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Jane Gleeson-White, *Six Capitals: The Revolution Capitalism Has to Have – or Can Accountants Save the Planet?* Allen & Unwin: Sydney, 2014; xxv + 340 pp.: 9781743319161, RRP AUD32.99.

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Jane Gleeson-White's *Six Capitals* is a wide-ranging and engagingly written book. Its compass can be loosely described as reform of macroeconomic and microeconomic measures of economic performance. Much ground is covered, from the problems of conventional macroeconomic measures like gross domestic product (GDP) to the limitations of conventional corporate financial reporting. Gleeson-White's essential point is that these conventional measures are extremely limited because they only measure financial performance and leave out performance in five other important areas. These she labels as manufactured capital, intellectual capital, human capital, social and relationship capital and natural capital, which together with financial capital (from which financial performance emanates) make up the *Six Capitals* of her title. Recently proposed reforms in these areas are described and defended, while the book concludes with a call for a fundamental change to the nature of the corporation to encompass goals besides simply the pursuit of profit. As the book has only 290 pages of text, the ambitious coverage perforce is limited in places. However, the author's goal is not to provide the definitive word on the topics covered but rather to provoke the reader into thinking about the important issues raised. In this respect, she succeeds well.

This review focuses on Gleeson-White's coverage of reforms in corporate reporting to stakeholders, rather than reforms in economics, because reforms to corporate reporting and the nature of the corporation make up about two-thirds of the book. Although the origins of social reporting by companies have been traced back much earlier (e.g. Guthrie and Parker, 1989), from the 1970s there have been many proposals for an expansion of the so-called 'area of account' to move it beyond measuring only company profit and financial position in monetary terms. These proposals have many names – corporate social responsibility reporting, sustainability reporting, triple bottom line reporting and integrated reporting – to mention just four. The multitude of names is confusing to anyone wishing to become familiar with this field. Another difficulty is that although the proposals overlap very considerably, they also differ in important ways and thus are not equivalent. Until recently, most have been of limited interest to practitioners, and in the academic community (whence many arose), research on them was regarded as too 'fluffy' to be published in the very best accounting journals. That has now changed.

In the past 10–20 years, there have been remarkable developments in expanding corporate reporting, not just in the form of recommendations but also in actual corporate practices. As Gleeson-White describes well, the recommendations include the Global Reporting Initiative (GRI), the United Nations Global Compact, and United Nations Principles for Responsible Investment, the Carbon Disclosure Project, the Corporate Sustainability Reporting Coalition and the Prince's Accounting for Sustainability (A4S) Project. A pivotal chapter in the book is Gleeson-White's description of the integrated reporting regime in South Africa and its evolution via several King Reports about corporate governance in that country. This regime is important because it is the inspiration for Gleeson-White's *Six Capitals*.

Turning now to actual corporate practices, there has been an upsurge in companies reporting some form of environmental/social report. A KPMG (2013) survey of 4100 companies, comprising the top 100 companies in each of 41 countries, provides some recent large sample data. In 2013, 71% of companies provided some form of environmental report, up from 53% in 2008 and dramatically more than 12% in 1993. Of these, only 38% were audited in 2013, a figure which has been stable since 2008. Although the number of countries covered varies across years, the pattern of increase in environmental/social reporting is clear. The percentages are much higher among the very largest companies: 93% of the Fortune Global 250 companies produced some type of environmental report in 2013, up from 83% in 2008, while 59% of reports disclosed in 2013 were audited, up from 40% in 2008 (KPMG, 2013: 22, 33).

The KPMG (2013) survey reveals that these reports go by many names, the most popular being Corporate Responsibility, Corporate Social Responsibility or Sustainability reports, and for convenience all are labelled Corporate Responsibility reports. The most common *form* of such reporting follows the GRI guidelines. For the Fortune Global 250 companies, the reports vary considerably in quality, and that quality varies across countries and industries.

Probably the most important driving force behind the increases in corporate responsibility reporting is that more countries or their stock exchanges now mandatorily require disclosure of a Corporate Responsibility report, either within the conventional annual report or as a stand-alone document. The KPMG (2013) report reveals that across countries surveyed, there are 134 mandatory policies covering corporate responsibility reporting and a further 53 voluntary policies. The increases in corporate responsibility reporting observed are completely consistent with improvements elsewhere in corporate reporting: make something legally binding on companies and compliance increases – although perhaps not always to 100%.

However, compulsory regulations are not the only reason for the increase. In Australia, for example, where corporate responsibility reporting is mostly voluntary, 82% of the top 100 companies had a Corporate Responsibility report in 2013, up from 57% in 2008. This raises the question, why companies would voluntarily provide such reports? Research shows that higher polluting Australian firms have higher environmental disclosures (Clarkson et al., 2011); these disclosures perhaps being made to reduce political pressures (Deegan and Rankin, 1996). However, various methodological issues in this research area mean that the relationship between environmental performance and environmental disclosures remains unsettled. Elsewhere, research shows that voluntary environmental disclosures are associated with better corporate financial performance such as lower cost of capital (Dhaliwal et al., 2011).

The KPMG (2013) survey shows that integrated reporting – similar to Gleeson-White's *Six Capitals* – is practised by only 10% of companies that provide a Corporate Responsibility report (KPMG, 2013: 28). It occurs most commonly in South Africa where it is a mandatory requirement for listed companies. KPMG is clearly in favour of integrated reporting as the survey strongly recommends that integrated reporting be embraced by more companies. So, what can be said about integrated reporting and the *Six Capitals*?

