *Integrated Reporting: Issues & Implications for Reporters*, online: Vancity <https://www.vancity.com/lang/fr/SharedContent/documents/IntegratedReporting.pdf>

[6] *Ibid.*

not only provides a reporting framework, but also asks for a mindset change in management strategies and integrated thinking. To use the iceberg metaphor to illustrate, integrated reporting is only the tip of the iceberg.[7] Integrated thinking or, more broadly, integrated decision-making is what is happening below the sea level.[8]

By definition, integrated thinking means "the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects".[9] Essentially, integrated thinking is about breaking down internal silos and focusing on long-term success of the corporation. It starts with a thorough understanding of the business model within the context of the external environment.[10] Integrated thinking is fundamental to a company's ability to publish a fully integrated report.[11] In reverse, IR is used to demonstrate and stimulate integrated thinking. Any effort towards IR that fails to recognize the symbiosis relationship between IR and integrated thinking would end up becoming a costly compliance exercise. However, the difficult task about gaining integrated thinking lies in the fact that integrated thinking is not something that can be borrowed or learnt instantly, but rather a kind of build-up knowledge that has to be accumulated from firsthand experience of running the business on a day-to-day basis. In

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[7] Cécile Churet & Robert G Eccles, "Integrated Reporting, Quality of Management, and Financial Performance", (2014) 26:1 *Journal of Applied Corporate Finance* 56.

[8] *Ibid*.

[9] *Supra* note 1, *International <IR> Framework,* at Glossary.

[10] CGMA, *Integrated Thinking: the Next Step in Integrated Reporting*, online: CGMA <http://www.cgma.org/Resources/Reports/DownloadableDocuments/integrated-thinking-the-next-step-in-integrated-reporting.pdf>

[11] Michael Krzus, "Integrated Reporting: If Not Now, When?", (2011) 6 *IRZ–Zeitschrift für Internationale Rechnungslegung* 271, online:< http://www.mikekrzus.com/resources/IRZ-Integrated-reporting.pdf>

this respect, the challenge with IR is more of intellectual, in that IR requires better skills and expertise in exercising integrated thinking and communicating the full complexity of the value creation process to the readers of the report.

3. Why We Need IR: Differences between IR & Corporate Responsibility (CR) Reporting

The discussion of IR is incomplete without the mentioning of corporate responsibility (CR) reporting[12], which has arguably been recognized as an integral part of corporate reporting. CR reporting is defined as "the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development".[13] The same as IR, CR reporting is largely market-driven.[14] Internally, more and more companies have realized that doing CR reporting makes business case. It has been well recognized that CR reporting is beneficial for risk management, stakeholder engagement, brand building, and employee retention, to name a few. Externally, institutional investors are pushing the agenda of corporate transparency and the social communities are demanding such information. In addition, the trend is strongly moving towards formalizing CR reporting in many jurisdictions. Literature holds that corporate reporting on sustainability matters, or more frequently called ESG or triple-

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[12] Other terms in common usages are triple-bottom-line reporting, corporate social responsibility reporting, corporate sustainability reporting, and environmental, social and governance (ESG) reporting.

[13] GRI, "Sustainability Reporting Guidelines", version 3.1, at 3.

[14] Robert G Eccles, et. al., *One Report: Integrated Reporting for a Sustainable Strategy* (Hoboken, N.J: Wiley, 2010), at 83–84.

bottom-line issues, is a light-touched resolution that has often been welcomed by regulators to persuade corporations to pursue public good.[15]

Despite the fact that the practice of CR reporting is a catalyst for corporations to place sustainability issues under the radar screen of the board and senior management and thus contribute to better alignment of corporate financial and sustainability performances, the implementation of CR reporting brings about a series of practical challenges and provides a very limited vision on corporate transparency. One caveat is the inconsistency between words and actions. Instead of improving internal process and engaging stakeholders, a lot of companies take CR disclosure as a tick-box exercise. CR reporting loses its point if only glory paperwork rather than substantive corporate improvements in the sustainability area has been generated.[16] Another worry for CR reporting is that a lot of CR reports fall short of being decision-useful for investors. One reiterated accusation claims that CR reporting ends up becoming a marketing tool because positive news gets over-accentuated, yet unfavorable news is rarely mentioned in the CR report. Moreover, the time it takes for the release of a CR report tends to be longer and falls far behind that of the corporate annual report. Furthermore, it is not uncommon to find companies acknowledge environmental and social risks in a very generic way and provide extremely sketchy information on their materiality assessment.

Taking corporate reporting matters as a whole, the fragmentation of corporate reporting space also calls for a more holistic reporting paradigm. Most people, including a great

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[15] Cristie Ford, "New Governance, Compliance, and Principles Based Securities Regulation", (2008) 45 *American Business Law Journal* 1, at 41.

[16] Cary Coglianese & Catherine Courcy, "Environmental Regulation", in Peter Cane & Herbert Kritzer eds, *Oxford Handbook of Empirical Legal Research* (New York: Oxford University Press, 2010) 450, at 463.

many of recognized experts, unconsciously make a differentiation between corporate financial fillings and CR disclosure. This is largely because the two are not of the same level of stringency. Corporate financial disclosure is a statutory requirement in almost every country, including Canada. The potential legal liability associated with non-reporting or misrepresentation can be huge. In comparison, CR reporting is exercised more on a voluntary basis in North America. Even in some parts of the world, *e.g.* the European Union member countries, India and China, where it is required by legislation for corporations to disclose environmental and social issues, the statutory imperative is usually loosely defined without clear prescription of legal consequences and enforcement methods for nondisclosure.

IR marks a fundamental conceptual as well as methodological change from conventional corporate reporting. Although IR is built on CR foundations and is fully compatible with CR reporting, the two have very different objectives. IR focuses on the core of the business. It reflects the overall performance of the organization, with providers of financial capitals, mostly investors, as the targeted audience. In contrast, CR reporting mainly points to the sustainability side of the business. Because of its specific focus, CR reporting may include more information than what is core to the business to satisfy the information need of different stakeholder groups. In an ideal situation, however, the business has CR aspects fully integrated into the core and as a result, the two are largely overlapping.

