Integrated Annual Report Survey of New Zealand's Top 200 Companies

Exploring Responses from Chief Financial Officers on Emerging Reporting Issues

McGuinness Institute, Project One Integrated Report
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Report name *Integrated Annual Report Survey of New Zealand's Top 200 Companies: Exploring Responses from Chief Financial Officers on Emerging Reporting Issues*

Published

ISBN 978-1-877473-71-5 (Paperback)
ISBN 978s 1s 877473s 72s 2 (PDF)

Prepared by The McGuinness Institute, as part of *Project One Integrated Report*

Authors Wendy McGuinness and Nicola Bradshaw

External reviewers Bruce Gilkison, Mark Hucklesby and Jonathan King

About the Institute The McGuinness Institute is an independently funded nons partisan think tank.

For further information

McGuinness Institute
Phone (04) 499 8888
Level 2, 5 Cable Street
PO Box 24222
Wellington 6142
New Zealand
www.mcguinnessinstitute.org

Publishing This publication has been produced by companies applying sustainable practices within their businesses. The body text is printed on ECO100 paper, manufactured from 100% waste paper in a chlorine-free process. The cover is printed on Mondi Color Copy, which is FSC certified.

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About the Authors

Wendy McGuinness is the founder and chief executive of the McGuinness Institute. Originally from the King Country, Wendy completed her secondary schooling at Hamilton Girls' High School and Edgewater College. She then went on to study at Manukau Technical Institute (gaining an NZCC), Auckland University (BCom) and Otago University (MBA), as well as completing additional environmental papers at Massey University. As a Fellow Chartered Accountant (FCA) specialising in risk management, Wendy has worked in both the public and private sectors. In 2004 she established the Institute as a way of contributing to New Zealand's longs term future. Wendy also sits on the boards of Futures Thinking Aotearoa and the Katherine Mansfield Birthplace.

Nicola Bradshaw has recently completed a Bachelor of Commerce and Administration with a triple major in Commercial Law, Management and Public Policy at Victoria University of Wellington. Nicola is a 300s level tutor at the Victoria Management School. She has worked for the McGuinness Institute for the past five years.

Acknowledgements

Fifty-nine Chief Financial Officers responded to the survey, showing significant foresight and leadership in a complex area. We thank them for giving up their time to provide insight into this evolving area of reporting.

During the preparation of this report a number of people have generously offered their time, thoughts and opinions on integrated reporting. In particular we wish to acknowledge Professor Robert G. Eccles (Harvard Business School) who has been a driving force behind *Project One Integrated Report*; the members of the NZICA Sustainability Development Reporting Committee (NZICA SDRC): Gary Swift (Chair), Amanda Ball, Judy Brown, Peter Casey, Raechel Cummins, Leah Murphy, Jamie Sinclair and Tony Uttley; Mark Hucklesby (Grant Thornton, Auckland); Dr Eva Collins (University of Waikato); Ken Warren (Treasury, Wellington) and Mark Leadbetter (BDO Spicers, Auckland). Thanks also to Jane Diplock, Chair of the New Zealand Securities Commission, for two very insightful meetings. Jane is also a member of the IIRC. Another individual who provided constructive input and an international perspective was Kevin Simpkins, Chairman of the New Zealand Accounting Standards Review Board.

Further acknowledgement must also go to Deloitte and the editors of *Management* magazine for providing the listing of the Top 200 companies.

Susan Brierley contributed greatly to this publication with her patient and thorough editing. Rory Sarten provided invaluable technical assistance for the survey.

Special thanks go to Mark Hucklesby, Jonathan King and Bruce Gilkison, who read the final draft and provided guidance. However, any inaccuracies in the presentation or interpretation of the data are ours alone.

Preface

Who does nothing makes no mistake; who makes no mistakes learns nothing.
Luca Pacioli, 1494[1]

The Italian mathematician and Franciscan friar Luca Pacioli wrote the first text on bookkeeping in 1494. Five hundred years later, the McGuinness Institute believes it is time for a new textbook to be written, one that meets the needs of the 21st century. When Pacioli wrote his book the world was a much smaller place, government regulation was minute and taxes were simple, the world population was small (about 450 million),[2] and resources were abundant and largely unspoiled – the challenge was not so much measuring quality as the acquisition and transportation of resources. Most importantly, for accounting purposes, the past tended to reflect the future; the pace of change, whether in terms of ownership, technology, or products and services, was extremely slow. The emerging reporting problem of that time was how to present relevant information to the owner of a business, who was increasingly no longer the operator.

Today, the landscape has changed considerably, and the emerging reporting problem is about how to present relevant information to the stakeholder, who is increasingly neither the owner nor the operator. The term 'stakeholder' is frequently used to describe not only investors but insurers, regulators, professional bodies, service providers, customers, neighbours, bankers and many others. Today, stakeholders are not only seeking expanded measures of past performance; they are looking for a deeper understanding of future outcomes, as well as the ability to compare companies.

From the perspective of the McGuinness Institute, underlying today's emerging reporting problem are at least four key drivers of change: (i) the shorts term future is no longer a close reflection of the past;

(ii) government regulation is increasingly complex, and government itself is a key player in the economy; (iii) the world population is close to 7 billion (16 times the population 500 years ago) and as a result we are increasingly faced with the challenges of managing resources that are often scarce and/or compromised, and (iv) climate change, which is likely to be the most significant driver of change in the 21st century. For all these reasons, it is becoming increasingly important not just to measure quantity, but to measure quality.

In business terms, this means traditional methods of reporting results are becoming inadequate, hence the development of integrated reporting. The Institute's inaugural Integrated Annual Report Survey of New Zealand's Top 200 Companies is a first step in assessing the situation from a business point of view. The survey, conducted towards the end of 2010, asks what the Top 200 companies are providing, and what they regard as the challenges and opportunities in this area. Our aim is then to consider what professional bodies, accountancy firms, regulators and other stakeholders can do to help solve the accounting problem of the 21st century.

Wendy McGuinness
Chief Executive

1 Cited in J. B. Geijsbeek, *Ancient Double-entry Bookkeeping: Luca Pacioli's treatise (A.D. 1494 – the earliest known writer on bookkeeping),* p. 27. Retrieved December 2010 from http://www.archive.org/details/ancientdoubleent00geijuoft

2 Matt Rosenberg, *Current World Population and World Population Growth Since the Year One*. About.com Guide. Retrieved December 2010 from http://geography.about.com/od/obtainpopulationdata/a/worldpopulation.htm

Executive Summary

Assessing the performance of companies and deciding which is better – company A or company B – is no longer a simple matter of economic performance. Improving global governance of resources, as well as human health and wells being, is vitally important. The McGuinness Institute believes the best way to assess these factors is through companies publishing annual integrated reports. To this end the Institute supports the creation of the International Integrated Reporting Committee (IIRC), established in August 2010, as a positive step towards the formation of a reporting framework designed for the 21st century.

The Institute's inaugural Integrated Annual Report Survey of New Zealand's Top 200 Companies was designed to investigate how the Chief Financial Officers of the most economically significant companies operating in New Zealand are responding to emerging reporting issues, and their views on integrated reporting. The survey is a preliminary assessment of the supply side of the equation, and does not explore the needs or opinions of stakeholders.

The seven most significant findings of the survey (discussed in detail in Section 6) are as follows:

1. 23.7% of the 59 respondents had already published an integrated report;
2. 37.3% of the 59 respondents had some experience in integrated reporting;
3. From the 37.3% who had some experience in integrated reporting, the most significant challenges generated by integrated reporting were said to be time constraints, followed by inadequate guidance from standard-setters, and the need to generate new information in-house;
4. From this 37.3%, the most significant opportunities generated by integrated reporting were said to be positioning the company as socially responsible, followed by positioning the company as environmentally responsible, producing a long-term strategy, and communicating with employees;
5. 64.4% of the 59 respondents had not discussed a filing programme for integrated reporting;
6. 44.1% of the 59 respondents had calculated their greenhouse gas emissions, but only 18.6% had reported this information in their annual reports, and
7. 83.1% of the 59 respondents had not asked stakeholders in the last five years whether they would like to receive more information on other aspects of the company's performance, such as environmental and social impacts.

The Institute was surprised by a number of the findings from the survey, including the finding that a high number of companies had prepared integrated reports. This result may reflect the broad definition of integrated reporting that we employed for the survey (see Section 3.1). On the other hand, few companies had discussed a filing programme for integrated reporting. We were also surprised to find that while a high number of companies had calculated their greenhouse gas emissions, many had not reported this figure in their annual reports. Perhaps most surprising, and significant, was the fact that so few companies – just under 17% – had asked stakeholders in the last five years whether they would like to receive more information on other aspects of the company's performance, such as environmental and social impacts.

As a result, the Institute makes the following recommendations with respect to commercial entities, acknowledging that these recommendations could equally apply to other entities, in particular state-sector and not-for-profit organisations:

1. That commercial entities should develop more effective and timely ways to ask stakeholders what information they would like to receive in relation to their environmental and social performance.
2. That the government consider making it mandatory for companies that are significant emitters to calculate and report their greenhouse gas emissions in their primary annual reports.
3. That the government clarify whether integrated reporting (which we consider should occur through the primary annual report of an organisation) is included as an area of responsibility for the new External Reporting Board (XRB) (due to replace the Accounting Standards Review Board on 1 July 2011). If not, that the government confirm what institution is responsible for the content and quality of such reports.
4. That the government should prepare a discussion paper on the creation of a filing programme (either voluntary or mandatory) for annual integrated reports.
5. That professional membership organisations, in particular the New Zealand Institute of Chartered Accountants (NZICA), prepare a discussion paper to explore the ways in which they can contribute to developments in integrated reporting and actively support the work of the IIRC.
6. That a government organisation (or a quasi-government organisation) be made responsible for monitoring international progress in this area. Consistent with recommendation 3, it is possible that the External Reporting Board may be the most appropriate body to undertake this role.

Integrated reporting provides the transparency needed for stakeholders to trust the companies in which they invest and on which they rely. There is great potential for New Zealand to strengthen its 'clean and green' branding by providing assurance that what we offer is the real deal. It is our hope that this survey will generate interest in pursuing business reporting that addresses the problems we face today.