An integrated report is defined as a 'concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term' (International Integrated Reporting Council (IIRC), 2013). The integrated report shows how the company has performed in its impact on the six capitals. So, the measurement of these capitals and changes in them are central. Gleeson-White points out that it may be impossible to simultaneously increase all six capitals, so trade-offs among them will inevitably occur. One advantage of integrated reporting is that the effects of those trade-offs are clearly visible.

Turning now to each of the six capitals, financial capital is familiar and might seem to be the most straightforward. In integrated reporting, financial capital covers equity and debt financing. Actually, the equity part of financial capital has had a controversial history in accounting. That history revolves around two questions. First, for the protection of creditors, should financial capital be maintained before a dividend can be paid (the capital maintenance rule)? In early UK companies legislation, the answer appeared to be 'yes'. However, a series of controversial legal decisions beginning with *Lee vs Neuchatel Asphalte Company* (1889) eroded this capital maintenance rule in Britain and Commonwealth countries and also had influence in the USA. These cases impacted how reported profits were calculated, particularly whether depreciation had to be charged on noncurrent assets. The *Lee* series of cases was swept away in 1980 when Britain entered the Common Market. Thereafter, dividends could only be paid out of cumulative realised profits less cumulative realised losses, and – for public companies – the old capital maintenance rule was reinstated (Morris, 1991). However, the *Lee* cases continue to apply in British Commonwealth countries such as Australia. Second, should equity capital be adjusted for inflation? Some would argue that the answer should be 'yes' (e.g. Chambers, 1975). However, because of the controversy caused when this issue was at its peak during the high inflation years of the 1970s and early 1980s, standard setters like the International Accounting Standards Board and the US Financial Accounting Standards Board have had the issue in the 'too hard' basket for decades. Inspection of current US Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards shows an almost complete absence of the issue. Debt financing also has measurement issues: should liabilities be measured at fair value or at amortised cost? Hence, financial capital is not without its problems.

Manufactured capital covers the physical tangible assets of the company. Are these assets properly maintained, have they increased or decreased and have they changed in value? There is an unacknowledged overlap here with financial capital, which arises because manufactured capital focuses on tangible assets – the debit side of the balance sheet – whereas financial capital is about the credit side of the balance sheet. In simple double entry terms, assets equal equity plus liabilities, where assets should equal manufactured capital and equity plus liabilities should equal financial capital. Interestingly, manufactured capital sounds very similar to operating capability capital, a concept developed in the current cost accounting proposals of the 1970s (Gellein, 1987; Ma, 1982). Like operating capability, manufactured capital depends heavily on how it will be measured, something that the integrated reporting proposals and the *Six Capitals* do not cover. Accounting standards currently prescribe historical cost, but for some assets, fair value is allowed or required.

The remaining four capitals cover more adventurous territory. Intellectual capital is organisational knowledge-based intangible assets (IIRC, 2013). Some of these are secured by legal contract, such as patents and trademarks. Accounting standards regard these as identifiable intangibles which if purchased could appear on a conventional balance sheet today. However, integrated reporting goes further and also recognises all internally generated intangibles. Intellectual capital also includes organisational capital such as tacit knowledge, systems, procedures and protocols. Currently, these would be regarded by accounting standards as not separately identifiable and so are relegated to goodwill, that catch-all asset.

Human capital relates to 'people's competencies, capabilities and experience, and their motivations to innovate' (IIRC, 2013: 12). This undoubtedly valuable resource does not appear in a conventional balance sheet because the company does not control or own staff (they are not slaves). At best, conventional accounting would include human capital in goodwill.

Social and relationship capital is the institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being. It includes shared norms, common values and behaviours, key stakeholder relationships, intangibles associated with the organisation's brand and reputation and its social licence to operate (IIRC, 2013: 12). Again, in conventional accounting, such things would at best be included in goodwill.

Finally, natural capital is 'all renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization'. Included are air, water, land, minerals and forests, biodiversity and eco-system health (IIRC, 2013: 12). These resources are not even considered part of goodwill in conventional accounting.

Now, it might seem that three of the last four capitals are captured by goodwill and so accounting currently recognises them. Unfortunately that is far from the case because goodwill is most often internally generated and as such is never recorded on a conventional balance sheet. Accounting standards only permit recognition of purchased goodwill which arises in a business combination when the acquirer pays more than the fair value of net identifiable assets of the acquiree.

So, implementation of the *Six Capitals* requires major departures from conventional accounting. This may explain why integrated reporting is practised by so few companies in KPMG's (2013) survey. Its wider acceptance will certainly require changes in recognition rules in accounting, especially the reliable measurement test, a liberalising of what accountants currently regard as an asset and big challenges to auditors endeavouring to provide assurance on integrated reports. That said, integrated reporting is without doubt a fascinating development in corporate reporting.

Turning to the last chapter in the *Six Capitals*, Gleeson-White advocates a complete revamp of the concept of the corporation, both in its management and in its founding documents, so that the corporation becomes not profit focussed but more environmentally and socially oriented. Some successful instances of this change are given, for example, the so-called B-corporations of which there are now 1045 in 34 countries. B-corporations are specially chartered to have social goals as well as profit-making ones. Again, this is an interesting development, but we must not forget that B-corporations are still very few in number compared to the vast numbers of for-profit companies.

The definitive history of the development and fate of integrated reporting remains to be written, but Gleeson-White's book gives the reader a very good, accessible introduction to the topic. I certainly enjoyed reading this book and would recommend it to anyone seeking to understand this recent development in corporate reporting.

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