STUDIA UNIVERSITATIS BABEȘ-BOLYAI OECONOMICA, VOLUME 60, ISSUE 3, 2015

CHALLENGING THE CAPITALS: AN INVESTIGATION OF THE CONCEPT OF CAPITALS IN THE <IR> FRAMEWORK

David ALEXANDER
University of Birmingham, United Kingdom

Teodora Viorica FĂRCAȘ*
Babeș-Bolyai University, Romania

Tudor OPRISOR
Babeș-Bolyai University, Romania

Adriana TIRON-TUDOR
Babeș-Bolyai University, Romania

Abstract. This paper investigates the concept of 'capitals', as used in the IIRC conceptual framework, and their application in practice. We discuss the various concepts and definitions presented by the IASB, IPSASB, and IIRC conceptual frameworks. Afterwards, we undertake a case study approach, by analysing some published 'integrated reports' against a standard checklist. The paper is exploratory, as it analyzes the capitals from the viewpoint of four front-running companies from the IIRC database. The findings show that the requirements of the Framework are inherently followed in the reporting practice by the entities, but the level of real information disclosure is questionable. The analyzed entities prioritize the capitals (as a fundamental concept of integrated reporting), but they sometimes have different interpretations. Therefore, another doubt is if the framework is sufficiently explicit.

JEL Classification: M40, M48, M49

Keywords: IIRC, capitals, framework, disclosure.

1. Introduction

The International Integrated Reporting Council published its definitive conceptual framework in December 2013 (IIRC, 2013). The early ideas from the inception of the Council in 2010 (Alexander, 2015; Flower, 2015) which related significantly to sustainability, have virtually disappeared in the final 2013 version. They have been replaced by the notion of capitals, but more precisely by the way of how an entity 'adds value' to them. We do not repeat this exposition, but we investigate the six capitals defined by the IIRC, the declared objective of three

* Corresponding author. Address: Faculty of Economics and Business Administration, Babeș-Bolyai University, Teodor Mihali 58-60 str., 400591 Cluj-Napoca, Romania, Tel. +40.264 41 86 52, Email: teodora.farcas@econ.ubbcluj.ro

conceptual frameworks (IASB, IPSASB, IIRC). Furthermore, we discuss the extent to which they appear to be different as regards their declared objectives, and as regards the likely differences in the focus of practical application that each one suggests.

The major purpose of the paper is to emphasize the practical application of the IIRC requirements regarding ‘capitals’, by showing what entities are reporting about their ‘use of and effects on’ the capitals.

In this respect, we provide a theoretical basis, both as regards the notion of, requirements for and objectives of, reporting thereon, and as regards our creating a structure for our empirical investigations. Afterwards, we present detailed results of the case studies investigated so far. A preliminary discussion and conclusions and notes on further proposed developments conclude the paper.

2. Some theoretical underpinnings

As outlined in the introduction, this paper investigates the IIRC notion of capitals, with both theoretical analysis and an empirical investigation, through a selection of in-depth case studies, of what entities are reporting about it. An explicit subsidiary theme is to explore what differences appear (if any) between private sector entities and public sector entities. This section sets out to provide the theoretical framework to address our research questions, summarised as:

1) Which is the general perception provided by the IIRC Framework regarding the presentation of 'the capitals'?

2) Does the IIRC intend that the users and reporting entities take these ideas concerning the capital seriously?

3) What do entities report, and does this reporting suggest that entities do in fact take the capitals seriously?

4) What differences seem likely to emerge between private sector entities and public sector entities?

To approach these questions from a theoretical perspective, we need to explore the relevant parts of three conceptual frameworks, the IIRC, the IASB, and the IPSASB. Rather than compartmentalise our investigation, our presentation presents the three Frameworks in what we regard as a logical sequence and then addresses the inter-relationships directly informing our focus. We consider IASB, IPSASB, and IIRC, in that order. Intuitively, each should be expected to be more broadly-based in focus, and the users it targets, than the previous one. Thus, we are able to address the twin aspects of firstly what the capitals are and how they are perceived, and secondly, eventually, of private/public sector entity differences. So we begin with the IASB Conceptual Framework.

The key issue for our purposes is to consider the users, the ‘customers’, of the financial statements envisaged by the IASB. The Board says, (IASB, 2010 para OB 2):

> ‘The objective of general purpose financial reporting (GPFR) is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity...’,

and continues (para OB 10):

> '...other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find GPFRs useful. However those reports are not primarily directed to these other groups'.

This is surely unequivocal. We are talking about financial (and only financial) information for suppliers of finance. Further (para OB 3):

> 'Existing and potential investors, lenders and other creditors need information to help them assess the prospects for future net cash inflows to an entity'.

The IPSASB issued its full and final conceptual framework document on 2 November 2014 (IPSASB 2014). The broad references regarding the information published in the general purpose financial reports (GPFR) do not include restrictiveness. More precisely, it is significant that the final sentence refers to 'information that enhances…', and not to 'financial information that enhances…' (IPSASB, 2014, para 1.6). The IPSASB framework addresses to a larger audience than the IASB. Comparing the IPSASB Framework with the IASB Framework, the public sector one has very much wider users, in effect 'the citizenry'. But the extent to which it recognises information needs beyond 'the financial' seems distinctly limited.

Our final Conceptual Framework for consideration is the International Integrated Reporting Council one (IIRC 2013), issued in December 2013. We do not give here details of its (fascinating) gestation (see for example Flower, 2015 and Alexander, 2015), and focus only on its definitive position. An integrated report (paras. 2.2 and 2.3) 'explains how an organization creates value over time. Value is not created by or within an organization alone.' The value is created by the company with the help of the six capitals: human, natural, manufactured, financial, intellectual and social and relationship.

