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its characterising informative content”**

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The group social and environmental report: its characterising informative content

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Abstract

This research work stems from the observation that, more and more frequently, Italian parent companies are publishing social responsibility reports concerning their own activities, as well as those of their subsidiaries. In other words, although the reports may assume different headings, there is a steady increase in the practice of communicating group behaviour concerning social responsibility.

In order that the stakeholders of a corporate group may appreciate how a group has combined economic expectations with socially responsible behaviour, it is necessary that the group social and environmental report provides disclosures on the drawing up procedure. This aspect is of particular importance considering that there is actually a lack of standards concerning group social and environmental reporting.

Therefore, the risk that a social and environmental report may be considered a document of image and of little reliability is greater in the report of a corporate group than in the report of an entity.

Information regarding the basic steps of the drawing up procedure may be qualified the characterising disclosure of a group social and environmental report. Thus, in this paper the information concerning following steps will be analysed: the singling out of entities whose performance is covered in the group social and environmental report; the method used in recording information concerning each entity of the group; the aggregation method of performance indicators; the group stakeholder engagement practices.

The transparency concerning the basic steps of the drawing up procedure can throw light on the credibility of a group social and environmental report.

1 - Introduction

This research work stems from the observation that, more and more frequently, Italian parent companies are publishing social responsibility reports concerning their own activities, as well as

those of their subsidiaries. In other words, although the reports may assume different headings, be it *Group Sustainability Report*, or *Group Social Report*, or *Group Social and Environmental Report* (Group SE report, for short) - all used in this paper, predominantly the third -, there is a steady increase in the practice of communicating group behaviour concerning social responsibility¹.

Similar to the major information worth that the consolidated financial statements hold compared to the financial statements of the parent and its subsidiaries, a group social and environmental report may better satisfy the information needs of stakeholders of a corporate group than that of each company of the group and especially than that of the parent (Freeman, 1984; Donaldson and Preston, 1995; Clarkson, 1995).

In order that the stakeholders of a corporate group may appreciate how a group has combined economic expectations with socially responsible behaviour, it is necessary that the group social and environmental report provides disclosures on the drawing up procedure (Adams, 2002; Gray *et al.*, 2001; Larrinaga-González *et al.*, 2001).

This aspect is of particular importance considering that there is actually a lack of standards concerning group social and environmental reporting.

In Italy, a group social and environmental report can be prepared either according to the standard «Principles for social report» drawn up by the GBS (Study Group for Social Report) (GBS, 2001) or in accordance with the «Sustainability Reporting Guidelines», provided by «Global Reporting Initiative» (GRI).

Indeed, both documents, neither mandatory, refer to the social and environmental report of an entity. Only in the GRI Guidelines (both in GRI-G2 and in GRI-G3) may few references to the group sustainability report be found (GRI, 2002, 2006).

Besides, only recently in Italy (since 2007) has it been possible to clearly identify a group sustainability report showing satisfactory adherence to GRI-G3 guidelines. Nevertheless, the most widespread practice throughout Italy is that of drawing up social and environmental reports that do not keep strictly to either type of standard; instead they are a mix of the content of the two.

Thus, to add to its credibility, it is important that the group social and environmental report displays disclosures regarding the basic steps taken in drawing it up. A group may organize – in different ways – not just the contents of the report but the drawing up procedure of the document itself. Therefore, the risk that a social and environmental report may be considered a document of image and of little reliability is greater in the report of a corporate group than in the report of an entity (Adams, 2004).

¹ Since the topic of Corporate Social Responsibility (CSR) is amply and variously examined in literature, we refrain from quotations.

Information regarding the basic steps of the drawing up procedure may be qualified the characterising disclosure of a group social and environmental report. Thus, in this paper the information concerning following steps will be analysed:

- The singling out of entities whose performance is covered in the group social and environmental report;
- The method used in recording information concerning each entity of the group;
- The aggregation method of performance indicators;
- The group stakeholder engagement practices.

The definition of the area of those entities whose performance is covered in the group social and environmental report is another aspect which is in need of analysis.

