ABSTRACT

Measures of financial security are generally accepted as being represented by the annual financial statements of an organisation, however the environmental and social impacts are still to find a meaningful and consistent reporting medium. To date there is no recognised conceptual framework for reporting despite a growing number of firms, both nationally and internationally, publishing reports detailing their social and environmental impacts. This paper draws on prior research which has documented the requirements for social accounting information by members and management associated with an organisation in the credit union sector to propose a reporting model for this industry group.

The paper begins with a discussion of the literature pertaining to the reporting of social and environmental data by organisations before discussing the findings of a study exploring the reporting requirements of stakeholders in the Australian credit union sector. The proposed model based on these findings is then presented and discussed.
INTRODUCTION

The measures of financial security are generally accepted as being represented by the annual financial statements, a model which assumes that a firm tries to maximize profits. A richer version of this theory assumes that a firm maximizes its wealth or value. But this version lacks usefulness in many practical situations, particularly where the firm faces multiple objectives, multiple stakeholders and dynamic elements such as the movement on a global scale toward the reporting of social and environmental activities by organisations.

What has been noted in this move to incorporate social and environmental activities into the reporting agenda of organisations has been the imbalance in the development of the social versus the environmental aspects of reporting. This imbalance has been attributed by O'Donovan (2002b) to the complexity in measuring social performance compared to environmental performance. Despite this complexity of measurement organisations are increasingly including disclosures of a social nature in the annual reports (Hackston & Milne, 1996). Arguments for the inclusion have included - as a strategic tool to reduce the adverse effects of certain events (Deegan, Rankin & Voight, 2000); a desire to maximise competitive advantage (Nash, 2001); and to manage pressure placed on the organisation to manage its social and environmental responsibilities, public image and legitimacy (O'Donovan, 2002a).

Despite the increasing interest in social accounting most companies have retained the traditional accounting reporting model, with the disclosure of social and environmental information reported on a fragmentary and ad hoc basis (Adams et al., 1998). The problems with the current definitions and thus the reporting mechanisms suggested to date, such as Global Reporting Initiative (2006) (GRI) and the Institute of Social and Ethical Accountability’s AA1000 (1999), is the tendency to be either prescriptive in content, therefore ignoring the composition of reported areas which appear subject to change across time and place (Gray et al., 1996), or addressing issues of process only. In addition to definitional problems is the need to improve the quality of the disclosures - improving content, independence and reliability.

Credit unions are financial institutions, within the broader banking sector, which offer community-based, competitive financial services. The sector provides services to more than three-and-a-half million Australians (ABACUS, 2006) and as authorised deposit taking institutions are regulated under the Banking Act 1959 (Cwlth), Australian Prudential and Regulatory Authority (APRA, 2006) and the Corporations Act 2001 (Cwlth). As a mutual organisation, credit union customers are the owners, resulting in a focus on members and benefits to the members, and not on generating profit for external shareholders, a characteristic of publicly listed banks. There are currently 149 credit unions operating throughout Australia, which together hold more than $35 billion in assets (ABACUS, 2006).

This paper proposes a framework for social reporting in the credit union sector based on a study of regional financial institutions. This proposed model will seek to improve the accountability of organisations by establishing under a conceptual framework a reporting mechanism for social accounting which retains the qualitative attributes of financial accounting information in accordance with the Australian Accounting
Standards Board (AASB) Framework, namely understandability, relevance, reliability and comparability (CPAAustralia 2007)

The role of accountants in a firm's decision-making process is well-entrenched and significant (Hoskin & Macve, 1994) but potentially limits the information provided to management by focusing on the traditional financial reporting process. This focus often ignores or overlooks non-economic costs on the basis that they are not directly quantifiable in money terms, with such costs, when identified, often left as "bracketed" items and considered as secondary qualitative issues (Robson, 1991). The limitation of this model of decision-making is that it provides only a single dimension to the organisation. It implies profit is the only determinant of success. However, profit maximization as the only goal of the firm has come under severe criticism from many quarters (Adams et al., 1998; Deegan, 1999; Nash, 2001). Sustainability is a long-term perspective and in order for an organisation or community to be sustainable:

“it must be financially secure (as evidenced through such means as profitability) it must minimize (or ideally eliminate) its negative environmental impacts; and it must act in conformity with society’s expectations” (Deegan, 1999, p.38).

Actions of investors and the growth in socially responsible investment funds indicate that stakeholders have expectations beyond the profit line (O'Donovan, 2002b). In order for social and environmental impacts to be acknowledged as elements of performance, the impact on society and the environment must be included as a primary part of the decision-making process.

