



A global mission

Former politician Richard Howitt took over as Chief Executive of the International Integrated Reporting Council in November 2016. *Sally Percy* meets him and finds a man who is passionate about improving the current system of corporate reporting.

Richard Howitt, the new CEO of the International Integrated Reporting Council (IIRC), may be based in a bright, airy London office, but he is expecting to travel – a lot. His predecessor, Paul Druckman, spent up to 60% of his time traveling and Howitt anticipates that his schedule will be equally busy. In fact, he will have visited several European countries, as well as Brazil, India, Malaysia, Singapore and the US, by the end of his first six months.

“I want to send a strong message that this is a global movement and that the IIRC is relentlessly international in its approach,” Howitt explains.

“I’m used to working with different countries, languages and legal systems, so I’m going to bring all that knowledge and commitment to the way I work here at the IIRC.”

The “movement” Howitt is referring to is integrated reporting (IR), a forward-looking approach to corporate reporting whereby companies focus on how they are creating real value for their stakeholders over the short, medium and long term instead of treating reporting as a short-term compliance exercise – which is how many businesses view corporate reporting today.

With IR, organizations explain how they interact with six “capitals”, i.e., financial, manufactured, intellectual, human, social and relationship, and natural (see panel, p4). So, as well as reporting on financial information, such as return on equity and earnings per share, they may also disclose information on a wide range of other areas that are relevant to their business, such as customer satisfaction, investment in equipment, technology patents, employee engagement, female representation in senior positions, partnerships with external organizations and carbon dioxide (CO₂) emissions.

At the heart of the concept is the belief that reporting in an integrated way will counteract the short-termism among businesses, investors and the capital markets that provoked the damaging financial crisis of 2008-09.

CHANGING REPORTING FOR THE BETTER

“The roots of the financial crisis lay in a lack of integrated thinking, a failure to think in the long term,” Howitt argues. “Those who got into trouble thought they could reap all the benefits and simply pass the risk on to someone else. They didn’t analyze how that risk might come back to haunt them and they didn’t think outside the narrow confines of their short-term, quarterly financial business model.”

In the immediate aftermath of the crisis, he continues, “we were trapped in narrow short-termism that blotted out the necessary debates about the long term,” as politicians and regulators enacted a flood of new regulations designed to increase transparency quickly.

Over the past few years, the debate has started to center on the long term again – something the IIRC has helped to promote through its involvement with initiatives that promote long-term investment strategies, such as Focusing Capital on the Long Term and the Coalition for Inclusive Capitalism.

A POLITICAL PEDIGREE

The IIRC itself is a coalition of businesses, investors, nongovernment organizations, accountancy bodies, regulators and standard setters. Howitt officially began working for the organization in November 2016, but his involvement with it stretches back to 2010, the year the IIRC was founded. At the time, he was the Labour Member of the European Parliament (MEP) for the East of England, having been first

elected in 1994, and the European Parliament’s rapporteur on corporate social responsibility (the person tasked with reporting back to the main Parliament on what was being done in that area). He had also connected with individuals trying to effect change in corporate reporting through his work as an ambassador for HRH The Prince of Wales’s Accounting for Sustainability Project, which was launched in 2004 to help embed sustainability within organizations.

“I already knew Paul Druckman, who became the IIRC’s first Chief Executive,” Howitt recalls. “He was the Chair of the Sustainability Committee of the Federation of European Accountants and we had traveled on the Eurostar together many times and discussed the case for integrated reporting.”

At Druckman’s request, Howitt agreed to become a voluntary ambassador for the IIRC. He attended meetings with the companies that piloted the first integrated reports and represented the IIRC at several international meetings. In 2013, he was at the London launch of the International Integrated Reporting Framework – part of an event that took place in 13 time zones within a 24-hour period.

In his day job as an MEP, Howitt also played a lead role in shaping the 2014 EU Non-Financial

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Reporting Directive, which came into force on 1 January 2017 and requires large companies to report on the social, environmental and human rights impact of their activities.

“If I die today, they can put the directive on my gravestone because I’m so proud of it,” says Howitt with a broad smile. “I proposed it, I helped negotiate it and I talked a lot with Paul about it. I believe it is a very important stepping stone toward integrated reporting. It’s aimed at large companies alone, many of which welcome it, and it’s not about burden. It’s about taking existing frameworks and applying them more efficiently.”

As a close confidante of Druckman and a supporter of the IIRC, Howitt admits that he was

RICHARD HOWITT: CV IN BRIEF

- ▶ Graduates from the University of Oxford in the UK with a degree in politics, philosophy and economics in 1982.
- ▶ After university, works as a coordinator for the Harlow Council for Voluntary Service for four years and for the Waltham Forest Disability Resource Centre for eight years.
- ▶ From 1983 until 1995, serves as a Labour councillor on Harlow District Council in Essex, acting as leader of the council for three years.
- ▶ Is elected as an MEP in 1994, first serving the Essex South constituency and then the East of England. He serves as rapporteur on corporate reporting-related issues, including social responsibility, and is an architect of the 2014 EU Non-Financial Reporting Directive.
- ▶ As lead MEP on corporate responsibility, represents the EU on many missions worldwide, traveling extensively in Asia, Africa and the Americas. Also represents European interests in numerous international initiatives, including the UN Business and Human Rights Forum on Responsible Business Conduct.
- ▶ Alongside his work as an MEP, acts as a voluntary IIRC Ambassador, promoting integrated reporting within the policy and business communities.
- ▶ In September 2016, announces his resignation from the European Parliament to become Chief Executive of the IIRC.



surprised when he learned that Druckman was standing down. Although the IIRC subsequently asked Howitt to apply for the CEO job, he insists that “they didn’t just give the job to me. They had a very strong short list and I feel I’ve got the job on my merits. It really is the only job I could have considered leaving my past career for. The IIRC has such an exciting and important mission.”