4. The Current Landscape of IR

Globally, the development of IR has been remarkable. Several years ago, IR was merely an embryonic plan. When I first started collecting materials for this topic in May 2013, I could not find much discussion about IR except for the IIRC Consultation Draft and associated comments, the King III Report and a book titled *One Report* written by Robert Eccles *et. al.*. In comparison, the debate on IR becomes profound and substantial nowadays. A number of research papers and reports on the topic have come to light.[17] Various governmental and accreditation agencies have publicly endorsed the adoption of IR.[18] On top of that, a few more companies have embraced this reporting approach or started preliminary conversations around IR.

That said, the growth of IR in Canada does not seem to match the global trend. In-depth research on IR within the Canadian business context is rarely found. Chartered Professional Accountants of Canada (CPA) has publicly raised many concerns about IR.[19] In addition, the number of Canadian companies who self-declare their communication documents

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17 For example, see: Carol A Adams, (forthcoming) "The International Integrated Reporting Council: A call to action", *Critical Perspectives on Accounting*; Flower, *supra* note 4; KPMG, *Integrated Reporting: Performance Insight through Better Business Reporting*; PwC, *Practical Guide: Integrated Reporting – The Future of Corporate Reporting*; Churet & Eccles, *supra* note 7.

18 For example, agencies that publicly show support of IR include the European Commission, the Institute of Singapore Chartered Accountants, the Australian Financial Reporting Council, the Indian <IR> Lab, the Chinese Institute of Certified Public Accountants, to name a few. See: IIRC, "Business and Investors Explore the Sustainability Perspective of Integrated Reporting", *Pilot Program Yearbook* (2013), online: IIRC <http://www.theiirc.org/wp-content/uploads/2013/12/IIRC-PP-Yearbook-2013_PDF4_PAGES.pdf>

19 CPA Canada mentioned in its comment letter on the IIRC Consultation Draft, "[F]ew organizations currently have sufficiently integrated and robust systems and processes or an integrated thinking mindset necessary to generate a reliable integrated report". It also noted, "We see little evidence, at least in Canada, that providers of financial capital are demanding an integrated report". See: CPA, *Re: Consultation Draft of the International Framework—Integrated Reporting* (July 15, 2013), online: IIRC <http://www.theiirc.org/wp-content/uploads/2013/08/244_CPA-Canada.pdf>

integrated reports is extremely small.[20] It seems the majority Canadian companies either do not prepare to pursue the IR approach or is waiting to see whether competitors adopt IR.

This disagreement between the local and the global IR condition is worth a think-through. Canadian capital market has its own characteristic that must be considered before any action is taken to push the IR agenda. For instance, a thorough analysis of company and investor typology indicates that Canadian capital market entails its unique property that should be factored in in setting future development agenda of IR.[21] According to the result of data analyses using sources from Sustainable Asset Management and Bloomberg respectively, Canadian companies in general rank very low (26 out of 29 countries) in integration of environmental and social information with financial information, yet Canadian investors show extremely high interest (3 out of 23) in ESG (*i.e*. environmental, social and governance) performance metrics compared to investors in other countries. Also according to Canadian Business for Social Responsibility (CBSR), in Canada the private sector has been leading and setting the agenda for CR, while the government has been in catch-up mode.[22] It is thus highly probable that IR may pursue the same path.

While the global context seems favorable to IR, it is ultimately the local corporate reporting community, the sectors within that community and their stakeholders that will define the trends and expectations of reporting, best practice and innovations, and the benefits and

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[20] See: *supra* note 2. In addition, three Canadian organizations were voluntarily involved in the business network of the IR pilot program initiated by the IIRC. They are Port Metro Vancouver, Teck Resources and Vancity.

[21] Robert Eccles & George Serafeim, "Accelerating the Adoption of Integrated Reporting", in Francesco de Leo & Matthias Vollbracht, eds, *CSR Index 2011* (Innovatio Publishing Ltd., 2011), at 80-82.

[22] Canadian Business for Social Responsibility, *Government and Corporate Social Responsibility: an Overview of Selected Canadian, European and International Practices* (Vancouver: CBSR, April 2001).

competitive advantage a company enjoys.[23] In this sense, an empirical-based research on how the conceptualized term of IR gets translated in Canadian business settings comprehended by practitioners would be necessary to foster a more meaningful dialogue around corporate reporting.

PART III. WHERE WE ARE NOW: AN INTERVIEW-BASED RESEARCH OF PRACTITIONERS' VIEWS ON CORPORATE INTEGRATED REPORTING

1. Research Methodology

The research was conducted from September to December 2013 and May to August 2014. The main study methods this research adopts are qualitative interviews and content analysis. In general, the information that feeds the research comes from three sources. Firstly, the majority of the research data were drawn from 26 one-on-one, in-depth research interviews. Each interview varied from 45 minutes to 1.5 hours. Opinions from practitioners both within and outside of the corporate boardrooms in Canada were sought, so as to ensure impartiality and completeness of viewpoints. Among the interviewees were 15 corporate practitioners and 11 non-corporate practitioners.[24] The interviews were

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[23] Mark Hoffman, "The South Africa Experience", in KPMG, *Integrated Reporting: Performance Insight Through Better Business Reporting*, online: KPMG <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/road-to-integrated-reporting.pdf>

[24] 8 out of the 15 corporate practitioners were board members and senior management. In 5 cases, I managed to interview both senior leaders and frontline corporate reporters in the same firm for opinions. The non-corporate practitioners include practitioners of institutional investing, consultants, analysts, lawyers, and staff from stock

designed in a semi-structured model. The interview material was carefully transcribed and cataloged. Upon the requests of some interviewees, the transcripts were made anonymous.

