FROM SUSTAINABILITY TO INTEGRATED REPORTING- A PARADIGM SHIFT FOR NIGERIA'S GLOBAL COMPETITIVENESS

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Abstract

The purpose of this paper is to examine the sustainability reporting practices of companies quoted on the Nigerian Stock Exchange and make a case for the companies to transit to Integrated Reporting (IR) in order to be more globally competitive. The study adopted multiple data collection tools. A content analysis of the sustainability practices of a sample of 49 listed companies in the Nigerian Stock Exchange was undertaken. Besides, a focus group discussion of 14 Doctoral students of the Department of Accountancy, Nnamdi Azikiwe University, Awka, Nigeria was arranged. The sustainability practices of Nigerian Listed companies on a sectorial basis were as varied as they were different regarding sophistication. Also, no Nigerian company had reported under the integrated reporting framework. We conclude, deriving from this study, that Nigeria needs to transit to an integrated reporting framework, albeit gradually, to remain globally competitive.

Keywords: Sustainability reporting, Integrated reporting; Global competitiveness

Introduction

Sustainability reporting relates to the reporting of utilisation of resources to meet the economic, social and environmental needs of human beings, such that the interest of the present and future generations are served (Michael & Oluseye, 2014). Sustainability reporting, also refers to variously as “triple bottom line reporting (People, Planet and Profit) and Corporate Social Responsibility Reporting, in its broadest form is the whole set of values, issues and processes that companies must address in order to minimize any harm resulting from their activities and to create economic, social and environmental values (Asaolu, Agboola, Ayoola & Salawu, 2011). This approach to reporting has become increasingly important given the fact that globalisation has become a key driver of change. The general belief is that the sustainable approach to businesses in Nigeria leaves much to be desired in many sectors as the businesses are more concerned with immediate profitability without recourse to socio-environmental consequences (Onyema, 2015). Few empirical studies are available in respect of sustainability performance of Nigerian businesses. A 2011 study found arbitrary and incompatible sustainability reporting indicators among all the sampled companies in the oil and gas sector (Asaolu *et al.,* 2011). Also, most of the few studies in this area take a specific industry approach. While some studies looked at the oil and gas industry, some others looked at the banking sector and so on. The drawback to this research approach is that cross-sectorial comparison among different sectors become near impossible. This study by adopting a cross-sectorial approach will help in bridging this perceived gap even as it makes a case for Integrated Reporting (IR) of which sustainability reporting is an essential element. IR is a more recent development that combines the analysis of financial and non-financial performance and is particularly relevant in an increasingly globally competitive environment to the best of our knowledge no Nigerian company has as yet reported under the Integrated Reporting Framework . The rest of this study will proceed as follows; we review literature under conceptual review empirical review and theoretical framework. Next, we describe the methodology of our study; we state our findings; a discussion of our findings follows this; we then conclude.

Review of Related Literature

Conceptual Review

According to the World Economic Forum, National competitiveness which determines the place of a Nation in the International competitiveness index is predicated on 12 pillars. These are Institutions; Infrastructure; Macroeconomic environment, Health and primary education; Higher Education and training; Goods market efficiency; Labour market efficiency; Financial market development; Technological readiness; Market size; Business sophistication; Innovation .

The Association of Chartered Certified Accountants (ACCA) identified globalisation as the fourth driver of change in its recent survey of skills with which the future accountant must be endowed. From the accounting perspective, such changes manifest in continuing global harmonisation of accounting and business standards and the increasing global mobility of professional accountants

Integrated reporting Explained: Integrated reporting has been defined by the Integrated Reporting Council (IRC) as a concise communication of an organisation's strategy, governance and performance. It demonstrates the links between its financial performance and its broader social, environment and economic context and also shows organisations create value over the short, medium and long-term .