1. Purpose

This report presents the initial results of a survey designed to provide a snapshot of the current practices and views on integrated reporting of the top revenue-earning companies operating in New Zealand, as shown by responses from the Chief Financial Officers (CFOs) of these companies. CFOs are key players in the development of integrated reporting. They must provide timely and accurate data to the management team and board to inform their decisions and monitor strategy, and also to stakeholders, who have increasing expectations around the company's footprint, its treatment of staff, and the management of material risks. This all puts pressure on the quality of the company's publicly available information system.

In our ever more complex and connected world there is a need for risks to be better articulated in the public domain – whether they are site-specific, national or global. In particular, the public want to know which companies they can trust and, more importantly, which they cannot. Professional bodies need to work hard to develop a framework that improves trust, not only between the public and private sectors, but also within the private-sector – insurers, suppliers and bankers also need integrated information. A significant factor in developing this trust is communication. One of the notable findings of this survey was that a significant majority (83.1%) of the companies that responded had not asked stakeholders in the past five years whether they would like to receive more information on the company's environmental and social performance.

Our survey, and this report, provides insights into how accounting practitioners regard integrated reporting, exploring the challenges and opportunities of integrated reports, the nature of filing programmes, the optimal length of the reports and the extent to which companies are consulting with stakeholders.

In addition, it is hoped the survey could be used as a template to benchmark New Zealand against other countries, to assess progress over time, and to shape further research, which would assist in enabling policy to be based on evidence and informed debate.

1.1 The McGuinness Institute

The McGuinness Institute is an independently funded nons partisan think tank based in Wellington, New Zealand. The main work programme of the Institute is *Project 2058*. The strategic aim of this project is to promote integrated longs term thinking, leadership and capacitys building so that New Zealand can effectively seek and create opportunities and explore and manage risks over the next 50 years. It is hoped that *Project 2058* will help develop dialogue among government ministers, policy analysts and members of the public about alternative strategies for the future of New Zealand.

The project underlying this report is *Project One Integrated Report*. Its beginnings go back to 2002 when the Institute's Chief Executive, Wendy McGuinness, was a member of the New Zealand Institute of Chartered Accountants (NZICA) Taskforce on Sustainable Development Reporting. The taskforce went on to establish the Sustainability Development Reporting Committee (SDRC), which McGuinness chaired for two years from 2003 to 2004. From 2005 to 2007 she was an NZICA Councillor, being appointed a Fellow of the College of Chartered Accountants in 2009.

Project One Integrated Report was developed after McGuinness interviewed Professor Robert G. Eccles at Harvard Business School in July 2010, which led not only to the creation of this survey, but also to McGuinness's return to Boston in October 2010, to attend the *Developing an Action Plan for Integrated Reporting Conference*. This research was initially published in the Harvard Business School e-book, *The Landscape of Integrated Reporting: Reflections and Next Steps*.[3] It is hoped that it might provide useful insights for global conversations and perhaps assist others in completing similar surveys, which in turn would enable interested parties to compare global responses to similar questions.

3 *The Landscape of Integrated Reporting: Reflections and Next Steps*, November, 2010: http://www.hbs.edu/environment/docs/The%20Landscape%20of%20Integrated%20Reporting.pdf

2. Integrated Reporting in New Zealand

Integrated reporting and, in the broader context, reporting environmental and social performance alongside financial information, is not currently a significant focus of the New Zealand government. This is evident in our inability to find regulations or guidelines which require public agencies to report under an integrated framework. Despite these limitations some agencies have undertaken to provide information through integrated reporting and to monitor sustainable development in New Zealand.

The Ministry for the Environment (MfE) provides information on sustainability reporting through a list of case studies, guides, relevant organisations and other resources on its website. In particular, the three guides that are listed provide information: (i) to assess and improve businesses' environmental, social and economic performance; (ii) to help corporations to voluntarily monitor and report greenhouse gas emissions, and (iii) covering the main aspects of sustainable development reporting.[4]

Statistics New Zealand, a government department, monitors sustainable development and has published two reports on national sustainable development indicators: *Monitoring Progress Towards a Sustainable New Zealand* (2002), and *Measuring New Zealand's Progress Using a Sustainable Development Approach: 2008*. The 2002 report was 'the first time indicators covering economic, social, environmental and cultural spheres had been brought together and reported on in New Zealand'.[5] The 2008 report was based on a new set of indicators that adhere to international best practice. The publication measured 85 indicators along 15 themes, which included: population; biodiversity; air and atmosphere; water; land use; energy; transport; waste; innovation; work, knowledge and skills; economic resilience; living conditions; health; social connection and governance, and culture and identity.

In 2005, the Australian Centre for Public Agency Sustainability Reporting (CPASS) undertook an investigation of sustainability reporting in the public-sector, with the aim of providing a snapshot of reporting practices internationally. The findings cited the New Zealand Ministry for the Environment as among the first public agencies internationally to produce sustainability reports using the Global Reporting Initiative (GRI) framework. The report concluded by emphasising the continuing need to clarify the scope and practice of sustainability reporting by public organisations, and described success in this area as partly dependent on building the capacity of agencies to engage in the reporting field and to continue to expand on the international best practice frameworks.[6]

Within the private-sector, the New Zealand Business Council for Sustainable Development (NZBCSD), in its 2009 report *Corporate Reporting on Sustainable Development*, stated that integrated sustainability reporting is not yet occurring in New Zealand, but that there are examples of environmental reporting. The paper highlighted the five companies best known in New Zealand for their environmental reports, of which two, Watercare Services and the New Zealand Refining Company, were respondents to this survey.[7]

In 2003, New Zealand's main professional accounting body, the New Zealand Institute of Chartered Accountants (NZICA), established a Sustainability Development Reporting Committee (SDRC) with the objective of contributing to improvements in this area, and providing continuing leadership and guidance. However, the NZICA's 2010 review of its governance and operations, *Fit for the Future*, proposed organisational changes that included disbanding the SDRC. The review was aimed at ensuring the organisation has the most effective and efficient structure to align with its strategic direction and future challenges. The NZICA's justification for discontinuing the SDRC is as follows: 'While recognising the importance of [sustainable development reporting] in today's environment, NZICA's limited resources have been prioritised to other sector groups for this year. Focus will be on strengthening linkages with Special Interest Groups and industry, re-visiting the priority of these areas in the 2011 strategic review.'[8]

4 See the *Reporting* section of the Ministry for the Environment website: http://www.mfe.govt.nz/issues/sustainable-industry/tools-services/subjects.php?id=2

5 See *The Sustainable Development Reporting Programme* section of the Ministry for the Environment website: http://www.mfe.govt.nz/environmental-reporting/about/sus-dev.html

6 Global Reporting Initiative, *Sustainability Reporting by the Public Sector: Practice, uptake and form*. GRI G3: http://www.globalreporting.org/NR/rdonlyres/FAFD9A06-702A-4AA8-988C-979DBCCBC948/0/LeesonEtAlSustReortingByPublicSector.pdf

7 New Zealand Business Council for Sustainable Development (1999), *Corporate Reporting on Sustainable Development*, page 4. See: www.nzbcsd.org.nz/_attachments/CRS_.doc

8 NZICA, *Fit for the Future: Phase 2 – Review of committees and boards*: http://www.nzica.com/About%20Us/Governance/Fit%20for%20the%20Future.aspx

The proposed disestablishment of the SDRC signals to the McGuinness Institute (the Institute) that the New Zealand accounting profession may be pulling out of this emerging area of study and business practice. As a result, there is the risk of New Zealand falling behind while standards are being developed internationally. Further, there is a lost opportunity to show strategic leadership that aligns with New Zealand's clean and green national brand.

3. The Global Context

In this section we briefly explore the global context by answering four questions: (i) What is meant by integrated reporting? (ii) What is meant by a filing programme? (iii) What is the role of the International Integrated Reporting Committee? and (iv) How does integrated reporting improve the quality of socially responsible investment?

3.1 What is meant by integrated reporting?

Integrated reporting refers to the integrated representation of a company's performance in terms of both financial and non-financial results. Integrated reporting provides greater context than standard annual reporting for performance data, clarifies how sustainability fits into operations or a business, and may help embed sustainability into company decision-making. Some companies that report in an integrated manner also report additional sustainability information, such as carbon footprints, often online, for specific stakeholder groups.

For the purpose of the survey we adapted a definition provided by Professor Robert G. Eccles of Harvard Business School and Michael P. Krzus, public policy and external affairs partner with Grant Thornton, in their recent book *One Report*.[9] The adapted survey definition reads:

> an 'integrated report' is defined as an annual publication that combines an organisation's financial and non-financial (environmental, social and governance) performance and illuminates the relationship between the two. It often extends beyond a paper document, utilising the internet to facilitate the integration of performance reporting, as well as providing detailed information of particular interest to different stakeholders.[10]

In *One Report* the authors suggest it is about listening as much as talking – it is a conversation with all stakeholders about their expectations of a company's commitments and the performance metrics that ensure sustainability in economic, environmental, social and governance terms.

Paul Druckman, the head of the Prince's Accounting for Sustainability Project and co-Chair of the International Integrated Reporting Committee (IIRC) Working Group, was recently interviewed at Harvard Business School, where he discussed the creation of the committee and shared his thoughts and insights on integrated reporting.[11] Druckman defines integrated reporting as 'companies reporting against their own strategy in the long term'.

