

The following is Jane Diplock's **keynote address** at a NZ Treasury initiated panel discussion partnered by CA ANZ. The discussion took place on 19th July 2018 in Auckland.

The event was webcast. A recording is available at <https://connect.charteredaccountantsanz.com/pgxzy5hesbtp/> [Jane's speech begins at 7:30 – with much improved sound!]

Jane's thought provoking speech is of some importance to chartered accountants in both New Zealand and Australia. It alerts them to significant global and local happenings in the reporting sphere and alerts them to emerging requirements and opportunities.



Keynote: Jane Diplock

Jane was the Chairman of the governing board, the Executive Committee, of the International Organisation of Securities Commissions (IOSCO) until April 2011. She was first elected in 2004 and re-elected for a fourth term in June 2010. Jane was appointed Chairman of the New Zealand Securities Commission in 2001, and reappointed in 2006 for a further five-year term, until 2011.

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Holistic or Integrated Thinking: Thinking for the 21st century

Ladies and gentlemen,

I'd like to start by thanking the Treasury and the Institute of Chartered Accountants Australia and New Zealand for the invitation to speak to you this evening.

It is a great pleasure to have the opportunity to express some thoughts on holistic and integrated thinking.

Tonight I hope to draw together, through the lens of integrated thinking, some optimistic concepts and developments which at first glance might seem somewhat unrelated.

I will discuss the recently launched Wellbeing Investment Statement, by the New Zealand Treasury, the development of the Integrated Reporting movement globally and the UN Sustainable Development Goals. In my opinion they are all the product of integrated or holistic thinking; the kind of thinking which is essential for the 21st century.

I will also touch on subjects close to the hearts of many accountants: measurement and judgements.

So what is holistic thinking? Holistic thinking involves understanding a system by making sense of its large-scale patterns and reacting to them. It suggests that the whole is greater than the parts that the interaction between the parts adds up to something more than the mere sum of them. This has been applied in ecology, language, mental states and many other disciplines.

It is now being applied at a government policy level, in corporate analysis, through integrated thinking and reporting, and is increasingly being applied in communities and to individual actions on sustainability and in addressing climate change.

But before I head into the flight of optimism these concepts and their implementation suggest, permit me to sound a slightly different note.

We live in interesting times.

We are constantly assailed through the media, traditional mainstream or social, with powerfully disturbing images, the bodies of desperate refugees washed up on the Mediterranean shore, we hear the clink of padlocks on cages holding children separated from their mothers, reports of disrupted electoral processes, or frightening warnings of existential threats of climate change or nuclear war.

For many people globally, the technological revolution and the mass migration of people, hold fears of loss of jobs and social dislocation, fears of societal change over which they have little control and loss of living standards.

At the same time it is extremely challenging to know what to believe. The rise of disinformation, and “fake news” means the credibility of news itself is under threat. This confusion has led to essential concerns about truth and believability. It leads to reliance on social and traditional media echo chambers of those with similar views.

It is perhaps no wonder then that a deep lack of trust is sweeping much of the world.

The Edelman Trust Barometer, a global research tool which has been measuring trust over the past 18 years, in 28 markets around the world indicates that business, government, media and NGOs are all continuing to suffer from lack of trust.

They note that the loss of confidence in information channels and sources is the fourth wave of loss of trust. The moorings of institutions have already been dangerously undermined by three previous waves, fear of job losses due to globalisation and automation; the Great Recession which created a crisis of confidence in traditional authority figures while undermining the middle class, and the effects of massive global migration.

In this 4th wave, we have a world without common facts and objective truth weakening trust even as the global economy recovers.

No institution, government, business, NGO or media platform has recovered trust from the low points of 2017. In 20 out of the 28 countries surveyed this year average trust in institutions is less than 50%.

The Global Trust Index remains at a “distruster” level. While New Zealand wasn’t tested, Australia was. The report showed a further 10% loss of trust over 2017 numbers, bordering countries with “extreme” loss of trust, Colombia, India, South Africa, Brazil and Italy with the US coming in last in the survey with a massive 37% loss of trust.

This loss of trust in institutions is dangerous to democracy, capitalism and our western value system. It enables those who would undermine these values and economic drivers which have lifted millions of people out of poverty over the past 50 years, free rein to corrupt the truth, push wild conspiracy theories and disrupt democratic processes for their own ends. It may even as Madeleine Albright has suggested in her latest book “Fascism: A Warning”, lead to the reemergence of fascism.

So enough of gloom and doom. What can be done about it?