This sounds broader and wider in scope to the tune of a whole new dimension. The obvious and vital question, however, is: value 'of what for whom'? This requires a detailed analysis of the six capitals and the relationships between them.

It is worth noting the similarity of wording with the IASB Framework para OB 2 '... information that is useful to existing and potential investors, lenders and other creditors...' discussed above. The key customer of the IIRC is identical to the key customer of the IASB. This does not seem to be a brave new world.

It seems reasonable to conclude on the evidence given so far that for all the frameworks considered, the focus, in the end, is firmly on investors, lenders, and the suppliers of finance. Reporting always becomes about information for the investment decision.

But we should consider the six capitals a little further. There are several possible outcomes from the existence and recognition of multiple capitals. As accounting theorists, we should all be well familiar with the concept of capital maintenance. But what about capitals maintenance? Do we need, as our 'maintenance' objective, to maintain each and all of the six capitals considered individually? Or do we need, as our maintenance objective, to maintain the total of the six capitals added together? If the latter, is it possible to 'add them together' in any meaningful way? This seems perhaps to lead to the need for a six-dimensional optimisation model, in which there are major difficulties (to put it mildly) of measurable comparability across the dimensions. Money, a humanly created and focussed social construct, is certainly not an adequate 'common' measurement concept across the six dimensions, but this is not to imply that a better alternative is conveniently available. We also suggest, although this is partly an empirical matter, that there seem likely to be major difficulties of distinguishing operationally between the six capitals.

3. Tools and methods

The IIRC Framework para 3-3 states: 'An integrated report should provide insight into the organisation's strategy, and how that relates to its ability to create value in the short, medium and long term and to its use of and effects on the capitals' (emphasis added). The implications are clear, and lead directly to a 12-box matrix checklist/template.

We use a case study approach. The issues are complex, and our work is exploratory. We expect difficulties and uncertainties in our analysis, mirroring expected difficulties and uncertainties in the preparation of disclosures by the entities themselves. A relatively small number of detailed case studies, explored in depth, and analysed against the matrix framework outlined above, are expected to give insight into what enterprises are doing. They can also be expected to give insight into what entities are NOT doing...

For this paper we have chosen from the IIRC database 4 companies that are given as examples of using the integrating reporting framework. All the four companies we analyse were selected from the consumer services sector. Two of them are state owned companies, therefore, a hybrid between the two sectors, and the other two are entirely private companies. One state owned company (Munich Airport) and one private company (Go-Ahead) are offering public transport services and are both European companies. The other state owned company (New Zealand Post) is offering post services and is from the Australasian region, and the other private company (Kingfisher) is a retail company, also from Europe. We have analysed their latest published reports.

The selection of these companies can be argued by the fact that we have tried to find an element of comparison. This is why we choose the same sector. The reason of selecting state owned companies is sustainable from our point of view in getting an insight on how the framework could be extrapolated to the public sector institutions. However, we are aware that these state owned companies are using the IFRS rules.

On the IIRC website, in their database there is the possibility to filter the companies after sector, year of the report, IR Guiding principles, Fundamental Concepts and Content Elements. By choosing the consumer service sector and from the tab "Fundamental Concepts", "capitals" , the selection will show us the two state owned companies that we have analysed in our study.

In filling the disclosure matrix for each company, we have considered a binary encoding system, as follows: 1, if in the analysed report we could find the relation between the strategy of the company and the capitals, and 0 if there is no relationship.

4. The case studies

Data

The first company that we have analysed is the *Flughafen München GmbH* (FMG), which is the parent company of Munich Airport group and the operator of Munich's commercial airport. This company was founded in 1949 and operates the Munich airport and its other 14 subsidiaries offering full services across all sectors of airport management (FMG annual report, 2013). The shareholders of FMG are state institutions: the Free State of Bavaria (51%), the Federal Republic of Germany (26 %) and the City of Munich (23 %).

FMG has published its report for 2013, being part of the pilot companies that participated in the establishment of the IIRC framework. In the site of the Munich airport we could also find the same report called "Sustainability and Annual report 2013". From our understanding this is their first integrated report and is 224 pages long, being structured as follows:

1. Company profile and strategy
2. Service portfolio
3. Dialogue and social responsibility
4. Workforce and work environment
5. Environmental and climate protection
6. Financial review
7. Sustainable development.

At the end of their report we could find an IIRC index where the company summarizes in a table how they applied the Guiding Principles and Content Elements of the IIRC framework. Taking the first guiding principle "Strategic focus and future orientation", in the description is defined exactly the paragraph that stays at our basis of the analysis: 'An integrated report should provide insight into the organisation's strategy, and how that relates to its ability to create value in the short, medium and long term and to its use of and effects on the capitals'. The company say that they comply with this principle because in their report they present: "In the chapter 'Company profile and strategy' FMG describes the strategic alignment of the business model that is presented in detail in the chapter 'Service portfolio'. The strategic positioning in respect of the topics HR, corporate development and environmental protection are presented in the respective chapters. The management report gives a strategic view and the sustainability program summarizes short-, medium- and long-term planning in the sense of sustainable development."