LITERATURE REVIEW

The measures of financial security are generally accepted as being represented by the annual financial statements, however the impact of organisations on society is yet to find a clear reporting framework. Previous studies (Adams et al., 1998; Neu et al., 1998; Tsang, 1998; Mathews, 1997; Hackston & Milne, 1996; Kreuze et al., 1996) examined the nature and type of social and environmental disclosures of major corporations, finding that corporations focused on environmental reporting and revealed no consistent approach to the level of reporting. While there has been a movement on a global scale toward the reporting of social and environmental activities by organisations there has been an imbalance in the development of the social versus the environmental aspects of reporting. This imbalance has been attributed by O'Donovan (2002b) to the complexity in measuring social performance compared to environmental performance. Despite this complexity of measurement organisations are increasingly including disclosures of a social nature in the annual reports (Hackston & Milne, 1996). Arguments for the inclusion include - as a strategic tool to reduce the adverse effects of certain events (Deegan et al., 2000); a desire to maximise competitive advantage (Nash 2001); and to manage pressure placed on the organisation to manage its social and environmental responsibilities, public image and legitimacy (O'Donovan, 2002a).

Two distinctly different approaches to corporate social reporting (CSR) research have emerged from the literature. Firstly it can be treated as an addendum to conventional accounting activity. This assumes the principal users (the financial community)
approach to financial reporting and would require the limiting of the perception of CSR to that which can be articulated within the confines of conventional accounting. An alternative approach would require a re-examination of the traditional role of reported organisation information (Gray et al., 1995).

Attempts to explain the phenomena of increased voluntary social reporting have been drawn from four theoretical bases:

**Agency theory** – Explanations for the increased disclosure stem from are market based perspective. Agency theory is grounded in the premise that participants are self-interested. Agency theory would suggest that the reporting strategy chosen by an organisation would be aimed at maximising the wealth of the corporation (agent) (Gray et al., 1995).

**Legitimacy theory** – Legitimacy theory maintains that in order to survive a firm must operate within societies values and norms (Dowling & Pfeffer, 1975). A company uses publicly disclosed information to manage the pressure placed on the company to manage social and environmental responsibilities, public image and legitimacy (O'Donovan, 2002b). Legitimacy requires a reputation that must be retained, further if a company is seen to be illegitimate then at best profits are short-term (O'Donovan, 2002b).

**Political economy of accounting theory** - Political economy unlike agency theory goes beyond the market. It analyses both the exchanges within institutional frameworks and also the relationships between social institutions such as the government, law and property rights (Jackson, 1982).

**Stakeholder theory** - Under Stakeholder theory the world is viewed from the perspective of the management of the organisation and reflects the view that the corporations continued existence requires the support of the stakeholders. Stakeholder approval is thus sought and the activities and actions of the organisation adjusted to ensure such approval is gained and retained (Gray et al., 1995).

Irrespective of the underlying driver of the reporting process it is noted that where reports on the organisations impacts on society and the environment are formally prepared they fall into one of two types, Corporate Social Reports (also referred to in some literature as Corporate Social Disclosure) or Sustainability Reports. Corporate Social Reports/Corporate Social Disclosure (CSR/CSD) have been categorised as content specific, reporting on the social dimensions and excluding the financial aspects. Sustainability Reports (a name adopted by reporting entities) incorporate all three aspects of the triple-bottom-line (Elkington, 1997). A number of studies have examined the format of reports, principally in the arena of environmental reports and have found them to be predominantly descriptive (Deegan et al., 2002; Stratos, 2001 Fowler et al., 1999; Deegan & Rankin, 1996; Kreuze et al., 1996; Gamble et al., 1995; Gray et al., 1995).

Adams, Hill and Roberts (1998) examined the influences of size, industry grouping and country of origin on corporate social reporting. Country of origin had not been considered in previous studies but was considered to be a potential influence given the increasing globalisation of business and international harmonisation of accounting
standards. Adams, Hill and Roberts’ (1998) study, in addition to finding and confirming in some instances the significance of country and culture-specific factors (Hackston & Milne, 1996), also revealed that size and industry grouping were significant influences on social reporting practices. There was also a significant inter-relationship between size and industry confirming the connection found by Hackston and Milne (1996) in a study of New Zealand corporations. In this same study the authors sought to explain this connection by reference to risk (Hackston & Milne, 1996). Certain industry sectors are perceived to carry greater risks, specifically risk associated with the environment, than are other industry sectors. Stakeholders seek greater information and report preparers seek to meet the demand for information and to allay fears associated with the industry. Industries in the mining and resource extractive group are examples of those with higher risk, and have correspondingly higher reporting levels; those in retail and services with less perceived environmental risk (Hackston & Milne, 1996) have less incentive to report. The banking sector as a service industry would have low environmental risk but could be considered to have higher incentives to disclose social aspects (McGrath, 2003).