The transparency concerning the above-mentioned steps can throw light on the credibility of a group social and environmental report.

2 - Aims of group social and environmental reporting

An initial and fundamental aspect which is posed by the drawing up of a group social and environmental report is the examination whether or not a group has to satisfy specific requirements in order to illustrate how it combined economic expectations with socially responsible behaviour (Freeman and Velamuri, 2006).

The ends that are attributed to the report may allow to come to the conclusion that any group is entitled to present the group social and environmental report, or that only those groups satisfying specific requirements may proceed to social reporting.

In the case that the aim of the group social and environmental report is to highlight how the group has combined value creation with socially responsible behaviour, any corporate group may draw up the group social and environmental report (Gray, 2006).

On the basis of this generic aim any group is entitled to present the group social and environmental report.

One, nevertheless, holds it necessary that the report has to let the fundamental character of unity, which permeates the responsible operating of group entities, come to the fore. That aim may be achieved when a group social and environmental report is drawn up by a group that has implemented a *group governance of social responsibility*.

In other words, the group social and environmental report should be drawn up by a group whose strategies and policies of social responsibility are established and when there is a set of

rules, according to which, activities of social responsibility or socially oriented activities of each entity are directed and controlled².

In line with that mentioned above, we may affirm that only the group that has implemented a system by which the activities of social responsibility or the socially oriented activities of every company of the group are unitarily directed and controlled may report its socially responsible behaviour. In brief, we believe that the fundamental condition for a group social and environmental report is the group governance of social responsibility³.

That condition may also be indirectly deduced from those standards concerning the social report and the sustainability report.

The social report must contain three essential sections: «Company Identity» characterised by qualitative information; «Production and Distribution of Added Value» with quantitative information correlated to the financial statements (in particular, the income statement); «Social Report» together with performance indicators and all those data that are useful for describing the connection between commitments taken and results with reference to single stakeholder categories (GBS, 2001)⁴.

«Company identity» is then articulated into the institutional set-up - in the sense of ownership set-up, governance, history, size, market share and company organisation -, in its reference values, its mission, strategies, policies, among which aspects a strong connection must be present. According to that which emerges out of the GBS standard, each aspect influences or has a direct effect on the other (domino effect), circumstance that is possible only if there is a sound corporate or group culture (Catturi, 2003).

As a result, the goals of a group social report, in accordance with GBS requirements, become that of highlighting that the self same values *mould* group entities and that from them derive, among other things, those strategies aimed at respecting man and nature, as well as the consequent activities of the parent and its subsidiaries and all their outcomes.

² We have proposed a definition of group governance of social responsibility in line with the definition of corporate governance propounded by the publication of the Cadbury Report in 1992. See, particularly, Busco *et al.* (2006b); Catturi (2005).

³ In keeping with the managerial branch of stakeholder theory, managers of the parent have to marry the duty of trust of guaranteeing an adequate remuneration of their investment to shareholders of the parent and minority shareholders of subsidiaries, with those duties of trust towards the various categories of *group stakeholders* (Gray, 1995; Deegan, 2002). Even though we know that the identification of the *group stakeholders* and their expectations is a most complicated process, we believe that such a balancing between interdependent and often opposing requests presented by the stakeholders has to take place and therefore has to be looked for, as much as possible. From this balancing, strategies and consequent activities of group social responsibility descend (Bertini 1990; Sacconi, 2005; Beretta Zanoni, 2007).

⁴ The social report, which is a result of stakeholder-management approach, envisages identifying the stakeholder *community* whose interests are divided into *interests of a social nature* (for example contributions directed towards the social, in terms of enhancing the quality of life) and *interests of an environmental nature* (GBS, 2001).