3.2 What is meant by a filing programme?

A key aspect of integrated reporting is the need to improve public access and participation in companies' operations. A solution has been the establishment of voluntary filing programmes, which:

> create a mechanism for companies to provide on a purely voluntary basis an integrated report of what they consider to be the material financial and non-financial measures of performance and how they are related to each other.[12]

9 R.G. Eccles and M.P. Krzus. (2010). *One Report: Integrated Reporting for a Sustainable Strategy*. New Jersey: John Wiley & Sons, p. 10

10 See the McGuinness Institute website for a copy of the final survey: http://www.mcguinnessinstitute.org/surveys/

11 See the interview (October 2010) on the McGuinness Institute YouTube channel: https://www.youtube.com/watch?v=Bms2krRr5n8&list=PL5803CF694337E9D4

12 R.G. Eccles and M. King, *Integrated reports voluntary filing*, p. 4, World Federation of Exchanges, 2010. Retrieved September 14, 2010: http://www.world-exchanges.org/news-views/views/integrated-reports-voluntary-filing#_ftn1

Examples of voluntary filing programmes can be seen in a few countries, such as Denmark, France and Sweden. This is an emerging field. Notably, South Africa is the first country to implement a mandatory integrated reporting framework for all listed companies. It is timely for New Zealand to consider offering companies – in particular the Top 200 companies – the opportunity to register their integrated reports voluntarily. This move would show leadership, as well as aligning with and strengthening the perception of our 'clean and green' national brand.

3.3 What is the role of the International Integrated Reporting Committee?

In August 2010, the International Integrated Reporting Committee (IIRC) was established.[13] The IIRC's mandate is to create an international standard framework for accounting for sustainability. The IIRC aims to establish a framework which assembles financial and environmental, social and governance information in an integrated format.

The role of the IIRC is to:

a. raise awareness of this issue and develop a consensus among governments, listing authorities, business, investors, accounting bodies and standard setters for the best way to address it;

b. develop an overarching integrated reporting framework setting out the scope of integrated reporting and its key components;

c. identify priority areas where additional work is needed and provide a plan for development;

d. consider whether standards in this area should be voluntary or mandatory and facilitate collaboration between standard-setters and convergence in the standards needed to underpin integrated reporting; and

e. promote the adoption of integrated reporting by relevant regulators and report preparers.[14]

Currently there are multiple regulatory bodies with the responsibility of setting standards and monitoring reporting. There is a lack of a single international authority with the oversight and ability to bring together an accounting and reporting framework which provides a complete assessment of an organisation's performance, including environmental and social factors. In response to the piecemeal approach created by many individual regulators, and the possible risk of many separate standards emerging, the IIRC is developing standards and guidelines which aim to:

a. support the information needs of long-term investors, by showing the broader and longer-term consequences of decision-making;

b. reflect the interconnections between environmental, social, governance and financial factors in decisions that affect long-term performance and condition, making clear the link between sustainability and economic value;

c. provide the necessary framework for environmental and social factors to be taken into account systematically in reporting and decision-making;

d. rebalance performance metrics away from an undue emphasis on short-term financial performance; and

e. bring reporting closer to the information used by management to run the business on a day-to-day basis.[15]

13 Learn more about the IIRC at *International Integrated Reporting Committee (IIRC): Welcome to the IIRC:* http://www.integratedreporting.org/

14 The role description of the IIRC has been reproduced unaltered from the IIRC website, *International Integrated Reporting Committee (IIRC)*, 2010: http://www.integratedreporting.org/node/4

15 These objectives for an integrated reporting framework have been reproduced from the IIRC website, *International Integrated Reporting Committee (IIRC)*, 2010: http://www.integratedreporting.org/node/3

3.4 How does integrated reporting improve the quality of socially responsible investment?

Socially responsible investment (SRI) is concerned with the alignment of investment objectives with environmental considerations, social concerns and economic development. SRI requires accurate, comprehensive and reliable corporate performance information across a range of indicators. Currently, socially responsible investors base their investment choices on the three sustainability indices of: (i) screening; (ii) shareholder activism, and (iii) community investing, in order to determine a company's social and environmental values.[16]

An informed investment choice is one based on the total merits of a company, rather than financial performance alone. There is an increased commitment to SRI globally; the market has grown at an annual rate of 22% since 2003,[17] and this increasing market is further evident in the establishment of the Principles for Responsible Investment, an investor initiative in partnership with the UNEP Finance Initiative and the UN Global Compact. As the growth of, and commitment to, SRI increases, companies need to work to ensure they respond with quality integrated reporting that meets the demand for non-financial, extra-financial, environmental, social and governance (ESG) information.

Integrated reporting is an ideal mechanism for providing companies with parameters, and concerned investors with the information required to understand an organisation's total performance and worth.

4. Methodology

The survey was designed to produce a snapshot of current practices and views with respect to integrated reporting in New Zealand, with an additional emphasis on greenhouse gas emissions. The survey has enabled the Institute to gather information on how New Zealand companies view the challenges and opportunities presented by integrated reporting, as well as to gauge the level of interest in developing a voluntary filing programme. We have deliberately used a broad definition of integrated reporting for the survey (see Section 3.1).

The primary purpose of this survey is to learn more about integrated reporting practices and the views of New Zealand's Top 200 companies. To this end, we developed four objectives to help us achieve the broader purpose of this report:

1. To investigate the thoughts of the CFOs of the Top 200 companies on the emerging practice of integrated reporting, and in particular the challenges and opportunities it presents.
2. To find out if the CFOs believe integrated reporting should be voluntary (a market-driven initiative) or regulatory (a mandated initiative).
3. To learn more about the strategies and practices being used by Top 200 companies to account for greenhouse gas emissions and obtain emission credits.
4. To understand the extent to which companies have consulted with stakeholders on non-financial aspects of their performance.

16 Ministry for the Environment (2010). *Socially-responsible investment*. Retrieved November 3, 2010: http://www.mfe.govt.nz/issues/sustainable-industry/tools-services/subjects.php?id=22

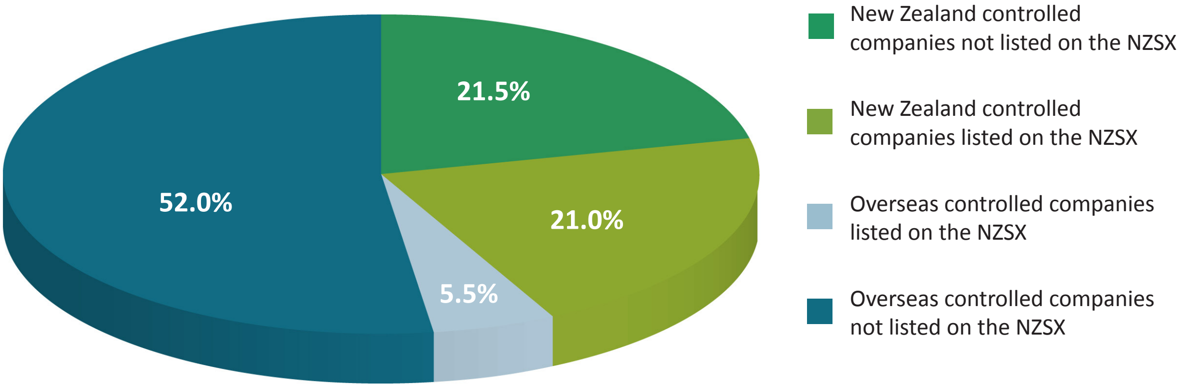
17 Institute of Directors in Southern Africa (2009). *King report on governance for South Africa 2009.* Retrieved November 3, 2010: http://african.ipapercms.dk/IOD/KINGIII/kingiiireport

4.1 Why the Deloitte/*Management* magazine Top 200 companies?

It is inevitable that the Top 200 companies[18] operating in New Zealand will have a significant impact on our economy, our people and our environment.

The economies of small countries can be strongly influenced by overseas-controlled companies, and New Zealand is no exception. 57.5% of the Top 200 companies are '50% or more controlled by overseas interests', and only 26.5% are listed on the New Zealand Stock Exchange (NZSX). In other words, almost three-quarters of our Top 200 companies are not traded publicly on the New Zealand Stock Exchange (see Figure 1). Therefore, it is in our interests to ensure that the more invisible companies – those that are owned and traded elsewhere – treat our citizens and country well. Thus, like other small countries, New Zealand has a significant interest in the development of international standards that improve the quality of integrated reporting.

Figure 1 Top 200 Companies by NZSX and by Overseas Control
Source: Adapted from *New Zealand Management*, December 2009: 70–83.



4.2 Survey design

The survey was designed to meet the four objectives outlined above, and to be quick and simple for CFOs to complete (taking about 15 minutes), yet sufficiently open to enable respondents to add more information if they so desired.[19, 20] Meeting these goals required a fine balance, and we are very grateful for the assistance of a number of experts in the field. To this end, we acknowledge the invaluable feedback we received from the following people:

- Professor Robert G. Eccles (Harvard Business School);
- The Sustainability Development Reporting Committee (NZICA SDRC): Gary Swift (Chair), Amanda Ball, Judy Brown, Peter Casey, Raechel Cummins, Leah Murphy, Jamie Sinclair and Tony Uttley;
- Mark Hucklesby (Grant Thornton, Auckland);
- Dr Eva Collins (University of Waikato);
- Ken Warren (Treasury, Wellington), and
- Mark Leadbetter (BDO Spicers, Auckland).

18 The Top 200 companies list is compiled annually by *Management* magazine in partnership with Deloitte and ranks companies by revenue. For a complete list of the 2009 Top 200 companies, see *Deloitte/Management Magazine, Top 200 A-Z Listing 2009*: http://www.management.co.nz/top200/200list09.pdf

19 See the McGuinness Institute website for a copy of the final survey: http://www.mcguinnessinstitute.org/surveys/

20 The online survey provider was www.SurveyMonkey.com

4.3 Data collection process

Chief Financial Officers were initially given four weeks to complete the survey; it was sent out on 24 September 2010, with a closing date for replies of 22 October 2010. Follow-up telephone calls were made a week before this date in an attempt to increase the number of responses, and the deadline was extended by a further two weeks to allow for late respondents to register their results. A total of 59 responses were received out of a possible 200 (29.5%). The survey was able to be completed online or in hard copy.

4.4 Limitations and boundaries

The Institute is aware of three main limitations to this research:

1. 70.5% of survey recipients did not respond. In addition, we consider that those who did respond were more likely to have an interest and/or expertise in integrated reporting.
2. While we were aware of the importance of defining the term 'integrated report', we acknowledge that there exists some uncertainty over this definition (to this end it is gratifying to learn that the IIRC is planning to develop a working definition).
3. CFOs are restricted by time limitations, and as a result some may have delegated the undertaking of the survey to a colleague within their company. This could have an effect on the responses, particularly if the respondent has less oversight and/or understanding of the company's reporting practices than the CFO.