Study of disclosures by BHP over a 15 year period found that management used positive social information to counter unfavourable media attention (Deegan et al., 2002). The basis of using media attention as a gauge for management’s motivation was the belief that the media reflects and/or shapes community concerns (Deegan et al., 2000). A strong association was noted between disclosure policy and community concern as reflected by media reporting (Deegan et al., 2002). Previous studies found reporting of social and environmental disclosures has been generally qualitative and favourable (Deegan et al., 2000; Deegan & Rankin, 1996). O’Donovan (1999) found that reports in news media affected what information management disclosed and that managers acknowledge that they use the annual report to respond to perceived public concerns. Further, "corporate management believe, to some extent, that the annual report is an effective way for informing and educating the public of the corporation's view about certain environmental issues” (O’Donovan, 1999, p.82). The function of the report as an information source is maintained but it is the potential manipulation of content and the veracity of the message from the reports that raises concern with the current position of voluntary and unregulated disclosures.

The Australian banking sector has seen an increasing level of reports of customer dissatisfaction appearing in both the print and electronic media resulting from the closure of bank branches and increased account fees. This dissatisfaction reflects a concern that the actions of the banks appears to contradict an extended notion of accountability (Deegan, 1999), where the organisation is answerable for its actions. The Code of Banking Practice released by the Australian Banking Association (2003) includes the establishment of a consultative forum to take account of community views about banking. This change in the Code of Banking Practice may have been seen as the banking sector responding to the new and emerging concern of customers and other stakeholders in society, indeed that bottom line profit is not the only responsibility of corporations (Loftus & Purcell, 2006).

In summary, the literature reveals two broad categories of focus - studies examining what drives the organisation to report and studies of the outputs, its form and content. This paper responds to the call by Loftus and Purcell (2006) to explore how to extend traditional financial reporting to make transparent the decision-making processes and
performance criteria that underpins the increasing focus by organisation on the social and environmental dimensions.

DEVELOPING THE PROPOSED CONCEPTUAL FRAMEWORK MODEL

The proposed conceptual framework for reporting model presented in this paper was developed based on data previously reported (McGrath, 2006). The study sought to capture the requirements of all stakeholders of an organisation within the credit union sector including members, staff and external interested parties. A survey was undertaken to gauge a feel for the type and style of information that would meet their respective needs for information.

A case study was chosen for the research in order to assess the specific content and format attributes for inclusion in the choice instrument. Group interviews were conducted with the stakeholder groups and were important to establish a workable survey in terms of size and complexity. A list of reporting topics was developed from the literature and the series of interviews to form the basis of a survey. The survey was designed in two parts. In the first section respondents to the written survey were asked to indicate on a five point scale, the importance of reporting each category of information. Options on the scale were 1 – of no importance, 2 – moderate importance, 3 – strong importance, 4 – very strong or demonstrated importance and 5 – extreme importance. The second part of the survey asked the participants to rank the importance of one aspect of reporting over another aspect of reporting. The purpose of the two parts was to validate the importance attributed to the reporting topics identified.

The postal survey was considered to be the most efficient medium to gather data from a diverse range of participants. The survey was posted to a randomly generated selection of members and staff drawn from the membership base and staff records. External participants, randomly selected from telephone records, were invited to participate and where a positive response was received a survey was posted. The return rate was only 10%, which is recognised as a limitation of the results.

The Analytic Hierarchy Process (AHP)

The Analytic Hierarchy Process (AHP) was chosen as the analytical tool as AHP lends itself to the investigation of the preferred reporting frameworks for social accounting as there are conflicting interests of stakeholders involved. The most widely used multi-criteria methods include AHP, multi-attribute utility theory (MAUT), multi-criteria Value Functions (MCVF), outranking theory and goal programming. The MAUT has shortcomings including findings by Russel, Dale, Lee, Jensen, Kane and Gregory (2001) of mixed empirical evidence about MAUT techniques improving the internal consistency of preference surveys. MAUT also assumes that decision alternatives follow a known probability distribution. AHP, developed by Saaty (1980), is a mathematical method for analysing complex decisions and has been widely applied for preference analysis in complex, multi-attribute problems (Varis, 1989). It is a general theory of ratio scale measurement based on mathematical and psychological foundations (Kangas, 1993) and is not grounded on any specific theoretical basis such as neo-Paretian welfare theory. What it does is to aggregate the separate performance indicators into an integrated
performance indicator. The AHP facilitates a rigorous definition of priorities and preferences of decision makers and is useful in analysing decisions when many stakeholders are involved, each entertaining multiple objectives (Saaty, 1980).