The sustainability report drawn up by GRI-G3 opens with the analysis of a strategic vision of sustainability, singling out risks and opportunities, then it presents information concerning operational choices carried on by management and concludes with the results of the activity. More specifically, the sustainability report, compliant with GRI-G3 requirements, is divided into two parts: «Strategy and Profile» and «Performance Indicators». As far as «Strategy and Profile» is concerned, the following four points must be stressed: the strategy regarding sustainability; the principal characteristic of the organisation (organizational profile); the aspects and the drawing up procedure of the sustainability report; the governance structure, the commitment to make development of behaviour that is coherent with sustainability and stakeholder engagement (GRI, 2006). In the latter part, entitled «Governance, Commitments, and Engagement», also «... *internally developed statements of mission or value, code of conduct, and principles relevant to economic, environmental and social performance and the status of their implementation*» (GRI 2006, p. 23) have to be reported. However, such information, within the context of the document, does not seem to take on a fundamental role.

After all, we believe that the goal of a group sustainability report, compliant with GRI-G3 requirements, is to highlight the connection between group policies of social responsibility, the activities implemented by the parent company and by its subsidiaries, as well as all consequent results.

At this point, it seems clear that the goals both of the group social report and of the group sustainability report presuppose such documents be drawn up by a group which has already implemented a group governance of social responsibility.

Such observations reinforce the thesis that, above and beyond the reference model, every group social and environmental report must illustrate the fundamental unitary background which permeates the socially responsible behaviour of the group entities. It is a matter of a goal which can be achieved by the reporting of a group that has outlined a strategic plan, aimed at respect for man and the natural environment, as well as the consequent operational choices from which the various activities derive as well as the results of every group entity.

Should such conditions not be met, every group entity may continue or start to draw up its own individual social and environmental report from which, in this case, its own governance of social responsibility would emerge.

3 - Group governance of social responsibility: the presupposition for drawing up the group social and environmental report

Governance of social responsibility allows the drawing up of the social report, as set out in the GBS standard, if employed in a group where values and mission derive from a homogeneous culture of the various group entities. Consequently, the strategies and policies of an environmental

and social nature are shared and, in any case, interiorised by the various subsidiaries in such a way that the consequent activities of them result as a direct and unitary achievement of group directives.

That group, indeed, satisfies the requirements of drawing up a social and environmental report from which it may emerge that the behaviour of each entity, including that aimed at respect for man and natural environment, is compliant with the group values and consequent group mission, since the values are in the DNA of every group entity and the mission is shared by it (Catturi, 2006).

If, however, governance of social responsibility is exercised in a group where values and mission are imposed onto companies operating within differing cultural contexts and, consequently, are *applied* by the various subsidiaries, the drawing up of the sustainability report seems to be more opportune.

Without wishing to introduce yet another league table of groups based on the greater or lesser degree of group culture, we, nevertheless, believe that any corporate group which has defined its strategic priorities concerning sustainability and the consequent management approach to achieve the recording of economic, social and environmental impacts, can have recourse to the sustainability report, as proposed by the GRI-G3.

The chapter concerning company identity, as it is conceived by the GBS standard, implies however, that the group social report may be drawn up only by those groups characterised by social responsibility governance deriving from the presence of a solid group culture; that is, from values shared and interiorised by the various subsidiaries. To sum up, in order to have a group social report, a corporate group should be characterised both by a thorough and consolidated group culture and by a group governance of social responsibility.

It is irrefutable that the identification of group governance of social responsibility is based on subjective conditions. It is held, for example, that where there is good group governance there is also group governance of social responsibility, and that group governance and group social responsibility are inextricably linked. In other words, good group governance involves being a responsible group and a sound approach to group social responsibility necessitates good group governance (Fortuna, 2001; Cornelius, 2005; Aras and Crowther, 2008).

Thus, we firmly believe that the drawing up of a group social and environmental report is a complex process which presupposes the formalisation of group strategies of social responsibility followed by the identification of activities that are exclusively directed to respect man and natural environment (activities of social responsibility), or activities that highlight social or ecological aspects (socially oriented activities) regarding both the parent company and its subsidiaries⁵.

⁵ The multi-faceted nature of entity operating has often been stated, even though with different approaches and objectives, by Italian literature sources (Airoldi *et al*, 1994; Catturi, 1971; Coda, 1988). Any business activity maintains not merely an economic facet but also a social one; therefore, activities directed to respect man and natural environ-

Only in this case is the basis laid to make direction and control, or rather, social responsibility governance operational.