The Need for Sustainability and Integrated Reporting

Writers that support giving back to the society such as Miles (2012) in , opine that the profit any organisation makes represents the extent to which it exploits the society. It is therefore intuitively appealing to give back to society some parts of the benefits derived through sustainable practices. The reparation to society need not be in monetary or materialistic terms. It does mean conducting business in such a manner that the society is not damaged as well as minimising deterioration. It also does mean that if the damage is done inadvertently, it should be remedied promptly. It has been suggested that the adoption of the integrated reporting model will enable more effective decision- making at Board level, improve the information available to investors and encourage more integrated thinking and business practices. Three fundamental concepts underpin IR which are Value creation for the organisation and others; the capitals and the value –creation process

Sustainability Reporting Guidelines

To help organisations in developing and implementing their social responsibility practices, various National and International voluntary guidance notes on social, environmental and economic responsibilities are available. Such guidelines include NIS: ISO 26000 and GR index

NIS: the International Organisation issues ISO26000 guidelines for social responsibility for Standardisation. This standard was issued in 2010 and is based on seven core subjects that include community involvement and development, Human rights and Labour Practices. Others are the environment, fair practices, organisational governance, community involvement and consumer issues, (International Organisation). This guideline is reputed as one of the best available guidelines on social responsibility reporting . In 2013, the NIS: ISO 26000 was domesticated in Nigeria. The adoption was to ensure that charity and philanthropic activities of many corporate organisations are well documented in their social reporting in line with global sustainability reporting standards. The main achievement of ISO 26000 is the agreement on several CSR definitions developed by 450 multi-stakeholder experts,(SAMP).

The GRI sustainability reporting guidelines enable all organisations worldwide to assess their sustainability performance and disclose the results in a similar way to financial reporting. The new GRI yardstick, G4 which is an improvement on G3 is used to measure the impact of its social investment as well as ethical corporate behavior in the operating environment The proliferation of external guidelines for reporting social responsibility is, however, viewed by some stakeholders as becoming a source of frustration for companies even as it adds unnecessary complexity .

Integrated reporting is still in its formative stages as only a few companies in different countries across different industries are currently reporting under the IR model. As of 2016, only South Africa is reputed to have legislation mandating compliance or explanation for non-compliance. However, Integrated Reporting is evolving, and many professional accountants believe it should gradually become the established norm in the next decade .

Prior Empirical Review

A 2013 study of social responsibility accounting of non-bank quoted companies in Nigeria established significant differences in the accounting and reporting of social activities among companies . Another study, this time cutting across 40 listed companies in the Nigerian Stock Exchange for 2013/2014 on sustainability disclosure practices, revealed a 7% score for environmental disclosure and 66% for social disclosure . A study of Nigerian Banks confirms the high percentage of social disclosure The low disclosure and different disclosure standards across the various sectors have been ascribed to the absence of regulatory standards enforced by a regulatory body like the Financial Reporting Council of Nigeria (FRC). An allusion is made to the existence of such a body in the United States of America . The issue of integrated reporting in Nigeria is an entirely different ball game as no Nigerian organisation has so far reported under the IR model . It is in sharp contrast to South Africa where reporting under the IR model is obligatory and non- compliance needs an explanation. In many other countries, considerable progress has been made towards IR compliance including Malawi and Turkey. Interestingly, the gap between sustainable reporting and Integrated Reporting(IR) may not be too wide after all which means that transition may not be a daunting exercise .

Theoretical Framework

Some different theories provide a sound foundation to substantiate proper disclosures. These include legitimacy theory, stakeholder theory, political economy theory and social-political theory. Legitimacy theory has been widely used in the social and environmental disclosure literature as providing valuable insights into such disclosure practices. The argument underlying legitimacy theory is that organisations can only survive if they are operating within the framework of the society's norms and values. Corporate social and environmental disclosure aims to legitimise company behaviour by providing information intended to influence society's perceptions about the company . Legitimacy theory is a viable one and may contribute to understanding observed developments in National reporting practices . Legitimacy theory takes an open system view of organisations and regards a two-way open dialogue between organisations and their stakeholders as an essential communication and management tool . Organisational legitimacy theory predicts that corporations will do whatever they regard as necessary in order to preserve their image of legitimate business with legitimate aims and methods of achieving it. Legitimacy is mostly used to support the idea that social disclosures will be maintained at present levels or increased over time to avoid legitimacy crises .