In addition, we acknowledge that by focusing solely on the CFOs of the Top 200 companies we have excluded the large number of small to medium-sized New Zealand companies that could have made valuable contributions to the survey. Further, we have only obtained one perspective on integrated reporting; we have not gathered responses from board members, chief executive officers, investors, employees, bankers, consumers, regulators, non-government organisations, insurers or other stakeholders. A research programme that integrates the views of a range of stakeholders would be a constructive way of clearly identifying problems to be solved and solutions to be implemented (see Section 8).

While we acknowledge the existence of these boundaries and limitations, we do not consider they have a significant adverse effect on this report and our subsequent findings. We have gathered and analysed a range of data, allowing us to report on the current situation of integrated reporting in New Zealand.

5. Responses

A total of 59 companies responded to the survey, while a further 34 advised the Institute that they would not be completing the survey, with the reasons given generally falling into one of three groups: (i) the company was in receivership; (ii) time constraints, or (iii) it was company policy not to complete surveys. Some of the companies decided not to proceed when they learnt the survey was not mandatory. The remaining 107 companies did not respond to the Institute by the closing date.

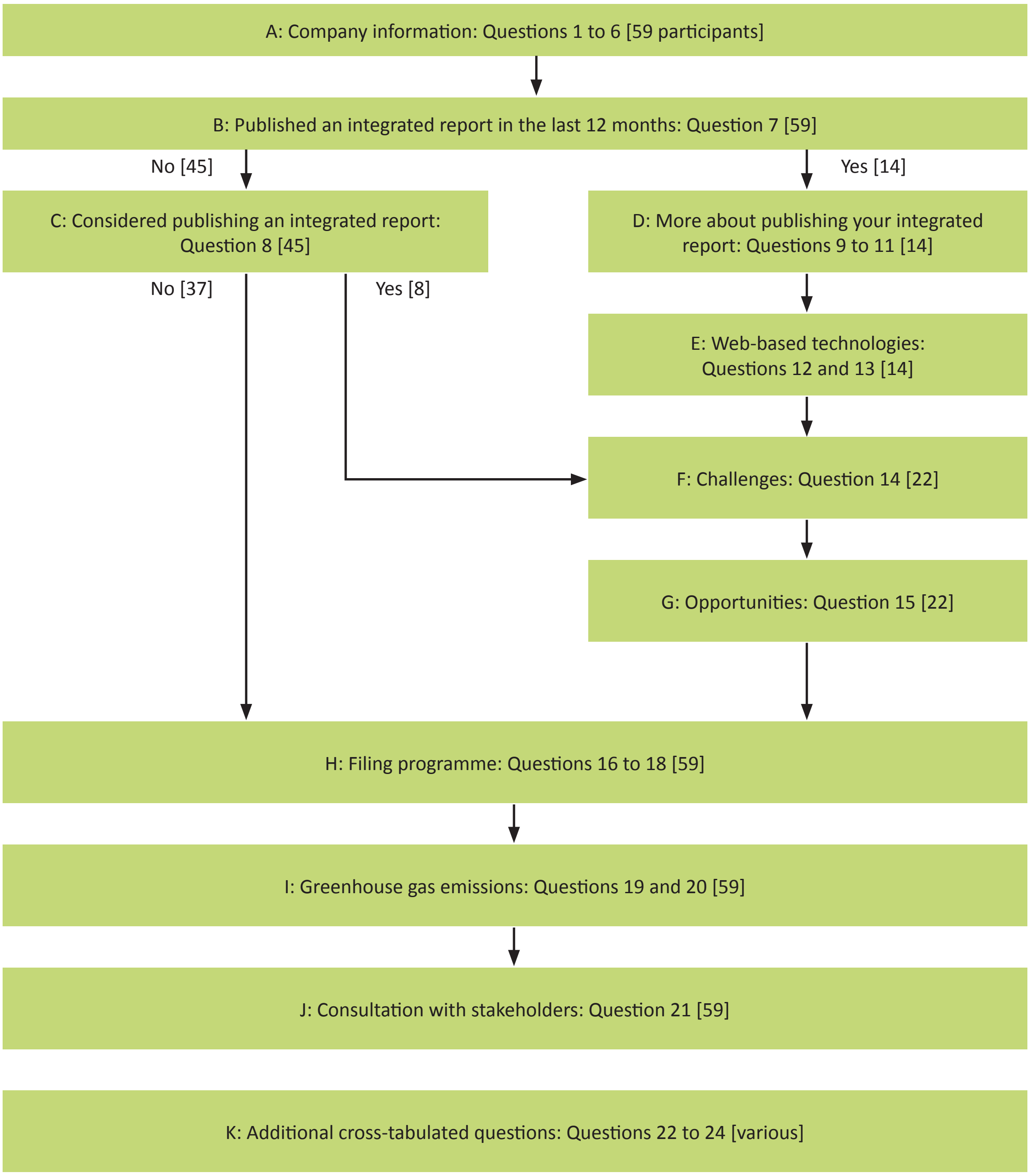
It is within this context that we acknowledge the efforts of the 59 companies that did respond; without their efforts the results obtained from this research would simply not exist. Further details of the survey participants, such as annual revenues, NZSX listings, extent of overseas control and ownership type can be seen on the Institute's website.[21]

5.1 Survey logic

Before reading the results it is important to understand the logic that underlies the survey. This effectively steers respondents through the questions to minimise the time investment required (particularly for those with little interest in integrated reporting) while allowing those with more knowledge and experience, or simply more interest in adding their thoughts to the debate, the space and time to do so. The Institute hoped that this approach would make completing the survey an easy, straightforward experience and improve response rates. Hence, the survey was designed to take 15 minutes or less. Figure 2 sets out the survey logic.

21 See analysis of the Top 200 companies, including lists of the 59 respondents, the 34 companies that advised they would not be completing the survey and the remaining 107 companies on the McGuinness Institute website: http://www.mcguinnessinstitute.org/surveys/

Figure 2 Survey Logic



5.2 Responses to questions

A. Company information: Questions 1 to 6

The first two questions of the survey ask for personal and company information; therefore Question 3 is the first question concerned with collecting survey data.

Question 3: Survey results specific to your company will not be made public via articles and working papers, unless you specify 'Yes' below. [59 participants]		
Answer Options	Response percentage out of 59	Response Count
Yes, text specific to our company may be made public.	3.4%	2
No, text specific to our company is not to be made public unless prior approval is obtained in writing.	96.6%	57

Question 4: Is your company more than 50% overseas controlled? [59]		
Answer Options	Response percentage out of 59	Response Count
Yes	47.5%	28
No	52.5%	31

Question 5: Is your company listed on the New Zealand Stock Exchange? [59]		
Answer Options	Response percentage out of 59	Response Count
Yes	27.1%	16
No	72.9%	43

Question 6: Please select ONE category that best represents your primary area of activity: [59]			
Answer Options		Response percentage out of 59	Response Count
1.	Accommodation	0.0%	0
2.	Agriculture, forestry and fishing	10.2%	6
3.	Arts and recreation services	0.0%	0
4.	Construction	0.0%	0
5.	Electricity, gas, water and waste services	6.8%	4
6.	Health care and social assistance	6.8%	4
7.	Manufacturing	15.3%	9
8.	Mining	1.7%	1
9.	Retail trade	16.9%	10
10.	Wholesale trade	11.9%	7
11.	Transport, postal and warehousing	8.5%	5
12.	Information media and telecommunications	3.4%	2
13.	Financial and insurance services	0.0%	0
14.	Rental, hiring and real estate services	0.0%	0
15.	Professional, scientific and technical services	1.7%	1
16.	Administrative and support services	0.0%	0
17.	Public administration and safety	0.0%	0
18.	Education and training	0.0%	0
Other (please specify)		16.9%	10

List of responses to ‘Other’:

- Packaging specialist
- Retail, wholesale and servicing motor vehicles
- Print and distribution
- Holding company for infrastructure and contracting companies
- Toll refiner – oil and gas sector
- Waste, recycling, industrial
- Food catering
- Design, manufacturing and distribution of showers/tapware/water control valves
- Infrastructure
- Industrial electrical engineers

B. Published an integrated report in the last 12 months: Question 7

Question 7: Has your company published an integrated report in the last 12 months? [59]		
Answer Options	Response percentage out of 59	Response Count
Yes, go to question 9	23.7%	14
No, go to question 8	76.3%	45

C. Considered publishing an integrated report: Question 8

Question 8: Even though your company has not yet published an integrated report, has it considered doing so? [45]		
Answer Options	Response percentage out of 45	Response Count
Yes, our company has considered publishing an integrated report, but this initiative remains a work in progress; go to question 14	4.4%	2
Yes, our company has considered publishing an integrated report, but at this time we have decided not to progress this type of report; go to question 14	13.3%	6
No, our company has never considered publishing an integrated report; go to question 16	82.2%	37

Summary of additional comments:

We received nine comments related to this question. The comments largely explained the reasons why the particular company is not pursuing integrated reporting, and these explanations generally covered three areas:

i. Subject to parent company reporting guidelines

A majority of comments noted the company in question was a subsidiary of a larger enterprise and its reporting was governed by parent company directive. Some noted that they were ‘wholly owned’ or the ‘smallest subsidiary’ of a larger company. It was also noted that parent companies often produced their own integrated, or otherwise social and environmental reports, compiling data supplied by subsidiaries. Another noted that the ‘driver for integrated reports will be [the] parent company’. These comments suggest that behavioural changes in parent companies are key drivers of reporting change.

ii. Pursuing minimum reporting requirements

Some companies noted they are pursuing the minimum reporting standards they are required to complete. One noted, ‘We are privately owned – no requirement to publicly publish reports.’ Another stated that they will not be publishing integrated reports ‘unless forced by NZ-IFRS [New Zealand International Financial Reporting Standards] etc.’

iii. Possibility of integrated reporting in the future

Some respondents noted that, while they have not to date considered integrated reporting, they recognise this type of reporting will likely be introduced to the company at a later date. One respondent explained, 'Although we have not considered to date, sustainability is becoming an area of focus in our organisation so it is only logical that reporting on it would follow.'