The second case study we present is *Go-Ahead Group plc*, a private company, a leading bus and train operator in Great Britain. The company was first created in 1987, during the privatisation of the National Bus Company, as a small company. The shareholders of the company are institutional investors, 20.49% and other individuals (other than directors), 79.39%.We have chosen the company, as we already mentioned, from the database on the IIRC site. Its first integrated report was for the year ended 30 June 2012, called the 'Annual Report and Account'. On the company's website we have found their second integrated report for the year ended 28 June 2014, 'Annual Report and Accounts': 'Sustainability and corporate responsibility are integral to our strategy and the way we operate at every level of the business. This is our second integrated annual report that aims to present a comprehensive view of the Group.' Therefore, we draw the conclusion that for the year 2013 they haven't published an integrated report.

The report that we decided to analyze is the latest one and is 162 pages long being structured in four big parts: Strategic report, Governance, Financial Statements and Shareholder information. As we will see in our further analysis the central pillar of their integrated report, as they argue, is the sustainability. Their business model is very important for the future of their business.

The third enterprise for which we conduct a case study is *New Zealand Post*, a state-owned provider of postal services from New Zealand. Historically, New Zealand Post has a rich history stretching back 170 years.

According to the official website, the New Zealand Post Group consists of a range of businesses providing communication and business solutions. The enterprise has several subsidiaries, such as: Kiwibank (the fifth largest bank in New Zealand, Express Couriers Limited (the Group's primary domestic parcels and logistics business), Converga (the Group's primary domestic parcels and logistics business), Reachmedia (a 50% joint venture that is one of New Zealand's largest distributors of unaddressed mail, including catalogues and flyers), CouriersPlease (a courier business that operates in Australia).

The analysed integrated report from 2012/2013 covers all of the New Zealand Post Group's operations. It has 44 pages and it is the first integrated report produced by New Zealand Post. The report is structured in 5 main sections that present: general information about integrated reporting, information about the six capitals, the outcomes from 2012/2013, information about the governance and information about the executive team. According to the IIRC Database, New Zealand Post considers 'the capitals' as a fundamental concept for the integrated report.

The fourth enterprise for which we conduct a case study is Kingfisher plc, a British multinational retailing company headquartered in London.

According to the official website, Kingfisher plc is Europe's largest home improvement retail group and the third largest in the world, with over 1,170 stores in eleven countries in Europe and Asia. Its main retail brands are: B&Q, Castorama, Brico Dépôt and Screwfix. Kingfisher also has a 50% joint venture business in Turkey with Koç Group. In addition, Kingfisher plc is included in two of the main socially responsible investment indexes – the FTSE4Good and Dow Jones Sustainability indexes.

Kingfisher has exposure to fast-growing, developing economies in Europe and Asia, including Poland, Russia and China, as well as having well-established businesses in developed markets like the UK and France. In total, the home improvement markets in which Kingfisher operates are worth over £100 billion.

From the ownership perspective, Kingfisher is a publicly-listed company on the London Stock Exchange (symbol: KGF) and, at December 31st, 2014, was a part of the FTSE100 index. The major shareholders are mainly private investment funds and most of the shares are owned by private investors who are able to trade them on the LSE. The company is also a part of the European Retail Round Table, an organization that represents companies from the European retail sector.

The analysed integrated report from 2012/2013 covers the entire Kingfisher Group's operations. The 120 pages report is 'Annual Report and Accounts 2012/13' and is structured into 3 main sections: a business review (with management statements, the emphasis on the strategy, aspects regarding sustainability, a financial review and an exposition of the risks), a governance presentation and the consolidated accounts. According to the IIRC Database, the main principles on which the Kingfisher integrated report is based are: strategic focus and future orientation, connectivity of information and conciseness.

Results

The case of FMG

In the case of FMG, a state owned company whose interest is to develop the area in which it conducts its activity, the results of our analysis are showing that there is a strong relation between the strategy of the company and the capitals. The report is clearly showing how the company is creating value inside and outside the business.

Taking the capitals one by one, we emphasize how the company is disclosing in their integrated report the use of the capitals in their strategy and the effects of the strategy on the capitals. The long, medium and short term strategy of FMG is oriented towards the extension of the business. Their plan for 2025, as defined in chapter 1, 'Company profile and strategy' but also all along the report, follows five directions: the development of the air traffic, the development of the landside access and land traffic inside the Munich airport, the expansion of the non-aviation business and the development of the consultancy services.

In the financial review, part of the report, there is disclosed the fact that 'Sufficient funds were available from the net cash flow from operating activities in 2013 to ensure the liquidity of the Group at all times. In addition, all investments could be covered and loans repaid from cash flows.' From a total of € 425,000,000 budgeted for investments during 2013, a big part were spent for the group's general expansion plan and this includes: '€ 189,000,000 was earmarked for the first construction phase of the Terminal 2 satellite. Roughly € 32,000,000 was set aside for extending the baggage transport system and € 17,000,000 for the acquisition of land relating to the consolidation of the project area to extend the runway systems.' Therefore, the financial capital of FMG is generated from the operating activities and loans. Hence, there is disclosed how the financial capital of the group is obtained and how is used. The discussion about disclosing the effect of the strategy on the financial capital is more complex than one might expect. What do the regulators mean by 'effects on'? From our point of view this 'effects on' can sometimes be similar to the 'use of'. The way in which the financial capital is provided or generated for funding the investments needed in order to achieve the strategical objectives could be considered as part of the effect of the strategy on the financial capital. The loans that are ways of procuring financial capital are higher given the fact that the company aims to build a new runway and has started to build a terminal satellite in 2013. The risk provisions are also higher. FMG is also disclosing the fact that for building their third runway, the company is contributing an important amount of money to the development of the infrastructure in the region. The output results of this consumption of financial capital will be seen in the long term, and this can be a positive one, or a negative one.