The contribution of the single individual is fundamental both in the exclusively socially responsible activity and in that activity which highlights social or ecological issues.

Indeed, the contribution of the single individual has some influence exclusively upon the results of indicators of group performance. The evaluation of the results of the performance indicators, however, represents another subsequent aspect which we do not intend to deal with. Identifying the activities that fall within the group governance of social responsibility – in as much as they are exclusively philanthropic or because they can be qualified by important social facets – represents, however, a presupposition that has to be satisfied for the drawing up of the group social and environmental report.

4 - Characterising information of the group social and environmental report

Similarly to the consolidated financial statements, the group social and environmental report is qualified as a *second-level report* in that it is directed to communicate the socially responsible activity of a group of entities (Brunetti, 1982).

Unlike the consolidated financial statements, the group social and environmental report has no need for *first-level reports*, or rather, social and environmental reports from each group entity, since its goal is that of illustrating aspects of the group strategic plan, aimed at respect for man and the natural environment, the consequent operational choices, the activities and, finally, the results of these choices.

It is a question of information which cannot derive from the simple aggregation of data provided by the various first-level reports owing to the nature (essentially qualitative) of the same data and, especially, because of the document aims which are those of illustrating the unity which permeates the responsible actions of all the various group entities.

Indeed, reporting the results expressed in numerical terms (the quantitative indicators) may require a procedure similar to the consolidation on a line-by-line basis. However, this is an aspect specific to the drawing up procedure.

Two chapters which consequently seem fundamental to group social and environmental reporting, are those where the area of those entities whose performance is included in the group social and environmental report is defined, as well as that concerning the methodological notes.

That which is maintained on the matter of the presupposition which has to be satisfied for drawing up the group social and environmental report, leads us to affirm that the initial chapter

ment which ought to be reported are not only the philanthropic ones, but especially those which are qualified by an important social facet. Such activities and previous strategies should derive from the search for a balance between the interdependent and often contrasting requests of the *group stakeholders*.

must bear the title: «Group governance area of social responsibility». «Group area of social responsibility», indeed, does not seem sufficient to underline the basic aims of the report.

The second chapter should provide information on the various steps of the procedure of drawing up the document, or at least, on the most important ones. The techniques adopted in order to measure impact and the way in which data gathering procedure is organised represent steps of the procedure which should be treated.

A further important chapter of a group social and environmental report is that which reports how the stakeholders, as well as their expectations, have been identified, in as much as it is a question of that activity at the basis of the definition of group strategies of social responsibility⁶.

4.1 – Group governance area of social responsibility

The demarcation of the group governance area of social responsibility constitutes the first phase in the procedure of drawing up the document here examined, in as much as it is directed at defining the companies represented therein. It should to be carried out by beginning with the group configuration and then highlighting the subsidiaries which operate according to the group strategies of social responsibility.

In the report the entities included in the area should be listed. It could be appropriate to present the percentage, in terms of sales (turnover) or assets, of the group entities included in the area.

Identification of the group governance area of social responsibility therefore represents an analogous phase to that of demarcation of the consolidation area when the consolidated financial statements are drawn up.

Analogously to that which takes place when demarcating the consolidation area, we can verify if a company in the group does not meet the requirements, as long as its activity and all resulting outcomes are reported in the second-level social and environmental report. For example, socially responsible activities of that particular company do not come from group policies since it has not yet conformed itself to them or else because it has been excluded from conforming itself to them.

A group policy may be, for example, that of not involving employees of a subsidiary in the process which is aimed at spreading specific principles throughout the employees of the group companies, such as listening to the customer, paying attention to his particular needs, etc.; and which is based upon meetings and workshops. In this case, the group governance area of social responsibility cannot include that subsidiary. It is a matter of a decision that influences the social

⁶ When we consider the managerial branch of stakeholder theory to the study of CSR, communication of group behaviour concerning social responsibility demands management to identify *group stakeholders* and what expectations must be taken into consideration. Not all the numerous and generic social demands fall within the range of priority questions that management has to face (Coda, 1989; Rusconi, 2004; Vilanova, 2007).

aspects of any activity of such a company, therefore, its behaviour cannot be qualified as being in accordance with that of the group.