Fortunately a number of thinkers around the world have started on a journey which will hopefully work towards restoring some trust in our important institutions. Through transparency and clarity in communication and an holistic, honest look at our activities and progress and value added by those activities; including that relating to our cities, and countryside, oceans and rivers, our social and community wellbeing, hopefully people can be persuaded to restore the some of the trust which has been so degraded recently.

Let's start with the development and use of the Living Standards Framework by the New Zealand Treasury. and the production of a Wellbeing Investment Statement this year. Organisations such as the OECD and the IMF have been encouraging governments to take a broader view of what constitutes a successful economy.

New Zealand has actually done it.

As Treasury Secretary Gabriel Makhlouf said recently the ambition is to integrate a broader concept of economics and value into the everyday work of public policy.

The four capitals used in this Framework, natural, human, social and financial/physical are those most material to the government's role.

They are the stocks, in his words, that combine to generate flows of wellbeing.

As he points out human capital should not be viewed in isolation from the other capitals; all intersect and affect each other. In other words, they are integrated and should be thought of holistically.

The use and understanding of social capital is vital to restoring trust.

As he points out trust in institutions underpins the other building blocks of social capital by facilitating the development of pro-social norms and values and collaboration between citizens, and society benefits as whole from this.

There are many other indicators but underpinning them all lies trust.

It is a great accolade to New Zealand that this year the budget focusses not only on GDP but also on wellbeing. I believe it is a world first.

For the Treasury, this is the beginning of a journey. There will undoubtedly be refinements as further work is done. But what a great start!

This is a vitally important journey to help restore and maintain the trust of New Zealanders in the role of government and the many institutions that are owned by the government in this country.

A similar journey into thinking in a more holistic or integrated way has been undertaken by a number of corporate and public sector entities both here and overseas.

It has been manifested in the Integrated Reporting movement, which is as much about integrated thinking as it is about reporting.

This movement started in 2010 when global thought leaders and business leaders met in London at HSBC at a meeting convened by Judge Mervyn King of South Africa and the Prince of Wales' Trust Accounting for Sustainability. Also in attendance were the global leaders of the 5 major accounting firms who gave their support to the venture. I had the honour to also be invited.

Here it was decided to form The International Integrated Reporting Council (IIRC).

This has led to a global movement of companies and public sector entities realising that in order to secure and maintain the trust of their shareholders, and other stakeholders, far greater relevant transparency was needed than that required under IFRS or US GAAP and that financial reporting was no longer entirely fit for purpose.

In financial reporting too much emphasis is placed on backward looking figures from the past quarter or year with little reflection on the sustainability of the business model over the medium or long term. No information is provided of the effect of any other capitals used by the company or entity so a very limited slice of the entity's activities, outcomes and strategy are communicated.

Of course financial reporting is still necessary but it is certainly insufficient in the radically transformative world of the 21st century.

The existential threats to business models, of technological change and climate change require a radical rethink about how strategy, risk and sustainability of the business model are approached.

It was recognised that a far more integrated or holistic approach was required to ensure that the needs of sustainability both in the terms of natural, physical, human and social capital as well as financial capital are undertaken and communicated to shareholders and other stakeholders.

Those capitals material to the entity need to be measured and assessed as to their contribution to the short, medium and long-term sustainability of the business model. This assessment should be shared with their shareholders and other stakeholders through an integrated report.

The results for companies undertaking integrated reports have been very positive. Research by the National University of Singapore studied performance of 80 companies across the APEC region, 40 that had adopted Integrated Reporting were compared with 40 who had not. Over a 4-year period every one of the 40 companies that had adopted Integrated Reporting outperformed their peers and benefited from a lower cost of capital. Research by Harvard Business School demonstrates that companies applying Integrated Reporting are more likely to attract long term investors. Further research is being undertaken.

An exciting new research centre focussing on Australia and New Zealand, based at the Deakin Business School is being established. It will focus on the evidence base and adoption of Integrated Reporting in our region.

The global forum for institutional investors ICGN has endorsed Integrated Reporting as being in the interest of investors, and significant investors such as Vic Super, New Zealand

Superannuation, Hermes and many others have signaled that their investment processes now require information on business models, strategy and resources required under Integrated Reporting.

Uptake in New Zealand is also encouraging. Around 48 companies and organisations have either done an integrated report or are on the journey.

Recently in Sydney at the Australasian Reporting Awards Sanford won a Gold award for their integrated report, and Zealandia received a Silver Award for their first integrated report.

The NZX has mentioned Integrated Reporting in their Guidance to listed companies.

Iwi owned Moana New Zealand a fisheries company is also reporting in an integrated report. The focus on long-term sustainability of the business model is vital to Iwi who have the intergenerational equity of their members to consider.