AHP enables decision makers to structure a problem in the form of a hierarchy of its key elements. Decision preferences are then captured through a series of pairwise comparisons of the relevant factors or criteria (Saaty, 1980). As a tool for exploring the application of a reporting model, AHP is relatively easy to use and can incorporate both qualitative and subjective factors by its use of a psychometric scale to quantify managerial judgments (Saaty, 1982).

There are essentially five steps in AHP

1. structuring the decision hierarchy;
2. collecting data by pairwise comparisons;
3. checking consistency of managerial judgments;
4. applying the eigenvector method to compute weights; and
5. aggregating the weights to determine a ranking of decision alternatives (Saaty, 1980).

The AHP is based upon the construction of a series of ‘pair-wise matrices’ which compares criteria to one another (Saaty, 1980). Selected stakeholders are asked to carry out the pairwise comparisons of the identified criteria and sub-criteria. Each cell reveals the relative importance of an attribute compared to another. The quantitative weights for criteria are based on the decision makers’ qualitative comparison of all pairs of criteria. This provides a ranking or weighting of each of the criteria that describes the importance of each criterion to the overall objective. Weights to these sub-attributes are assessed using pairwise comparisons. The method is interactive where a stakeholder or a group of stakeholders indicate their preferences to the analyst. In this approach, the objectives of stakeholders are identified (for example information categories and style of reporting) which may be further subdivided into a number of sub-criteria, and the pair-wise comparison is repeated for each level of the hierarchy (Saaty, 1980).

In AHP data are obtained from the decision makers through pairwise comparisons among the elements at one level of the hierarchy with respect to an element in the next higher level. In making the comparisons, it is a question of which of the two attributes is more important and how much more important. The decision maker has the option of expressing his or her intensity of preference on a nine-point scale (Table 1). If two criteria are of equal importance, a value of 1 is given in the comparison, while a 9 indicates the absolute importance of one criterion over the other (Saaty, 1980). Within each hierarchy there are three types of comparisons: (a) major categories are compared with each other, (b) criteria within these categories are compared to each other with respect to the categories, and (c) alternatives are compared to each other with respect to each criterion (Saaty, 1980). The overall weight for each alternative is computed from the priority vectors of individual comparison matrices (Saaty, 1980).

AHP can deal with qualitative attributes as well as quantitative attributes. When applying AHP, a hierarchical decision schema is constructed by decomposing the
decision problem into its decision elements. Numerical techniques are used to derive quantitative values from verbal comparisons (Kurtilla et al., 2000).

Take in Table I

Saaty (1980) sets out the process, in the following explanation to determine the matrix and to test for consistency Pairwise comparison data can be analysed using either regression methods or the eigenvalue technique. In the eigenvalue technique, the reciprocal matrices of pairwise comparisons are constructed. Using these pairwise comparisons, the parameters can be estimated. The right eigenvector of the largest eigenvalue of matrix A constitutes the estimation of relative importance of attributes where \( b_i \) is the importance or desirability of decision element \( I \) (Eq. 1). In the AHP approach, the eigenvector is scaled to add up to 1 to obtain the weights.

\[
A = (a_{ij}) = \begin{bmatrix}
1 & b_1/b_2 & \ldots & b_1/b_n \\
1/b_2 & b_2/b_1 & \ldots & b_2/b_n \\
\vdots & \vdots & \ddots & \vdots \\
b_n/b_1 & b_n/b_2 & \ldots & 1
\end{bmatrix}
\]

(1)

Based on properties of reciprocal matrices, a consistency ratio (CR) can be calculated. Saaty (1980) has shown that the largest eigenvalue, \( \gamma_{\text{max}} \), of a reciprocal matrix \( A \) is always greater than or equal to \( n \) (number of rows or columns). If the pairwise comparisons do not include any inconsistencies, \( \gamma_{\text{max}} = n \). The more consistent the comparisons are, the closer the value of computed \( \gamma_{\text{max}} \) to \( n \). A consistency index CI, which measures the inconsistencies of pairwise comparisons is given in Equation (2).

\[
\text{CI} = (\frac{\gamma_{\text{max}} - n}{n-1})
\]

(2)

A consistency ratio (CR), given in Equation (3), measures the coherence of the pairwise comparisons.

\[
\text{CR} = 100 \left( \frac{\text{CI}}{\text{ACI}} \right)
\]

(3)

where ACI is the average consistency index of the randomly generated comparisons. As a rule of thumb, a CR value of 10% or less is considered as acceptable.

