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# CORPORATE SOCIAL INVESTMENT THROUGH INTEGRATED REPORTING: CRITICAL ISSUES


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ABSTRACT

There is growing evidence that organisations around the world are making considerable effort to create a positive impact on the societies in which they operate. There is also some evidence to suggest that by doing so, financial and non-financial benefits can accrue to these organisations as well as to the societies in which they exist. At the same time, the application of existing accounting rules does not naturally lend itself to communication of the broader benefits of such activities. Instead, these activities are portrayed as a net cost to the organisation. One recent reporting initiative is gathering momentum internationally and which has potential better articulate the broader dimensions of company performance is Integrated Reporting (IR). IR reports on the company’s consumption of six key sets of resources or ‘capitals’ (financial, manufactured, natural, social, intellectual, and human) and in doing so, it extends the focus of company reporting beyond bottom line profit and the creation of shareholder wealth. This paper explores the potential for IR to better communicate the value created through social investment activities of organisations. We use case studies of four organisations, Heineken, Unilever, Glaxo Smith Kline, and National Australia Bank to explore the potential for IR of social investment and to identify the complex issues involved in using integrated reporting methods. Overall, the paper enhances our understanding of the potential for integrated reporting approaches to assist in promoting and developing corporate social investment activities.

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**INTRODUCTION**

Integrated reporting (IR) and social investment are interrelated business and accounting developments that have emerged from complex environmental, social and professional pressures (Potter, 2012). IR is predicated on the notion that increasingly discerning stakeholders are seeking broader information beyond bottom line figures and including a firm's environmental and social footprint (International Integrated Reporting Council, 2013; Potter, 2012). We explore the potential for IR to enhance the reporting of diverse social investment activities undertaken by a wide range of businesses. Our approach in doing so is to use case studies to compare the reporting of social investment in integrated and conventional annual reports of four successful multinationals known to engage in significant social investment. Specifically, we compare the reporting of social investment across four company reports using the assessment framework articulated by the UN Principles for Social Investment Secretariat (PSIS) [1]. In doing so, our aim is to develop a better understanding of the potential for integrated reporting approaches to promote and develop corporate social investment activities.

We use the term 'social investment' to refer to the activities undertaken by organisations to assist communities and societies to address their broader development needs (Principles for Social Investment Secretariat, 2012b). Social investment is not a recent phenomenon, with debates about the social role of organisations permeating the literature in accounting, economics and related fields for decades (Friedman, 1970). What is new is the growing realisation of the important role that organisations can play in addressing the world's development needs and also that there are a range of organisational models through which this might occur (Principles for Social Investment Secretariat, 2012a). Researchers have for decades sought to understand whether such endeavours are linked directly to economic benefits for organisations such as profit, with some evidence to suggest that organisations undertaking social investments are rewarded by customers, employees and markets (Lev, Petrovits, & Radhakrishnan, 2010; Porter & Kramer, 2006). One hurdle in further developing our understanding of such links is that the application of existing accounting standards and principles does not readily portray the value created by these endeavours – for either the organisation or for society. At present, social investments are typically reported in narrative form via company websites, 'Communications on Progress' submitted to the United Nations Global Compact [2], in sustainability reports or directors' commentary in annual reports. Any implications of social investment for current or future financial performance is either unclear or, more commonly, is shown in negative terms as a net cost to the business.

Integrated Reporting (IR) is a recent development in external reporting that pushes beyond the boundaries of traditional financial reporting by recognising and reporting on diverse aspects of firm performance, and the interplay between them. A key feature of the IR approach is its synthesis of information from diverse sources into a coherent whole, enabling organisations to sensibly report on their creation or consumption of six key types of resources or relationships referred to as 'capitals' – financial, manufactured, human, intellectual, natural and social [3]. In this sense, integrated reporting represents a broadening of the information to be reported – beyond the financial capital prioritised by accounting standards. A key motivation of IR is to show the complex factors that affect the ability of the organisation to create and sustain value in the short, medium and long term, and thereby enable organisations to embrace more sustainable behaviours and practices over time.

While Integrated Reporting is intuitively appealing and simple, debates about the practicalities of this 'new' form of reporting persist [4]. Integrated Reporting represents an interesting potential avenue through which broader social investment activities of organisations can be reported. By explicitly recognising six different interconnected capitals, IR creates a framework and opportunity for reporting social and human capital development or destruction that is not considered material to GAAP reporting. More optimistically, to the extent that IR enables a clearer focus on the interconnection of these elements, firms may be encouraged to identify interrelationships between financial and social performance, enabling them to see and embrace more sustainable practices. However, financial dimensions of firm performance are much better understood and operationalized than social and environmental dimensions. With its focus on six capitals, including social capital, the IR framework offers a substantial opportunity relative to conventional financial reports to demonstrate the social and dimensions and implications of firm performance, and the role these firms play in overall value creation. Hence, in this paper we use a case study approach to explore whether that broader model of value creation appears to explain reporting practices observed, focusing specifically on the reporting of social investment.

The remainder of the paper is structured as follows. The next section explores the nature of social investment more fully, followed by an examination of the nature of integrated reporting, and side-by-side comparison of examples of integrated and conventional reports by companies engaged in social investment. An outcome of the comparison is an emerging picture of the potential for integrated reporting to assist an enhanced understanding of the costs and benefits of social investment. In the subsequent section, we explore recent developments in national statistical reporting which may be informative regarding the future directions for IR, since statistical agencies have for decades wrestled with issues relating to valuation and attribution of investments in complex settings. In the final section we offer concluding comments and suggestions for further research.

## SOCIAL INVESTMENT

The understanding of how an organisation contributes to society at large has evolved over recent years, with a growing, though not universal, awareness of the interconnection between the sustainable success of organisations and that of the societies and environments in which they operate. Acceptance of this interconnection, alongside stakeholder demand and organisational managements' desire to mitigate risks, has led a range of organisations to actively seek opportunities to contribute positively to the communities around them. These efforts commonly give rise to 'social investment'.

Conventional thinking about social investment has tended to focus on philanthropic programs ranging from grants and donations to the setup of charities [5] - activities which are generally undertaken without obvious expectation of economic return to the giver (Principles for Social Investment Secretariat, 2012a) [6]. More recently, social investment activities undertaken by entities have broadened, reflecting the increasingly held view that the economic, environmental and social dimensions and impacts of company performance are no longer able to be thought of as separate and distinct with little or no relevance for each other. A greater understanding is being developed of the diverse ways through which businesses are engaging with social development, characterised by diverse behaviours appropriate to particular localised conditions and the social development goals being pursued [7] (Principles for Social Investment Secretariat, 2012a).