Stakeholders' theory view organisations as a system that accommodates not only the interest of the owners but also the interest of other groups within the environment which the organisation operates. These groups include employees, customers, suppliers and the local community. The stakeholders' theory argues that for an organisation to perform optimally in the market place, cordial relation must exist between the organisation and its stakeholders .

This study will adopt legitimacy and stakeholder theories as they fit into the nature and scope of the empirical work

Methodology

A qualitative research design was adopted for this study. A sample of 49 companies out of 186 listed on the Nigerian Stock Exchange was purposively selected from six sectors of the exchange. The companies were selected by the ease of accessing the data of the companies from their respective websites. A content analysis of the reports was then made to elicit information on their sustainability reporting practices. A focus group discussion of 14 doctoral candidates at Nnamdi Azikiwe University, Awka was held to elicit explanations for observations arising from the content analysis of the annual reports of the selected companies. A semi-structured questionnaire was used to guide the discussion, (Appendix2). In line with best practices, participants were allowed free rein to express their views and consensus was reached on a particular issue only when all opinion on the issue from the group has been addressed.

Findings and Discussion

Table1: Elements of sustainability practices (Total companies = 49. Oil & gas sector (O) = 5; Consumer goods sector (C) = 15, Financial sector (F) =16; Industrial sector (I) = 8; Basic material sector (B) = 3) and Health (H) = 2.

Table 1: Elements of sustainability practices disclosed in the annual report

	Critical elements of SR disclosed in the annual statements of companies	O	C	F	I	B	H	AVE
		%	%	%	%	%	%	%
1	Organisational governance	100	100	100	100	100	100	100
2	Human rights:							
A	Due diligence	40	13.33	37.5	25	33.33	0	26.53
B	Human right risk situations	0	0	18 75	0	0	0	6.12
C	Avoidance of complicity	0	0	6 25	0	0	0	2.0
E	Discriminative and vulnerable groups	40	40	56.25	37.5	33.33	0	42.86
F	Civil and political rights	20	0	12.5	0	0	0	6.12
G	Economic, social and cultural rights	20	0	0	0	0	0	2.04
H	Fundamental principles and right at work	20	0	0	0	0	0	2.04
	Average	17.5	7.5	17.19	7.81	8.33	0	11 47
3	Labour Practices:							
A	Employment and employment relationships	80	93.33	93.75	87 5	100	100	91.84
B	Conditions at work and social protection	60	73.33	81.25	50	33 33	50	65.31
C	Social dialogue	0	0	0	0	0	0	0
D	Health and safety at work	75	100	87.5	75	66.6	100	85.71
E	Human development and training in the workplace	80	93.33	87.5	75	66.6	100	85.71
	Average	59	72	70	57 5	53 31	70	65 71
4	Environment							
A	Prevention of pollution	0	40	25	25	0	0	24.49
B	Sustainable resource use	20	46 67	25	12 5	0	50	28 57
C	Climate change mitigation and adaptation	0	13 33	0	0	33 33	0	6 12
D	Protection of the environment, biodiversit and restoration of natural habitats	0	40	25	25	0	50	26.53
	Average	5	35	18.75	15.63	8.33	25	21.43
5	Fair operating practices							
A	Anti-corruption	20	0	12.5	12.5	33.33	0	10.20
B	Responsible political involvement	20	0	18 75	0	0	0	8 16
C	Fair competition	0	0	0	0	0	0	0
D	Promoting social responsibility in the valu chain	0	13.33	12.5	0	33.33	0	10.20
E	Respect for property rights	0	0	0	0	0	0	0
	Average	8	2.67	8.75	2.5	13.33	0	5.71
6	Consumer Issues							
A	Fair marketing, factual and unbiase information and fair contractual services	40	6.67	6.25	25	0	50	14.29
B	Protecting consumers health and safety	20	0	43 75	0	0	0	16 33
C	Sustainable consumption	20	6 67	18 75	0	0	0	10 20
D	Consumer service, support and disput resolution	20	6.67	37.5	0	0	0	16.33
E	Consumer data protection and privacy	0	0	0	0	0	0	0
F	Access to essential services	0	6.67	6.25	12.5	0	0	6.12

