

Inspiring global alignment through value creation The IIRC's Global Conference 2019

The road to multicapitals



Bill Baue
Senior Director
Reporting 3.0



Keith Ambachtsheer
President
KPA Advisory Services



Tim Hodgson
Head of Thinking Ahead Group
Willis Towers Watson



Helen Slinger
Executive Director
Accounting for Sustainability (A4S)

The Road to (from) Multicapitals: Macro Level Multicapitalism in IIRC/Reporting 3.0 Project

Bill Baue | Senior Director | Reporting 3.0

IIRC / r3.0 Monocapitalism to Multicapitalism Project

Richard Howitt announced partnership at 2018 Reporting 3.0 Conference at KPMG in Amsterdam

- White Paper for release in Q4 2019
- Review Board includes Mark Gough (Capitals Coalition), Fiona Reynolds (PRI), Jeremy Nichols (Social Value International), Eva Zabey (WBCSD), and others.



<https://blogs.thomsonreuters.com/sustainability/2018/06/07/executive-perspective-from-monocapitalism-to-multicapitalism-21st-century-system-value-creation/>

Two Key Points on IIRC / Reporting 3.0 Multicapitalism Project:

EXECUTIVE PERSPECTIVE: From Monocapitalism to
Multicapitalism: 21st Century System Value Creation

- **The Carrying Capacities of the Capitals**
- **Multicapitalism at Nano, Micro, Meso & Macro Levels –
Macro Level Example: EY 4th Industrial Revolution Study**

Share



Written by

Richard Howitt, Ralph Thurn

7 June 2018

"The rise of new business models (including the service industries becoming the principal value-
understand the value of intangibles"