D. More about publishing your integrated report: Questions 9 to 11

Question 9: Please add the website link to your one integrated report here (optional). [14]		
Answer Options	Response Percentage out of 14	Response Count
Added	78.6%	11

Question 10: Whose guidance did you rely upon in the preparation of your most recent integrated report? [14]				
Answer Options	Guidance not relied upon	Guidance considered	Guidance relied upon	Response Count
New Zealand Institute of Chartered Accountants (NZICA)	4	7	3	14
Chartered Accountancy Firms (CA)	4	3	7	14
Global Reporting Initiative (GRI)	4	6	4	14
Prince's Accounting for Sustainability Project (A4S)	11	2	1	14
AccountAbility	13	0	1	14
Industry organisations	7	5	2	14
Researching best practice company reports	3	6	5	14
International Integrated Reporting Committee (IIRC)	13	0	1	14

Summary of additional comments:

There was one comment connected to this question. The respondent noted that while they did not use GRI, their reports, externally and internally, are verified to GRI standards.

Question 11: Before receiving this survey, were you aware of the formation of the International Integrated Reporting Committee (IIRC) in August 2010? (See www.integratedreporting.org) [14]		
Answer Options	Response percentage out of 14	Response Count
Yes	28.6%	4
No	71.4%	10

E. Web-based technologies: Questions 12 and 13

Question 12: In 2010, what benefit have you experienced from the following web-based technologies in the preparation, publication and communication of your integrated report? [14]					
Answer Options	Minimal benefit	Moderate benefit	Significant benefit	N/A	Response Count
Blogs	6	0	0	8	14
Podcasts	5	0	1	8	14
RSS feeds	5	1	0	8	14
SlideShare	5	1	0	8	14
Social networking (e.g. Facebook, Twitter, LinkedIn etc.)	6	0	0	8	14
Video sharing	5	1	1	7	14
XBRL	5	0	0	9	14
Wikis	5	0	0	9	14

Question 13: In 2015, what level of benefit do you expect from the following web-based technologies in the preparation, publication and communication of your integrated report? [22]					
Answer Options	Minimal benefit	Moderate benefit	Significant benefit	N/A	Response Count
Blogs	10	0	0	4	14
Podcasts	5	3	1	5	14
RSS feeds	5	4	1	4	14
SlideShare	5	3	0	6	14
Social networking (e.g. Facebook, Twitter, LinkedIn etc.)	7	2	0	5	14
Video sharing	5	3	1	5	14
XBRL	9	0	0	5	14
Wikis	7	1	0	6	14

F. Challenges: Question 14

Question 14: What challenges have you found or do you expect to find in preparing an integrated report? [22]						
Answer Options		Minimal challenge	Moderate challenge	Significant challenge	N/A	Response Count
1.	Shareholder commitment to prepare report	13	3	2	4	22
2.	Board commitment to prepare report	14	4	1	3	22
3.	Top management commitment to prepare report	9	8	2	3	22
4.	Funds to prepare the report	16	1	2	3	22
5.	Skills to prepare the report	12	7	2	1	22
6.	Adequate guidance from standard setters	8	8	3	3	22
7.	Gathering available information in-house	10	8	2	2	22
8.	Generating new information in-house	6	11	3	2	22
9.	Presenting information in a useful format	4	16	1	1	22
10.	Obtaining independent assurance over information	6	13	1	2	22
11.	Meeting the needs of shareholders (investors)	14	7	0	1	22
12.	Meeting the needs of employees	15	3	0	4	22
13.	Meeting the needs of neighbours (e.g. air/noise/light pollution)	14	3	0	5	22
14.	Meeting the needs of NGOs (including lobby groups)	9	11	0	2	22
15.	Time constraints	2	14	5	1	22
Other Challenges or comments (please specify)						2

Summary of additional comments:

There were two comments connected to this question. One respondent commented that the cost of data collection can be prohibitive, and further noted a 'lack of relevant guidance – most is irrelevant, misleading and/or partial'.

G. Opportunities: Question 15

Question 15: What opportunities have you found or do you expect to find in preparing and publishing an integrated report? [22]						
Answer Options		Minimal opportunities	Moderate opportunities	Significant opportunities	N/A	Response Count
1.	Productivity gains	13	7	1	1	22
2.	Recognising trade-offs	8	10	0	4	22
3.	Innovative practices	7	12	2	1	22
4.	Team building and communication	6	12	3	1	22
5.	Staff satisfaction, attraction and retention	6	10	5	1	22
6.	Producing a long-term sustainable strategy/s	6	7	8	1	22
7.	Positioning the company as socially responsible	2	8	11	1	22
8.	Assurance by independent auditors	7	12	2	1	22
9.	Communication with shareholders	4	14	3	1	22
10.	Communication with employees	5	11	5	1	22
11.	Communication with neighbours (air/noise/light pollution)	8	10	2	1	22
12.	Communication with council, iwi and hapū[22]	7	13	1	1	22
13.	Communication with clients and customers	7	10	4	1	22
14.	Communication with NGOs (including lobby groups)	8	9	4	1	22
15.	Communication with the media and the general public	4	12	5	1	22
16.	Positioning the company as environmentally responsible	2	9	10	1	22
17.	Positioning the industry as environmentally responsible	5	10	6	1	22
18.	If you export, positioning New Zealand as environmentally responsible	4	4	3	11	22
Other opportunities and comments (please specify)						2

Summary of additional comments:

Interestingly, both comments noted that the opportunities should be seen in the context of a larger stakeholder engagement programme, with one respondent stating that ‘On its own, the report would achieve none of the above. As an element in a wider stakeholder engagement programme, it reinforces other efforts to build and maintain goodwill.’

22 Both terms are commonly used in New Zealand to refer to a large group of people descended from a common Māori ancestor. Iwi refers to a tribe, while hapū refers to a smaller kinship group.

H. Filing programme: Questions 16 to 18

Question 16: To your knowledge, would your company support the creation of a filing programme for integrated reports for Top 200 companies by 2015? [59]		
Answer Options	Response percentage out of 59	Response Count
Yes, our company would prefer a mandatory filing programme	1.7%	1
Yes, our company would prefer a voluntary filing programme	6.8%	4
Unknown, our company has discussed the options, but has not reached consensus	5.1%	3
Unknown, our company has not discussed this issue	64.4%	38
No, our company would not support any form of filing programme	15.3%	9
Other (please specify and explain reasons)	6.8%	4

Summary of additional comments:

There were four comments connected to this question. Of note, one respondent commented that while their company would currently check the 'Unknown' field, they believe it will support a voluntary filing programme in the next few years. Another likewise noted that their company had checked 'Unknown', but they would like to add that they personally would support a voluntary filing programme.

Question 17: In the event that either a voluntary or mandatory filing programme was implemented, who should maintain the register? [59]		
Answer Options	Response percentage out of 59	Response Count
New Zealand Stock Exchange	8.5%	5
Securities Commission or its replacement – the Financial Markets Authority	16.9%	10
No preference	67.8%	40
Other (please specify and explain reasons)	6.8%	4

Summary of additional comments:

There were four comments connected to this question. One respondent suggested the New Zealand Companies Office take this role, while another noted that whoever was to take this responsibility 'would need to be an entity with the required skills and focus'.

Question 18: What do you think is the ideal size of an integrated report? [59]		
Answer Options	Response percentage out of 59	Response Count
Fewer than 20 pages	52.5%	31
20 to 40 pages	18.6%	11
40 to 60 pages	10.2%	6
60 to 80 pages	8.5%	5
80 to 100 pages	10.2%	6
More than 100 pages	0.0%	0

I. Greenhouse gas emissions: Questions 19 and 20

Question 19: Has your company done any of the following in the last 12 months? [59 were asked this question; 31 did not answer it (implying it was not relevant to their company), meaning 28 answered one or more of the three options below]		
Answer Options	Response percentage out of 59	Response Count
Calculated its greenhouse gas emissions	44.1%	26
Reported publicly its greenhouse gas emissions in the annual report	18.6%	11
Prepared a strategy to reduce its greenhouse gas emissions	32.2%	19
Comments welcome		13

Summary of additional comments:

There were 13 comments, generally falling into two groups:

i. For those that did tick one or more of the options, the comments suggest their company has been reporting and trying to reduce emissions for some time. One noted that a 'Gas Emissions Reduction Plan was produced in 2008' and another stated that 'even pre-ETS [Emissions Trading Scheme] we were measuring and trying to reduce greenhouse gas emissions'.

ii. For those that did not tick any of the options, comments suggest it was because they considered their company was 'a minimal emitter of greenhouse gas emissions', they are 'only a holding company with minimal staff' or 'their industry group manages this'.

Question 20: Does your company have a strategy to obtain emission credits through one or a combination of the following? [59 were asked the question; 45 did not answer (implying it was not relevant to their company), meaning 14 answered one or more of the three options below]		
Answer Options	Response percentage out of 59	Response Count
Free allocation from Government	15.3%	9
Earning through forest sinks	8.4%	5
Purchasing units	15.3%	9
Comments welcome		11

Summary of additional comments:

There were 11 comments connected to this question. Most participants simply stated that their company does not have any plans to obtain emission credits through any of the means outlined in the question. Two respondents noted that their company has negotiated separate agreements with the Crown related to specific projects. One of these companies is exempt from the ETS through this agreement. Another replied 'not forced to (yet)'.