The strategy of FMG includes the manufactured capital as an important element. With the aim of growing the business, in 2013 the company started the construction of a satellite building extending Terminal 2, which accordingly to them is ‘a key milestone’ for their strategic expansion plans. A new runway will be built and they will also extend the luggage system. The company discloses the fact that the third runway they intend to construct is a strategic opportunity for the entire area of Bavaria and Germany for creating an attractive location for businesses.

In the notes of the financial part, there is specifying the ‘internally generated intangible assets’ such as special software for airport operation. This represents part of the intellectual capital of the company. This intangible asset is generated in order to achieve performance in the operations of the group, this is why we consider it directly related to the strategy. The company uses protocols and procedures, specific to its area of services, and these are also included in the so called intellectual capital of the group. We consider as being part of the intellectual capital also the brand of the company, by creating added value to the image of FMG. But this will be broadly discussed in the social and relationship part.

The company discloses the fact that they had increased the retention rate of their employees and that FMG is considered one of the best places to work in Germany accordingly to the surveys. FMG offers training programs and facilities for its employees and argues that a big part of the success of the business is a result of the job performance and competences of the employees. The human capital at FMG is one of the capitals on which their business model is developing and is supporting its strategy.

The social and relationship capital is disclosed in the report in the part ‘Dialog and social responsibility’. The company is involved in different consortiums of the industry it represents. Also, there is a strong collaboration with the political and legal institutions, and a permanent dialogue with the representatives of the area in which the FMG is developing its activities. They disclose the fact that all their suppliers are chosen from the area in order to help its development. Only a small part of their business partners are out of Germany and Europe. Their strategy is clearly affecting the area in which the company is acting in a positive and a negative way; this is why the dialogue with their neighbors is very important.

A key element of their social and relationship capital is the re-branding their business ‘Living ideas – connecting lives’, and the new logo suggestive of this slogan. In the message of the company they say: ‘Our brand is an investment in the future and indispensable for the economic growth in our strategic fields of action.’

From an economical point of view the strategy of FMG as it is now will bring wealth into the area, and will create new work places, but the company needs to be attentive to the environment. Here there is interference between the natural capital about which the company is disclosing in the part with the ‘Environmental and climate protection’. The strategy of FMG has effects on the natural capital; they introduced systems for reducing the noise in the area and the CO2 emissions. Their new satellite building is a ‘green building’ which has all sorts of environmentally friendly solutions. FMG has a climate protection strategy with the help of which it is protecting the environment and is creating its natural capital.

Therefore, we can construct the matrix for FMG regarding the capitals' use and effects on their integrated report (as we can see within *Table 1*):

Table 1. Flughafen München GmbH – matrix regarding the capitals

Capitals	*Disclosures regarding use of:*	*Disclosures regarding effects on:*
1 – Financial	1	1
2 – Manufactured	1	1
3 – Intellectual	1	1
4 – Human	1	1
5 – Social/Relationship	1	1
6 – Natural	1	1

*Note: Within the matrix, 1=yes, 0=no

In our opinion, FMG can be an example of using the IR framework based on the capitals. For our analysis, the structure of the report was not so evident to identify all the six capitals. Some of them, like the intellectual one, were brought up between the lines.

The case of Go-Ahead Group plc.

In the first pages of the Go-Ahead Group plc. report, after the words of the Chairman of the Board of Directors, there is a small border having the title 'Driving integrated reporting'. From this note we acknowledge what the company understands by <IR>: 'Sustainability and corporate responsibility are integral to our strategy and the way we operate at every level of the business…. While our approach to our strategic priorities and sustainability has always been aligned, we have taken steps to improve the reporting of this.' Therefore, the company sees that better disclosure of the sustainability of their business model involves better <IR> disclosure. Also from this little note we find out that their strategic priorities are: 'Society, Customers, Our people and Finance.' We can suppose from this that we have here three of the six capitals: Social and relationship capital, Human capital and Financial capital.

The company presents its business model, from which we could extract which are the capitals that are the base of their sustainability: 'Our business model supports our strategy of providing high quality, locally focused passenger transport services as a leading employer in the transport sector, running our companies in a responsible manner, with strong financial discipline.' Going further with the analysis there are presented some key relationships and key inputs, therefore, allowing us to see how the capitals are used and affected by the strategy of the company.

For us, it is clear that the company uses some of the capitals. Thus, for the financial capital disclosures in the sustainability part, but also in the financial part of the report, the fact is that the majority of the finance is coming from the shareholders, but there are also bank credits and other debts. The use of this capital is for operating the business, the company mentioning that the higher expenses are with the employees. As their strategy is based on the people, we can observe from the report that this affects the capital…so the disclosed effect is the investment in people.

Taking into account the manufactured capital, we could extract from the report the fact that this is composed of the buses that the group owns. All the trains and the bus fleet are leased, but in the regulated bus business half of the buses are leased and half are owned. There is no disclosure of the effects of their strategy on this type of capital. We could not find any relation of the strategy with the intellectual capital of the business; moreover we could not extract any information regarding this type of capital.

The human capital is disclosed in the report and the relation with the strategy is very strong and well emphasized. The 'our people' is included in the business model in the relationship keys but also in the input keys. Thus, having well prepared people is creating value for the enterprise and at the same time there is a high retention of the employees and job satisfaction.