Secondly, the research is informed by publicly-released corporate reporting documents, media sources, online databases, government policy statements and academic research. These secondary data not only prepare me with prerequisite knowledge for the development of interview questions, but also work to verify and "fact check" the content covered by the interviews.

Thirdly, an indispensible part of the research data comes from direct involvement into training sessions exceptionally for corporate practitioners.[25] The reward of participation in such training courses goes beyond learning the way practitioners learn and thinking the way they think in terms of corporate governance, reporting and assurance. More importantly, it is about talking with the same vocabulary and sharing the industry practitioners' empathy, so as to build a trust relationship that not only facilitates interview data collection but also ensures the balance of the whole research.

2. Research Results: How Corporate and Non-Corporate Practitioners Apprehend IR

2.1 How Interviewees Viewed the Conception of IR

Firstly, the interviewees were asked to describe their understanding of IR and show agreement or disagreement with the idea. With respect to the comprehension of IR, I got

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exchange, industry associations and international organizations.

[25] The training session I refer to was the Accountability Project Training by Solstice Sustainability Works Inc. in December 2013 in Vancouver.

very polarized answers from the respondents and the distribution pattern was not of much difference between corporate and non-corporate practitioners. About one third of the interviewees either had not heard of the conception or could not differentiate IR from other popular corporate reporting models. One common misconception was they took integrated report and combined report or CR report as the same thing. Nevertheless, the answers from the rest 17 interviewees exhibited relatively explicit understanding of IR. Here are some select responses from these practitioners:

- It's a much more radical change than many people realize in the way people think about companies, manage companies and report on things. It's not simply taking sustainability information and pasting it inside the financial report. It's a new way of thinking about how to track different forms of capitals.
- You would have fundamentally changed how companies are evaluated and what's its value in society. You have to totally retrain analysts in order for them to be able to interpret those results and to make them something useful.
- We try not to think of it as a way to prepare a report. For us it really is a management approach—it's integrated thinking, it's having one voice, it's aligning strategy and showing how sustainability strategy supports the business strategy, and it's articulating the big picture. We're working towards looking holistically at the capitals, adding the consistency and quality of data, desiloing thinking and communicating to investors. There're so many elements of integrated reporting that fits well with trying to do things sustainably. It gives us a better platform of connecting some of the pieces.
- When you read the integrated reporting papers, there's the famous chart where they talk about the change of value from financial capital to intangibles. 70% of the value of a company now is more related to the intangibles and only 20-30% of the value of a company can be found in the financial capital. That is or should be a huge wake-up call for companies because, for example, human capital, social capital and intellectual capital—all those aspects of capital will become increasingly important on our resource-constraint planet.

- I think that inevitably becomes more and more a requirement and expectation. For example, a supporting case of integrated reporting deals with supply chain. Supply chain can influence the viability of a company in a real way. As civil society and other stakeholders are more and more focused on supply chains, like where a product came from and what the conditions were for the people that produce it. That tie to supply chain is gonna have a direct impact on the financial health of the company, because the long-term financial security is supported by tenured supply chains.

When asked about their personal attitude towards IR, the majority of corporate and non-corporate practitioners expressed equivocal feelings. Among the 15 corporate practitioners interviewed, 6 expressed mixed views about IR. Likewise, 7 out of the 11 non-corporate practitioners provided ambivalent observations on the notion. An example of this ambiguity is the interviewees noted that IR was a good idea. But in the meantime, they either showed concern over its practicality or expressed negative views on a number of subjects around IR. Some said they agree with IR yet their responses to questions reflected very siloed thinking. For instance, one senior vice president (SVP) of a big public retail company mentioned, "Frankly I think the interest of the company right now is more focused on financial performance … our focus right now is on meeting the more typical public form requirements for disclosure purposes." Another interviewee, who was a SVP of another public firm, contended, "None of the numbers connected to sustainability would be material from a financial disclosure perspective. Nothing in the sustainability initiative is going to affect our share price."

7 corporate practitioners and 2 non-corporate practitioners favored the idea of integration. Here I provide a selection of some of the views:

- I like the idea of trying to bring both ESG performance and financial performance together in a consolidated document that makes sense for investors. You always need a big space for CSR reporting and a big space for financial reporting, but there has to be room in the organization for those things to come together.

- I'm a fan of integrated thinking. There's too much danger of being driven by short-termism.
- Combining the sustainability information with the financial reports hopefully would create a link between sustainability and the financial performance of the company. Right now, a lot of times we're not seeing that link. It would elevate sustainability, to be thought as a critical business issue. Right now the trend is that the sustainability performance of the company is not taken into account by the financial analysts, who spend a lot of time analyzing financial reports. So if sustainability information is included in the financial report and there's a direct link between the two, all the media and financial analysts will be forced to look at it and follow it. It will change the financial profitability culture most companies are living in right now. So I think it's a great idea.
- I think it makes perfect sense. Because otherwise these issues, environmental, social and political issues and impacts are seen as separate from the financial health of the company, but they are not. They are so intertwined.

A handful of the respondents who supported IR also touched upon the benefits they had perceived with respect to IR. They observed:

- Including sustainability metrics in our financial documents facilitates communication with those particular investors who are interested in that area. That's obviously good for the company.
- Integrated reporting is a time-consuming process but there's huge opportunity and gain—holistic and strategic thinking, better ability to manage the company, and the integration/ streamlining of function. There's huge opportunity for risk management, performance management and communication. It's also gonna help us articulate our message and value around sustainability with one voice.
- [W]ith integrated thinking and integrated reporting, we can show to investors particularly how we differentiate ourselves, how we create sustainable value, and how our approach, strategy and community engagement are different from others'.

- When you begin to think of things from an integrated perspective, it opens up new opportunities for new activities. It disciplines you to stay focused on what's gonna add the most value to your bottom line and your core competency.