J. Consultation with stakeholders: Question 21

Question 21: Has your company asked stakeholders in the last five years whether they would like to receive more information on other aspects of the company's performance, such as environmental and social impacts? [59]		
Answer Options	Response percentage out of 59	Response Count
Yes	16.9%	10
No	83.1%	49
If yes, please briefly explain what type of information was requested and by whom (e.g. the type of stakeholder)?		12

Summary of additional comments:

There were 12 comments connected to this question, which generally covered three areas:

i. **Companies that have sought stakeholder feedback**
A number of the comments clarified how stakeholder feedback was acquired. One stated the information was obtained as part of a stakeholder engagement programme carried out in recent years. Another explained that 'the company has included a communication pack feedback form requesting what stakeholders would like to see in future communications'. A further company provided a detailed overview of a programme designed to ask stakeholders in communities in which company assets are located, what type of information they would like to receive. They noted that 'Generally our stakeholders were interested in an overview of the company's financial performance and its overall environmental performance and our approach to community activities.' This company had initially only supplied specific information to communities; however they have since discovered that there is more interest in the company's whole performance.

ii. **Companies that had received requests by stakeholders**
These companies noted that stakeholders have requested information on corporate social responsibility and environmental performance, including energy utilisation. One respondent noted that stakeholders have requested the inclusion of non-financial information in the company's business plan. Another stated, 'Export customers in particular in Europe have requested information on sustainability of products.'

iii. **Subsidiaries that do not address stakeholders**
Some subsidiary companies do not engage with New Zealand stakeholders because of their relative size within the global company. As one respondent noted, 'We are [a minute percentage] of the worldwide group – immaterial.'

K. Additional cross-tabulated questions

It is also possible to gain a better understanding of the survey results by analysing the results of two questions at once. While there are clearly many different combinations of questions that could be investigated, we have only included a few examples here, with our observations.

Additional cross-tabulated Question 22: Are some industry groups more likely to undertake integrated reporting than others? (Question 6 crossed with Question 7)				
Question 6: Please select ONE category that best represents your primary area of activity.				
		Question 7: Has your company published an integrated report in the last 12 months?		
Answer Options		Yes	No	Total
1.	Accommodation*	0.0% (0)	0.0% (0)	0.0% (0)
2.	Agriculture, forestry and fishing	7.1% (1)	11.1% (5)	10.2% (6)
3.	Arts and recreation services*	0.0% (0)	0.0% (0)	0.0% (0)
4.	Construction*	0.0% (0)	0.0% (0)	0.0% (0)
5.	Electricity, gas, water and waste services	21.4% (3)	2.2% (1)	6.8% (4)
6.	Health care and social assistance	0.0% (0)	8.9% (4)	6.8% (4)
7.	Manufacturing	7.1% (1)	17.8% (8)	15.3% (9)
8.	Mining	7.1% (1)	0.0% (0)	1.7% (1)
9.	Retail trade	14.3% (2)	17.8% (8)	16.9% (10)
10.	Wholesale trade	7.1% (1)	13.3% (6)	11.9% (7)
11.	Transport, postal and warehousing	21.4% (3)	4.4% (2)	8.5% (5)
12.	Information media and telecommunications	0.0% (0)	4.4% (2)	3.4% (2)
13.	Financial and insurance services*	0.0% (0)	0.0% (0)	0.0% (0)
14.	Rental, hiring and real estate services*	0.0% (0)	0.0% (0)	0.0% (0)
15.	Professional, scientific and technical services	7.1% (1)	0.0% (0)	1.7% (1)
16.	Administrative and support services*	0.0% (0)	0.0% (0)	0.0% (0)
17.	Public administration and safety*	0.0% (0)	0.0% (0)	00.0% (0)
18.	Education and training*	0.0% (0)	0.0% (0)	0.0% (0)
Other (please specify)		7.1% (1)	20.0% (9)	16.9% (10)

Observation: The answer to cross-tabulated Question 22 would appear to be 'Yes', but it is important to note that not all industry groups were represented among those who completed the survey (see * above). It is therefore difficult to make meaningful observations based on these statistics. However, of the companies that did complete the survey, a number of interesting observations are apparent. For example, some industries have more interest in reporting in an integrated way than others – notably, 'electricity, gas, water and waste services' (three out of the four published an integrated report) and 'transport, postal and warehousing' (three out of five). Others show less interest – 'agriculture, forestry and fishing' (only one of six has published an integrated report), 'manufacturing' (one out of nine), retail (two out of ten) and wholesale trade (one out of seven).

Additional cross-tabulated Question 23: Is the preferred size of an integrated report different for those who 'have/have not' published an integrated report in the last 12 months? (Question 18 crossed with Question 7)			
Question 18: What do you think is the ideal size of an integrated report?			
	Question 7: Has your company published an integrated report in the last 12 months?		
Answer Options	Yes	No	Total
Fewer than 20 pages	7.1% (1)	66.7% (30)	52.5% (31)
20 to 40 pages	28.6% (4)	15.7% (7)	18.6% (11)
40 to 60 pages	14.3% (2)	8.9% (4)	10.2% (6)
60 to 80 pages	14.3% (2)	6.7% (3)	8.5% (5)
80 to 100 pages	35.7% (5)	2.2% (1)	10.2% (6)
More than 100 pages	0.0% (0)	0.0% (0)	0.0% (0)

Observation: The answer to this question is 'Yes'. Those who had not previously published integrated reports preferred short reports (66.7% selected fewer than 20 pages). Those who had published reports generally preferred more than 20 but less than 100, with two clear groups – one selecting the '20 to 40 pages' option and the other the '80 to 100 pages' option. No one wished to see reports longer than 100 pages.

Additional cross-tabulated Question 24: Do companies that prepare integrated reports consult more with stakeholders? (Question 21 crossed with Question 7)			
Question 21: Has your company asked stakeholders in the last five years whether they would like to receive more information on other aspects of the company's performance, such as environmental and social impacts? [59]			
	Question 7: Has your company published an integrated report in the last 12 months?		
Answer Options	Yes	No	Total
Yes	42.9% (6)	8.9% (4)	16.9% (10)
No	57.1% (8)	91.1% (41)	83.1% (49)

Observation: Yes, significantly. Of course it is difficult to establish which comes first, the focus on consultation or the publication of an integrated report, but there is no doubt that companies that do not publish integrated reports also tend not to seek information from stakeholders on other aspects of the company's performance, such as environmental and social impacts.

5.3 Observations on improving the survey

When reflecting on the key findings of the survey, the Institute identified three areas where additional information would enable readers to make more informed observations about how to progress integrated reporting in New Zealand. In particular, future surveys would benefit from including:

- a question regarding a company's position as a subsidiary. A number of respondents noted their company's status as a being a subsidiary as being a major factor in their reporting practices and their relationship with shareholders. Information on companies' status in this respect would have allowed us to draw stronger conclusions in relation to its impact on their responses.
- the additional option of The New Zealand branch of CPA Australia (Certified Practicing Accountants) being added in Question 10.
- a question about the type of advice companies would like to obtain from government and the professional membership bodies, being an adjunct to Question 10.

For further notes on the limitations and boundaries of this survey see Section 4.4.

6. Key Findings

The key findings from the survey are:

A. Company information

- Only 3.4% of respondents were willing to have text specific to their company made public. (Question 3)
- New Zealand-controlled companies participated at a slightly higher rate; 52.5% of the 59 respondents were not '50% or more overseas controlled' (compared to 42.5% of all Top 200 companies – see Figure 1). (Question 4)
- The sample of companies that responded was representative of the ratio of NZSX-listed vs non-NZSX-listed companies in the Top 200 as a whole: 27.1% of the 59 respondents stated they were 'listed on the NZSX', whereas 26.5% of the Top 200 companies are listed on the NZSX – see Figure 1. (Question 5)
- A high number of respondents were from the (i) retail trade, (ii) manufacturing, (iii) wholesale trade industries, and (iv) agriculture, forestry and fishing. (Question 6)

B & C. Respondents who have experience in integrated reporting

- Over a third of the 59 respondents (37.3%) had some experience of integrated reports. Of the 59 respondents 23.7% had published an integrated report in the last 12 months (Question 7); 3.4% had considered publishing an integrated report, but the initiative remained a work in progress, and 10.2% had considered publishing an integrated report, but at this time had decided not to progress this type of report. This equates to the majority of respondents having no experience with integrated reports: 62.7% of respondents had never considered publishing an integrated report. (Question 8)

D. Respondents who have published an integrated report in the last 12 months

- Respondents who had prepared integrated reports were more likely to be companies operating in the 'electricity, gas, water and waste services' and 'transport, postal and warehousing' sectors. Notably, those with less knowledge or interest in integrated reporting were from sectors such as 'agriculture, forestry and fishing' (only one of six had published an integrated report), 'manufacturing' (one out of nine), retail (two out of 10) and wholesale trade (one out of seven). (Cross-tabulated Question 22)
- It is also of note that of the six State-owned Enterprises (SOEs) that responded to the survey, five had completed integrated reports. Unfortunately, four other SOEs in the Top 200 did not respond to the survey. (Cross-tabulated Question 22)
- Seven of the 14 companies that had published integrated reports stated that they had 'relied on' guidance from chartered accountancy firms and/or best practice company reports. When asked what other guidance they had 'considered but not relied upon', they noted the NZICA, GRI, best practice company reports and industry organisations. (Question 10)
- Over a quarter of the 14 companies that had already published integrated reports (28.6%) were aware of the formation of the IIRC before receiving this survey. (Question 11)

E. Web-based technologies

- The majority of the companies that had already published an integrated report had made the report available to the public via their websites: 78.6% of respondents who had published an integrated report provided a website link to view their integrated report. (Questions 7 and 9)
- Use of web-based technologies in the preparation, publication and communication of integrated reports was not viewed as having delivered significant benefits in 2010, although one respondent did note that podcasts and video sharing had proven beneficial (Question 12). However, the perception is that by 2015 further benefits will be experienced across all types of web-based technologies, particularly in terms of increased use of XBRL and RSS feeds. (Question 13)

F. Challenges

- All of the 15 proposed challenges listed in Question 14 were acknowledged by one or more participants. No additional challenges were reported by participants, however two commented on the cost of information and the lack of guidance as significant challenges. (Question 14)
- The most significant challenge identified was (i) time constraints, followed by (ii) adequate guidance from standard setters, and (iii) generating new information in-house. (Question 14)

- The major challenges identified (derived from the addition of significant and moderate challenges) were: (i) time constraints, (ii) presenting information in a useful format, (iii) generating new information in-house, and (iv) obtaining independent assurance over information. (Question 14)
- The less concerning challenges (derived from the addition of minimal and N/A) were: (i) funds to prepare the report; (ii) meeting the needs of employees, (iii) meeting the needs of neighbours (e.g. air/noise/light pollution), and (iv) [obtaining] shareholder commitment to prepare the report (Question 14). Points (ii) and (iii) are particularly interesting when seen beside the findings of cross-tabulated Question 24 – see findings in J below.