The business model of the group is based on the key relations. Therefore, one of the main uses of the capitals is the social and relationship capital. All the relationships with the strategic partners and suppliers, with the customers, the customers' satisfaction, the government, the community and the employees are factors of the success of this business, because it derives one from another: 'Professional relationships with core suppliers help to ensure and support efficient delivery of our passenger transport services.' 'Feedback from our shareholders forms part of our strategic discussions in the Boardroom.'

Regarding the natural capital the company mentions the fact that their vehicles use a combination of power between gas, electricity and diesel. In their first report from 2012, they were mentioning that they want to reduce their emission of CO_2 by 20% by 2015. In this report, they mention the fact that from 2008 they reduced the CO_2 by 12,2%. Like all the other businesses that want to remain in the market they need to make efforts to reduce the pollution.

Therefore, the matrix for the Go-Ahead group (table 2) looks different from the first diagram, mainly because we did not find all the capitals and the relations with the strategy.

Table 2. Go-Ahead Group plc – matrix regarding the capitals

Capitals	***Disclosures regarding use of:***	***Disclosures regarding effects on:***
1 – Financial	1	1
2 – Manufactured	1	0
3 – Intellectual	0	0
4 – Human	1	1
5 – Social/Relationship	1	1
6 – Natural	1	0

*Note: Within the matrix, 1=yes, 0=no

Go-Ahead Group plc discloses some of the capitals, but the capitals are not as well emphasized as for the first analyzed company. Here, the main part is the description of the business model, from where the uses of and the effects on the capitals can be extracted.

The case of New Zealand Post

As we mentioned in the previous section, in the case of New Zealand Post, we bring into analysis the annual integrated report from the financial year 2012/2013. This is the first integrated report for this enterprise and, as they mention in the introductory part, the company views 'the movement toward Integrated Reporting as an ongoing process', committing to the Integrated reporting principles and acknowledging that 'fully integrated reports' will only be issued in the future (page 8 from the report).

Moreover, the framing from the IIRC database that attributed 'the capitals' as a fundamental concept for New Zealand Post is correct, as they have indeed emphasized each capital in particular, dedicating separate sub-sections. The company's interpretation of the capitals is the following (page 8 from the report):

- the human capital ('our people') represents 'the composition of [the company's] people, their skills, engagement and how [the company is] developing them';
- the natural capital ('our environment') represents 'how [has the company] used natural resources to carry out our business';
- the social & relationship capital ('our relationships') represents 'the relationships [the company has], and how [the company has] added value to those stakeholders';
- the manufactured capital ('our networks') represents 'the physical assets [the company holds] that combine to create [its] nationwide network';
- the financial capital ('our finances') represents 'the pool of funds available to [the company], and where it comes from';
- the intellectual capital ('our expertise') represents '[the] knowledge, skills and special abilities, and how [the company has] developed these'.

Another interesting fact is the company's mention of materiality, which says that the report 'focuses on the issues that are most material to [the company's] business, and those issues that are affected most by the execution of [the company's] strategy' (page 9 from the report). This particular phrasing is interesting due to the fact that it leads to the impression that the information presented in the report is selective and, at this point of the analysis, it is unclear whether 'the whole picture' is in place (note the use of the word 'most' in the actual phrasing).

Afterwards, the company starts to present its core strategies for the reporting period. The key fact is that for each strategy, in the header of the section, there are graphic representations of the used capitals, meaning that the company has clearly identified which capitals are linked.

There are six main strategies in total in the case of New Zealand Post (disclosed in pages 10 to 15 from the report). The first strategy, 'Building a sustainable physical network', is linked to the use of five of the six capitals, as follows: the human capital (by implementing an already tested co-operative system in which the same person could 'deliver both postal and courier items'), the financial capital (the reduction of mail processing centres from six to three 'will significantly improve efficiency and reduce overheads'), the manufactured capital (the relocation of 50 satellite sites and the premises' sharing between courier and postal teams), the natural capital (the reduction of environmental impact due to the implementation of the 'Sequence Sorting process') and the social & relationship capital (the acknowledgement of the postal network as ‘a vital component of the New Zealand economy and community’, as well as the cases for Sequence Sorting advantages and Rural Delivery).

The second strategy, ‘Delivering good customer experiences’, is supposed to be connected with two of the capitals, respectively: the human capital (with the emphasis on customer services, staff specialization and the need for ‘a remit to deliver a fundamentally new people model, a radically simplified product and service approach, and a totally new design ethos that removed physical barriers between [the] staff and [the] customers’) and the social and relationship capital (mentioning Kiwibank’s Innovative Online Relationship Managers – personalized service and the need for improvement in the case of business customers, including bulk senders).

The third strategy, ‘Developing and growing Kiwibank’, is linked with the use of two specific capitals: the financial capital (mentioning figures and information regarding the provisioning for bad debts, the increase in the net interest income and the fact that ‘customer deposits accounted for 67 percent of all bank funding’) and the manufactured capital (the increase in customer base, the improvements brought to the store networks in order to improve customer service and information regarding Kiwibank’s credit rating – which affects the banking products).

The fourth strategy ‘Ensuring our internal structure is efficient’ follows the links with two capitals: the financial capital (‘the proceeds of [three subsidiaries’ shares] sales were primarily used to reduce debt and help pay for strategic investments in other parts of the business’; the financial impact on investments to operation centres is disclosed) and the manufactured capital (the restructuring of certain business units as a result of disestablishing 100 administrative positions and the forming of ‘Digital Platforms’).