Point One: The Carrying Capacities of the Capitals

Plimsoll Line = Carrying Capacity

Plimsoll
Line

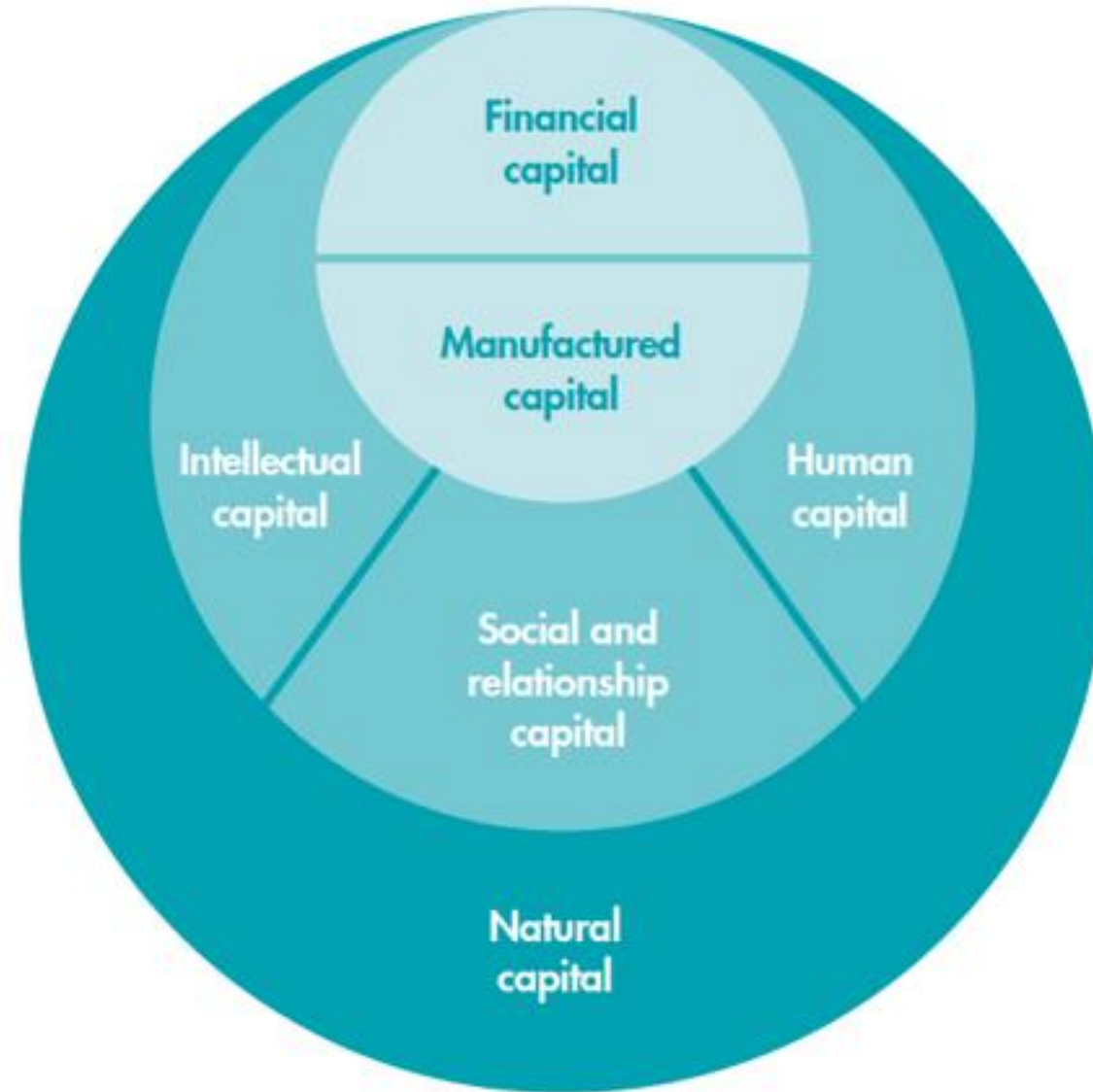


Capitals: <IR> Definition (Stocks & Flows)

“The capitals are **stocks of value** that are increased, decreased or transformed through the activities and outputs of the organization.”

“The overall stock of capitals is not fixed over time. There is a **constant flow** between and within the capitals as they are increased, decreased or transformed.”





Carrying Capacity? Nope

“Significant factors affecting the external environment include aspects of the legal, commercial, social, environmental, and political context that affect the organization’s ability to create value in the short, medium, or long term. They can affect the organization directly or indirectly (e.g., by influencing the **availability, quality and affordability** of a capital that the organization uses or affects.)”

“These factors occur in the context of the particular organization, in the context of its industry or region, and in the wider social or planetary context. They may include, for example:

... environmental challenges, such as climate change, the loss of ecosystems, and resources shortages as **planetary limits** are approached.”