G. Opportunities

- All of the 18 proposed opportunities listed in Question 15 were acknowledged by one or more participants. No additional opportunities were reported by participants. (Question 15)
- The most significant opportunity (which was identified by half the participants) was (i) positioning the company as socially responsible, which was followed by (ii) positioning the company as environmentally responsible, (iii) producing a long-term sustainable strategy/s, and (iv) communication with employees. (Question 15)
- The major opportunities identified (derived from the addition of significant and moderate opportunities) were: (i) positioning the company as socially responsible, followed by (ii) positioning the company as environmentally responsible, (iii) communication with shareholders, (iv) communication with the media and the general public, (v) communication with employees, and (vi) positioning the industry as environmentally responsible. (Question 15)
- The less important opportunities (derived from the addition of minimal or N/A) were: (i) productivity gains, (ii) recognising trade-offs, (iii) communication with NGOs (including lobby groups), and (iv) communication with neighbours (air/noise/light pollution).[23] (Question 15)

H. Filing programme

- When asked whether respondents would support a filing programme for the Top 200 companies' reports, 64.4% selected 'unknown, our company has not discussed this issue'. Of those remaining 15.3% noted that 'our company would not support any form of filing programme', 6.8% said yes they would support a voluntary filing programme, 5.1% said they had discussed the options but had not reached consensus, 6.8% made comments that indicated possible movement towards a voluntary regime and 1.7% noted a preference to a mandatory filing programme. (Question 16)
- In the event that either a voluntary or a mandatory filing programme was implemented, 8.5% supported the NZSX maintaining the register, 16.9% of respondents believed the Securities Commission, or its proposed replacement the Financial Markets Authority, 67.8% had 'no preference' and 6.8% marked Other. (Question 17)
- 52.5% of respondents believed fewer than 20 pages was an ideal size for an integrated report (Question 18). However, it is worth noting that those who had not published an integrated report in the last 12 months tended to prefer fewer than 20 pages (66.7%), whereas those who had recently prepared an integrated report generally selected a preference for between 20 and 100 pages. No company believed integrated reports should be longer than 100 pages. (Cross-tabulated question 23)

I. Greenhouse gas emissions

- 44.1% of companies responded that they had calculated their greenhouse gas emissions in the last 12 months and 18.6% had reported that figure in their annual report (Question 19). In a further question on their strategy to obtain emission credits, 15.3% responded through free allocations from the government, 8.4% responded through earning forest sinks and 15.3% through purchasing units. (Question 20)

J. Consultation with stakeholders

- 83.1% of the 59 companies said they had not asked stakeholders in the last five years whether they would like to receive more information on other aspects of the company's performance, such as environmental and social impacts (Question 21). Notably, 57.1% of those that 'had published' an integrated report in the last 12 months had not asked stakeholders, whereas the corresponding percentage was 91.1% for those that 'had not published' an integrated report over the same time frame. (Cross-tabulated question 24)

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23 Note, the export option was excluded from this ranking as it was only relevant to a few of the participants.

7. Discussion

It is heartening to learn that more integrated reports have been prepared than we initially expected and that Chief Financial Officers are working hard to produce best practice reports. However this interest was not shared across all companies; some from ‘agriculture, forestry and fishing’, ‘manufacturing’, ‘retail’ and ‘wholesale trade’, arguably industries with large footprints, appear less interested in progressing this type of reporting. The fact that the majority of respondents who had prepared integrated reports were more likely to be companies operating in the ‘electricity, gas, water and waste services’ and ‘transport, postal and warehousing’ sectors, indicates that these service industries see greater value from reporting non-financial information to stakeholders.

Half of the respondents who had published an integrated report in the past 12 months had ‘relied on’ guidance from chartered accountancy firms; in contrast respondents had only ‘considered’ seeking guidance from the NZICA. This implies that best practice is being led by practitioners in the field (what is referred to as a pull strategy), rather than by standards developed by regulators and professional bodies (a push strategy). This, combined with the fact that challenges to integrated reporting tend to stem from time constraints and a lack of adequate guidance from standard setters, suggests CFOs committed to this type of reporting are currently not well supported by their professional bodies. Further, the perceived challenges of presenting information in a useful format, generating new information in-house, and obtaining independent assurance over information, indicate that to progress integrated reporting, effective guidance is imperative. This is evidenced by the difference in expectations over the length, and therefore content of integrated reports, between those who have already prepared reports and those who have not, as shown in the results of cross-tabulated Question 23.

One notable finding was that 44.1% of the respondents had calculated their company’s greenhouse gas emissions. The requirement for companies to calculate and mitigate their greenhouse gas emissions for legal compliance under the recently introduced New Zealand Emissions Trading Scheme can be assumed to be the catalyst and driver for this result. A reasonable conclusion from this finding is that regulation is an effective mechanism for enforcing change in internal reporting systems and improving public reporting practices.

A possible way forward would be the establishment of a national filing programme for integrated reports. South Africa is the first country to introduce a mandatory filing regime for all listed companies, and a number of other countries seem set to follow. In New Zealand this initiative has not been widely discussed (over half of respondents indicated they had not discussed this possibility); however, of those who had, opinions on its form were mixed. Like most policy initiatives, it comes down to alternatives, costs and benefits; in particular who pays what costs and who gets the benefit. New Zealand has the opportunity to look more deeply at the option of a mandatory filing programme as part of the current review of our securities law, which includes the proposal for a new Financial Markets Authority (FMA). Respondents showed a preference for the proposed FMA as the holder of any filing register (rather than the NZSX).

Notably, a significant majority (83.1%) of the companies that responded to the survey had not asked stakeholders in the past five years whether they would like to receive more information on the company’s environmental and social performance. This figure increased to 91.1% when the publishers of recent integrated reports were removed from the sample. This might be explained by the decisions of some international companies not to consult with New Zealand stakeholders because of our relatively small market size. In support of this, one respondent stated ‘we are [a minute percentage] of the world wide group’, implying that consulting with stakeholders on their New Zealand operations was immaterial to their company’s overall reporting practices. This is a problem that could be addressed by a filing regime for large companies and/or the development of a set of international reporting standards for integrated reports.

Decision makers need to be able to understand the whole picture, which means quality data needs to be both integrated and complete. It is not enough to rely on transactional reporting systems to meet these needs; good decisions need good analysis, and good analysis demands quality data. This requires data systems to be designed, not just for transactional accounting systems, but to allow for the greater inclusion of qualitative data (a good estimate is better than no data). This makes greater demands on reporting systems to prevent the reporting of flawed or misleading data.

The underlying purpose of integrated reporting is the notion that a licence to operate exists between a company and the public. Ideally, stakeholders and the general public can develop ways to learn more about the activities of companies and appreciate some of the complex trade-offs that are necessary to remain commercially viable. Further, as companies increasingly appreciate the nature of emerging social and environmental goals, business practices may change before regulation is necessary.[24] However, it remains unclear how companies that have not shown an interest in reporting beyond their financial information will ever report such information voluntarily. It is true that companies and society need each other, but society needs well-governed companies more.

7.1 Recommendations

Better reporting has already proven to be an excellent mechanism for connecting the manager with the owner, but we need to do more. And this need is becoming urgent; the increasing connectedness of the world over the last 25 years means that our problems, too, are increasingly connected. For the accounting profession, this means that the delivery of timely, cost-effective and relevant information needs to be focused on 'value' – which is why every accountant should reflect on the findings of Question 21: 83.1% of the companies that responded to the survey had not asked stakeholders in the past five years whether they would like to receive information on the company's environmental and social performance.

Underlying this finding is a concern that stakeholders' needs (the demand side) are not being met by what is currently being reported (the supply side). This demands more than an exploration of what current readers of annual reports are missing, but asking questions such as: (i) what range of stakeholders exist, (ii) what past and future information is of interest, (iii) over what time frame, (iv) at what level of accuracy, (v) to what level of assurance, and (vi) who benefits and at what cost? By asking these broader questions, we are more likely to understand the size of the current gap between demand and supply, and more importantly, how to close the gap. The concept underlying integrated reporting sidesteps problems contained in the current framework, such as definition problems (e.g. financial statements containing financial and non-financial data) or governance problems (e.g. who sets standards around the scope and purpose of annual reports) by redefining an organisation's primary report as an integrated report. Acknowledging this gap, and the response to Question 21 above, leads to our first recommendation: that companies should develop more effective and timely ways to ask stakeholders what information they would like to receive in relation to their environmental and social performance (Recommendation 1).

The government also needs to play its part and provide more clarity over roles and responsibilities. We consider it should be mandatory for commercial entities that are significant emitters to calculate and report their greenhouse gas emissions in New Zealand in their primary annual report. This would align with the recent comments of the Minister Responsible for Climate Change Negotiations, Tim Groser, that nations should make their commitments on greenhouse gases measurable, reportable and verifiable (MRV)[25] (Recommendation 2). Further, there is a need to clarify whether integrated reporting is included or excluded as an area of responsibility for the new External Reporting Board (XRB);[26] if it is excluded, the government needs to clarify who will undertake this responsibility (Recommendation 3).

New Zealand, like many small countries, is dependent on global initiatives to provide certainty in an uncertain world. We found that 52% of our Top 200 companies (by revenue)[27] are overseas controlled and not listed on the New Zealand Stock Exchange (NZSX), which means they are largely invisible to the general public. The Institute therefore suggested to the Ministry of Economic Development last year that the proposed Financial Markets Authority (FMA) implement a voluntary filing regime for the country's top companies.[28] Hence, our fourth recommendation is that the government should prepare a discussion paper exploring the options of a filing regime for integrated reports, as an initial step forward (Recommendation 4).