While the private sector possesses significant capacity to address social development needs, organisations in the modern environment are increasingly called upon to identify and justify the 'business case' for such endeavours, and identifying the costs and benefits to the organisations involved, as well as to the broader societies, is crucial [8]. Unless a business case can be made to outline how such activities create value for the organisation, such activities can become ‘dispensable’ and company resources can be re-allocated in difficult financial times (Eccles & Krzus, 2010).

A crucial consideration in developing a business case for social investment is how such activities are viewed by various stakeholders. While there is some evidence to suggest that companies perceive benefit in disclosing environmental information (Al-Tuwaijri et al. 2004; Clarkson et al. 2008), our understanding of how capital markets might react to social investments is less clear [9]. Financial reports prepared under International Financial Reporting Standards (IFRS), for example, do not readily enable communication of the costs and benefits of such activities. Instead, organisations typically report social investment activities in brief commentary in separate sustainability reports or via narrative in the body of an annual report. The commentary focuses primarily on what could be deemed ‘traditional’ social investment programs, such as sponsorships, charitable donations and programs where a specific ‘dollar donated’ amount can be highlighted.

Social investment reporting has increased in both quantity and detail over the past two decades. Developments in corporate social responsibility and later sustainability reporting have given organisations an avenue to publicly showcase the societal and environmental credentials of their activities. A typical sign of maturity of the literature in a particular field is when researchers engage in and reflect on meta reviews of research practice. This is the case with reporting of sustainability-related information (Gray, 2010; Gray, Kouhy, & Lavers, 1995). Notwithstanding, there remains no significant consensus on the information required in order to provide a ‘true’ or ‘reliable’ account of organisational sustainability and this provides a hurdle for various internal and external stakeholders seeking to assess risk and make resource allocation decisions (Gray, 2010).

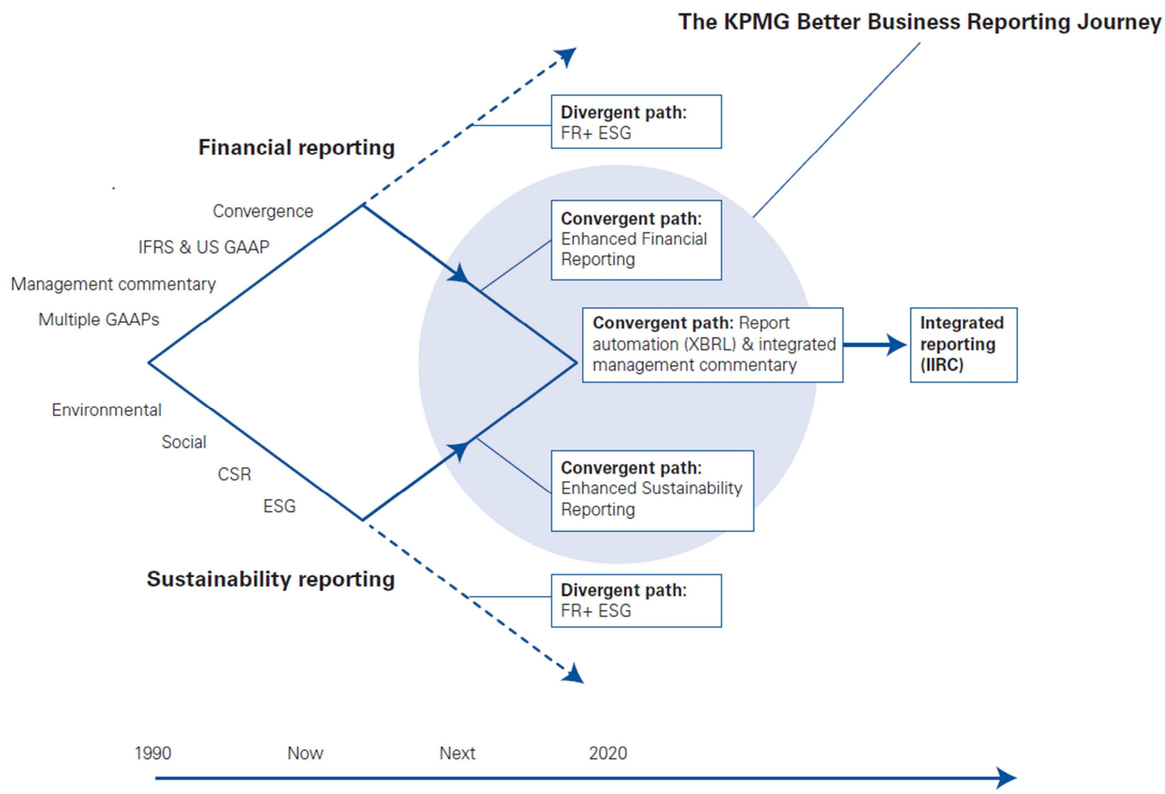
The emergence of the Integrated Reporting framework has created an opportunity to reflect the value to organisations created by social investment (rather than just the cost), although whether and how social investment activities will be presented within Integrated Reports remains an open question. If a strong demand exists for improved reporting of firms’ social impact, and Integrated Reporting creates both the freedom and framework for reporting, Integrated Reports should enable clearer communication of the social dimensions of company activities. In the next section we explore such issues.

## REPORTING OF NON-FINANCIAL INFORMATION: FROM CORPORATE SOCIAL RESPONSIBILITY TO SUSTAINABILITY

In recent years, the globalisation of many private sector organisations, in conjunction with increasingly knowledgeable stakeholders, greater potential litigation risk, and challenging global financial markets, have given rise to unprecedented levels of mandated and standardised financial data that organisations must compile. Pressure on organisations to report on the organisational and social dimensions of operations are increasing, but the requirements for information pertaining to these broader dimensions are neither standardised nor clear. Some companies publish extensively on this topic, and others not all. A recent KPMG research report showed that just over one in three (36%) organisations polled have issued at least one public report on sustainability, and a further 19% plan to do so (KPMG, 2011). While respondents saw clear value in reporting, citing the desire to increase transparency, create financial value, enhance reputation, and achieve continuous improvement amongst drivers for reporting (KPMG, 2011), there is considerable variation in what is reported.

In spite of, and sometimes because of, the sheer volume and variety of non-financial information available, stakeholders struggle to identify that which is material and correctly forecasts an organisation's success. Freestanding Corporate Social Responsibility (CSR) reports have been published in myriad forms [10] alongside mandated financial reports since the 1970s. These are aimed primarily at a broader group of external stakeholders rather than shareholders – the conventional focus of financial reports. The development of different reporting approaches paralleled evolution in understanding of how an organisation can impact the world around them. Triple Bottom Line Reporting (Elkington, 1998) sought to present environmental and social performance information in parallel alongside financial performance information. Environmental, Social and Governance (ESG) reports add a focus on governance and ethical processes as equally important with outcomes, and have become a core component of socially responsible investing standards such as the Principles for Responsible Investment initiated by the UN in 2005 (Principles for Responsible Investment, 2013). In contemporary Sustainability Reporting, the economic and ESG performance of an organisation is presented with a focus on how organisations can continue to endure (Global Reporting Initiative, 2012). In the graphic below, KMPG (2011) shows how these reporting formats have diverged, and how they might be brought back together by integrated reporting.