THE INTERNATIONAL
<IR> FRAMEWORK



INTEGRATED REPORTING <IR>

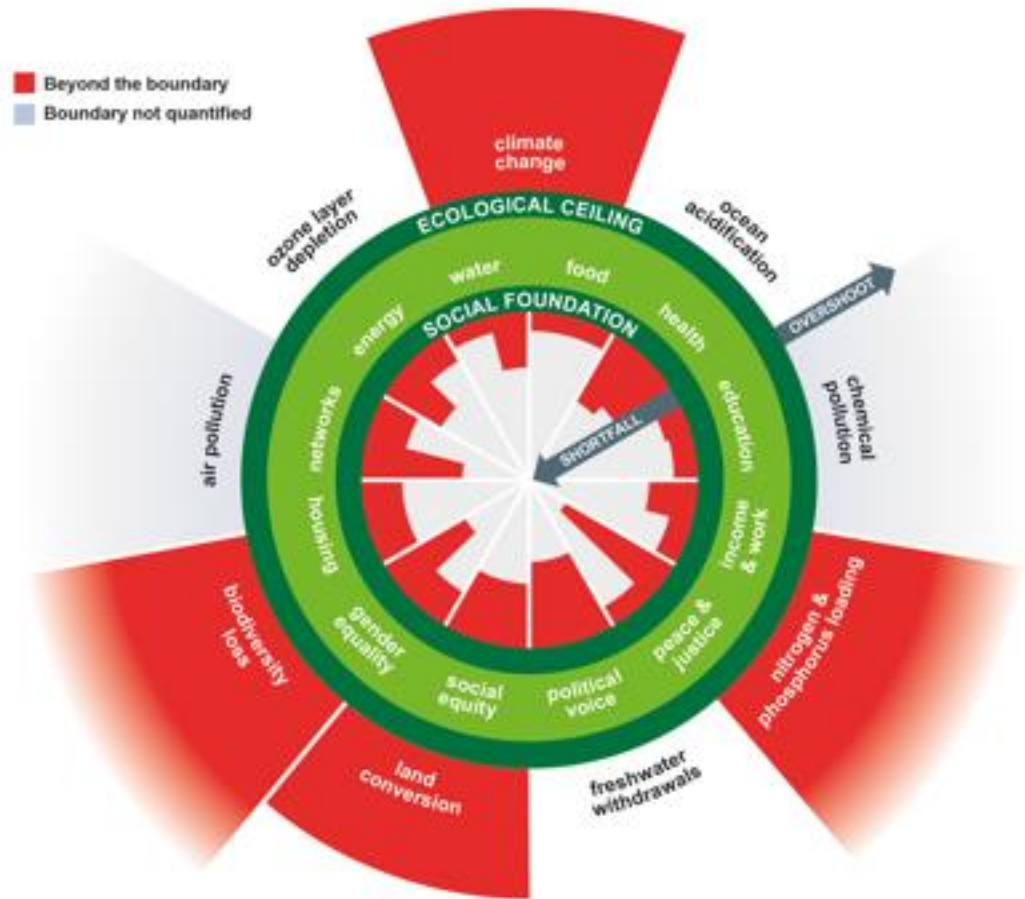
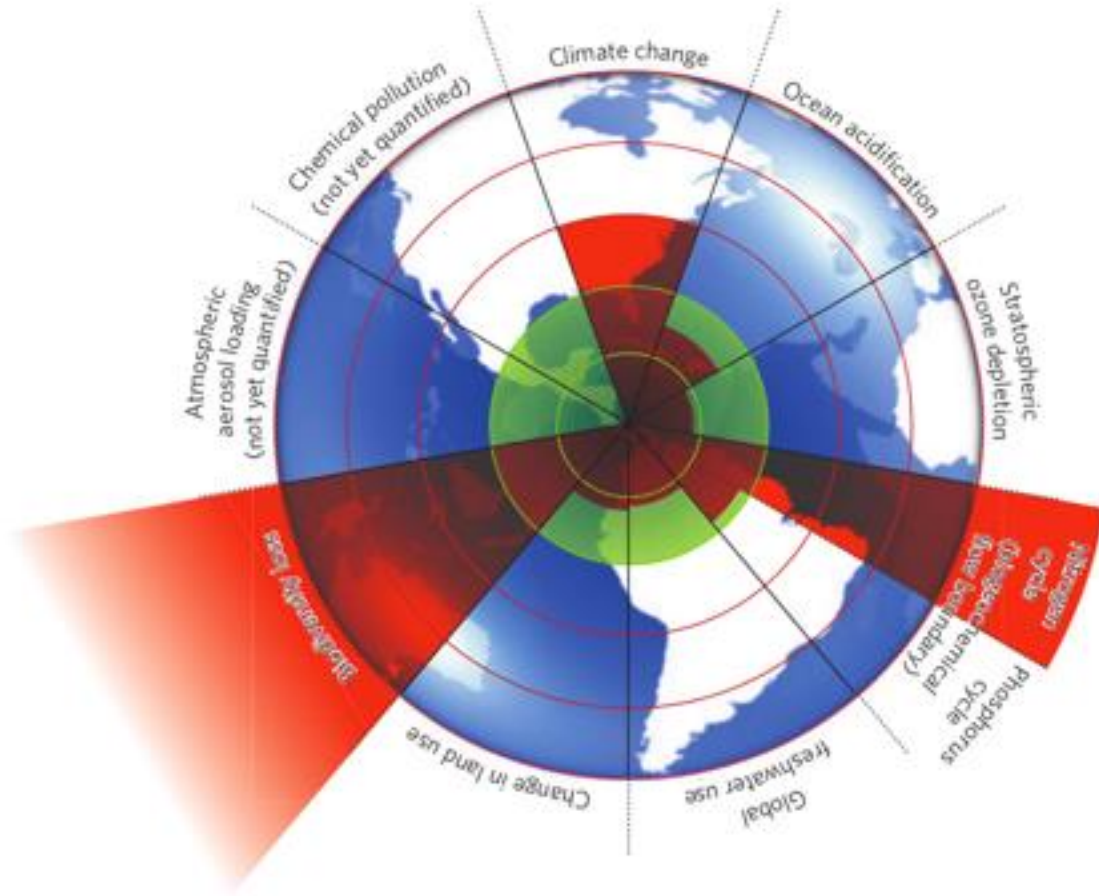
Paragraph 58

Ultimately value is to be interpreted by reference to **thresholds** and parameters established through stakeholder engagement and evidence about the **carrying capacity** and limits of resources on which stakeholders and companies rely for wellbeing and profit, as well as evidence about societal expectations. Interconnections between corporate activity, society and the environment and the purpose of the corporation should therefore be understood in terms of what the corporation, society and the environment can tolerate and still survive – that will be the main determinant of value. **The challenges will be to reach agreement at corporate, national and international level on what those thresholds and limits are, how the resources within those limits should be allocated, and what action is needed to keep activity within those limits so that value can continue to be created over time.**