The fifth strategy, ‘Ensuring our people have the right skills’, is impacted and has effects on two capitals: the human capital (the inclusion of ‘more staff roles with banking skills – as well as enabling all staff to get out from behind counters and interact with customers’ and the creation of ‘a more flexible working environment for posties’; also, the report disclosed the three leadership skill development pathway programmes – Activate! – Motivate! – Navigate!), and the manufactured capital (mentions to their stores, with subsequent activities and ‘customer outcomes’; e.g. ‘customer experience in the stores is measured through monthly visits to every store by a mystery shopper’).

The sixth and last strategy, ‘Creating a range of digital services’, is linked with three of the capitals, respectively: the social and relationship capital (the use of three digital services that improve customer service: ‘RealMe, a Government-backed service that removes the need to show up in person each time to prove your identity’), the manufactured capital (the information regarding the launch and the function of these and their role for current and prospective products and customer services) and the intellectual capital, as they understand it (‘recognition of the potential to use the Group’s core competencies, including large-scale logistics and data management expertise’).

Apart from the connections with the core strategies, there is a special section in the report where each one of the six capitals is carefully analysed and there is an extensive level of disclosure provided.

In the human capital subsection (pages 17-19), there is a presentation of the company's culture, the way people that are part of the organization are influenced by this culture and the pillar on which the strategy is based (high-performance organisation; leadership and talent management; capability; optimisation of the resource model; diversity; health and safety). Also, there is a breakdown of the workforce in figures (following different criteria, such as: location, status, age, gender and ethnicity) and some highlights from the 2012/2013 year (with emphasis on the level of engagement and safety and wellbeing in the workplace). The level of disclosure and awareness is fascinating as the report emphasizes the hazards posties continue to be exposed to, such as: 'dog bites, people backing out of driveways, uneven footpaths and surfaces, and collisions with vehicles'.

The social and relationship subsection (pages 20 and 21) brings specific disclosure regarding the connection with business partners and customers, the interaction with communities, the investments conducted by the company in the community ('as a socially responsible corporate member') and the activity of ActivePost ('the national sponsor of Small Sticks hockey, Waka Ama and the <Get Set Go> programme, which teaches fundamental movement skills to school children'). Also, there is information in this subsection regarding the sponsoring of the country's premier literary awards and The Community Post programme (which 'assisted nearly 2,800 community organisations in the past year – gifting them 1.5 million postage-included envelopes and $100,000 worth of marketing and development services').

Within the natural capital subsection (pages 22 and 23), the company discloses information regarding: its products (as an input, with emphasis on their recyclability), fuel use (as an input, with disclosure of the evolution of fuel use and a strategy for improving fuel efficiency, from one year to the next), its energy use (including a presentation of energy consumption reduction strategy), its waste (as a negative output, with an extensive plan of a reduction strategy and recycling).

The manufactured capital subsection (pages 24 and 25) makes note of: the proprieties that are in the company's ownership, postal and courier networks, the activity of Reachmedia (unaddressed circular and mailer delivery network), PostShop Kiwibank Outlets (with services of cashing bill payments), as well as information regarding Postal Network Access.

Within the financial capital subsection (pages 26 and 27) the company summarizes some important financial information regarding: shareholders' equity, retained earnings and reserves, funding, financial services, investments, the profit retention strategy, non-essential asset sales and, also, prospective financial information (for the coming year).

Last but not least, the intellectual capital subsection (pages 28 and 29) brings up information regarding the company's 'robust and comprehensive store and delivery networks – and the demonstrated excellence in complex large-scale logistics that enables those networks to thrive'. Also, the 'contract with the Reserve Bank of New Zealand to produce legal tender commemorative coins' is disclosed, alongside the business expertise (developing a depth of knowledge in how to effectively communicate to audiences, consolidating brands, as well as enabling government functions).

Therefore, we can construct the matrix for New Zealand Post regarding the capitals' use and effects on their integrated report (Table 3).

Table 3. New Zealand Post – matrix regarding the capitals

Capitals	***Disclosures regarding use of:***	***Disclosures regarding effects on:***
1 – Financial	1	1
2 – Manufactured	1	1
3 – Intellectual	1	1
4 – Human	1	1
5 – Social/Relationship	1	1
6 – Natural	1	1

*Note: Within the matrix, 1=yes, 0=no

We acknowledge the fact that New Zealand Post is a good example of an integrated report that has 'the capitals' as a fundamental concept. It is an appropriate model for constructing such a report through linking all the content elements (subsequently enforcing the 'connectivity of information principle'). Also we can state that the impacts are bidirectional in connection with the strategy as the company discloses both the use and the effects on each capital. This provides a proper understanding of how each resource used within the operational activity contributes to the achievement of the outcomes.

The case of Kingfisher

For Kingfisher plc, we have brought into our analysis the 2012/13 integrated report. From the beginning, we make note of the fact that in its actual draft, the report is not called integrated, but it is called 'Annual Report and Accounts 2012/13'. Nevertheless, it has been included by the IIRC in their database as a 'good example' of integrated reporting.

The 120-pages document is structured in the form of an extensive business report, with three parts: a business review, a governance section and the consolidated accounts. As far as the integrated reporting content elements are to be found, we realized that these can be found in the first section. Hence, this form of the report is not a conventional one for integrated reporting (like others we are accustomed to), nor does it mention the fact that integrated reporting is to be implemented in this company (it is only assumed that the report is assimilated to integrated reporting). However, there are elements that we have identified as being part of the content elements of integrated reporting (with specific emphasis on the capitals).