THE TASK AHEAD

Surveying the task ahead of him, Howitt believes that, while much progress has been made with IR, there is still a long way to go until the IIRC achieves its aim of making it the global norm. “We’re trying to change a global practice. That’s incredibly ambitious, but it’s right. It’s about improving and reforming the existing system of reporting so that it is more streamlined, and reducing cost and burden, while making it more material and more meaningful to the business and its strategy.”

He continues: “Half of the benefit of integrated reporting is integrated thinking – getting connectivity within the company, bringing people and their perspectives together in a way that hasn’t been done before, and getting the company thinking about and understanding how it interacts with all six capitals that it affects.”

At present, IR is in what the IIRC describes as the “Breakthrough Phase” – the early adoption of IR by reporting organizations around the world. “We’re still raising awareness about integrated reporting, and getting exemplars and champions to adopt it and send messages about its importance,” says Howitt. “We hope that, in a year or so, the breakthrough will have happened and we can move toward attaining global adoption.”

According to the IIRC, around 1,500 companies are already using or referencing IR, including giant US conglomerate General Electric, which produced its first integrated report in 2016. The 40 biggest French companies, the CAC 40, are looking at producing integrated reports within the next three years, according to Howitt, and many of the world’s leading investors are clamoring for more businesses to follow suit.

“Japan and South Africa are probably the leading examples in the world for adopting integrated reports at the moment,” says Howitt. For example, in Japan, the Department for Business has a laboratory for integrated reporting and more than 300 Japanese companies are already producing integrated reports.

The international dimension is critical, which explains why Howitt is traveling so much in his first few months in the job and why he’s busy meeting C-suite executives and leaders of the accountancy and investment communities. “It’s important for me that businesses, investors

The six capitals

At the heart of the IR framework is the concept of the six capitals that a business uses to create value over time. Reporting on these capitals provides greater context for performance data and may help businesses make decisions for the long term.

The capitals are:

- ▶ **Financial capital** – the pool of funds that is:
 - available to an organization for use in the production of goods or the provision of services
 - obtained through financing, such as debt, equity or grants, or generated through operations or investments
- ▶ **Manufactured capital** – manufactured physical objects (as distinct from natural ones) that are available to an organization for use in the production of goods or the provision of services
- ▶ **Intellectual capital** – organizational, knowledge-based intangibles, including:
 - intellectual property, such as patents, copyrights, software, rights and licenses
 - “organizational capital”, such as tacit knowledge, systems, procedures and protocols
- ▶ **Human capital** – people’s competencies, capabilities and experience, and their motivations to innovate
- ▶ **Social and relationship capital** – the institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being
- ▶ **Natural capital** – all renewable and nonrenewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization

and financial market actors know who I am and hear the energy, drive and enthusiasm from me directly,” he says.

While Howitt does not believe there is a single main barrier to the global adoption of IR, he does point out that there are “conflicting pressures in the world of business. We have to get enough space and visibility to make sure people really address the issue,” he says. “So, we have to demonstrate the growing body of evidence, which now exists, that this is financially beneficial to businesses in the long term. There is a strong business case for this. We need that case to be read, understood and



believed by key opinion-formers in business and in capital markets. We also want more regulatory endorsement.”

Another issue is potential confusion within the market as a result of similar initiatives, such as the EU’s Non-Financial Reporting

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Directive and the Task Force on Climate-related Financial Disclosures set up by the Financial Stability Board (FSB), which announced its recommendations in December 2016. These call for organizations to make disclosures around the climate-related risks and opportunities their businesses face, as well as their processes for identifying, assessing and managing such risks.

The IIRC was consulted on the recommendations and Howitt describes the FSB Task Force as critically important – “not because it’s about a different methodology, but because it’s getting the world to talk, at the highest level, under a G20 framework, about material risk to the financial markets. Many of us, as individual citizens, are worried about climate change for ourselves, our

children and our grandchildren, and many of us want the world to be more sustainable.”

LASTING LEGACY

Howitt’s passion for IR is clearly deep-seated and genuine. It is also consistent with his personal values, which have held firm since his pre-politics days when he worked in the charity sector, first with a community organization and later with the Waltham Forest Disability Resource Centre in east London. “If you change your role, you don’t change your beliefs,” he says. “I will always care about how disabled people are treated.”

It was during his time with the disability charity that he began to work with organizations in other countries, an experience that led to his career in international politics. “It instilled in me the benefits of international cooperation, exchange, learning and working across boundaries,” he says. “The way we are going to create a better world is by cooperation and working together, whether that’s in Europe or internationally.”

Howitt says his ultimate goal is to leave the IIRC “knowing that integrated reporting is the global norm,” and there’s no reason to doubt his commitment to his objective. “I’ve never taken up a cause or an idea without believing in it,” he says. “This is not a game of politics. What we are doing here is deeply serious.” ■

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