VALUE CREATION
BACKGROUND PAPER

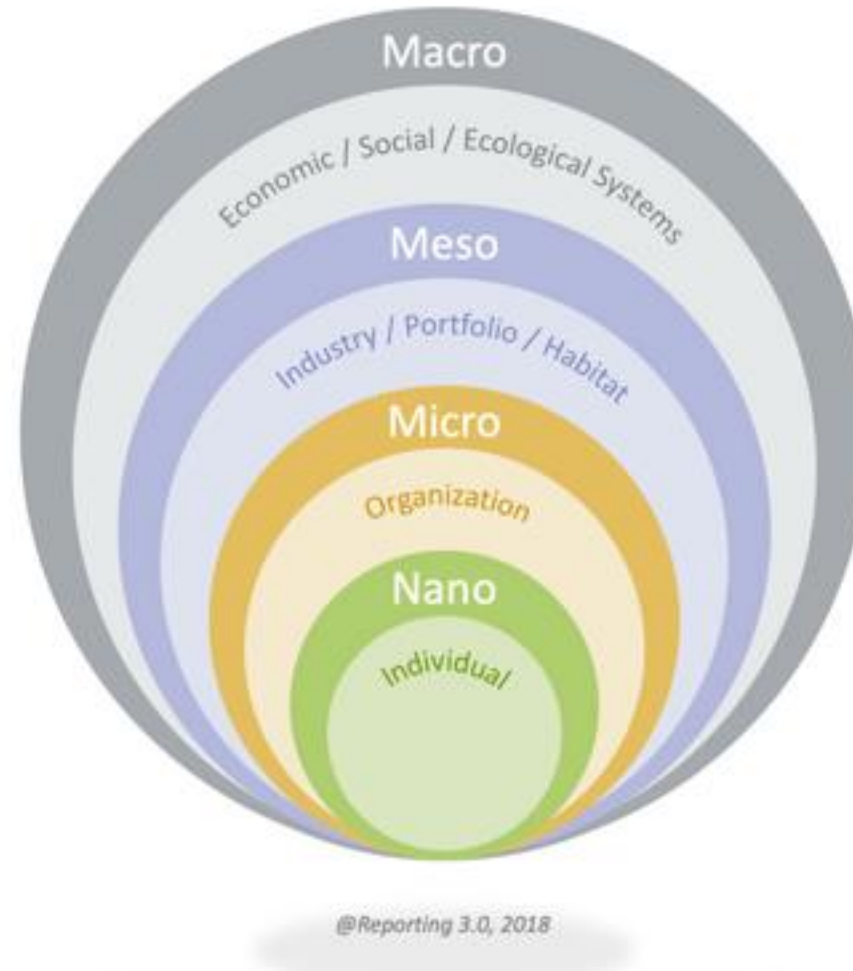
Planetary Boundaries; Social Foundations



Point Two:
Multicapitalism at Nano, Micro, Meso &
Macro Levels
Macro Level Example: EY 4th Industrial
Revolution Study

Four Scale Multicapital Thinking

Micro (Enterprise):
Corporate <IR>



Meso (Portfolio):
Asset Owner <IR>

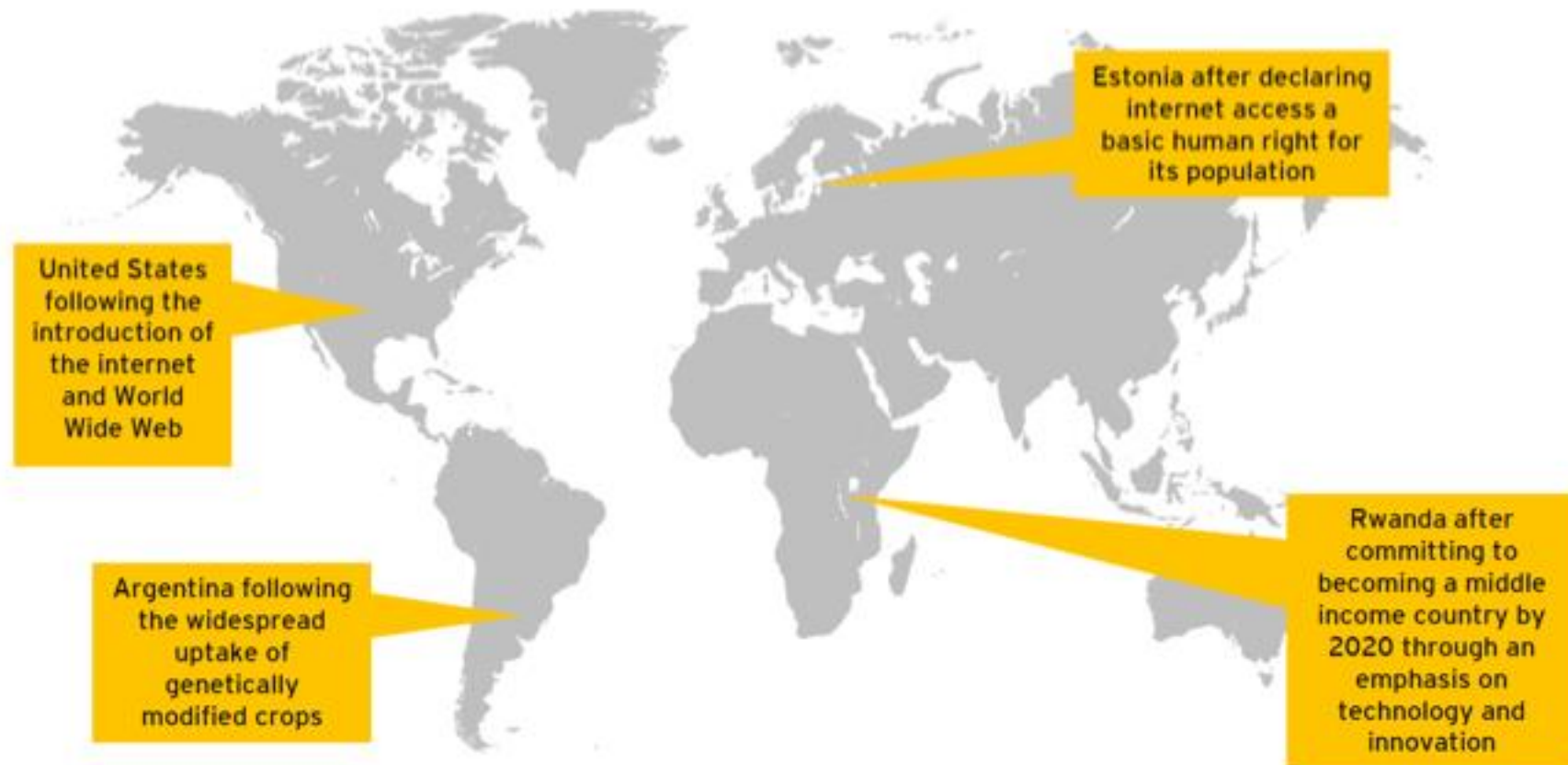
Macro (Systems): National
Economy Multicapital
Assessment