Only one corporate practitioner and two non-corporate practitioners commented on IR with an absolutely negative voice:

- I don't think you can integrate them together. The question is, to some extent, measuring apples with oranges.
- The integrated reporting people got the moon as their goal, very noble, but it either takes a long time to get there or [it never gets there]. Whereas SASB picked a much more realistic achievement and the constructives are already there, their discussion of materiality has been very good. The stakeholder engagement process in IR is so big and so encompassing that I worried they bite more than they can chew. The idea is right but there's no path to get there.
- It's very, very difficult to integrate things that are not perfectly quantifiable into a financial statement… I don't think you're gonna get agreement on how to quantify these things that are so difficult to quantify and put it in as a liability.

2.2 How Interviewees Perceived the Urge with the Adoption of IR

The practitioners were then asked to show opinions on whether they thought fully integrated corporate reporting would be a long way off for major Canadian companies. All of the interviewees shared the sentiment that we are now at a very early stage of IR in Canada compared to many parts of the world. Although in general non-corporate practitioners seemed to be more optimistic than corporate practitioners with regard to the future of IR, most of the interviewees considered IR as something at a distance for the companies they worked for or were familiar with. One corporate practitioner even claimed that it would take fundamental societal changes to make it happen. Mentioned the interviewee:

> It's a great concept but it's a long way off to be useful to investors… I think it necessitates a major shift in thinking and in strategy, which are not there yet. It will take something to push it over, something major, *e.g.* a financial crisis, to change the reporting standard that has lasted for 150 years. I don't see it's happening any time soon. It's not that simple.

Selected standpoints from other practitioners that support this standpoint include:

- Everyone's talking about integrated reporting but I don't think a lot are doing it. It's under our radar but we're not ready to move there yet. If critical massive results were there, we would consider it.
- We're keeping an eye on it and we've already incorporated a small component in our reports, but it's not something we are looking to do right away.
- Integration is a very good long-term goal. But I don't think we're there yet. Frankly, I don't think the holy grail of integration is achievable next year or in five years, possibly not even in ten years. It's better to get the component pieces published so that they can be compared across companies and across sectors and inch towards the dialogue of how to put these together.
- I don't hear a lot of companies wanting to jump onto integrated reporting in Canada. But integrated reporting has its value. I think it depends on what the regulatory regime is asking.
- I think integrated reporting is a long way off because some of the public companies here are even not reporting now on anything.
- [W]e are cautious of being too optimistic—it seems so early days and very daunting. We were considering of getting involved. But since there're so many reporting things going on, we decide at the moment just to watch all the different things that are happening. There's a bunch of reporting development that all claim they're filling different niche and they are not trying to replace each other.

Two corporate practitioners not only echoed the above-mentioned sentiment but also placed IR within an industry-specific context:

- My personal opinion is it's going to be quite some years before the banks feel any push from the integrated reporting.

- I think integrated reporting is a long way off for the majority of mining companies. Scholars and these special interest groups move at a pace of so much faster than what in reality is feasible for companies to first hear about, then understand, then internalize, and then at some point act. For instance, the GRI G4. I just think all the companies just spent the last however long gaining, buying and understanding the G3.1 and they just changed on that. I think it defeats the purpose—it is not necessarily right now about having the perfect reporting framework, it's about just getting more companies to do it and making it easier for them to access. There needs to be more reality check. These special interest groups and scholars are working at this pace, and the industry is tripling to keep up.

There was a consensus among practitioners, found the research, that IR is a nice-to-do, not a necessary-to-do. This belief was interpreted by the interviewees as the root cause of the lack of motivation to push the boundary of corporate reporting in the short term. In addition, most interviewees indicated that they were comfortable with the current condition of corporate reporting. As one frontline reporter from a mining company recounted, "In Canada at least, the GRI is the de factor standard. So there isn't that push to move over to something new once we've finally mastered something that takes a while to master." She continued:

> I think IR doesn't get the attention as the GRI does in Canada. So much goes to the GRI every year. A lot of companies will probably be overwhelmed if they have to switch for no reason. Now I know you can use the GRI indicators in your integrated report. That may be a bridge to make it more commonplace.

Another corporate practitioner echoed the concern of overburdening:

> I think many companies do get overloaded by different initiatives. Especially in the governance area, there're always lots of things to pay attention to. You need to make sure that initiatives are moving

> forward and employees are engaged. Reporting is secondary to this. We also struggle with how to measure progress.

The exception was two practitioners in the mining industry, who were cautiously optimistic about the adoption of IR by mining companies in Canada. As they documented:

- Probably more than two years, but it needs to be done in the next five.
- I'd say for leading mining companies, it's probably 4-7 years. It could be sooner than that. Some are doing it now. That's where things are trending.

Meanwhile, it is astonishing that few interviewees sensed the gap between the Canadian practice and that of the global counterparts. Only one corporate practitioner expressed her concern about people's ignorance of the global and local discrepancies:

> I think we struggle in Canada. I talked a month ago with the reporting group—the European players, some of the developing country players and some of the stock exchanges. They're evolving so much faster and our fear is we're left behind in general.

2.3 What Challenges the Interviewees Most when Considering Whether to Embrace the IR Approach

In retrospect, the practitioners identified resource allocation, senior level buy-ins, compatibility with the corporate subculture and the influence of exercising IR on the financial profitability of the company as the four interwoven factors that were important in their decision of whether practicing IR would make sense.

First and foremost, many practitioners raised the issue of constrained budget and insufficient personnel for implementing IR. They felt the profit-centered mentality, which results in the uneven distribution of resources between financial and non-financial aspects and between short-term and long-term projects, was posing a real challenge to the adoption of IR. For instance, one interviewee highlighted the importance of having a central budget for long-term payoff programs:

> Hiring a chief environment officer is the boldest management strategy the company took. It really gives us a lot of credibility. She was given a healthy budget so it allowed the investment into environmental programs and this is something we find quite often. There're a while on a lot of these programs, you know, 5 or 7 years. The way the budgets work in the bank is either every quarter or every annual so it's very hard to make investments that have a 5-7 year payback. For example, changing a paper report to an electronic report would be much more efficient and much more useful to people, and it could save $ 300,000, but [if we don't have the budget] nobody wants to do that.