We must remember that a group may be made up of companies operating in notably differing economic sectors: from food stuffs to textiles, from mechanical engineering to telecommunications. This is an irrelevant situation as far as the preparation of the consolidated financial statements are concerned. Such a document has to show the financial position and financial performance of a corporate group and, therefore, also those of a group of companies that carry out different business activities. Only companies whose control is subject to severe long-term restrictions or is intended to be temporary are excluded from the consolidation area (IASB, 2000).

It is abundantly clear that the two outlined reasons for exclusion from the consolidation area are also applied to the exclusion from the group governance area of social responsibility; nevertheless, it is a question of hypotheses that are indirectly called upon in the condition provided for so that a company takes part in the group governance area of social responsibility. A company whose control is subject to restrictions or which is only temporary is not governed by the parent and, therefore, its activity aimed at the protection of man and natural environment, cannot be illustrated in the group social and environmental report.

The proposed layout regarding the aims of a group social and environmental report leads us to believe that the area examined here should be made up of only the parent company and its subsidiaries. As a consequence, the eventual activities of associates, directed to respect man and nature, must not be reported. The weakest link between a parent company and an associate does not, indeed, make it at all possible to state that such a company falls within group governance and, eventually, within group governance of social responsibility. The parent has not got the power to govern operating social responsibility policies of an associate.

Only a scrupulous examination of the various aspects of the agreement between the parent company or its subsidiaries and the other partner of a jointly-controlled entity may lead to establishing whether or not such an entity must or must not participate in the group governance area of social responsibility.

At this point in time, the layout of the GRI-G3 – in as much as such a document faces «The Sustainability Report Boundary», or rather, which entities will be included in the report – deserves to be mentioned. The GRI-G3 envisages that the subsidiaries and associates whose activity generates significant economic, social and environmental impacts (both actual and potential), fall within the sustainability report boundary; therefore, differently from that proposed in this paper, the GRI-G3 does not single out the realisation of the policies of group social responsibility by a subsidiary or an associate as a prerequisite for including such companies in the boundary itself.

If, however, we consider that the guidelines of the GRI-G3 document include that a responsibility report has to illustrate the strategies, management approach and the results of the sustainability, highlighting their correlation, then as has already been outlined here previously, a group

must be characterised by group governance of social responsibility in order to draw up a group sustainability report.

The defining of the report boundary, as provided for by the guidelines, leads us then to state that subsidiaries and associates, which generate *significant* (as used in GRI-G3; however, a closer definition would be *material* as used in accounting terminology) impacts putting the group strategies of social responsibility into action, fall within it. The materiality of the phenomenon, therefore, represents the element on the basis of which a subsidiary or associate, which puts group policies into effect, is excluded from the boundary.

In addition, it should be noted that the GRI guidelines do not provide for an objective criterion, but allow the report compiler to establish if the actual and potential impacts of a company are qualified as significant. As a consequence, it is the duty of the report compiler to define the materiality of the various economic, social and environmental impacts, which have to be measured and then, on the basis of how those of every subsidiary and associate are qualified, he proceeds to include, or not, each company within the boundary⁷.

Although both the subsidiaries and the associates fall within the boundary, a distinction is then carried out on the information to *aggregate*, which partly calls for that envisaged for drawing up the consolidated financial statements. As far as the subsidiary with significant impacts is concerned, the sum of its performance indicators to those of the other subsidiaries and of the parent company is put forward. Regarding the associate with significant impacts, a less stringent aggregation – such as the inclusion of the information on the methodology of strategy implementation in the group social and environmental report – is envisaged⁸.

The chapter concerning the boundary setting ends with an affirmation which highlights the absence of an underlying layout. It states, that: *«In the process of preparing its report, an organisation may choose not to gather data on a particular entity or group of entities within the defined boundary on the basis of efficiency, as long as such a decision does not substantively change the final result of a Disclosure or Indicator»* (GRI 2006, p. 19).