EY Study on “4th Industrial Revolution” Impacts at Country Level

Employed MultiCapital Scorecard, a tool pioneered by the Center for Sustainable Organizations that applies carrying capacities of the capitals, to assess how four national economies responded to 4th Industrial Revolution developments.

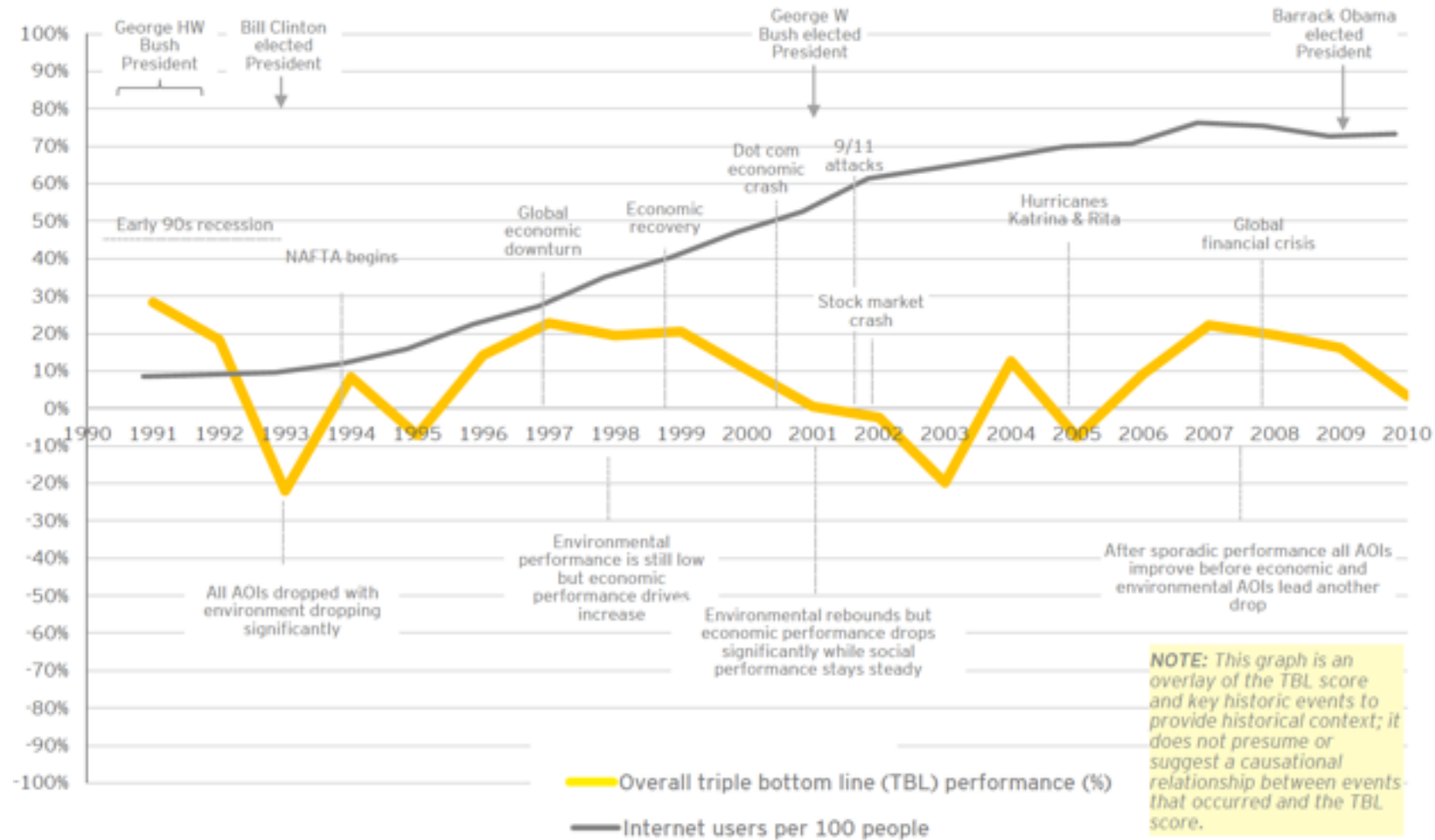
Case Study Application of the MultiCapital Scorecard