**Figure 1: Potential Development Path to Better Business Reporting (KPMG, 2011)**




Source: KPMG

Despite the increased awareness and uptake in reporting sustainability activities, the lack of a single universally-accepted definition of what sustainable reporting should look like creates obstacles for organisations wishing to report, decreases the usability and comparability of the published reports, and makes it difficult for readers to judge completeness or quality. As a result, approaches to reporting in this field within the business community have varied considerably, ranging in detail from a few comments in an organisation annual report to a full, detailed and externally assured, sustainability report. At the same time, a significant proportion of organisations still choose to not report on such activities at all (KPMG, 2011).

Many organisations choosing to report broader non-financial information turn to various non-mandated frameworks to guide them on prospective data to be included. Use of a pre-existing framework can reduce the cost and effort to an individual organisation of initiating reporting, as well as providing a community of comparable reporters. Numerous discretionary frameworks that make social investment information more visible have emerged and have been adopted by organisations with varying success. The Global Reporting Index (GRI) is the primary framework used to report on sustainability issues by more than 4000 companies from 60 countries. The GRI 3.1 guidelines cover a range of social, environmental, governance elements on which organisations should report, but leave to the organisations' discretion how far to implement and whether or not to have their reports independently assured. Within these general guidelines, companies can choose their level of disclosure as well as whether the report is to be audited.

The London Benchmarking Group (LBG) provides an internationally-recognised model that provides a framework used by more than 300 companies to measure, manage and report the value and achievements on the contributions they make for the purposes of comparison with other companies (London Benchmarking Group, 2012). Under the LBG model, companies measure their overall contribution to the community by taking account of cash, time and in-kind donations, as well as management costs. The model also records the outputs and longer-term community and business impacts of CCI projects.

Other long-running indices exist with lower levels of uptake, such as the Dow Jones Sustainability Index and the FTSE4Good Index. The Integrated Reporting framework has emerged as a prominent example of these frameworks, and it is this framework that is discussed and analysed in this paper.

***Integrated Reporting***

While framework and standards development within integrated reporting is in its infancy, a number of companies, and in particular, countries, are leading the way with their integrated reporting attempts. Through the introduction of the 2009 King Report on Governance for South Africa, companies listed on the Johannesburg Stock Exchange are now required to prepare an integrated report. Denmark, Norway and Sweden also require sustainability reporting to varying degrees, and France is seeking to introduce the requirement for listed companies (Eccles & Saltzman, 2011).

Organisations internationally, including Natura and Novo Nordisk, have been preparing their own version of an integrated report for a number of years and are currently participating in an 80-company pilot program for the IIRC. The pilot program participants reported the following major internal benefits to their organisations: improved connections between departments; improved internal processes leading to a better understanding of the business; increased focus of the board and senior management; better articulation of the strategy and business model; and, creating value for stakeholders (IIRC, 2012, p.3).

Eccles and Krzus (2010) assert four key benefits to companies of integrated reporting, which have some overlap with the findings from the IIRC pilot study. These are: greater clarity about the relationship between financial and nonfinancial key performance indicators; better management decisions; deeper engagement with the broad stakeholder community; and lower reputational risk.

While the asserted benefit of IR appears attractive, research studies which examine the nature and limits of this approach to reporting do not currently exist. Regulators, corporations and accounting and business professionals will be keenly observing the results of the international pilot program for IR as well as the outcomes from South Africa. Where and how the value of social investment might be reflected in an Integrated Report is less certain and this is discussed in the next section.

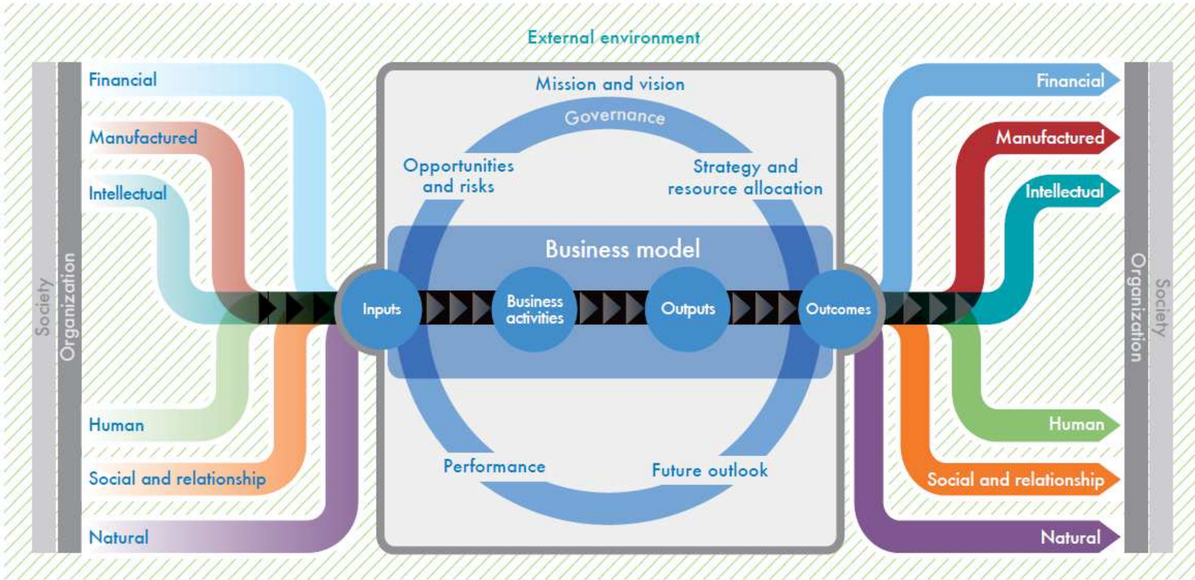
***Reporting Social Investment***

Regardless of the overall report format, most of the detailed information available relating to corporate social investment over the past decade has been in the form of narrative case studies on success stories for the organisation rather than use of quantifiable outcome-based metrics [11]. This shows the broader impacts of investments for societies, communities, and organisations involved. Where data are available, they primarily relate to activities benefitting the community, such as money spent on philanthropic donations, sponsorships, and hours donated through employee volunteer programs, rather than business-oriented social investment activities that are potentially impacting the organisation's the bottom line (i.e. inclusive business investments). Few links are drawn between social investment activities and their financial impact both in the present and potential for the future.