The decision problem was cast as one involving the choice of the best reporting categories to reflect the organisation's overall performance. Two goals of equal importance were identified, to determine information categories and to determine the style of the report based on the nature of the information provided. Subgoals for each of the goals were devised and criteria to meet each of the subgoals established to formulate the hierarchy (Table 2). The subgoals were based on issues identified in the literature and the group interviews with the stakeholder groups.

Take in Table II
Importance of reporting topics to stakeholders

As reported in Table 3, the areas of strongest interest were those associated with supporting local business, customer issues of satisfaction, product policies and breaches of consumer privacy and employment issues. Performance and financial issues such as Net sales, and Cost of goods (COGS) and payroll were ranked low with a mean response indicating they were only of moderate to strong importance. An analysis of variance of the three groups, members, employees and others indicated no statistical difference except for donations and COGS. Employees rated COGS as being of higher importance, not surprisingly as some of this group would have responsibility for reporting on financial aspects. Donations, however, were rated slightly more important by members than employees. The areas identified aligned with the areas identified for reporting in the GRI, of note however, is the relative importance of the identified areas to the stakeholders revealing a clear preference for the non-financial areas.

Take in Table III

The survey also requested respondents to indicate the type of information and the preferred measurement type in order to establish a weighting of stakeholder preferences. The Expert Choice Computer Model was used to analyse the pairwise comparisons. The consistency ratios for both goals were less than 10%.

The type of information was categorised as falling into three types, Human resource issues, Community engagement and environmental issues, and Organisation performance. Human resource issues captured specifically items associated with remuneration and retention of staff, Community engagement and environmental issues surrounded questions such as sponsorship, community based programs and supports environmental practices and SEA awards. The final category of Organisational performance captured data specific to reporting items under GRI in the areas of human resources, community engagement and financial performance. The format of the report was considered based on two alternatives - quantitative or qualitative styles of information. The weighted hierarchy established for the categories is reported in Table 4.

Take in Table IV

The matrixes for each of the pairwise comparisons are given in Tables 5 and 6. The tables are constructed to show the relative importance of the row item to the column heading, thus it can be seen in Table 6 that Human Resource Performance is just over two and half times more important to the respondents than Community Engagement and Environmental Performance and over six times more important than Organisation Performance. Alternately, it can be viewed that Organisation Performance is
approximately one sixth as important as Human Resource Performance and one half as important as Community Engagement and Environmental Performance.

Take in Table V

The results for the style of reporting appear, however, to be problematic when considered in tandem with the previous weighted demand for information. Respondents clearly indicating a preference for quantitative traditional financial reporting, being nearly four times as important as the categories associated with Social and Environmental Issues. A preference for a style similar to traditional financial reports, adopting a numeric base to the report, was evident.

The cause of the apparent inconsistency, it is postulated, could be due to the comfort level of the established information style represented by the traditional numeric financial reports or the recognition that the less defined categories inherent in reporting social and environmental issues may have led to confusion and questions as to what it is that is actually being reported. Further investigation of the data is clearly indicated and further research into the use of stakeholders of the information would appear to be warranted. The model proposed recognises the acceptance of the format for traditional reports and seeks to integrate the established format for financial reporting into the conceptual framework.

Take in Table VI

CHALLENGES AND ASSUMPTIONS OF THE PROPOSED MODEL

The Proposed conceptual framework model assumes a political economy perspective, acknowledging that the reports are social, political and economic documents. It particularly adopts Gray, Owens and Adams (1996, p 47) ‘bourgeois’ stream of political economy, viewing the world as having many classes of stakeholder with the power to influence. The model also adopts a legitimacy perspective strongly relying on the notion of a social contract between the organisation and the society in which it operates. This mirrors both the literature where writers such as Tinker & Neimark (1987) and Mathews (1993) advocate a move away from profit as the key measure of performance (Ramanathan, 1976) and industry practice, as seen in the increased number of organisations providing social and environmental reports (Hackston & Milne, 1996). An example of industry practice in the broader banking sector is noted by the comments of David Morgan, CEO of Westpac (The age 18 August 2005) where the importance of the social contract in the affairs of Westpac was made explicit. The model seeks to integrate the financial and social reports, not necessarily requiring a single report, but rather it attempts to ensure consistency in the principles adopted across the financial and non financial aspects of the operations of the entity.