Four historical, national-scale case studies were selected to test the Scorecard with real data. The cases were selected to embody large-scale technological innovations/policy initiatives that had the potential to affect wide-spread social and economic change across a country, similar to the impacts the 4IR may have in the future. The four cases spanned countries of different sizes and varying social, economic, environmental and political contexts. These included:



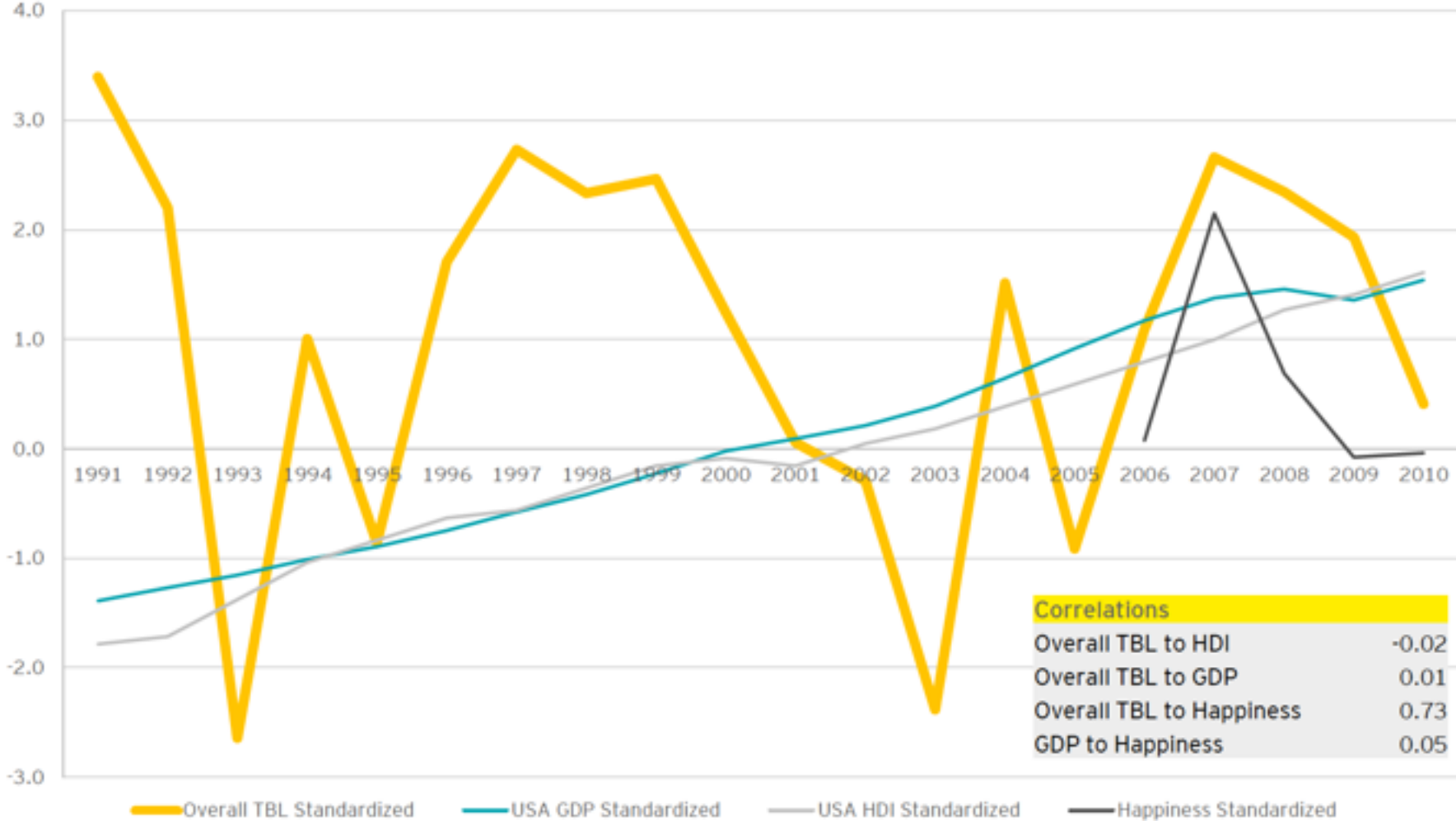
AOIs	Original emblematic metrics	Final emblematic metrics
Health	Life Expectancy	Life expectancy
Social/Culture	Leisure Time	1. % of urban population with access to improved sanitation facilities 2. % of individuals using the internet 3. % of women in wage employment in the nonagricultural sector
Business Productivity	Labor Productivity	GDP per capita
Jobs	Unemployment Rate	Unemployment Rate
Environment	GHG Emissions	GHG Emissions
Equality	Gini co-efficient	Gini co-efficient
Freedom & Transparency	Voice & Accountability	Voice & Accountability
Governance	Democratization	No sufficient proxies available
Privacy	Privacy Infringement	No sufficient proxies available
Security/Crime	Data Security	Intentional homicides

United States of America (U.S.)- Multi-year analysis



U.S. overall TBL performance and commonly used indices

NOTE: Graph shows standardized data to allow for comparison of trends; actual scales vary for each data set.