According to advocates (Eccles & Krzus, 2010), a wide range of stakeholders need information on social and environmental dimensions of performance to factor into their decisions. These include: internal company board and management teams seeking to evaluate what benefits are being generated from social investment programs, whether they are delivering the anticipated results, for what cost and with what financial and social impacts; current and future investors seeking to understand what type of social investment programs are being implemented by a given company, at what cost, and whether these programs making a difference; suppliers; community groups and the general public; governments; and NGOs.

Conceptually, IR creates an opportunity to enhance transparency relating to social investment activities. Taking an integrated approach requires an organisation to articulate, for example, how key environmental or social issues impact their business, what risks and opportunities exist for dealing with these issues, and what the financial impact to the business is both in the short and the long term. Figure 2 below captures the IR view of the entire value creation process as it is embedded in society, demonstrating visually what should be shown in an ideal integrated report. All six capitals are stores of value that become inputs to the business and are transformed by its operation. Business outcomes impact the organisation and society in the form of all six capitals. The underlying theme depicted in Figure 2 is that IR has potential to report on the entities' consumption of all six capitals in meaningful ways.

**Figure 2: Integrated Reporting View of the Value Creation Process (IIRC 2013)**




More than eighty organisations are currently pilot testing and providing feedback on the IIRC framework as well as the internal experience of implementation. This is captured in regular feedback to stakeholders and publications like KPMG's *Understanding Transformation: Building the Business Case for Integrated Reporting* (2012). Reports from participating companies are collected in an online database [12] as a resource for other companies that may be considering adopting the integrated approach to reporting, and the feedback from the pilot companies helps shape the IR framework. Common reporting formats observed include sections on organisational overview and business model; operating context including risks and opportunities; strategic objectives and strategies to achieve those objectives; governance and remuneration; performance; and future outlook.

The experiences of pilot companies have been combined with other stakeholder feedback from regional roundtables and working groups to inform a new consultation draft of the IIRC framework released in April 2013. This document presents the principles-based requirements of IR, along with fundamental concepts, guiding principles, necessary content elements, and guidance on presentation and preparation (IIRC, 2013).

Since measurement is an essential component of management, a key basis on which IR may enhance the general conduct of social investment is through the creation and adoption of key metrics that enable the merging of financial capital and social capital data. Developing such indicators is challenging, and has been previously the subject of debate in the context of CSR, triple bottom line and Sustainability reporting (Norman and MacDonald, 2004). Likewise, the issue is certainly not unique to integrated reporting. Financial accounting has difficulty in reaching widespread consensus on how to measure things that are, at face value, relatively obvious, even when a robust market exists and the agreed reporting metric is financial (Potter and Soderstrom, 2012). For example, after ten years of discussion, the IASB and the US FASB cannot agree about the criteria for recognition of revenue (Selling, 2012). Given the breadth of its scope and diversity of the companies involved, it remains an open question whether Integrated Reports will generate meaningful comparative information.

## CASE SELECTION AND APPROACH

To explore the question of how social investment might be communicated in traditional and Integrated Reports, we reviewed the 2011 annual reports of four multinational companies known to engage in social investment: beverage provider Heineken, pharmaceutical manufacture and supply company Glaxo Smith Kline (GSK), consumer goods company Unilever, and financial services provider National Australia Bank (NAB). Between them, the four companies span six continents.

Two of the companies, Heineken and Unilever, participate in United Nations Global Compact (UNGC) LEAD, a group of about fifty highly engaged companies challenged to implement the Blueprint for Corporate Sustainability Leadership across the globe. Two of the companies, Unilever and NAB, are presently participating in the Integrated Reporting pilot project. GSK participates in neither the UNGC Lead program nor the Integrated Reporting Pilot. Across these four companies, there is a sound basis to begin to explore the potential for the integrated reporting of diverse social investment.

**Table 1: Case Selection**

| | **Conventional reporting** | **Integrated reporting** |
|---|---|---|
| **UNGC lead** | Heineken (www.heineken.com) | Unilever *(*www.unilever.com) |
| **Non-Lead** | Glaxo Smith Kline (www.gsk.com) | NAB *(*www.nab.com.au) |

In seeking to understand the reporting practices, we explored the dimensions of social investment as set out in the principles for social investment released by the PSIS. The principles focus on ensuring that investments and their implementation are purposeful, accountable, respectful and ethical [[13]

Additionally, the following subjective aspects of the narratives were assessed: the nature of their social investment and alignment with the companies' overall business; the relative emphasis, in language, space allocation, prominence of placement, on information related to social investment; the integration of social investment information with information traditionally considered 'important', such as key performance indicators, and business strategy; the expression of social investment value in qualitative and quantitative terms; and, the extent to which social investment is presented as linked to the business strategy.

**Table 2: Assessment of Social Investment Presentation in 2011 Annual Report**

| | **Conventional** | | **Integrated** | |
|---|---|---|---|---|
| **PSIS principle and criteria** | **Heineken** | **GSK** | **Unilever** | **NAB** |
| **Purposeful** | | | | |
| Strategy, objectives & criteria | √ | √ | √ | √ |
| Mission & portfolio alignment | √ | √ | √ | √ |
| Defined roles & responsibilities | x | x | x | x |
| Due diligence | x | x | x | x |
| Coordination of funding efforts | x | √ | √ | √ |
| **Accountable** | | | | |
| Objectives, evaluation & exit strategy | x | x | x | x |
| Partners can safeguard & apply funding | x | x | x | x |

| | | | | |
|---|---|---|---|---|
| Measurement framework, controls, audit | √ | √ | √ | √ |
| Regular, accessible stakeholder communication | √ | √ | √ | √ |
| Address misinformation or unintended | x | x | x | x |
| consequences | x | x | x | x |
| Contribute to best practice dialogue | | | | |
| **Respectful** | | | | |
| Real partnership & alignment | x | √ | √ | √ |
| Trusting & productive relationships | x | x | x | x |
| Meaningful participation | x | √ | √ | √ |
| Community alignment & sustainability | x | x | x | x |
| Empowerment & capacity building | √ | √ | √ | √ |
| **Ethical** | | | | |
| Consistency with international frameworks | √ | √ | √ | √ |
| High governance standards | x | x | x | x |
| Conflicts of interest prevented or resolved | x | x | x | x |
| Unethical behaviour reported | x | √ | √ | √ |

√ = clearly demonstrated    x = not demonstrated

*Heineken* (conventional reporting, UNGC LEAD)

Heineken produced a 172-page annual report. Their overarching sustainability programme, *Brewing a Better Future*, was established April 2010 to focus Heineken's approach to 'creating real sustainable value for all stakeholders' by continuously improving environmental impact, empowering people and communities, and positively impacting the role of beer in society. The programme is comprised of 23 component areas representing the different geographic markets, each of which have their own sustainability plan integrated into strategy of business unit, a separate sustainability committee, and produce their own sustainability report. *Brewing a Better Future* is introduced in sidebar on page 5, following an overview of the company's business priorities, and gets a dedicated 4-page section in the operational review. The annual report highlights a variety of external sustainability awards received by Heineken; the development of a 'Green Gauge' scorecard to track performance against each of the three strategic imperatives & enablers on a quarterly basis; and participation in external assessments including Dow Jones sustainability index, Carbon Disclosure project, Carbon Disclosure project on water, FTSE4Good, UNGC Lead, and the Dutch Sustainable Growth Coalition. However, no effort is made to connect these efforts to the company's financial success, with stakeholders having to make such linkages by synthesising information from multiple and separate reports and other communications.