A key challenge in designing the model was the need to keep the model flexible. By its very nature legitimacy theory requires an understanding of society’s expectation
which are dynamic. Failure to accommodate the dynamic nature of society’s expectation would inevitably lead to the legitimacy gap identified by Sethi (1978).

The model also acknowledges stakeholder theory accepting Gray, Koughy and Lavers (1995) view that stakeholder theory and legitimacy theory are overlapping. Ethical stakeholder theory acknowledges that there may be conflict between stakeholders leading to the situations where the interests of one group are sacrificed for the interests of another.

Further, the model also seeks to overcome critics of the concept of social and environmental reporting who would argue that it is green washing the public. The inclusion of corporate governance performance in addition to social and environmental performance stemmed from the need for the model to ensure the philosophy of social responsibility is embedded into the organisations goals and decision making processes. This fourth dimension to the accepted social, environment and economic dimensions was noted by Woodward, Woodward and Val (2004, p.8) as being the ‘umbrella’ to hold the other three dimensions.

The model does not disregard the indicators and standards developed under GRI (2006), SA8000 or AA1000. The GRI (2006) reports are based on core indicators, those of interest to most stakeholders with an assumption of ‘materiality’, and additional indicators, which consist of emerging practices or issues specific to an industry or context but not material for the majority. Problems arise on the selectivity of what is to be included in respect of both the core and the additional indicators which are not overcome by the reporting principles and qualitative characteristics provided in the GRI guidelines which have similarity with the qualitative characteristics of financial reporting. Thus, while claiming to be prepared in accordance with the GRI guidelines the ability to selectively include items in the report calls into question the veracity of the reports prepared. An examination of the GRI categories reveals a lack of recognition of the externalities of doing business such as fleet vehicles emissions, greenhouse gases from electricity and society costs, health emotional and job retraining, for retrenched employees. Estes (1972, p284) defines external diseconomies as the damages or negative effects inflicted on parties outside the entity by its activities which are not recognised as costs and for which there is no compensation provided.

The Council for Economic Priorities SA8000 limits its reporting requirements to matters concerned with human rights and the rights of children benchmarking performance in these areas against the UN Declaration of Human Rights, the international Labour Organisation conventions and the UN Convention on the Rights of the Child. While providing a minimum benchmark there is no requirement to address issues specific to the reporting entity.

The third commonly cited reporting standard, AA1000 published by the Institute of Social and Ethical Accountability (ISEA) present guidelines to a system of reporting rather than specifying benchmarks or reporting indicators. AA1000 provides guidance to setting goals and targets and measurement of performance against the targets with a key component being the consultation with stakeholders.
As the model has been based on research conducted within the narrow confines of the credit union sector at this stage its application is proposed only for this sector.

COMPONENTS OF THE MODEL

In constructing the model (Diagram 1) the current conceptual framework utilised by Australian and International accounting standard setters (CPAAustralia 2007) and the International Accounting Standards Board (IASB) discussion paper ‘Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information’ (IASB 2006) provided the basis for its development.

The primary objective reflects the objectives as set out in paragraph 1 of SAC1 of the Australian Accounting Standards and chapter 1 of the discussion paper.

Take in Diagram 1

1 The primary objective reflects the objectives as set out in paragraph 1 of SAC1 of the Australian Accounting Standards and chapter 1 of the International Accounting Standards Board discussion paper ‘Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information’.

2 In order to support the primary objective information coverage is required to cover all dimensions of the entity’s performance.

3 The Corporate Governance Report will be informed by the Australian Stock Exchange (ASX) Principles of Good Corporate Governance and Best Practice Recommendations in order to provide evidence of a ‘system by which companies are directed and managed’ in order to display that the structures in place ‘encourage companies to create value (through entrepreneurism, innovation, development and exploration) and provide accountability and control systems commensurate with the risks involved’. The report will be aided by reference to AA1000 and the guidance it provides to setting goals, targets and measurement of performance against those targets incorporating the key component of consultation with stakeholders. Stakeholders were concerned that the stated objectives to provide a balance of social, environmental and financial aspects to the management of the entity were reflected in the operations of the enterprise.

4 Social and Environmental reports prepared as a matrix of the GRI and SA 8000. The report will be a mix of qualitative and quantitative information

5 Directors report prepared in accordance with International Accounting Standards

6 Financial reports prepared in accordance with International Accounting Standards
Characteristics of the information are defined by the Conceptual Framework discussion paper of the IASB and US Financial Accounting Standards Board (FASB) which seeks to establish a common conceptual framework. The framework builds on the existing financial accounting frameworks and is consistent conceptually with the GRI reporting principles.