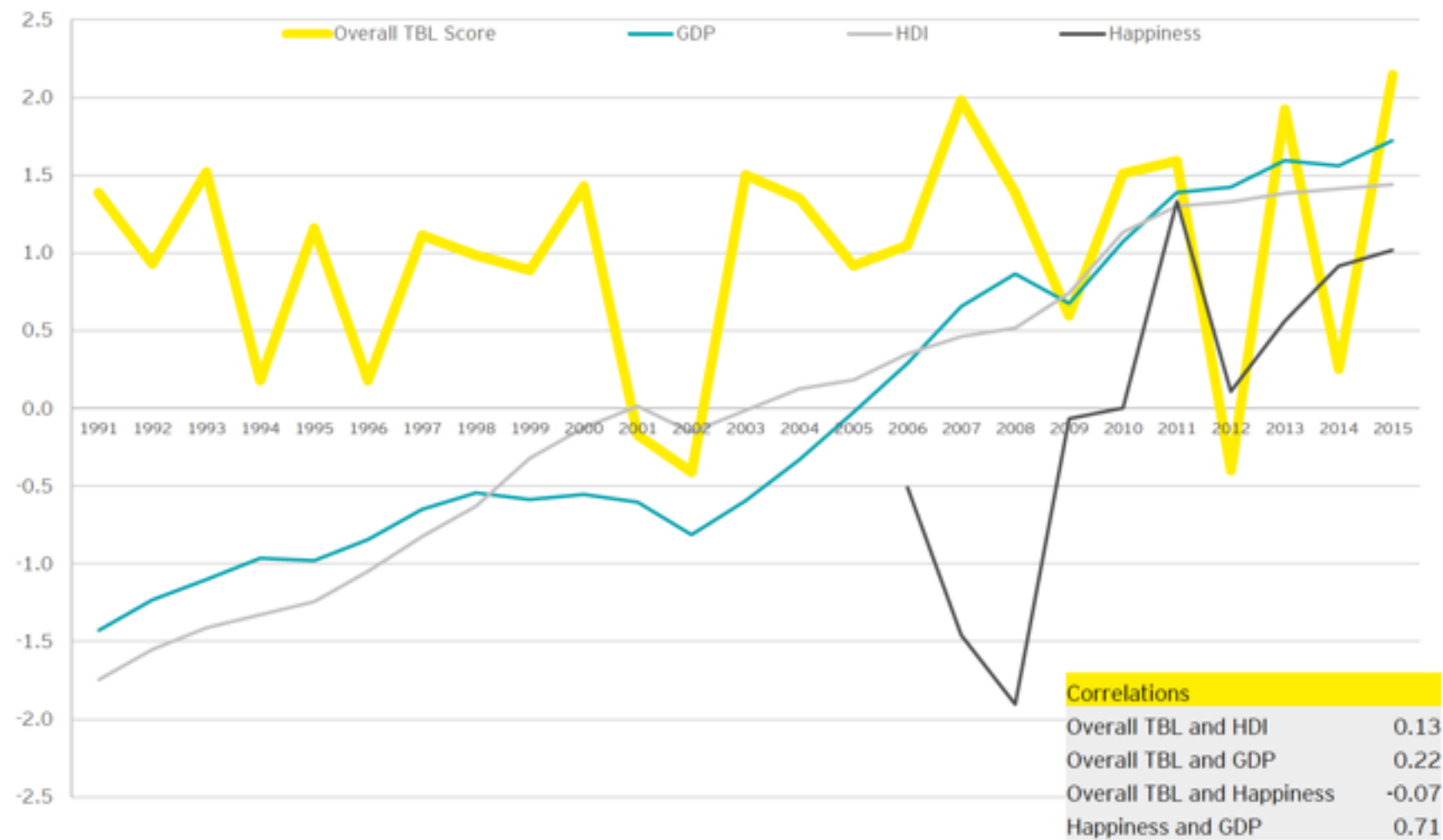
Argentina - Multi-year analysis



NOTE: This graph is an overlay of the TBL score and key historic events to provide historical context; it does not presume or suggest a causal relationship between events that occurred and the TBL score.