A somewhat different picture of success aimed at seemingly different stakeholders is presented in the separate online-only sustainability report produced by Heineken. The sustainability report highlights promotion of responsible drinking, 5% reduction in carbon emissions, 4% reduction in water use, and the addition of three solar energy projects. The report also shows Heineken has expanded local sourcing of raw materials in Africa toward 60% target by 2020, and implemented farm training affecting 30,000 African households. In their supply chain, they have established supplier codes to ensure alignment of suppliers with the company's principles. The connection between these practices and Heineken's financial success are left to the reader.

*Glaxo Smith Kline* (conventional reporting, non UNGC LEAD)

GSK produced a 252-page annual report for shareholders, with an 8-page annual summary highlighting the integration of social and financial value, as well as the importance of ethics and transparency. Alongside the CEO letter to shareholders is a prominent sidebar stating: ‘By being a responsible business we can grow and create value for shareholders and for society in the long term’ appears. The letter also states: ‘We remain committed to operating with transparency and responsibility and placing and emphasis not just on what we achieve but how we achieve it.’ (p 3)  All KPIs in the report are financial, but the mission statement is: ‘to improve the quality of human life by enabling people to do more, feel better and live longer’.

This orientation to financial success through improving human lives flows through the annual report. It is noted that creating a positive impact in peoples’ lives motivates employees; that GSK is committed to researching new and better treatments for diseases that impact the developing world; that the company is ‘actively seeking new ways of delivering healthcare and making products affordable to people who need them wherever they live, because (1) society expects it, (2) it’s the right thing to do, and (3) it’s good for business’ (p 5).

Focus on growth in emerging markets is a major business priority for GSK. One of the company’s key social investment initiatives is the *Access to Medicines* program, which seeks to grow their business in the developing world through keeping prices at no more than 25% of the developed world price. This demonstrates how their business strategy features sustainable growth, rather than sustainability.

‘Operating responsibly’ is one of GSK’s three core values, and its instrumental value to the firm’s financial success is openly communicated. The annual report features a 6 page responsible business review section (pages 44-50) focusing on the following themes: *Health for all* (access in developing world, vaccines programme), *People and communities* (recruiting developing and engaging employees, diversity, healthy & high-performing workforce with zero harm, work with communities), *Our behaviour* (ethical conduct), and *Our planet* (carbon, water, waste, stewardship, management, with 2020 targets). Environmental reporting efforts include footprinting key products, and greening supply chain.

GSK is unique amongst the cases reviewed in having an entire section devoted to the principles behind its community investments that explicitly address many of the qualities in the PSIS framework. This is reflected in graphics for community investment showing expenditure by type and sector, as well as detailed narrative information explaining how their programmes are designed to have long-term, sustainable impact, achieved through ambitious commitments with experienced partners. GSK seeks to maximise benefit by partnering with NGOs and specifically selecting products that allow the application of GSK expertise and resources. Separate sections of the narrative are devoted to benefiting communities, improving reputation, boosting morale, building relationships (p 48).

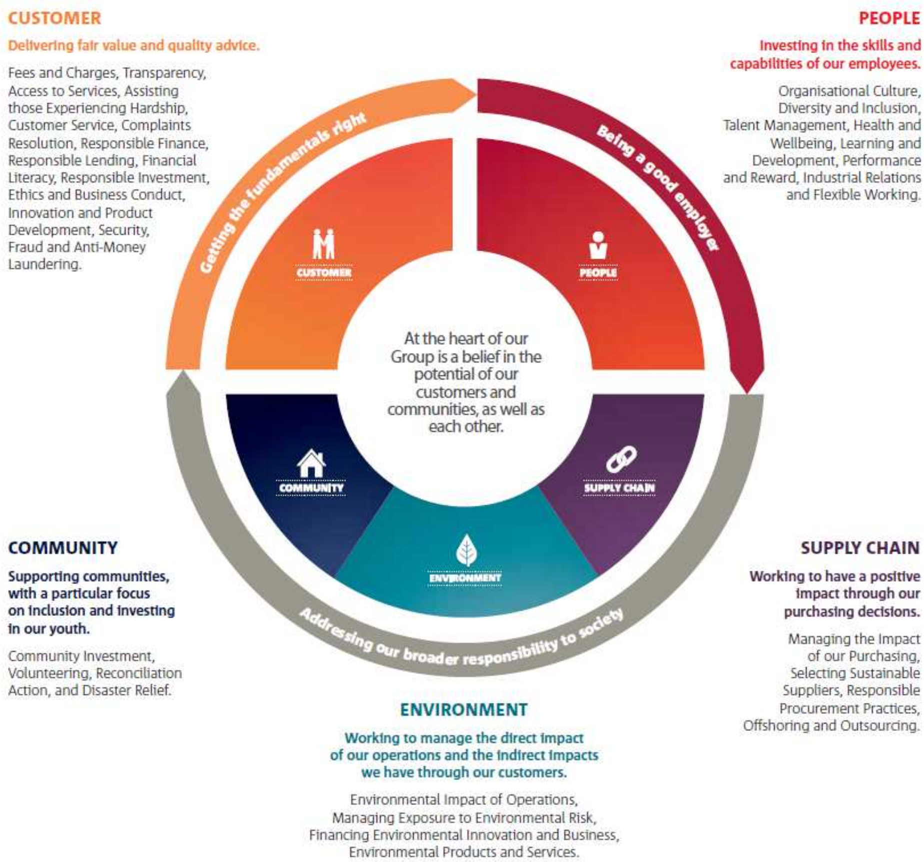
*Unilever* (integrated reporting, UNGC LEAD)

Unilever’s 132-page annual report and accounts talks extensively of their ‘Sustainable Living Plan’ as an essential part of their business model, and presents ‘Key Non-Financial Indicators’ directly alongside other key metrics in the overview text and tables. Risks related to sustainability and ethics are presented alongside other business risks. Particular programmes are presented in the context of the larger business model and financial performance metrics, such the Shakti direct distribution network of Indian female microentrepreneurs adding €80 million in incremental turnover, the hygiene education programme implemented in Vietnamese schools contributing to a 4.1% volume growth in the Vietnamese market, and the cost of the UK group's community involvement activities using London Benchmarking Group model (broken down into charitable donations, community investment, and commercial initiatives). As with Heineken, they prominently feature external certification, in this case winning the 6th International Green Award, on page 4.