Closely tied to the issue of resource allocation is the senior level endorsement of IR. As one frontline reporter put:

> [The biggest challenge is] senior level buy-ins. It's challenging to articulate the business case and to change the management. You need the right people. You need to build a 3-year or 5-year plan that works for your company. For example, Vancity has a great story about how the first year was a combined report, not an integrated report. But now they've done a right job of really showing how different pieces fit together. So it's an evolution.

Another practitioner echoed the sentiment and added:

> Directors and managers are looking at numbers. They are trying to meet their sale targets. If you can show them how it's tied back to their profitability, then you'll get their buy-ins. If you could also have the issues attached to their financial compensation that would be good as well.

Compared to the other influencers, managerial subculture is a more implicit yet decisive factor that has been reported to impact practitioners' decisionmaking in terms of whether or not IR is a feasible option for their company. Just as one practitioner, who was a board member, put, "the keys and the clues that directors and management are gonna be responsive to come from the general culture in which they live and operate." Also as to this matter, the standpoint of a VP Sustainability is a precise case in point:

> [H]ow do you embed sustainability in the culture of the company when you're a small, non-profit generating department within the organization? You have to govern by influence, not by command and control. We were able to build sustainability into people's personal objectives and as a component of bonus. But really we want to inspire people's minds and hearts, so that they won't be driven by incentives but by a sense of responsibility. So people get momentum when you're dealing with a down cycle, when people are laid off and production is challenged.

Last but not lease, a lot of the practitioners queried the influence of adopting IR to the financial returns of the companies. They used various terms to describe profitability, yet the central theme remained the same. Below is an assortment of some of the responses:

- At the end of the day it probably comes down to the challenge how [corporate reporting] can affect the bottom line—our result. To the extent that these things or programs are becoming too costly, then that can be problematic. But by the same token, as a result of doing these things and spending the money, you have better programs in place that you ultimately source better products or have less risk and liability attached to it—it helps your bottom line. But I think the biggest issue is the concern that there're more costs than anything else and they are not translated into bottom line numbers.
- Companies make cost-benefit analysis. There's assessment that has to be made, *e.g.* what's the demand of the information, what surges the information, how the information is used by the mainstream institutional investors.
- I think it has a lot to do with scale. That's the challenge to move to integrated reporting. Because generally most people on those pages want to see financials. If you're a 10 billion dollars company and you're showing results of 4 million dollars, they're immaterial. If the sustainability results produce cost savings of 25 million dollars, then it's more material.

2.4 How Interviewees Thought about the Board's Role in Facilitating the Adoption of IR

The responses to the subject of the function of the board in the face of IR tend to vary. First, many interviewees shared a common understanding that the board's support is indispensible for the company to move towards IR. Under this heading, one practitioner from a sustainability award winning company referred to her experience in CR reporting:

> We've got a lot of attraction and interests in sustainability from senior management and the board for our sustainability report. The right level of board involvement would be necessary for our move towards integrated reporting.

A parallel reply came from a handful of other practitioners, who agreed that deciding whether to adhere to IR is mainly the management's role. However, the directors are at a decisive position in sending the supportive message and raise the dialogue to the stage. As one board member suggested:

> Sustainability is becoming more important and the dialogue around sustainability is increasingly happening. In my view, it's a good thing to have a dialogue on. It's a good thing for companies to start thinking about how they would report on it. Dialogue is very, very helpful. Anything that encourages the dialogue is good.

However, few respondents expanded their answers beyond the above-mentioned two categories and dealt with more detailed aspects of the board's role. This result partly reflects the unsatisfying fact that the knowledge regarding the board's function in the organization with respect to IR is astonishingly lacking, even among the board members themselves. In addition, from the answers of the practitioners the research finds that the majority corporate practitioners still had a mentality or process of thinking that their shareholders expect a tangible benefit for the investment. As the interviewees noted:

- [W]hen people are looking at the results of a company they look at stuffs like sales, profits, capitals and assets. The environmental results should be linked with sales, profits, capitals and assets, all those kinds of metrics. If they are to be put in the core business results section, they have to be material.

- I would say the language of the environment is not fully compatible with the retail business. For example, most retailers are always looking at what their sales, profits and inventory turnovers are. When we start talking about things like greenhouse gases, it's a very different language and very difficult to understand sometimes.
- The boards want to know what the return on investment (RI) is. It's easier to get a project approved when there's RI attached to it.

Several interviewees mentioned the importance of having a mindset change on the part of the directors. One practitioner advised, "The board should know sustainability issues can be part of your core business, so as a company you need to think about them." Resonated another practitioner, "The board should be educated into valuating sustainability data more." They both agreed that the board members should intentionally practice integrated thinking and integrated governance strategies. "It starts with getting more rigorous about ESG KPIs." Emphasized one interviewee, "the board should apply the discipline they have for financial KPIs to ESG KPIs." Another interviewee pointed to executive compensation as an incentive vehicle for the board to consider: "Unless management are compensated and incentivized to do so in some cases they won't do it voluntarily. Where that kind of decisionmaking is done, it should be recognized and rewarded".

2.5 Other Key Issues Identified by the Interviewees

2.5.1 Peer Pressure & Peer Support

A great many of the interviewees found the desire to benchmark with peer firms can be a motivation for companies to move forward in terms of corporate reporting.