First of all, there is a brief presentation of the company's strategy, 'Creating the Leader' (which is a continuation of the former business strategy, 'Delivering Value'). Therefore, we find initial key concepts in their strategy that point out the orientation towards integrated reporting. This strategy has eight steps (in pairs) that the company must follow in order to achieve its goal. For each pair of steps, there are milestones, emphasizing progress during 2012/13 and targets during 2013/2014.

The first two steps (presented on page 9 from the report) suggest that the company should 'make it easier for customers to improve their home' and, also, it 'should give customers more ways to shop'. Information is provided here regarding social and relationship capital (by disclosing the networks that can be used by customers to reach the company's products, such as: online platforms, YouTube channel, mobile offer, etc.). Within the coming year, the company is expected to launch several marketing campaigns and extend and upgrade its websites (in order to have a closer connection with the public).

Steps number three and four (presented on page 11 from the report) suggest that the company is expected to 'build innovative common brands' and 'drive efficiency and effectiveness everywhere'. In this section, we have recognised the use of four different capitals, respectively: the financial capital (as the company discloses sourcing of sales and driven Group-wide cost efficiencies through 'goods not for resale'), manufactured capital (expected new office and distribution centres openings, as well as the development of new products), human capital (expected 'staff bonus programmes to Poland, linked to individual store sales & profit growth') and intellectual capital ('a [new] stock forecasting & replenishment IT solution, successfully rolled out in B&Q UK & Ireland and Poland').

Steps number five and six (presented on page 13 from the report) imply that '[the company] should grow its presence in existing markets' and, further, it should 'expand in new and developing markets'. This section has links solely to manufactured capital, as it presents information on new stores, revamped and extended stores, as well as expected new openings in the coming year.

Steps number seven and eight (presented at page 15 from the report) take account of the need for 'developing leaders and connecting people' and 'Sustainability: becoming net positive'. In this section, four types of capital are addressed: the human capital (the broadening of the Group's Executive Team), the social and relationship capital (the launch of the Kingfisher 'One Academy' – for top 250 managers, as well as the Community Sustainability area), intellectual capital (the Innovation Sustainability area) and the natural capital (the Timber and Energy Sustainability Areas). Additionally, each Sustainability area is separately disclosed and for each one there is a target for the company to achieve at some point (e.g. in the case of Timber, the company's aspiration is that by 2050 it will create more forest than it uses; in the case of Energy, the company's aspiration is that by 2050 every Kingfisher store and customer home is zero carbon or generates more energy than it consumes; and so on).

Note that until this point in the report, we have only encountered uses of the six capitals (deduced, not explicit). Hence, it is difficult to establish a direct relationship between the outcomes of the strategy and the effects on the capitals. We can only assume that the eight steps that can lead to the strategic goal will have a valid contribution (and, therefore, an actual effect on the strategy, but it is only unidirectional – from the capitals towards the strategy). The only capital that has a bidirectional disclosed effect is the financial capital, through the financial review (from page 17 to page 24) that follows the sustainability section. This validates the point of view that states that for private enterprises, the financial capital takes preference.

Also, there is a section in the business review that discloses potential risks regarding the strategic aims (or the 'steps', as we called them) and ways to mitigate the risks. However, the presentation is also distinctively for each step and makes no further connections.

In this respect, we can construct the matrix for Kingfisher plc regarding the capitals' use and effects on their integrated report (Table 4).

Table 4. Kingfisher plc – matrix regarding the capitals

Capitals	***Disclosures regarding use of:***	***Disclosures regarding effects on:***
1 – Financial	1	1
2 – Manufactured	1	0
3 – Intellectual	1	0
4 – Human	1	0
5 – Social/Relationship	1	0
6 – Natural	1	0

*Note: Within the matrix, 1=yes, 0=no

We acknowledge the fact that Kingfisher plc is not a conventional integrated report (in fact, we imply that it does not match with our understanding of an integrated report). However, if not explicitly, it puts the six capitals to use when it comes to drafting a strategy that will 'create value' (for whoever this value might be) and it distinctively points out each resource how it contributes to the company's success. On the other hand, these capitals are presented mostly in part, and the connectivity of information is not sufficient (as the IIRC database mentions that it is a core principle in the case of Kingfisher's 'integrated report').

5. Conclusions

Our preliminary findings from this research reveal some interesting facts. The first aspect of our discussion is the positioning of the six capitals within the integrated reporting process of the companies from the Pilot Programme. Thus, on the online platform from the IIRC we have encountered a filter called '<IR> Fundamental concepts', which has two subsequent options, respectively: 'Value creation' and 'The capitals'. From our case studies, two of the companies – New Zealand Post and Flughafen München GmbH – are listed as having 'the capitals' as a fundamental concept in their integrated reports. This is true and accurate because within these reports we can easily notice that the companies disclose a reasonable amount of information regarding the use and effect on the capitals (both separately, for each capital, and also interconnected). On the other hand, there are reports where the capitals' disclosure does occur, but is not explicit and presented separately (the reader of the report must identify them on his own as it is the case of Kingfisher plc and Go-Ahead).

Another relevant discussion is regarding the understanding of each type of capital. The Integrated Reporting Framework has a clear delineation of what each capital represents and what resources are assimilated. However, we have noticed some inadvertences in linking the actual resources used by the companies and the standard definitions from the Framework. This is mainly because we acknowledged that the capitals tend to be company-specific and not identical stereotypes (for instance, in the case of New Zealand Post – a customer service company – service performance in the locations from its network is assimilated to the 'end product' and, ultimately, to the manufactured capital. Since the IIRC has accepted within its database these integrated reports as 'examples of good reporting practice', we assume that the definitions of the capitals are not restrictive and they just provide guidelines on identifying and delineating them within the reports.

