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Exploring the implications of integrated reporting for social investment (disclosures)

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ABSTRACT

The purpose of this study is to examine the evolution of corporate reporting on social investment activities in the context of a global move toward integrated reporting approaches. The paper adopts both a conceptual and content analysis approach to examining the reports of four multi-national corporations – Heineken, Unilever, Glaxo Smith Kline (GSK), and the National Australia Bank (NAB). We find that the purpose and outcomes of social investments became more clearly articulated and associated with longer term notions of progress, risk and strategy over the period of our study (2009–2013). This applied to all four companies, although only two (NAB and Unilever) had formally committed to the International Integrated Reporting Council's (IIRC) Pilot Programme. Further, reporting in GSK, Heineken and NAB transformed to telling more human-centred value creation stories. We argue that stewardship theory, isopraxism and isomorphism offer explanatory power for the identified changes in reporting with isomorphism and isopraxism together being useful in explaining differences and similarities in integrated approaches to corporate reporting.

Classification: Conceptual + Case Study.

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1. Introduction

In this study we explore the evolution of business reporting by four large multinational corporations (MNCs) toward more integrated approaches. The study responds to calls for research examining: the manner in which integrated reporting is evolving; the extent to which it is encouraging greater connectivity between core business issues and Environmental, Social and Governance (ESG) issues; its impact on integrated thinking (see for example, Cheng, Green, Conradie, Konishi, & Romi, 2014); and, the business case for integrated reporting (Simnett and Huggins, 2015). Public policy makers, advocates of reform and increasingly corporations themselves see profit versus social good as a false dichotomy (PSIS, 2012a, 2012b) in a modern environment characterized by increasingly knowledgeable stakeholders and rapidly rising middle classes in newly industrialised countries (KPMG, 2012).

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The International Integrated Reporting or <IR> Framework[1] is principles-based and voluntary. Common reporting formats by pilot companies included an organisational overview and the business model; operating context including risks and opportunities; key objectives and strategies to achieve them; governance and remuneration; performance; and future outlook. Importantly, and relevant to our case studies, trends towards introducing these content elements and thinking more broadly about value creation, extend beyond the IIRC <IR> pilot companies as a result of global developments in non-financial reporting through regulation and stock exchange requirements (see Eccles & Saltzman, 2011). This has been aided by the sharing of feedback from the one hundred plus businesses involved in the pilot testing of the IIRC's Framework through publications like the IIRC's *Understanding Transformation: Building the Business Case for Integrated Reporting* (2012) and the availability of their reports in an online database.[2]

The IIRC's pilot program participants reported internal benefits to their organisations including: 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 value creation for stakeholders (IIRC, 2012, p.3). The findings of a collection of recent studies provide some support for these benefits (e.g. Brown & Dillard, 2014; Higgins, Stubbs, & Love, 2014; IMA & ACCA, 2016). These elements were found missing in case organisations studied by Adams and Frost (2008) prior to these developments indicating that the <IR> Framework might be a useful mechanism for companies.

We explore the evolution of corporate reporting by seeking to understand how a selected sample of companies report on their social investments. We use the term 'social investment' broadly to refer to the activities undertaken by organisations to assist communities and societies to address their broader development needs (PSIS, 2012b). Such investment can take various forms, ranging from traditional philanthropy undertaken with little or no expectation of economic return in the short term, to more integrated approaches which incorporate social development needs as part of core business strategies.[3] A survey published by the Global Reporting Initiative and the University of Hong Kong (2008) found that the top five social investment activities reported were: education and training; philanthropy and charitable giving; community service and employee volunteering; total community expenditure; and, community engagement and dialogue. Social investment might thus be seen as a subset of corporate social responsibility activities which add value to communities outside the (traditional) organisational boundary and as such are particularly pertinent in delivering the Post 2015 Development Agenda.[4]

There is some evidence to suggest that organisations undertaking social investments are rewarded by customers, employees and markets, particularly where such activities are embedded in the strategy, governance structure and the operations of the entities (ICCSR, 2007; Lev, Petrovits, & Radhakrishnan, 2010; Porter & Kramer, 2006). Many companies are seeking to align their core business approaches with the needs of the communities and societies in which they are involved (see for example ICCSR, 2007) and/or reducing negative environmental impacts (International Finance Corporation, 2007; United Nations Development Programme & The International Business Leaders Forum, 2003). Some, as our findings indicate, regard this as important to their ability to create value for shareholders in the long term.

Conventional GAAP-based approaches to accounting and reporting do not readily portray the value created by social investment – for either the organisation or for society. Organisations typically report social investment activities in the form of case studies or commentary. The commentary has hitherto focused 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. They typically lack the use of quantifiable outcome-based metrics that highlight the broader impacts of investments for societies, communities, and organisations involved and it is rare for links drawn between social investment activities and the organisation's strategy to create value.[5] Where data are available, they primarily encompass 'inputs' such as money spent on philanthropic donations, sponsorships, and hours donated through employee volunteer programs.

The Integrated Reporting <IR> Framework (IIRC, 2013) provides a mechanism to address the non-financial information needs of providers of financial capital by providing insight into the effectiveness of the organisation's strategy in creating value, broadly defined (IIRC, 2013; Potter & Soderstrom, 2014). In doing so, advocates of <IR> maintain that it will help organisations integrate social and environmental considerations and social investment activities into mainstream business processes and decisions (Adams, 2015; IIRC, 2013; IIRC & Black Sun, 2014), although Stubbs and Higgins (2014) offer apparently contradictory evidence against a move towards 'integrated thinking' (defined in IIRC, 2013) in the Australian context.

To summarise, examining how the reporting by our sample companies has evolved over time is complex. Given that the IR movement is organised and influential, comprising global leaders in accounting and business (Potter & Soderstrom, 2014) it would not surprise if our two <IR> Pilot companies reported information in more integrated ways relative to the other companies. It is also possible that the development of integrated reporting might be occurring in the context of a general

[1] Integrated Reporting is commonly abbreviated to <IR>.

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

[3] We note that there are various definitions of social investment that have been put forward in the literature. We define the term as broadly as possible to enable us to focus on exploring how diverse social investment activities are reported.

[4] See https://sustainabledevelopment.un.org/index.html for further information.

[5] A broad concept of value creation for providers of finance is central to the <IR> Framework (Adams, 2013a; IIRC, 2013) which fosters the notion of multiple capitals and of transfers between capitals to create value for providers of finance. The Framework identifies six 'capitals': (i) Financial capital; (ii) Manufactured capital; (iii) Intellectual capital; (iv) Human capital; (v) Social and relationship capital; and (vi) Natural capital.

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