- [I]f I push for something, say there's a new KPI and everybody's measuring on it I can go to the team and say, "Hey guys, everyone's measuring that." They might come to us and say, "Yes, maybe we should be looking at it too."
- In the process of reviewing what others are doing, you know, *e.g.* "How has this bank talked about that topic" or "Look, they've got this management system", a practice improvement may be generated.
- It's very typical for companies to benchmark. That's particularly typical for the mining industry. If you're gonna sell the idea of integrated reporting to the senior management, ultimately the board, one of the questions they're gonna ask is who else is doing this. Mining companies won't look at Vancity as a peer company. They look at Barrick, BHP, and Rio Tinto. The interesting dichotomy of this industry is on the one hand, it's very conservative and slow-moving in terms of technical adaptation. But on the other hand, it's moving quickly in a substantive way around sustainability ahead of many other industries. It's more forward-looking because it has a long product life cycle.

In the meantime, a couple of interviewees recognized that it is difficult to start a conversation when there lacks peer support. Just as one practitioner construed:

> The North American voice is underrepresented in IR, especially in the pilot program. In Canada we don't have many opportunities for network and peer support. Vancity's down the road. Potash's done a right job lately. But I think a lot of the players are waiting to see what the wins are, what we've gained from embedding that, how we were able to use that, etc. Also it's about having the expertise locally to help build the plan—there isn't any consultant here doing it.

2.5.2 IR as a Legal Mandate

A handful of the practitioners referred to regulation and legislation as a catalyst for broader adoption of IR. One practitioner mentioned:

> The move towards integrated reporting is pushing reporting towards being more strategic. That would be great but I don't see that's happening until it's mandated. I think that's the only way to get the information there because there's so much in the regulatory world right now for companies.

Another interviewee seconded this viewpoint: "I think it's going to take regulation to make it happen. No one's gonna step into that voluntarily. South Africa is a really good example. You have to draw a line and say everybody has to do this".

While being unconvinced of the necessity of embracing IR, one practitioner nevertheless held, "Regulatory requirements can make things happen faster. Good regulation takes a while but it's a driver." In spite of showing support for legally mandated IR, one respondent also provided reasons for her belief:

> Mandating [IR reporting] would make data more useful because if you're mandating what information needs to be reported, it's comparable from one company to another. If everyone's just reporting on what they want, on slightly different terms, I'm not sure if that's of much use to investors.

Several interviewees took a more cautious stance. "You cannot just all of a sudden have the regulators say 'We gonna do this.' It needs to be done in a consultative way, primarily through the industry associations", said one practitioner. "If you are going to mandate the inclusion of certain indicators and the discussion around the indicators, *e.g.* how they affect strategy, that's one thing. If you would mandate reporting with true integrated thinking, that's a different thing." Another practitioner echoed this sentiment, "I think they do have to provide guidance at certain levels but it also depends on what level of information you're asking for. The financial reporting standards are clear as to what they're looking for."

3. Summary of Research Findings

Although the education and employment background also has a great influence on the formation of the outlook of each corporate and non-corporate practitioner, the standpoints expressed by these practitioners during the research interviews largely reflect the situation of the business setting to which these practitioners are exposed. In order to display a convincing picture of the operating environment with respect to IR, the research draws inference using the various sentiments as a basis for argument, while it by no means intends to make judgment towards the interviewees or criticize the opinions of any practitioners.

In sum, by analytically reviewing the interview content, the research finds that the Canadian business setting in general has not adequately prepared itself for a more integrated model of corporate reporting, because knowledge, mindset and constructive preparedness, the three preconditions that necessitate IR-friendly environment, has yet to be fully shaped in the Canadian soil. The insufficiencies of prerequisite knowledge on IR, the profit-centered mentality and the constructive deficiencies have placed major Canadian companies at a less vantage point in terms of integrated management and decisionmaking.

Knowledge Preparedness The research notes that a considerable number of corporate and non-corporate practitioners, especially board members, did not have the rightful amount of knowledge on IR to position themselves appropriately in discharging responsibilities. Few board members paid enough attention and took a visionary stance towards IR. Furthermore, there was a remarkable lack of involvement on the part of the board practitioners in the oversight of reporting strategies and risk management, as the research finds. It is also unsatisfying that few practitioners had realized the gap between the Canadian practice and that of the global counterparts and acknowledged the imperative to take actions to integrate corporate reporting.

Mindset Preparedness In addition to the limited knowledge set of incumbent management and board members with respect to IR, the research also finds that practitioners got restricted by siloed thinking. As earlier mentioned in the report, the symbiosis relationship between IR and integrated thinking is in contradiction to the dichotomous thinking between corporate financial and non-financial matters, which is still quite popular among practitioners in Canada. According to the interviewees, sustainability issues were still being treated as something separated from the core business affairs. Besides, the majority corporate practitioners still had a mentality or process of thinking that their shareholders expect a tangible benefit for the investment. The primary concern of numerous practitioners thus was not on whether practicing IR would enhance long-term shareholder value, but on if practicing IR affects the interim book value of the equities.

Constructive Preparedness The ability to implement changes in corporate reporting needs to be bolstered by resources and organizational arrangements that help to secure balanced allocation of resources. However, as discovered by the research, the current expenditure practice is to concentrate resources on the financial performance of the company. In the interviews, many practitioners showed concern about the uneven distribution of resources between financial and non-financial aspects and between short-term and long-term projects in their corporations. While the problem was well recognized, the difficulty is it requires a collective effort, which has yet to take place in a lot of Canadian companies, to redress the imbalance. Internally, both the motivation mechanisms and the corporate subculture are not pro-integration. For instance, rarely did practitioners claim that their companies were measuring CR performance through KPIs or linking ESG performance targets to executive compensation. Externally, owing to the lack of peer support and peer pressure in terms of embedding sustainability aspects into the core business processes, few practitioners at the moment felt the imperative to set aside resources to support such attempts.