The value of Integrated Reporting is not limited to the private sector. Public sector entities are likely to find the results of thinking in a more integrated way would greatly benefit their stakeholders, their owners, the government and their customers or clients.

Given the large number of state owned enterprises and entities in New Zealand and their impact collectively on the economy of New Zealand, it seems to me that there could be significant efficiencies and mutually beneficial outcomes for New Zealand if they all were to undertake an integrated report.

The data produced and assembled from the capitals beyond financial capital could provide very important indicators of those entities' contribution to the wellbeing measures being collated by Treasury.

In South Africa and in Brazil some listed entities are required to do integrated reports, but so far nowhere in the world has there been a decision to cover the public sector entities with such an approach.

It would be another "world first" if all state owned entities in New Zealand were encouraged by the government to undertake the holistic or integrated thinking required to undertake Integrated Reporting.

Those entities in the co-operative sector could also be encouraged to do integrated reports.

Treasury may find that the reporting on the non- financial aspects of state owned entities, in particular the social and environmental aspects of their business models could add significantly to the data points needed to fill out the full scope of the wellbeing impact the Budget is having across the board in New Zealand.

Also, the requirement under Integrated Reporting to address value creation, considered in its widest sense, (far more than accumulated financial capital) would contribute to an understanding of the contribution of each entity to the wellbeing of its stakeholders.

Such an approach would then include these enterprises holistically into the government reporting framework.

The transparency that each agency would offer not only to its shareholder, the government, but to its stakeholders, the people of New Zealand, would be extremely valuable in building and maintaining trust in those institutions and entities.

A number of state owned enterprises already do integrated reports. New Zealand Post was at the forefront of Integrated Reporting in New Zealand.

Integrated Reporting is increasingly being seen as an essential and inseparable part of good governance. It is enabling investors and other stakeholders to understand the risks and opportunities within the business model, both in the financial and non financial aspects of that business. The risks and opportunities in the non financial aspects of entities businesses are becoming increasingly vital as the technological revolution rolls on and the challenges of climate change mitigation are more urgently needing to be addressed.

The accounting profession has been hugely instrumental in advocating for Integrated Reporting and assisting entities on their integrated reporting journey. Accountants and auditors have been extremely helpful in providing solutions to the assessment of non financial information and to developing, with international standard setters methods of assurance of the integrated reports. They have been extremely instrumental in the global adoption process as well.

To turn to the wider canvas of the global focus on holistic or integrated thinking, the development and ambition of the United Nations Sustainable Development Goals is breathtaking! It is holistic thinking on a global scale.

It is the first time businesses, NGOs and Governments have joined together to attempt to solve some of the worlds most intractable problems. It is both an exciting and daunting prospect. The 17 Goals include eliminating poverty and hunger, improving health and wellbeing, quality education, gender equality, clean water and sanitation, affordable clean energy, decent work opportunities and economic growth, industry innovation and infrastructure, reduced inequalities, sustainable cities, responsible consumption and production, climate action, life below water, life on land, peace, justice and strong institutions, and partnerships for the goals.

New Zealand has acknowledged that achieving these goals will require a cross government effort and government agencies are reviewing the goals and their alignment with government priorities.

The government acknowledges that the private sector and civil society also help.

This programme requires equivalent and meaningful measures of success.

As well as these important policy initiatives, many of New Zealand's public sector entities through their value creation, and private sector entities through their commercial operations, in New Zealand or in the Pacific may also be adding to the implementation of the SDGs. How are these activities to be collated or measured? If these entities did an integrated report, their activities particularly in the environmental and social spheres could be readily assessed and collated.

In an interesting article by Carol Adams, a Professor at Durham University Business School, the link between Integrated Reporting and the UNSDGs is skilfully laid out.¹ She suggests that entities identify the SDGs which are material to their value creation, and identify where they can contribute to the SDGs through their business model, and outline that in their integrated report.

We should be encouraging entities to become more aware of the value they create and encourage them to communicate through their integrated reports the contribution they make in their communities to implementing the SDGs in the decade 2020-2030.

Mark Carney the Governor of the Bank of England and the Chair of the Financial Stability Forum put it very well when he discussed the Sustainable Development Goals recently.² He said they are a moral imperative, with objectives which include nothing less than ending poverty and, fighting injustice and tackling climate change.

But as he noted, the SDGs are also an economic imperative. Their achievement would mean greater productivity, increased labour supply and ultimately stronger growth. In short they could pull the global economy out of its current malaise of secular stagnation!