Rather than two distinct sets of information characteristics, the model acknowledges the similarities between characteristics developed for social and environmental information and financial information and seeks to have a set of fundamental characteristics to be applied in the context of social, environmental and financial information.

A fundamental component of the model is the congruence between the social and environmental information and the financial information to be included in the respective reports. When considering information to include based on the information characteristics if an activity is sufficiently relevant to be reported then its impact on all aspects should be reflective. For example if philanthropic activity is of such a level or importance to the community the extent of financial support would also be relevant, or if environmental damage is to be remedied the cost of such remedial action should be identifiable in the financials. Where externalities are identified in the social and environmental activities the impact on the assets and liabilities now and in the future should be noted. It is not required that such impacts be necessarily reflected in the bottom line profit but guided by the accounting standards might appear as a note to the financials.

Ultimately the benefit from providing the information must justify the costs to obtain and prepare. The justification lies in how material the information is to the users and is a matter to be considered by the preparers of the reports taking into account both the nature of the item under consideration and the amount. Referring to the previous example of philanthropic activity, its materiality and thus subsequent reporting would not be dependant solely on the amount, indeed based on the amount only few of these activities would be deemed material, however due the nature of the activity it has a significant impact on community, relations with community, happiness of workforce etc than the activity is material, and is commonly reported under social activity, it would be material and as such should be specified in both the financial and social and environmental reports. This of course would be subject to the information not being too costly, but it is noted that much of the financial and non financial data for reporting is collected and it may be that adjustments to traditional reporting formats need to be changed to extract the information rather than imposing cost burdens to collect additional information.

The conceptual framework model proposed is yet to be tested. Future research is required to canvass the opinion of members, Management Boards and senior management of credit unions in order to evaluate the model’s useability and effectiveness as a decision tool.

CONCLUSION

This paper proposes a conceptual framework for reporting which integrates social and environmental information with financial information. The model builds on prior
research which has documented the requirements for social accounting information by members and management associated with an organisation in the credit union sector and as such limits itself to that sector.

The proposed conceptual framework model has the potential to improve the accountability of organisations by establishing under a conceptual framework a reporting mechanism, which has been lacking, for social, environmental and financial accounting which retains the qualitative attributes of financial accounting information.

REFERENCES


Legislation

Banking Act 1959 (Cwlth), electronic version

Corporations Act 2001 (Cwlth), electronic version
### TABLE I: MEASUREMENT SCALE OF AHP

<table>
<thead>
<tr>
<th>Intensity of relative importance</th>
<th>Definition</th>
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<tbody>
<tr>
<td>1</td>
<td>Equal importance</td>
</tr>
<tr>
<td>3</td>
<td>Weak importance of one over the other</td>
</tr>
<tr>
<td>5</td>
<td>Essential or strong importance</td>
</tr>
<tr>
<td>7</td>
<td>Demonstrated importance</td>
</tr>
<tr>
<td>9</td>
<td>Absolute importance</td>
</tr>
<tr>
<td>2, 4, 6 and 8</td>
<td>Intermediate values between two adjacent judgments</td>
</tr>
</tbody>
</table>

Source: Saaty (2000, p.73).

### TABLE II: AN OBJECTIVE HIERARCHY FOR FIRM

<table>
<thead>
<tr>
<th>AIM</th>
<th>GOALS</th>
<th>SUBGOALS</th>
<th>CRITERIA</th>
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</thead>
<tbody>
<tr>
<td>REPORTING CATEGORIES</td>
<td>INFORMATION CATEGORIES</td>
<td>Human Resource Performance</td>
<td>Turnover and retention</td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Community Engagement and Environmental Performance</td>
<td>Community engagement and environmental issues and activities</td>
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<td></td>
<td>Organisation Performance</td>
<td>Human resources issues and policies</td>
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<td>Community interaction activities</td>
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<td></td>
<td></td>
<td>Financial performance</td>
</tr>
<tr>
<td></td>
<td>STYLE OF REPORT</td>
<td>Traditional Financial Reporting categories</td>
<td>Financial measure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Social and Environmental categories</td>
<td>Non-financial measures</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Numeric measures</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Non-numeric measures</td>
</tr>
</tbody>
</table>
TABLE III: REPORTING TOPICS RANKED IN ORDER OF IMPORTANCE.