To conclude, the GRI-G3 faces the definition of boundary of the group report, leaving the greatest possible discretion to the compiler. Given that margins of discretion are necessary, we maintain the opportunity for an intervention which is more organic and consequently clarifies the various aspects connected with the presuppositions needed in drawing up a group sustainability report and in identifying the entities whose performance is included in the report itself.

⁷ Materiality can be determined quantitatively and qualitatively; it depends on the size and nature of impact, or by a combination of both (ISEA, 2006).

⁸ On the basis of the GRI-G3, the performance data of the subsidiaries and the information on the activities of the associates with non-significant impact are not reported; consequently, management approaches of group strategies, implemented by the subsidiaries, should always be reported. Besides, the information on activities of social responsibility may also regard those *«... entities over which the organisation does not exercise control/significant influence but which are associated with key challenges for the organisation because their impacts are significant»* (GRI, 2006, p. 19).

4.2 – Methodological notes

The complexity of information of the second-level social and environmental report and the widespread behaviour of companies not holding to a specific standard make the methodological notes a fundamental chapter of the group social and environmental report.

One aspect which the methodological notes must necessarily treat concerns the techniques adopted in order to measure impact. That technique, hoped to be at the basis of the value determination of the social and environmental report, is the direct data gathering, in that it allows for a reliable representation and, consequentially, should lead to a proper interpretation of the phenomenon. The sample analyses and the processes of extrapolation are procedures that should be used only as a last resort; nevertheless, such procedures are often used to quantify, in particular, certain environmental impacts owing to their complexity.

At this point, it seems clear that the information of the methodological note of the group social and environmental report are all the more important where there are subsidiaries which, even when they implement group social responsibility policies, have not implemented the group techniques of impact measurement that are provided for. In a group social and environmental report, the indicators valued by estimate may be very numerous; indeed, if only some entities adopt direct data gathering, the resorting to the estimate, in order to determine the value at group level of an impact, becomes necessary. In other words, the indicator, valued by estimate or not quantified by certain entities of the group governance area of social responsibility, leads to the aggregated indicator being determined by estimate. It should not be excluded the hypothesis of a subsidiary which may have adopted group techniques of determining social indicators while it has not initiated or completed the adjustment procedure to the same techniques for calculating the environmental indicators in that they require, more than the others, specific competencies, time scales, costs, etc.

Keeping in mind that it should be privileged the completeness of the contents of the report compared with the reliability of the data, the inclusion of estimated values is preferred to the absence of indicators; the methodological notes of the group social and environmental report followed by those chapters that outline the indicators ought to provide information on value formation. However, if it is considered the complexity of the document and its discretionary nature, a group choice of publishing the results of the second-level social and environmental report should always be seen in a favourable light, even when such a procedure has not been completely fine-tuned in all its methodological aspects.

Social and environmental report users must be informed of the change of data gathering techniques adopted within the group, in order to make them more pertinent to the phenomena investigated, since the comparability fails if the values of previous reporting periods have not been re-determined. Therefore, in the methodological notes or in other specific chapters of the report, information concerning eventual re-determinations or else regarding the impossibility of carrying

out comparisons with past years (at least the two preceding ones) because of the change of data gathering techniques must be included.

Another noteworthy piece of information contained in the methodological notes of the group social and environmental report is the way in which data gathering procedure is organised. A group may resort to a structure of the parent which will organise the procedure, even for subsidiaries, and intervene when data are gathered by the subsidiary (centralised management model), or else may resort to a structure of the parent opened to the participation of experts of the subsidiaries who proceed to data gathering, or again, the group may have provided for, for every company, a unit which makes the indications of the parent regarding social responsibility operational and which measures the impacts (decentralised management model). Information regarding the use of either model, on the number of people in charge and human resources employed, etc., should then be presented in the methodological notes.

4.3 – Segment reports regarding the impacts of group activities on natural environment

The character of the group social and environmental report of being a second-level document makes it implicit that we have to resort to the sum of the quantitative performance indicators of the various entities who make up the group governance area of social responsibility. Nevertheless, the question arises whether to aggregate or not in the case where entities of such an area carry on non-homogeneous business activities.