G	Education and awareness	0	6.67	0	0	0	0	2.04
	Average	14.28	4.76	16.07	5.36	0	7.14	9.33
7	Community involvement and development							
A	Community involvement	20	86.67	75	87.5	66.67	100	75.51
B	Education and culture	20	20	62.5	50	33.33	0	38.78
C	Employment creation and skills	0	33 33	12 5	12 5	0	0	16 33
D	Technology development and access	20	3 33	37 5	25	0	0	22 45
E	Wealth and income creation	0	3 33	25	12 5	0	50	16 33
F	Health	80	86.67	68.75	87.5	33	50	77.55
G	Social investment	60	93.33	43.75	87.5	66.67	100	71.43
	Average	28.57	49.52	46.43	51.79	23.81	42.86	45.48

computed from 2014/2015 annual reports of companies

Table1 shows the extent to which the sectors report issues related to sustainability — every sector reports on their organisational governance. The attributes of the second element of social responsibility- 'human rights' are scarcely found in the financial reports. The attribute of human rights that are most popular among the sectors is discrimination and vulnerable group policy. This popularity was particularly noticeable in the financial sector.
The third element labour practice is the most popular element of SR reported by the majority of the companies within the different sectors, with employment and employment relations; health at work; human development and training and conditions of work and social protection ranking very high. All the sectors reported extensively on their labour practices except in the area of social dialogue.

The extent of the report on environmental management which is one of the core elements of sustainability practices is very low. The most notable sector in this area is the consumer sector. The fifth and sixth elements 'Fair operating practice and 'consumer issues' were not given enough attention in the reports and across the various sectors examined.

The seventh element, Community Involvement and Development is another element which was given significant attention in the annual reports of companies. The focus group discussion arrived at some of the following decisions:

i. The existence of corporate governance codes in Nigeria ensured that all the companies reported on corporate governance issues thus underscoring the need for regulation and strict enforcement of regulation for compliance.
ii. Some company management is unduly secretive about their affairs for fear of losing competitive advantage.
iii. Cost consideration is another factor constraining disclosure by Nigerian companies.
iv. Disclosure levels in developed countries are higher because they have a culture of respect for human rights and see human rights protection and community development as a good business
v. Since Nigeria has domesticated ISO Standards, there may be no need for local equivalent standards
vi. Corruption is a factor in compliance especially as it involves environmental reporting because highly placed government officials will only care for compliance only if they are personally affected.

vii. Low activism by citizens as regards enforcement of their rights to disclosure is a factor
viii. The unemployment situation in the country has not encouraged employee's activism for fear of losing their jobs and employers have capitalised on this fact as well.
ix. IR implementation will enhance the global competitiveness of Nigerian companies as it will have a positive effect on their reputation and ipso facto lead to increased foreign investments in the Nigerian companies.
x. The adoption of IR should be a gradual process in Nigeria, even though South Africa has already taken the lead.
xi. There should be full implementation of Sustainability reporting in Nigeria which is presently at a low before venturing into IR reporting.
xii. Sustainability reporting in Nigeria is driven by size and regulation by government.
xiii. There is a need for proper underground work and planning to ensure adequate orientation, human resources and discipline before implementing IR in Nigeria.
xiv. Sensitisation seminars and workshops.

Our findings of low sustainability reporting in Nigeria are in line with many similar studies. For example, a study of sustainability reporting in the Nigerian food and beverages industry found insignificant sustainability disclosure practices. Another study found that sustainability reporting has a salutary effect on the performance of non-financial companies in Nigeria. What is required therefore is a series of seminars and sensitisation workshops as recommended by the focus group so that company management should begin to see sustainable reporting as being in their best interest?

Many Nigerian studies have recommended the introduction of IR in Nigeria. However, the focus group discussion recommends a gradual approach to transiting to IR. It is in line with ACCA worldwide survey of drivers of change in accountancy profession which the study referred to earlier. The focus group discussion prefers that Sustainable reporting in Nigeria be allowed to mature before a shot is taken at IR in Nigeria.