Argentina Overall TBL performance and commonly used indices

NOTE: Graph shows standardized data to allow for comparison of trends; actual scales vary for each data set.





The Treasury's Living Standards Framework

To help us achieve our vision of working towards higher living standards for New Zealanders, we developed the Living Standards Framework. Our Living Standards Framework provides us with a shared understanding of what helps achieve higher living standards to support intergenerational wellbeing.



Thank You!

- Bill Baue
- Senior Director
- Reporting 3.0
- b.baue@reporting3.org
- +1 413 387 5824



Fostering Sustainable Asset Owner Organizations: How The *Integrated Reporting Framework* Can Help

- Keith Ambachtsheer
- President, KPA Advisory Services
- Director Emeritus, International Centre for Pension Management
- Rotman School of Management, University of Toronto

Why is 'Fostering' Needed?

Most Asset Owner Annual Reports lack compelling 'value-creation' narratives

ESG considerations need to be integrated into Asset Owner business models

Material gaps between stated beliefs and acting on them need to be closed

Use The <IR> Framework As A Change Catalyst

*“**Integrated thinking** takes into account the connectivity and interdependence between a range of factors that affect an organization’s ability to create value over time. **Integrated Reporting** improves the quality of information available to stakeholders, promotes a more cohesive and efficient approach to reporting, and enhances accountability and stewardship for the broad base of capitals used by the organization.”*

The International Integrated Reporting Council (IIRC)

Use The <IR> Framework As A Change Catalyst (continued)

The 'Value-Creation' story in a six-part narrative:

1. Organizational overview, capitals, and value-creation
2. Governance
3. Business Model
4. Performance
5. Risks and Opportunities
6. Strategy, Resource Allocation, and Outlook

Peter Drucker's 'Wagon Train' Theory

'Lead Wagons' played a critical role in getting wagon trains safely across the prairies

Study 'Lead Wagon' practices and teach them to the "Follow Wagons"

Keith's adaptation: Study the 'value creation' narratives 'Lead' Asset Owners and teach the 'Follow' Asset Owners to adopt them

The Case Of The *Construction And Building Unions Superannuation Fund (Cbus Super)*

Organizational Overview: Australian industry fund, 778K members, 136K employers, \$47B assets

Four expressed stakeholder needs/wants:

1. Having enough income in retirement
2. Looking out for our interests
3. Investing responsibly and sustainably
4. Managing Cbus Super as a strong, reliable, innovative organization

Creating value: directly for our members and employers in 4 ways. A 5th way is through consciously supporting the UN's 17 Sustainable Development Goals (SDGs)

The Case Of *CBUS Super* (continued)

Governance:

Board selection and evaluation processes, composition/characteristics, tenure, compensation, oversight responsibilities for strategy, culture, investing, and communicating through the *<IR> Framework*.

The Case Of *CBUS Super* (continued)

Business Model: two components 1. Member/employer services and 2. Investing.

Investment Model Focus: LT wealth creation within risk budgets net of costs.

Key Investment Model Elements: assessing the LT sustainability of cash-flows (including macro and micro risk-modeling), total portfolio perspective, active ownership (voting, engagement), move to insourcing, active use of external peer and expert networks.

The Case Of *CBUS Super* (continued)

Performance - Member/Employer Services: Member satisfaction score of 86%. Employer satisfaction score of 92%. List of specific accomplishments vs. goals.

Performance - Investing: Above benchmark ST and LT net investment returns in both absolute and relative terms. UN SDG contributions – gender balance, working conditions, carbon emissions disclosure (eg., equity fund carbon footprint below benchmark, real estate fund GRESB score above benchmark), renewable energy investing, partnering with like-minded investors around the world.

The Case Of *CBUS Super* (continued)

Risks and Opportunities: three external: 1. Financial markets (including environmental), 2. Information security, 3. Legislation/regulation, and three internal: 1. Governance, 2. People/talent, and 3. Culture.

Strategy, Resource Allocation, Outlook: focus will be on strategies to increase member and employer engagement and on continuing to produce strong investment results. The investment goal will be achieved by enhancing our investment/risk modeling/management capabilities, shifting more assets to internal management, and reducing investment costs.

Finding 'Lead Wagon' Asset Owners....

Early Responses

"I've asked my staff to look into the <IR> Framework....I want to learn more about it"

"A nice reporting framework for asset owners....and for asset managers too...."

"Great idea, the concepts of integration and story-telling are super important to us...."

"We would be forced to address our strategic challenges if we adopted the <IR> Framework...."

Finding 'Lead Wagon' Asset Owners....

Early Responses (continued)

"Use of the <IR> Framework would create greater asset owner comparability across organizations and across time...."

"The <IR> initiative is sound and asset owners need to lead if we are going to hold our investee corporations to this standard...."

"I am on board to implement what you propose....but will need to bring my colleagues with me...."

"We will be devoting considerable resources to restructuring our 2019 AR based on the <IR> Framework"