A layout analogous to that of the Italian rules and of IAS/IFRS on the question of segment reporting is held to be opportune as regards group social and environmental reporting whenever a corporate group includes entities operating in distinct industry segments (art. 2428 civil code; IASB, 2006).

Such a report, even though it does not come from the aggregation of the first-level reports because of both aims and the essentially qualitative nature of the information that it shows, nevertheless reveals, not only the policies and consequent activities of group social responsibility but also the impacts (results) of strategic and tactical decisions, or rather, the performance indicators, the great majority of which are quantitative.

They are monetary values from an accounting background, non-monetary values coming from measuring (but also from estimating) volumes, lengths, capabilities, time scales, etc., in other words they are numbers which are related to differing units of measurement in order to translate, in an appropriate way, the investigated impacts of group entities, besides being simple arithmetic units. Therefore, the group social and environmental report presents indicators that originate from a sum of values.

Nevertheless, reporting impacts of group entities on the natural environment seems to be in need of segment reporting. Even though, every entity consumes electrical energy and methane, measures both water withdrawal and water discharge, produces refuse of which it recycles specific quantities, etc., it is true that the results of mechanics companies which belong to a group

have differing values from those of the companies which produce energy or which operate in transport.

After all, since the impacts on the natural environment are tightly connected to that specific type of business activity, a report per business segment assumes an indisputable meaning, when a group is characterised by highly differentiated industry segments, and, therefore, allows for an interpretation of aggregate data which, notwithstanding their limitations, must nevertheless be present, in the group social and environmental report⁹.

On the other hand, resorting to a non aggregated type of report seems less necessary for social impacts of activities of group entities, even if certain social indicators may show some results that depend on the specific business of the entity.

For example, the rate of work-related injuries of a company that operates within the insurance sector should be less of note than that recorded by one in the iron and steel sector. In short, indicators in the social field, excepting certain ones, do not seem to present problems regarding their information value and their consequent interpretation, if presented purely at a group level¹⁰.

It is irrefutable that the methodological notes should present information concerning the identification of the distinct industry segments. The entities included in any segment should be listed. Besides, it could be appropriate to present disclosures for the understanding the measurements (performance indicators) of any segment.

Upon completion of this step of the procedure of the drawing up of the group social and environmental report, we point out that in the GRI-G3 there is no explicit reference to the need to add up the performance indicators of the various group entities; it (2006, p. 18) simply requires that the «*entities can be included using ... indicators of operational performance*». In a following passage, GRI-G3 then states that «*reporting organisations should determine the appropriate level of aggregation of information*» (2006, p. 25).

The Guidelines, therefore, permit the possibility of presenting a report with values that derive not only from the sum of the impacts of every company, but also of certain entities within the boundary.

Even with respect to this aspect, we can repeat the previous conclusions: the G3 gives the report compiler the choice of the path to follow in the various steps throughout the procedure of drawing up a report; instead, intervention by the GRI, which gives guidelines for preparing a second-level social and environmental report, would be desirable.

⁹ The issue of understanding the measurements (performance indicators) included in the report is always present. Only through the spreading of an ecological culture aimed at making the individual aware of the knowledge of his own water, energy, etc. consumption, even the non experts should be able to interpret the value of a discharge of water x m³ or the consumption of electrical energy x GJ by a group entity or group entities operating in the same sector.

¹⁰ Besides work-related injuries, turnover is yet another indicator of a social nature with determinations which may be closely connected to the specific company activity. In such a case, the group social and environmental report could show the results of such indicators per business segment.

4.4 - Group stakeholder engagement

In keeping with the managerial branch of stakeholder theory, the definition of group socially responsible strategies should come out of a balancing between the interdependent and often contrasting requests of stakeholders. It follows that a step of the procedure of the drawing up of the group social and environmental report to be registered is the stakeholder engagement or preferably *group stakeholder engagement* (Gray, 2002; Unerman and Bennet, 2004; Adams and Larrinaga-González, 2007; Bebbington *et al.* 2007).