Summary and Conclusion

The objective of the study was to investigate the sustainability reporting practices of Nigerian companies and to make a case for a transition to integrated reporting to reposition Nigeria for global competitiveness. A qualitative research design was adopted to achieve the objective. Content analysis of annual reports of sampled companies was made. This content analysis was supplemented with focus group discussion comprising doctoral students at a prestigious Nigerian Federal University. We found little coverage of sustainability items especially in respect of environmental matters. All the companies reported on governance matters which are explained by the existence of corporate governance codes. Labour practices were widespread regarding reporting practices. The introduction of IR will enhance the global competitiveness of Nigerian companies, but a gradual approach was recommended even though South Africa, Nigeria's major competitor has taken the lead. This study has thrown light on sustainability reporting practices in 49 Nigerian companies on a sectorial basis and has confirmed the need for Nigeria to gradually transit to IR framework for global competitiveness. The findings should be of interest to the Nigerian regulatory authorities and company management among others.

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Appendix1

Companies used:

1. Consumer services: Unilever Plc. ; Transcorp Plc. ; PZ Plc. Presco Plc. ; NB Plc. ; Nestle Plc.; Honeywell flour Mill PLC, ; Guinness Plc. ; Flourmill of Nigeria Plc. ; Dangote Sugar Plc. ; Cadbury(Nigeria) Plc. ; Dangote Flour Mill Plc. ; Champion Breweries Plc. ; Livestock Feeds Plc. and Vita foam Plc.
2. Health: Niemeth Plc. and GSK Plc.
3. Basic material goods: First Aluminium Nigeria plc. ; CAP Plc. ; Berger Paint Plc.
4. Financials: Abrico Plc. ; Zenith Bank Plc. ; Wema Bank Plc. ; Unity Bank Plc. ; Union Bank Plc. ; UBA Plc. ; Sterling Bank Plc. ; Stanbic Bank Plc. ; Skye Bank Plc. ; GTB Bank Plc. ; First Bank of Nigeria Plc. ; Fidelity Bank Plc. ; Eco Bank Plc. ; Diamond Bank Plc. ; Access Bank Plc.
5. Oil and Gas: Total (Nig.) Plc. ; Oando Plc. ; Mobil Oil Plc. ; Capital Oil Plc. ; Forte Oil Plc.
6. Industrials: UAC Plc. ; Dangote Cement Plc. ; Beta Glass Plc. ; AG Leventis Plc.; Ashaka Cement Plc. ; Julius Berger Plc.; Chellarams Plc. and SCOA Plc.

Appendix 2 - Focus Group Discussion Guideline

Title: From Sustainability to Integrated Reporting- A Paradigm Shift for Nigeria's Global Competitiveness.

Group: PhD Accountancy Students 2015/16 session (total number 14)

Discussion Guidelines

3. Background information: Sustainability reporting relates to the reporting of utilisation of resources to meet the economic, social and environmental needs of human beings, such that the interests of the present and future generations are served.

4. Various names of Sustainability Reporting include Sustainability reporting; Triple bottom line reporting (People, Planet and profit) ; Corporate social responsibility reporting and Environmental, social and governance disclosures (ESG).

5. Integrated reporting (IR) combines the analysis of financial and non-financial performance and is a more recent development

6. Sustainability reporting in Nigeria: Empirical studies show that governance scores are the most widely reported, followed by social reporting while environmental reporting was the least reported.

   Question: Does this have to with the presence of corporate governance codes
   Answers- Poor reporting of environmental issues could be as a result of no standard mandating its reporting, poor implementation of existing standard on environmentally related standards, no standard measurement indicators, attitude of companies management towards environmental management; companies management believe that reporting environmental issues amounts to disclosing their secrets which may be to their own disadvantage , no global reporting standard. Cost is also a factor that deters companies from reporting.