PART IV. LEGAL OBSTACLES

In addition to the insufficiency of knowledge, mindset and constructive preparedness, the research finds that Canadian boards of directors may face two areas of legal dilemmas associated with IR. They might get challenged legally by their business decisions on whether the company should adopt IR. Additionally, they might be held liable for misstatement of forward-looking information in the secondary market.

1. Making Business Decisions on Whether to Practice IR

Literature has confirmed that corporate disclosure must be studied as an aspect of corporate governance, because shareholders cannot exercise their governance rights without adequate and accurate information about their firms' financial condition and material business affairs.[26] It is therefore the directors' responsibilities to oversee the flow of information and to decide the appropriateness of the reporting format. In order to fulfill their fiduciary duty, corporate directors need to focus on measuring the longer-term success of the business and to make sure the business decision is in line with it.

While it is a nice thing for the discussion on IR to be brought into the boardroom, the boards of directors must be in a difficult situation to decide whether to have their company adhere to such corporate reporting approach or not. The reasons for the dilemma are obvious. On the one hand, IR as a new reporting initiative has gained a lot of momentum globally and it continues to develop at a very fast pace. The two Canadian companies that

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[26] Faith Stevelman Kahn, "Transparency and Accountability: Rethinking Corporate Fiduciary Law's Relevance to Corporate Disclosure", (1999) 34 *Georgia Law Review* 505, at 515.

have adopted IR both have gained tremendous benefits from it.[27] Moreover, more and more institutional investors are looking for integrated information.[28] If IR is tested to become a necessity rather than a trend yet the company has failed to grasp the opportunity while its competitors do, it would lose a magnificent competitive advantage and the members may be sued for breach of fiduciary duty.[29] On the other hand, embracing IR is a long-term commitment. It requires tremendous inputs in terms of resources and personnel on the part of the company. Besides, the legal impetus on IR is weak because at least in Canada, practicing IR will still be on a voluntary basis for some time. If IR fades with time and gets replaced by more mainstream reporting initiatives, a business decision of the board to adopt IR would also be harshly questioned under the breach of fiduciary duty claim.

That said, because any business decision involves risks, the decision on practicing IR is no exception. The directors are nevertheless able to argue that their decisions were made as a result of reasonable business judgment. In general, the court will not second guess or take microscopic examination if the decisions are made in good faith with no conflict of

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[27] For example, see: Kelly Freeman, "Integrated Reporting: From PotashCorp's Perspective", online: CIRI <http://publications.ciri.org/IR-Leader/2013/Volume-23/Issue-4/Guest-Column-Integrated-Reporting.aspx> Also see the IIRC's summary of Vancity, online: IIRC <http://www.theiirc.org/2013/12/09/vancity/> In addition, consolidated research has shown that firms that practice IR have a more long-term oriented investor base with fewer transient investors. See George Serafeim, "Integrated Reporting and Investor Clientele", Harvard Business School Working Paper, online: SSRN <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2378899>

[28] Investors applaud reporting companies for offering important contextual information and make investment decisions based on material ESG information. See: IIRC, *supra* note 18, at 42-46.

[29] A detailed discussion on the connection between corporate reporting and fiduciary duty see: Kahn, *supra* note 26.

interests.[30] Plus, the courts will defer to directors' reasonable business decisions so long as they are within a range of reasonable alternatives.[31] The directors are thus advised to show that they have undertaken reasonable steps to make investigation and consideration of the alternatives. In specific, in terms of IR, individual directors need to convince the court that in making the decision of adopting/ not adopting IR, they have prepared themselves with prerequisite knowledge with respect to corporate reporting and acted in good faith. Collectively, it is advisable for the boards to exhibit that they have had an open discussion with management on IR and worked closely with management to find an appropriate balance between costs and benefits associated with corporate reporting. It is also advisable to form an independent board committee to consider this issue or rely on experts to do a firm-specific evaluation for decision purpose.

2. Potential Liabilities with Forward-Looking Statement

In Canada, there are various securities regulatory compliance requirements regarding corporate reporting that must be observed by publicly-listed enterprises. Pursuant to the statutory requirements, reporting issuers have an obligation to make periodical disclosure of certain information, such as financial statements, Management's Discussion & Analysis (MD&A), and Annual Information Forms (AIF), to name a few. In addition to other negative consequences, companies as well as their directors and officers can be held liable

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[30] See: *Brant Investments Ltd, v. KeepRite Inc.* (1991), 1 B.L.R. 92d) 225, 80 D.L.R. (4th) 161 (Ont. C.A.) Stated the trial judge and supported by the Ontario Court of Appeal:

> Business decisions, honestly made, should not be subjected to microscopic examination. There should be no interference simply because a decision is unpopular with the minority.

[31] Osler & ICD, "Directors Responsibilities in Canada" (2014), online: Osler <http://www.osler.com/uploadedfiles/News_AND_Resources/Publications/Guides/Directors/Osler-DirectorsResponsibilitiesInCanada.PDF>, at 11.

in civil actions for misrepresentations in these documents. Canadian civil liability rules for secondary market disclosure in general are very stringent on the reporting issuers and their directors. Investors do not need to prove their reliance on the forward-looking information when they acquired or disposed of securities. Especially for core documents, once the misrepresentation has been made, the onerous is on the company and the directors to prove their innocence. Besides, the Canadian safe harbor rule requires the issuer to state the material factors or assumptions applied in presenting the forward-looking information, which is not required under U.S. securities law.[32]

Because an integrated report may include the pieces of information that also appear in the financial statements and MD&A, depending on the content, certain information in the report is arguably subject to continuous disclosure obligations and can incur civil liability for misrepresentations. Particularly, an integrated report may include targets, forecasts, projections, estimates and sensitivity analyses.[33] Owing to the forward-looking orientation of IR, an integrated report may expose publicly-listed companies to litigation risk of misrepresentations in forward-looking information under the secondary market and raise liability concerns of corporate directors. For instance, if the actual results of corporate performance differ materially from projections and targets articulated in an integrated report, it might open the door to claims by private litigants.