He goes on to say we need to build a new financial system. One that delivers sustainable investment flows. He notes that we need greater transparency. He gives the example of one of the SDGs, Climate Change. In relation to climate he notes that the role of financial stability is to develop the frameworks for markets to adjust efficiently. Financing the de-carbonising of our economy is a major opportunity to investors and transparency is critical to recognising the risks and seizing the opportunities of this transition. He notes that improved disclosure is necessary to reveal how the valuations of companies that produce or use fossil fuels might change over time.

As he says,

“with improved disclosure, climate sceptics and evangelists, techno-optimists and pessimists alike will be able to back their convictions with capital”.

He notes that the current fragmented reporting practices prevent investors, creditors and underwriters taking on these decisions on a fully informed basis.

Clearly the widespread adoption of Integrated Reporting would assist.

Still on the SDGs, another thought.

With a number of like minded people, I am involved in establishing an SDG Exchange to assist researchers, funders and those from the public and private sector wanting research done, to meet in an open access cloud based library focused on the SDGs implementation in Australia, New Zealand and the Pacific.

It is our vision that research funding, for the years 2020 to 2030 be focused through the lens of the SDGs.

Please help me convince our government agencies who fund research, our philanthropic entities, our companies and our universities to take up this challenge.

¹ <http://integratedreporting.org/news/new-approach-for-aligning-doing-business-to-the-sustainable-development-goals/>

² <https://www.bankofengland.co.uk/speech/2016/the-sustainable-development-goal-imperative>

As Mark Carney said it is a moral challenge, but it is also an economic one!

Around the world the indicators or measures on issues raised by holistic thinking are evident in all of the initiatives I have been discussing today.

Now let's talk about measurement.

I see that the Treasury Secretary ventured into this area noting that internationally comparable data on social capital indicators such as generalised trust are still being developed. The OECD has recently published some material or guidance on measuring trust.

Some sceptics have suggested that the measurement of non financial data is too fuzzy to be properly assessed. They suggest that somehow this sort of information is either too vague, judgement overlaid or incomplete to be useful for make fine accounting or auditing decisions.

Accountants are highly skilled in making fine judgements and these skills are applicable in the same way to the non financial data which arises in sustainability reports or wellbeing.

Appropriate measurement tools and the judgements needed, are being developed and globally agreed upon at a very steady pace.

The Financial Stability Board at the request of the G20, has recently established a task force, chaired by Michael Bloomberg to develop, consistent, comparable, reliable and clear disclosures around climate related risk.

The Integrated Reporting movement has been facilitated by the development through the Global Reporting Initiative (based in the Netherlands) and the Sustainability Accounting Standards Board in the US, who have developed standards for reporting on non-financial sustainability issues enabling comparable non-financial disclosures across industry groups and similar companies or entities. This data can then be used to integrate with financial data in an integrated report.

The importance of measuring, assessing and assuring these issues is well recognised. Highly successful integrated reports are being done around the world with comparable, credible non financial data, and being competently assured.

This work is ongoing and the journey is not finished.

The world is being challenged by a number of existential threats, and trust is low, but there are a lot of reasons to be optimistic.

Perhaps one of the most important is that young people seem to "get" the holistic nature of thinking about the planet and society in a clearer way than some of my generation. They are looking to governments to be more holistic in their thinking, they are looking to corporates and other entities to demonstrate that they are thinking about the planet as well as profit.

Much of the work being initiated in the exciting projects to implement the audacious, wonderful ambition of the SDGs is being led by millennials, and the generation after them. Let's help them succeed.

In summary holistic thinking is happening at all levels in our society, at the global level with the challenges laid out by the UN Sustainable Development Goals. It is being reflected at a government level by the integration of wellbeing indices with the government budgetary process as we have just seen in New Zealand and by business and public sector entities around the world, who are seeing the value added by integrated thinking in their business models and their decision to communicate that thinking through Integrated Reporting.

These developments are hopefully delivering greater trust in these institutions and assisting in developing a truly sustainable form of capitalism for the future.

As accountants you have a vital role to play in understanding and advocating holistic thinking and integrated reporting. You can also become involved in supporting the work that private and public sectors do to achieve the implementation of the UN Sustainable Development Goals by assisting business leaders and others to address them.

Now to end: here is an ambitious goal for New Zealand! New Zealand is a "can do" nation!

Let's make sure New Zealand leads the world in in holistic or integrated thinking, by our leadership in our Wellbeing Investment statement, our Integrated Reporting adoption by state owned enterprises, iwi owned enterprises, co-operative and private companies, and our approach and contribution to the UN Sustainable Development Goals!

Thank you.