Each company we have analysed in our research so far has its 'integrated reporting style'. Therefore, there are no two reports alike, thus, the comparability between them is quite difficult to achieve. This is mainly because integrated reporting is a 'principle based' reporting system and the construct is flexible for each reporting entity. This particular aspect is also valid in the case of the six capitals as each company has its way of presenting them and of linking them to the strategy and the outcomes.

Although the sample so far is small (just four integrated reports), we have noticed the fact that the information presented in the reports (with specific focus on the capitals) is mainly positive, focusing more on the 'things that were done right' by the companies and less on the negative impact. This leads us to the subsequent questioning of the materiality of these reports (we have also pointed this out previously in this article, in the case of New Zealand Post). If only the positive effects from the use of capitals are disclosed, then the integrated reports might be biased and could be merely a form of 'marketing through reporting'. This is merely a preliminary assumption and should be investigated through further research (including through analysing a bigger sample of integrated reports).

Also, the claim of using the principles of integrated reporting correctly is, to some extent, faulty in the case of some companies. For instance, in the case of Kingfisher plc, the IIRC website claims that 'connectivity of information' is the main principle. However, in the case of the six capitals, the implied inference takes account of each capital separately (mainly in reference to the use and less to the effect). This is not the case for New Zealand Post and Flughafen München. This raises a subsequent question whether the state-owned companies have a better level of disclosure for the capitals in comparison to privately owned companies (where the interests of financial capital providers are more significant), and this too should be further investigated.

Therefore, in connection to our research questions, we acknowledge the fact that the IIRC has accurate provisions when it comes to defining the capitals (and they give examples, as we can see in the actual phrasing from the Framework). Through these definitions, it is assumed that every reporting entity knows the basic information regarding what each capital should consist of. However, this is not a restrictive provision and there are specific interpretations for each separate case (as the capitals themselves are company specific).

The IIRC does intend the reporting entities to take these capital seriously. The main aspect that supports this assumption is the fact that on the online platform are presented – as 'good examples' – only the companies that have accurately respected the Framework guidelines. Therefore, the IIRC has carefully chosen its frontline of reporting entities in order to show others how information should be disclosed within an integrated report (and the level of disclosure – especially for the capitals – is high in the case of some companies, like New Zealand Post or Flughafen München).

If we discuss what the entities disclose for the capitals, we acknowledge that this is at least questionable. Although they do disclose a reasonable amount of information following the IIRC guidelines and they do take these capitals seriously (in order to get promoted as ‘good reporting examples’), their interpretations and understanding of the concepts differ significantly from case to case. This infers the question whether the IIRC has been explicit enough when drafting the Framework (we consider that it does provide an adequate level of comprehension within the definition of capitals). Having said that, the comparability between reports from different entities remains low (mainly because integrated reporting is assimilated to narrative reporting). Also, there is an imbalance between capitals. They should be perceived in an equitable way, but some of the capitals – like financial and manufactured – prevail in disclosures (possibly because of their emphasis on financial reporting frameworks from other organizations and the different powers of stakeholders).

Ultimately, in the case of the differences that may emerge between the private and public sectors in the case of integrated reports, our preliminary findings are inconclusive as we do not have a relevant basis for comparison (mainly because the first integrated reports from the public sector are not yet published, the Pioneer Network still being in full development). We will continue to investigate this aspect in future research projects. There is more work to be done.

REFERENCES

Alexander, D. (2015). The unsustainability of Integrated Reporting. Working paper

Flower, J. (2015). The International Integrated Reporting Council: a Story of Failure *Critical Perspectives on Accounting* (in press).

IASB (2010). The Conceptual Framework for Financial Reporting; IASB; London

IIRC (2013). The International <IR> Framework (9 December 2013).

IPSASB (2014). The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities;

*** CIPFA (2014) http://www.cipfa.org/policy-and-guidance/integrated-reporting-public-sector-pioneer-network (accessed on: 15.01.2015).

*** CRUF Guiding Principles (2006) – online at: http://www.cruf.com/Guiding-Principles-Nov-2006.pdf (accessed on: 30.10.2014)

*** Go-Ahead Group plc. Annual Report (2014) – online at: http://www.go-ahead.com/~/media/Files/G/Go-Ahead/media/news/2014news/04-09-2014/annual-report-2014-v2.pdf (accessed on 18.01.2015)

*** http://www.go-ahead.com/aboutus/history-timeline.aspx (accessed on 18.01.2015)

*** IIRC – Integrated Reporting Database, online at: http://examples.theiirc.org/home (accessed on 05.01.2014).

*** Kingfisher plc – Company Overview, online at: http://www.kingfisher.com/index.asp?pageid=15 (accessed on: 15.01.2015).

*** Kingfisher plc – History, online at: http://www.kingfisher.com/index.asp?pageid=17 (accessed on: 15.01.2015).

*** Kingfisher plc – Markets, online at: http://www.kingfisher.com/index.asp?pageid=18 (accessed on: 15.01.2015).

***New Zealand Post (2013). Annual Review 2013, online at: https://www.nzpost.co.nz/sites/default/files/uploads/shared/annual%20reports/2013-annual-review.pdf (accessed on: 15.01.2015).
***https://www.nzpost.co.nz/about-us/who-we-are/new-zealand-post-group (accessed on: 15.01.2015).
***https://www.nzpost.co.nz/about-us/who-we-are/history-of-new-zealand-post (accessed on: 15.01.2015).