To overcome this hurdle, corporate directors are suggested to check with their legal team, to make sure the latter have carefully reviewed all parts of the integrated report that contain

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[32] See: *Securities Act,* R.S.O. 1990, c. S.5 [*OSA*], ss. 138.4(9). Also see: *ibid*, at 57.

[33] IIRC Discussion Paper, *Towards Integrated Reporting: Communicating Value in the 21st Century*, online: IIRC <http://www.discussionpaper2011.theiirc.org/wp-content/uploads/2011/DP/discussionpaper2011_print_version.pdf>, at 11.

forward-looking information and have confirmed that all the requirements of the safe harbor defense have been met. To be specific, it is advised that cautionary language is used to identify the forward-looking information as such in the integrated report. Moreover, the material factors that could cause uncertainties should be highlighted in the report and the material assumptions that have been applied in making the projection ought to be clearly explained. Additionally, the corporate directors need to demonstrate that the company has a reasonable basis for making the projection or forecast. To satisfy such condition, the board are expected to scrutinize the evidence that has been used to underpin the forward-looking information and discuss seriously with their colleagues about its reasonableness and reliability, while paying particular attention to opposite opinions.

Companies worldwide are increasingly being encouraged to place an emphasis on providing a more forward-looking orientation in their reporting.[34] In the long run, more efforts at the institutional level should be made in order to thaw the liability chill on the part of the corporate directors with respect to IR, so as to encourage broader corporate reporting. Just as Paul Druckman, CEO of the IIRC, mentioned:[35]

> More and more I see it as a world in which complexity has become an excuse for compliance-based disclosure regimes that tie businesses in legal knots rather than release them to communicate properly about their strategy, governance, performance and prospects in a clear, concise and understandable way. In some jurisdictions, the journey towards Integrated Reporting will be more challenging than others, because the regulatory environment may be less permissive in relation to

[34] PwC, *Guide to Forward-Looking Information*, online: PwC <http://www.pwc.com/gx/en/audit-services/corporate-reporting/assets/pdfs/860-global-forward-looking-guide.pdf>

[35] Paul Druckman, *The Stepping Stones towards More Forward-Looking Corporate Reporting* (August 26, 2014), online: IIRC < http://www.theiirc.org/2014/08/26/the-stepping-stones-towards-more-forward-looking-corporate-reporting>

> forward-looking information and directors will be cautious to avoid potentially costly litigation. We, as the IIRC, are doing more to encourage the crossing of these hurdles to allow for full implementation of the Framework.

PART V. CONCLUSION AND MOVING FORWARD: EMBEDDING CORPORATE NON-FINANCIAL PERFORMANCE INTO THE CORE BUSINESS PROCESSES

As earlier mentioned in this report, IR encompasses two integral components: the embedment of different corporate performance aspects into the core business processes and the integration of different reporting aspects into one report. In essence, the integrated form of corporate reporting is an exercise of reporting for the purpose of implementing integrated thinking. Ultimately, it intends to help a company focus on measuring the longer-term success of the business and it asks boards of directors to become generalists and integrators. However, the unpreparedness in terms of knowledge, mindset and resources as well as the lack of leadership buy-ins out of litigation concerns with respect to the practice of IR in the Canadian context determine that the adoption rate of IR among Canadian companies will remain low for some time to come. Therefore, in order to have more Canadian companies, not only the ones that have already adopted IR, benefited from the entire notion of integration, instead of asking more companies to practice IR and to produce an integrated report, an immediate necessity for IR advocates is to encourage companies to start implementing integrated governance processes and show them the business case of this mentality. Once people become comfortable with such kind of decisionmaking and management processes, the integrated model of corporate reporting will be just down the road.

By definition, integrated governance is "the system by which companies are directed and controlled, in which sustainability issues are integrated in a way that ensures value creation for the company and beneficial results for all stakeholders in the long term".[36] From the perspective of corporate governance, integrated governance is the governance model of an organization that ensures the management of all performance aspects in an integrated way. Integrated governance requires corporate directors to embed key non-financial issues into the core business processes and operations and it focuses on creating long-term value for all stakeholders. In this vein, establishing a few best practices can help to ensure integrated governance is in place. For instance, in the short run, companies are encouraged to develop long-term metrics to measure profitability, using both financial and non-financial components of valuation. It is advised that companies establish a board-level sustainability committee and identify action owners of non-financial performance targets. For the identification to be truly effective, they need to link non-financial performance targets to executive remuneration. In the long run, Canadian companies need to be better prepared in terms of knowledge, mindset and resources to practice IR and to make sure the governance framework in the company is fully in line with IR. In sum, this report recommends the adoption of a more integrated corporate governance approach whether or not a firm chooses to practice IR for the time being.

The research was conducted between September to December 2013 and between May and August 2014. Since I started doing this research in September 2013, exponential changes have occurred in the corporate reporting area globally. For instance, IIRC released the International <IR> Framework in December 2013 following extensive consultation. In April 2014, the EU Parliament adopted the Directive on disclosure of non-financial and

[36] UNEP-FI, *Integrated Governance: A New Model of Governance for Sustainability* (2014), online: UNEP-FI <http://www.unepfi.org/fileadmin/publications/investment/UNEPFI_IntegratedGovernance.pdf>, at 6.

diversity information by large companies with more than five hundred employees. The EU Council further approved the Directive in September 2014, asking member States to transpose the Directive into national legislation within two years. In Canada, the Toronto Stock Exchange (TSX) paired with Chartered Professional Accountants (CPA) of Canada jointly released a publication titled *A Primer for Environmental and Social Disclosure* in March 2014, providing a high level overview on the disclosure of corporate non-financial matters. These areas of development provide solid reasons for us to believe integrated corporate reporting will continue to grow and glow. However, because of these changes, the interview data I collected for this research may not be able to reflect the most current picture of IR.