24 An example of a regulatory body ordering the inclusion of non-financial information in an annual report is *Auckland Regional Council v Nuplex Industries Ltd*. Nuplex was fined for air pollution convictions and, in a legal first, ordered to publish details of its conviction and penalty in its Annual General Report. Retrieved January 2011 from http://www.mfe.govt.nz/publications/rma/rma-prosecutions-2001-2005-feb06/html/page4.html

25 Tim Groser, *United Nations Conference on Climate Change in Cancún, Mexico*. Retrieved December 2010 from http://www.beehive.govt.nz/release/govt-welcomes-substantial-climate-change-progress-canc%C3%BAn

26 The Accounting Standards Review Board is expected to be reconstituted as the External Reporting Board (XRB) on 1 July 2011 as proposed in the Auditor Regulation and External Reporting Bill currently before the Commerce Select Committee. The XRB will be an independent Crown entity with a focus on achieving high-quality financial reporting in New Zealand. Retrieved December 2010 from http://www.asrb.co.nz

27 *New Zealand Management* magazine (2009), Top 200: Criteria. Retrieved November 1, 2010 from http://www.archivesearch.co.nz/default.aspx?webid=MGT&articleid=47822

28 See our submission: *Review of Securities Law*: Discussion Paper (September 2010) at http://sustainablefuture.info/Site/Publications/Submissions.aspx

Further, we believe the New Zealand accounting profession is missing out on a strategic opportunity to show leadership in an area that aligns with the country's international brand as 'clean and green'. No longer is it acceptable to consider and regulate the financial markets and the environment in isolation from each other, and from society as a whole. We need to find ways for institutions to work together to develop trust, not simply in the investor markets, but to foster confidence on the part of those who cannot afford to invest actively, or choose not to, but are nevertheless affected by the way these entities operate. New Zealand professional membership bodies, such as NZICA, run the risk of standards being developed internationally without having the opportunity to contribute to the development of these standards.

The Institute maintains that investing in this initiative would improve both public-good and private-sector outcomes, making accountants 'part of the solution', not just part of the problem. We further believe NZICA should prepare a discussion paper exploring ways in which the professional body can support the work of the IIRC, with a view to providing guidance over definitions and the preparation of integrated reports (Recommendation 5). In addition, government should continue to monitor international developments in order to participate in the development of this emerging field (Recommendation 6).

In summary, therefore, our recommendations with respect to commercial entities – acknowledging that these recommendations could equally apply to other entities, in particular state-sector and not-for-profit organisations – are:

1. That commercial entities should develop more effective and timely ways to ask stakeholders what information they would like to receive in relation to their environmental and social performance.
2. That the government consider making it mandatory for companies that are significant emitters to calculate and report their greenhouse gas emissions in their primary annual reports.
3. That the government clarify whether integrated reporting (which we consider should occur through the primary annual report of an organisation) is included as an area of responsibility for the new External Reporting Board (XRB) (due to replace the Accounting Standards Review Board on 1 July 2011). If not, that the government confirm what institution is responsible for the content and quality of such reports.
4. That the government should prepare a discussion paper on the creation of a filing programme (either voluntary or mandatory) for annual integrated reports.
5. That professional membership organisations, in particular the New Zealand Institute of Chartered Accountants (NZICA), prepare a discussion paper to explore the ways in which they can contribute to developments in integrated reporting and actively support the work of the IIRC.
6. That a government organisation (or a quasi-government organisation) be made responsible for monitoring international progress in this area. Consistent with recommendation 3, it is possible that the External Reporting Board may be the most appropriate body to undertake this role.

8. Looking Forward

In December 2010, the Institute invited survey respondents and other interested parties to our offices in Wellington,[29] to hear Dr Ian Ball speak on the upcoming programme for the International Integrated Reporting Committee (IIRC). Dr Ball is the CEO of the International Federation of Accountants (IFAC) and co-Chair of the IIRC Working Group. We were also fortunate to have April Mackenzie, Global Head of Public Policy and External Affairs for Grant Thornton International, share her thoughts on the European Commission's Green Paper Consultation on *Audit Policy: Lessons from the crisis*, and Mark Hucklesby, National Technical Director of Grant Thornton, explain how we need to work smarter rather than harder. The Institute's Chief Executive, Wendy McGuinness, then briefly outlined the findings of this survey. These presentations made apparent two significant international events that are likely to shape the future of integrated reporting in 2011:

i. The IIRC will be meeting in January, and will be working hard to prepare a new standard on integrated reporting for the G20 meeting scheduled for November 2011.
ii. Feedback to the European Commission's Green Paper Consultation on *Audit Policy: Lessons from the crisis* will be discussed in Brussels on 10 February 2011. This discussion is likely to lead to significant changes in the audit framework, which may impact how integrated reports are prepared and audited in the future.[30]

29 Attendees at the lunch included respondents to the survey, National Party MP Aaron Gilmore, staff from Victoria University, Statistics New Zealand, the Securities Commission and Treasury.

30 Retrieved December 2010 from http://ec.europa.eu/internal_market/consultations/2010/green_paper_audit_en.htm

Notably, as this report goes to press, the Integrated Reporting Committee (IRC) of South Africa, chaired by Professor Mervyn King (who is also Deputy Chair of the International Integrated Reporting Committee) has released a discussion paper, *Framework for Integrated Reporting and the Integrated Report.* The paper treats the integrated report as the organisation's primary report, replacing the traditional annual report. It is intended to help meet the needs of the 400 companies listed on the Johannesburg Stock Exchange Ltd (JSE) which, through its Listings Requirements, now requires companies to produce integrated reports, or to explain why they are not doing so. Professor King notes that these 400 companies will be among the global frontrunners in issuing integrated reports. Interestingly, the chair of the working party that compiled the discussion paper, Graham Terry, is also the South African Institute of Chartered Accountants' (SAICA) Senior Executive: Strategy and Thought Leadership. Further, SAICA is one of the local IRC's founding members and is fully committed to its aims.

As a result, in the next few years, it is likely we will see other countries following suit, in particular:

i. Stock exchanges, through listing requirements, establishing mandatory filing regimes;
ii. the establishment of local IRCs;
iii. the partnering of local IRCs with pre-eminent accountancy bodies and business organisations to produce discussion papers and guidance, and
iv. a growing desire to ensure the content (supply) of integrated reports meets the needs (demands) of stakeholders through improved research, policy analysis and, if necessary, legislation.

Looking forward, the Institute will be watching international developments with great interest. In addition to the work of the IIRC, there is the likelihood of future workshops convened by Professor Robert G. Eccles of the Harvard Business School, as the Dean of the School, Nitin Nohria, has announced his support for future workshops that address the development of integrated reporting. In early April, Wendy McGuinness, is planning to meet Paul Druckman, the co-Chair of the IIRC Working Group, who is based in London.

Based on the developments described above, the Institute will be working hard to design a work programme for 2011 that contributes a wide range of useful data to this emerging area of study. Notably, this survey was focused on a small portion of the supply side of integrated reporting, namely the Top 200 companies by revenue. We consider there to be benefit in repeating this survey in five years time. We also consider there is value in undertaking a comparable survey of small to medium-sized companies, not-for-profits and public-sector entities. However, we believe it is crucial to find better ways to understand the demand side of integrated reporting; in other words, how can accountants gain clarity over what information is required so that a range of stakeholders are able to make more informed decisions?

Finally, we reiterate our thanks to the participants of the current survey, without whose efforts emerging public policy and practice might be developed in the dark. We close with another quote from Luca Pacioli, who understood that if you are in business, you need to know 'all about it'. The challenge for the 21st century is to write a new book, one that redefines 'it' and is able to benchmark 'it' both over time and between companies, so that the broadest possible range of stakeholders can form a clear view of all aspects of a company's performance and can judge whether they believe company A is better than company B.

> If you are in business and do not know all about it,
> your money will go like flies, that is, you will lose it.
> Luca Pacioli, 1494[31]

31 Geijsbeek, *Ancient Double-entry Bookkeeping*, p. 27. Retrieved December 2010 from http://www.archive.org/details/ancientdoubleent00geijuoft

Thank you

(In order of response)

1. Mitsubishi Motors New Zealand
2. Methven Limited
3. Infratil
4. Nissan New Zealand Limited
5. Nobilo Holdings
6. Compass Group NZ
7. Abano Healthcare Group Limited
8. Fletcher Building
9. Avon Pacific Holdings Ltd
10. New Zealand Post
11. Combined Rural Traders Society Ltd
12. ABB
13. Sime Darby Motor Group
14. Northpower Limited
15. PGG Wrightson
16. Transpacific Industries Group Finance (NZ)
17. Fuji Xerox New Zealand
18. TrustPower Limited
19. Coles Group New Zealand Holdings
20. Smiths City Group
21. Freightways Limited
22. Mercedes-Benz New Zealand
23. Pan Pac Forest Products Limited
24. Landcorp Farming
25. Bupa Healthcare New Zealand Limited
26. Ballance Agri-Nutrients
27. Milford Group Holdings
28. Television New Zealand
29. NZPM Group
30. Airways Corporation of New Zealand
31. Ford Motor Company of New Zealand Limited
32. Opus International Consultants
33. Livestock Improvement Corporation
34. Solid Energy New Zealand Limited
35. RTA Pacific New Zealand
36. Genesis Energy
37. The New Zealand Refining Company
38. Tasman Steel Holdings Ltd
39. ZESPRI Group
40. Toyota New Zealand
41. Christchurch City Holdings
42. Fonterra Co-operative Group Limited
43. Noel Leeming Group Limited
44. Foodstuffs (Wellington) Co-Operative
45. Pumpkin Patch Limited
46. PMP (NZ) Limited
47. The Warehouse Group
48. General Cable Holdings New Zealand
49. Pact Group (NZ)
50. Aperio Group (New Zealand)
51. Ashburton Trading Society
52. Radius Health Group
53. Cerebos Gregg's
54. Briscoe Group
55. Honda New Zealand
56. Auckland International Airport
57. Cellnet
58. Mitre 10 New Zealand
59. Watercare Services

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ISBN 978–1–877473–38–8

McGuinness Institute
PO Box 24222
Wellington 6142
New Zealand