<table>
<thead>
<tr>
<th>Breach consumer privacy</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Awards for SEA</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.65</td>
<td>1.22</td>
<td></td>
<td>2.96</td>
<td>1.247</td>
<td></td>
</tr>
<tr>
<td>Occupational policies</td>
<td>3.43</td>
<td>1.227</td>
<td>2.92</td>
<td>1.201</td>
<td></td>
</tr>
<tr>
<td>Product information policies</td>
<td>3.38</td>
<td>1.254</td>
<td>2.9</td>
<td>1.376</td>
<td></td>
</tr>
<tr>
<td>Customer satisfaction policy</td>
<td>3.34</td>
<td>1.161</td>
<td>2.9</td>
<td>1.101</td>
<td></td>
</tr>
<tr>
<td>Buy local</td>
<td>3.33</td>
<td>1.26</td>
<td>2.86</td>
<td>1.226</td>
<td></td>
</tr>
<tr>
<td>Environmental impact</td>
<td>3.29</td>
<td>1.16</td>
<td>2.75</td>
<td>1.167</td>
<td></td>
</tr>
<tr>
<td>Employee conditions</td>
<td>3.2</td>
<td>1.265</td>
<td>2.41</td>
<td>1.153</td>
<td></td>
</tr>
<tr>
<td>Donations*</td>
<td>3.1</td>
<td>1.114</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Employee policies</td>
<td>3.07</td>
<td>1.244</td>
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<tr>
<td>Non compliance OH&amp;S</td>
<td>3.04</td>
<td>1.216</td>
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</tbody>
</table>

* F score less than 0.05 indicating a significant difference between the three stakeholder groups.

TABLE IV: WEIGHTED HIERARCHY OF INFORMATION TYPE AND REPORTING FORMAT

<table>
<thead>
<tr>
<th>Issues to report</th>
<th>Style of reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Human resource Performance (L: .651)</td>
<td></td>
</tr>
<tr>
<td>1.1. Turnover and retention (L: .773)</td>
<td>1. Traditional Financial reporting categories (L: .791)</td>
</tr>
<tr>
<td>1.2. Payments to staff (L: .227)</td>
<td>1.1. Financial measures (L: .797)</td>
</tr>
<tr>
<td>2. Community engagement and environmental issues (L: .245)</td>
<td>1.2. Non Financial Measures (L: .203)</td>
</tr>
<tr>
<td>3.1. Human resource issues (L: .651)</td>
<td>2.1. Numeric measures (L: .796)</td>
</tr>
<tr>
<td>3.2. Community interaction (L: .247)</td>
<td>2.2. Non-numeric measures (L: .204)</td>
</tr>
<tr>
<td>3.3. Financial Performance (L: .102)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Workforce by region</th>
<th>Payroll</th>
<th>Customer location</th>
<th>Mining activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.41</td>
<td>1.079</td>
<td>2.39</td>
<td>1.061</td>
</tr>
<tr>
<td>2.4</td>
<td>1.125</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.12</td>
<td>1.202</td>
<td></td>
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</tbody>
</table>
### TABLE V: PAIRWISE COMPARISON OF INFORMATION CATEGORIES

<table>
<thead>
<tr>
<th></th>
<th>Human Resource Performance</th>
<th>Community Engagement and Environmental Performance</th>
<th>Organisation Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resource Performance</td>
<td>1</td>
<td>2.66/1</td>
<td>6.26/1</td>
</tr>
<tr>
<td>Community Engagement and Environmental Performance</td>
<td>1/2.66</td>
<td>1</td>
<td>2.35/1</td>
</tr>
<tr>
<td>Organisation Performance</td>
<td>1/6.26</td>
<td>1/2.35</td>
<td>1</td>
</tr>
</tbody>
</table>

### TABLE VI: PAIRWISE COMPARISON OF STYLE OF REPORT OPTIONS

<table>
<thead>
<tr>
<th></th>
<th>Traditional Financial Reporting categories</th>
<th>Social and Environmental categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional Financial Reporting categories</td>
<td>1</td>
<td>3.78/1</td>
</tr>
<tr>
<td>Social and Environmental categories</td>
<td>1/3.78</td>
<td>1</td>
</tr>
</tbody>
</table>
Primary Objective: To provide information that is useful in making resource allocation decisions.  

Information to enable users to assess stewardship, cashflow, economic resources held and claims against those resources, and management of social and environmental externalities.

Governance Report.  

Social and Environmental Reports.  

Directors Report.  

Financial Reports.  

Context of Social & Environmental information.  

Context of Financial information.  

Characteristics of information (relevant, faithful representation, comparability and understandability).  

Constraints (materiality, cost).