*NAB* (integrated reporting, non UNGC LEAD)

NAB offers a comparatively brief 42-page annual report in which 'responsibility to society'—broken into community, environment and supply chain—makes up half of the graphic representation of the business in the overview section (p 7, shown below). Amongst the eight key indicators reported of the report's first page are: $A72.2 million contributed to community, and 85% of employees believe NAB helps its customers and communities. NAB's key sustainability indicators are also presented alongside the company financials.

**Figure 3: NAB approach to Corporate Responsibility**




NAB emphasises relieving financial hardship, debt collection, and responsible lending as ways to distinguish their business in the market, as well as deliver their fourth strategic priority of enhancing NAB's reputation. They connect these social investment endeavours with employee engagement and highlight that in 2011 they contributed over 25,000 volunteer days to community, worth over $A8 million. Two pages each are dedicated to employee volunteering and environmental impact, representing 9.5% of the total report. Like the other companies reviewed, NAB proclaim their ratings by external indexes and participation in corporate responsibility agreements.

***Cross-case comparison***

While each of these companies seek to profile their social investment, these reporting examples show a range of practices around communicating the value of social investment to the business and their stakeholders. Heineken appears the most traditional, relying heavily on certification of its business practices by external arbiters as a means of demonstrating its sustainability credentials, rather than through direct demonstration of value added through its sustainable practices. Unilever and NAB reports demonstrate an integration of strategic planning and sustainable practices such that those practices are the redefined as a means to success rather than an obstacle.

None of the reports reviewed attempted to close the circle between social investment and reduced costs (for instance on recruitment if employees are happy, or on input and waste disposal costs avoided per unit of output), although Unilever came close by attributing growth to selected social investment programmes. In the absence of deeper information, it is impossible to know whether this is because those effects were not seen, or because of the difficulty of attributing and valuing them. Discussions with IR advocates raises the possibility that the published reports are simply not yet sufficiently 'integrated' to close the circle. The IR journey of firms in South Africa and the IR pilot program is only beginning and the preliminary review of the reports suggests the best examples are still more 'integrating' than 'integrated', with connectivity being the weakest area of the reports [14].

The four organisations chosen for analysis are obviously not a random sample of report practices. These are large, successful companies that have self-nominated as leaders in social responsibility and that have identified an explicit desire to fulfil that commitment to their stakeholders and peers. If the value of social investment was easily conveyed, this could reasonably be expected to be seen in these reports. Communicating the value of social investment to businesses and their stakeholders is rife with challenges, even in the context of Integrated Reporting.

## LEARNING FROM NATIONAL STATISTICAL REPORTING

Corporate reporting is not on its own in facing challenges in bringing together economic, social, environmental and other measures into more holistic measures of well-being and sustainability; national and international statistical agencies have also been grappling with such issues for years. While developments in official statistics tends to trail the accounting profession rather than lead it, statistical agencies have deep experience in the creation of interoperable measurement frameworks across specialist domains that ensure some comparability across time and space while allowing flexibility for individual reporters (nations) to produce measures that are also relevant to their contexts and stakeholders.

National decision and policy makers tend to lean heavily on key macroeconomic statistics such as gross domestic product (GDP). As such, these national statistics have a significant - if indirect - impact on the every-day lives of people around the globe. Compilers and users of official statistics are increasingly aware that these measures may be fine for their intended purpose, but can provide a very misleading picture of a country's well-being by ignoring issues of distribution, income, natural resource use and waste product production (Gleeson-White, 2012; Stiglitz, Sen, & Fitoussi, 2009). Per capita GDP does not reveal a country's risk profile any more than traditional profit measures reveal a company's risks.

Partial steps to address this gap have been underway for more than 20 years. Some domains are integrated in a shared reporting framework, such as the incorporation of 'natural capital' as an input to economic stock and flow models to form the System of Environmental-Economic Accounting [15], and the incorporation of household's economic activity as providers of labour, consumers, and savers alongside the economic activity of businesses and governments. The areas that are easily enumerated and valued with relative lack of controversy have been incorporated into the measurement framework as optional expansions for more advanced nations, but the uptake is limited and the picture is far from complete. As with corporate reporting, the unresolved questions are difficult and subjective: What is the value of good governance and strong institutions? What is the impact of public infrastructure or social cohesion? There is broad agreement that these are valued, but it is not clear how one measures and connects them to other factors.

Measures are radically more useful when they can be compared across time, region, and entity. However, in both national and company reporting, a tension exists between comparability and specificity—a one-size-fits-all solution sacrifices material detail to achieve universality. Following discussions of the need for sustainable development indicators at the 1992 UN Conference on Environment and Development in Rio, the UN Commission on Sustainable Development developed a set of indicators, but found it to be not particularly well suited to national needs. A number of countries, including Switzerland, the UK, Germany, Sweden and Belgium, pioneered national indicator sets tied into their domestic policies. International organisations such as the Organisation for Economic Cooperation and Development (OECD) and the European Statistical Office (Eurostat) developed indicator sets that could be compiled for each country.

As with different sustainability reporting frameworks for firms, these different models for reporting on sustainable development of nations are driven by different questions, and imply subtly different user needs. The thematic approach asks which content is relevant and should be represented, whereas the procedural approach models the processes and causal connections. Indicators can be stocks, flows, levels, structural criteria, or interrelationships such as decoupling growth in economic output from growth in environmental impact. Some measurement and reporting frameworks included the domain-based models around the three pillars of economy, society and environment, and flow-based models such as the OECD's pressure-state-response model.

Through a long process of international working groups [16], a few different approaches have emerged for bringing together measurement of the domains of economy, culture, ecology, politics. Like the emerging Integrated Reporting framework, OECD and many others rely on a capital model that recognises produced, human, natural, financial and social capital having stocks and flows that can be independently estimated (OECD, 2008). The Swiss government's MONET model uses 16 key indicators to measure progress toward improved quality of life, fair distribution of resources, preservation of resources for future generations, and natural resource use efficiency (measured by the decoupling of resource use growth from growth in other indicators). Other governments, such as New Zealand, have adapted this into 'target dimensions' of environmental responsibility, economic efficiency and social cohesion (Statistics New Zealand, 2009).

What can be gleaned from the experience of national and international statistical agencies and potentially applied to the measurement and reporting of social investment within an integrated reporting framework? There are two major obstacles for joining the economic, social and environmental domains of official statistics that are directly relevant to the discussion on social investment reporting: valuation and attribution of social or environmental impact.