The group stakeholder engagement is a step of the procedure of the drawing up of the report and, in the meanwhile, it is a procedure which envisages many phases: the phases of determining and defining engagement strategy (establish ways, times of consulting, staff involved, etc.), identifying and selecting stakeholders, consulting selected stakeholders, selecting their primary needs, searching for a balance between them (O'Dwyer, 2005). Thus, from the entire report, how and if a group has responded to the reasonable expectations of the group stakeholders should emerge; from one specific chapter of the report, procedure of group stakeholder engagement ought to be presented. It is the case to recollect that the importance of stakeholder engagement is underlined by that layout that sees the principle of stakeholder inclusiveness among those which are at the basis of the drawing up of the social and environmental report (see for example G3).

Research stresses the ample gap between that which is proposed by theory and various practices to make stakeholder engagement operational (Adams and McNicholas, 2007). The possibility that such a gap become greater when the group social and environmental report is drawn up is high. Every phase of the group stakeholder engagement process requires specific consideration. Besides, the phases of the group stakeholder engagement may be different from those of stakeholder engagement realized by an entity. The identification of group stakeholders is that to which we intend to dedicate some thoughts.

Group structure, the activity and the size of group entities comprise three elements which have to be considered as far as the choice of the stakeholders is concerned. For example, the structure of the group and, more specifically, the type of link (direct, indirect, reciprocal investment in equity) and the depth of link (percentage of voting power of the investee), represents an aspect which influences the singling out of group shareholders. This group must include the minority shareholders of each subsidiary, quantified on the basis of both group structure (type and depth of the link between parent and subsidiary) and the size of the subsidiary in terms of company assets. The business activity and size of each company (in terms of turnover) represent those aspects that permit the identification of group customers and group suppliers. Yet again, the business activity of each group company is important in order to select the subjects that constitute the group *civil society*. A chemical group, because of the ecological issues presented by its activity, must necessarily carry more weight than a service entity when identifying that stakeholder.

Such observations indicate the need for also taking advantage of methods of statistical and non-statistical sampling in order to select groups of stakeholders, specific to each category, who are representative of the whole. We consider a latter problem, that of finding effectively and meaningfully collaborative stakeholders. The fact is that for the credibility of a group social and environmental report, a chapter which contains information regarding the procedure for group stakeholder engagement is important. In this chapter of the report disclosures concerning the composition of group shareholders, group customers, group suppliers, group civil society etc. may determine, besides the conclusions of an assurance engagement, that the group social and environmental report answers the principle of stakeholder inclusiveness.

5 - Conclusions

The practices by the parent of presenting a group social and environmental report can only be received favourably; as the consolidated financial statements assume greater information value than the financial statement of the parent and its subsidiaries, the group social and environmental report may satisfy, better than that of the various group entities, information needs of the stakeholders. In order that these subjects may appreciate how a group has combined the economic requests with socially responsible behaviour, it is, nevertheless, necessary that the second-level social and environmental report faces specific aspects.

Its content has to be aimed at highlighting group governance of social responsibility and, therefore, the correlation between decisions taken, which are directed at respecting man and natural environment, activities implemented by the parent and its subsidiaries, and the results of these activities. From here on, the importance of the identification of the entities that fall within the group governance area of social responsibility, which does not necessarily coincide with the consolidation area, and, consequently, of a chapter, which is dedicated to such a stage, in the group social and environmental report.

Reporting group activities and results in a correlated way involves use of an articulated system of gathering about which information must be provided in the chapter regarding drawing up methodology (entitled “methodological notes”). This is needed if we consider the many different types (different structures, activities, etc.) of groups, the qualitative and quantitative characteristics of information of triple bottom line reporting, the possibility of drawing up the second-level social and environmental report without drawing up the individual one and, again, the absence of a standard regarding the group social and environmental report, as well as one, generally accepted, relative to company social and environmental reporting.

Transparency on the drawing up procedure, therefore, represents that path which has to be necessarily followed both for the credibility of the group social and environmental report itself and for highlighting its specific role in the communication process of a parent company.

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