7. The level of disclosures by Nigeria and developing countries is lower than that found in developed countries.

Question: Suggest reasons for low disclosure in developing countries
Answer: The developed countries take human rights and community development seriously and as part of good business. Developed countries have clearly stated legislation on environmental protection, and they monitor the progress of the process. Developing countries do not care once it does not affect them as individuals; it is only when the ruling class is affected by any environmental issues that they may want to do something about it.

8. In 2013, Nigeria domesticated ISO 26000as the reporting framework for sustainability. ISO 26000 is predicated on seven core areas of disclosure as follows: organisational governance 100%; labour practices 65.71%; fair operating practices 5.71%; consumer issues 9.33%; community involvement and development- 45.48%; environment 21.43%; human rights 11.47%.

   Suggest reasons for the different scores under ISO 26000 guidelines
   Answers: Citizens do not know their right and so may not understand the need for such reports like consumer issues, labour practices, fair operating practices and others; the country should let people know their rights. NLC should champion the rights for workers and ensure that human rights and labour practices are reported; many workers do not know their rights. Unemployment is a big factor here, because the workers who are supposed to ensure their rights may lose their jobs without any protection by the country. The attitude of many employers is if you are not satisfied, quit, they know they can easily replace the worker because the rate of unemployment is high.

9. IR (integrated Reporting) = Financial Reporting plus ESG. No Nigerian company has reported under IR.

   Question: Suggest reasons for lack of reports under IR
   Answer: We lack the political will to uphold standards; corruption is rampant in the country; our country is not promoting human rights.

10. In South Africa and few other countries, IR reporting is mandatory, as a result, many companies in such countries report under IR framework.

    Question Should IR reports and indeed the whole issue of sustainability reporting be made mandatory in Nigeria?
    Answer: We can compete with South Africa, we can compete with a changed system, framework and attitude; we should make it voluntary with benefits from the government like a tax rebate. There is a need for different companies' orientation on the need to report holistically; IR is yet to be clearly understood, it is good not to jump to it. Instead, sustainability reporting could be made mandatory; stakeholders are to stand up to their rights and call for sustainability reports and not leave everything for the government to do.

11. ISO 26000 has been domesticated in Nigeria- A Global reporting framework. Will there be any need to have a local guideline to take account of local peculiarities and issues by the FRCN?

12. Answer: No, since it has been domesticated, we need self-will to adopt it.

13. What do you think are the determinants of sustainability reporting in Nigeria? Answer- size and government action.

14. Integrated reporting brings together material information about an organisation's strategy, governance, performances and prospects, in a way that reflects the commercial, social and environmental context in which it operates. It tries to reflect the full value creation of all stakeholders in a company. Should Nigeria encourage the immediate transition to IR or do we wait till we are perfect in sustainability reporting under ISO 26000?

    Answer Nigeria should not go to IR now, IR should not be adopted in a hurry, one thing at a time. Let us perfect sustainability reporting and give a period for understanding and maybe adoption of IR.

15. What are the challenges to a transition to IR Nigerian companies could face?

    Answer: Understanding the need and issues of IR, may lack workforce; we may not have enough data for IR; it demands careful and accurate collection of information; cost may be another big challenge.

16. Will such transition involve additional costs or even lower costs? How?

    Answer Yes, IR is likely to attract more cost than the usual reports, because it is very detailed, bulky and may need some research in a company's environment.

17. Moving to IR _ what will be the benefits regarding global competitiveness

    Answer: if it has been accepted globally, then it will enhance global acceptance of the companies and will give them a good reputation and image, which may lead to increased investment in such companies

18. Can you afford the delay of moving to full IR since South Africa, our most significant competitor in the African region has already seized the initiative and is driving IR in the world?

    Answer: As it stands now, even though we are competing with SA, there is a need for proper underground publicity and understanding before jumping to IR; we need to ensure that we have the capability, discipline and workforce to adopt IR before going into it.

19. Other ideas about IR in Nigeria
    Answer- Corruption is the bane of development, the level of corruption may be a prohibition. Let the country encourage voluntary sustainability reporting with some tax rebate or any other benefit that could encourage more companies to adopt IR voluntarily; there is a need for enough publicity on sustainability issues and management; there is the need for proper teachings, workshops and seminars on sustainability reporting and IR.