How does one value the creation of social outcomes by countries or companies? Attempting to agree on a single value for expenditures that have both social and economic impact (other than cost of production) begs the question of value *to whom* [17], and can be a major stumbling block in developing a measurement framework (Statistics New Zealand, 2010; York, 2011) [18]. For a social investment to be more than a simple transfer of wealth, it should ideally create more value for the recipients than it costs to produce. However, using the cost of the investment as a proxy for its value to the recipient does not allow for this, nor for improving the efficiency and productivity of the investment over time [19].

Another major obstacle for both statistical and firm reporting of social investment is attributing the value created. Even when it is clear that the value of two variables increased in a given period, the relationship between the two can be ambiguous and contested. To use a business example, an increase in staff engagement *may* have been caused by the social investment programme, but it is equally possible that it was the result of a public relations campaign or improved working conditions.

Integrated Reporting addresses some of the gap in information available to investors and other stakeholders by creating a more holistic picture of a firm's strategy, governance, and risk management alongside financial information. It summarises past performance and current position, while providing the necessary information to assess future risk and prospects. It is an evolutionary step forward from idiosyncratic sustainability or ESG reports by converging on a format that allows some comparison across time and between firms, countries, and industries. As with sustainable development measurement framework and indicators, its development through a slow engagement process with the producer and user communities has sought to create a flexible product that reflects an understanding of the overlaps and tensions in information needs of various stakeholders and integrates with existing measurement frameworks such as the Global Reporting Initiative.

As in traditional financial accounting, social investments will show up in Integrated Reporting as a cost to the business. However, IR creates the opportunity for them to also show up as a related asset and/or reduced cost. The key questions in relating them, as in the sustainable development statistics discussed above, are valuation and attribution. One path forward toward integration that sidesteps explicit valuation and attribution is to focus on rates of change of particular indicators and the relationships between them. This allows social investment to be considered as part of a bundle of expenditure that is believed to have delivered a particular desired outcome.

## IMPLICATIONS FOR THEORY

Many discussions of Integrated Reporting stop at these measurement difficulties. It is possible that effectively reporting social investment is simply too difficult for some to implement, either because IR does not lend itself to representing the broader dimensions of corporate activity any more effectively than previous forms of reporting, or that firms are not sufficiently progressed in integrating their reporting to deliver the asserted benefit.

While these measurement issues are important, the answer may lie, not in a developing a better instrument, but in considering the factors affecting choices to report or not under given circumstances. On the face of it, the choice to voluntarily pursue both social investment and integrated reporting seems consistent with the desire for responsible stewardship of the firm and its assets for the greater good, rather than self-interested agency on firm operations (Donaldson & Davis, 1991). Notwithstanding, where we expect to find clearly superior reporting of social investment in the integrated reports, we find they do only moderately better at reporting social investment, and that both formats leave many information gaps that make it challenging to critically and comparatively assess social investment. Why might that be, and what does it tell us about how much companies are willing to reveal?

Interpreting management choices relies on an underlying theory of 'rational' behaviour. Are decision-makers opportunistic and self-serving, or are they pro-organisiational collectivists (Davis, Schoorman, & Donaldson, 1997)? Or can they be either depending on the setting and interaction? Stewardship theory (Donaldson & Davis, 1991) posits a collective-serving model of behaviour driven by values and desire to do what is best for society and the planet. Stewardship theory stands in tension agency theory, which maintains that managers of organisations will act in their own best interests, which are tied to those of shareholders via remuneration contracts etc. This suggests that organisations will act if there is likely benefit for the value of the company and the interests of the shareholders. The differences in psychology, and situational approach implied by stewardship and agency theory are summarised in the table below.

**Table 3: Comparison of Agency Theory and Stewardship Theory**

(Davis et al., 1997)

| | **Agency Theory** | **Stewardship Theory** |
|---|---|---|
| **Model of Man** | Economic Man | Self-Actualizing Man |
| Behavior | Self-Serving | Collective Serving |
| **Psychological Mechanisms** | | |
| Motivation | Lower order needs (physiological, security, economic) | Higher order needs (growth, achievement, self-actualization) |
| | Extrinsic | Intrinsic |
| Social Comparison | Other Managers | Principal |
| Identification | Low Value commitment | High Value commitment |
| Power | Institutional (legitimate, coercive, reward) | Personal (expert, referent) |
| **Situational Mechanisms** | | |
| Management Philosophy | Control Oriented | Involvement Oriented |
| Risk Orientation | Control Mechanisms | Trust |
| Time Frame | Short Term | Long Term |
| Objective | Individualism | Collectivism |
| Cultural Differences | High power distance | Low power distance |

Although stewardship and agency are presented as a dichotomous choice by Davis, Schoorman and Donaldson, our case studies suggest that pure stewardship is not a useful theoretical lens to understand firm decisions to adopt IR, as stewardship and agency are not mutually exclusive. Instead we see a complex interplay between agency and stewardship behaviours. Firms behave in a manner consistent with agency theory in aggressively seeking new market opportunities, as GSK and Unilever have done by focusing on growth in emerging markets, but show stewardship behaviours in the operations exploiting those opportunities. By not declaring specific positions around social investment in an annual report, whether integrated or conventional, firms retain room to manoeuvre by abandoning some commitments and seizing others. This is consistent with agentic behaviour. These firms have each made a range of voluntary choices to symbolically distinguish themselves as a responsible company, such as joining the United Nations Global Compact, the Global Reporting Initiative, or the Integrated Reporting pilot programme. Why would they shy away from maximum display of stewardship in their annual reports? Pure stewardship is inherently vulnerable. Positions and targets committed in public communications reduce a business' flexibility, leaving it vulnerable and reducing competitiveness. This may clarify why reporting on the social outcomes of firm behaviour is so problematic for firms. Not only is integrated reporting challenging with respect to valuation and attribution, but reporting increases a firm's vulnerability by reducing flexibility. Not committing to particular positions leaves firms more room to manoeuvre, especially in locating new market opportunities.

Whether a firm or particular phase of business tends more to self-interest or stewardship, reporting remains a strategic decision and the decision itself can provide information about the company. The benefits of additional disclosure clearly must be weighed against the cost of doing so. The costs and benefits for organisations and their stakeholders of providing an IR are not clear. As an example, firms may use environmental reporting to signal that they are 'good' environmental performers, especially where poor environmental performers find it difficult to mimic the disclosures. Al-Tuwaijri, Christensen, and Hughes (2004) and Clarkson, Li, Richardson and Vasvari (2008) find evidence consistent with this idea. Further research will be required to determine whether this sort of strategic signalling happens with social reporting.

## CONCLUSION AND FUTURE DIRECTIONS

For decades, researchers, policy makers and others have discussed and debated the nature and limits of various approaches to reporting sustainability information. Various frameworks have been put forward over a long period which are asserted to address the perceived need for information about the broader dimensions of organisational performance. Integrated Reporting is one of those frameworks that has emerged in recent years.

Integrated Reporting offers significant potential for informing how organisations might report their social investments. Many organisations internationally are presently devoting significant resources to addressing social development needs, suggesting an enhanced awareness of the interconnectedness between the social and economic dimensions of operations. Anecdotal evidence suggests that stakeholders reward this type of behaviour, however, our understanding of how and why this occurs is limited since current reporting approaches portray social investments as a net cost to the business.

What the future holds for Integrated Reporting is not clear. It appears a well-articulated and logically consistent model, although debates about the practicalities of its implementation persist. Further, the lack of a standard and broadly accepted approach to integrated reporting appears both a strength *and* a potential weakness for its ready acceptance. It is a strength in that it enables organisations to communicate the specific information most relevant to the particular setting, thereby enhancing the information content of the reports. It is a weakness in that the resulting variation in reporting practices precludes comparison and benchmarking and creates uncertainty for those seeking to understand the new approach. What is clear is that this approach to reporting has considerable potential to enhance the reporting of social investment activities. The reporting of activities relating to social and other non-financial forms of capital enables the interconnectedness between the social and economic dimensions of performance to become known and better understood by organisations and stakeholders.

There are a number of avenues for further research in this area. Two are mentioned here. First, little is known about the usefulness of Integrated Reporting information. Such usefulness is asserted with fervour in key advocacy documents (e.g. IIRC, 2011), and while the phenomenon is intuitively appealing, there is a lack of empirical evidence to clearly establish the usefulness of this approach to reporting information. Over time, as evidence from the international pilot and from recent South African reporting seasons are known, greater database of disclosures will develop. Research can then be undertaken to explore such dimensions, and more specifically, the usefulness of information relating to social investments, such that the costs and benefits for organisations and societies can be better understood.

Second, with greater information, the costs and benefits of various social investment models can be known. As a consequence, companies can be better informed and can embrace more actively, different opportunities created by different organisational models for social investment. A likely consequence is that hurdles to implementation can be overcome and organisations become more comfortable engaging in such activities. In such cases, the decision becomes not whether to engage in social investments, but how.

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[1] The UN-backed Principles for Social Investment Secretariat was established 'to help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere' (http://p4si.org/objectives.shtml), through establishing and updating social investment guidelines, disseminating information on social investment practices,

supporting and encouraging effective social investment strategies, and contributing to public dialogue on the topic.

[2] 'Communications on Progress' are the major reporting mechanism through which signatories to the United Nations Global Compact report against its ten principles. For further information, see http://www.unglobalcompact.org/COP/index.html.

[3] *Financial capital* is the pool of funds available to an organisation (whether owned or borrowed) for use in the production of goods and services. *Manufactured capital* is any manufactured physical goods (e.g. machinery and infrastructure) available to an organisation for use in the production of goods and services. *Intellectual capital* is organisational, knowledge-based intangibles such as intellectual property and procedures. *Human capital* is people's capabilities, experience, and competency. Social capital is institutions and relationships within and between communities. *Natural capital* is environmental resources (whether renewable or non-renewable) and processes that provide goods and services that support the prosperity of an organisation. (International Integrated Reporting Council, 2013)

[4] For example, common practical bases on which the implementation of Integrated Reporting has come into question include the appropriate approaches to measurement, the identification of users and their needs and the nature and role of the assurance function (Soderstrom, 2012; Potter and Soderstrom, 2013). Empirical evidence from other forms of reporting articulates some of these challenges to IR. See DeFranco et al. (2011) on the implications of the lack of detailed standards for comparability; Deegan and Gordon, (1996) and Cho, Roberts and Patten (2010) on the credibility of voluntary reporting; and Clarkson, Li, Richardson and Vasvari (2008) on lack of clarity around assurance.

[5] There are of course, many additional forms of philanthropy observable by companies, including providing grants to international disaster relief funds, employees being given the opportunity to volunteer in their community, setting up of local community charities. These are just some of the many alternatives available to organisations wishing to pursue altruistic activities (PSIS, 2012b).

[6] This is not to suggest that philanthropy is valueless for the donor companies. Rather, the benefits to the company are unlikely to be direct and economic, but are more likely to be intrinsic, accruing in different forms to diverse stakeholders in the longer term (PSIS, 2012a).

[7] The UN's Principles for Social Investment Secretariat has conceptualised a range of ways through which business contributes to social development not as clearly distinct models, but rather as existing along a continuum. According to the PSIS, these models differ in their respective emphasis on the diverse ways in which economic and social goals may be explored together.

[8] Critics of the business case approach, such as Brown and Fraser (2006), argue that its unswerving assumption of shareholder primacy limits its effectiveness to the narrow slice of 'win-wins' and ignores or downplays trade-offs between the profits and the good of society at large.

[9] It is acknowledged that there are many ways in which the usefulness of information about social investment may be understood, with conventional empiricist approaches focusing on the impact on stock price or cost of capital. If social investments are not made with this

objective, then there is an argument to suggest that such models may be misspecified (Gray, 1995). Notwithstanding, this remains an open question and such metrics are primary in the thinking of many profit seeking entities across the globe.

[10] Some major types include: Corporate Social Responsibility (CSR), Corporate Responsibility, Social Responsibility, Triple Bottom Line, Environmental, Social and Governance (ESG), and Sustainability Reports. These names denote slightly different foci.

[11] While the documentation of such successes is important for various reasons, there are limits to what can be learned unless we can appreciate also what didn't work and why.

[12] http://examples.theiirc.org/home

[13] For more information, see PSI Guidelines available at http://p4si.org/download/main-profile/file/122/0/PSI Guidelines.pdf

[14] Private communication, Michael Bray (KPMG).

[15] http://unstats.un.org/unsd/envaccounting/seea.asp

[16] The joint UNECE/Eurostat/OECD working group for statistics on Sustainable Development (SGSSD), active 2005-8, had 90 members from 48 countries and international organisations. Their final report is located at: http://www.unece.org/fileadmin/DAM/stats/publications/Measuring_sustainable_development.pdf

[17] A core assumption in official economic statistics is that market price is equal to value, and in the absence of a market price, cost is equal to value. This assumption is not made naively, it is well understood that some things produce much more value than they cost (consumer surplus), while others cost much more than is merited than the value they add (producer surplus). However, price is a data point that is both objective and easily obtained. Value estimates must necessarily be of value to a particular user/consumer, which narrows the usefulness of the data point. So it is assumed that in the aggregate, those consumer and producer surpluses distribute around the mean.

[18] See for instance, Statistics New Zealand (2010) on improving output measurement in health and education.

[19] In the economic realm of national statistics, this is addressed by estimating (in terms of price) the change in output quality, re-expressing that in index form, and explicitly adjusting either the output or price to reflect the drift. For something where value is already subjective and contested, this leans far too heavily on price to be reasonable.