https://doi.org/10.29180/ISSUEI.21.23

Concerned SDG(s): 4, 8, 11, 13, 16, 17
HEI name: University of Edinburgh
Type of HEI: University

Fiona ROBERTSON
(Leeds Beckett University)

CHALLENGE

Universities face significant challenges in trying to cut through the complexity the sector faces and articulate the value they create for their key providers of finance and other stakeholders.

Faced with global competition for student fee and research income, universities are closely monitored and assessed on a range of performance measures including teaching and research outcomes and value for money for students. A goal of many of our universities – written or unwritten – is to improve, or at least maintain, their position in the numerous global rankings and national assessments.

The extent of government 'carrot and stick' style regulation is significant and perhaps underscores the mystique about how the sector and individual universities create value. On top of that there are assessments by professional and business school accreditation bodies of education, research, graduate destinations etc. These too are influential as a significant proportion of university fee income in some countries is earned in business schools.

Rankings influence the number and quality of students who apply, the fees that can be charged, the quality of academics attracted and their ability to attract research funding. Strikingly, the obsession with journal rankings by our 'elite' universities (in turn driven by university rankings), is at odds with fulfilling the value creation aspirations through research of those concerned about global challenges and the workforce skills needed to address them.

CHALLENGE

Outside the university sector, the annual reporting process is often a time when organisations take stock of what their competitors are doing, what key risks and opportunities their organisation and sector face, and what their stakeholders and providers of finance want from them. There is little indication in university annual reporting packages that this is a purpose of reporting. Relative to other sectors, university annual reports have historically tended to be compliance oriented, and thus largely unimaginative documents that do not follow recognised frameworks for non-financial reporting.

With a few exceptions, universities have largely ignored 20 years of developments in sustainability reporting by the multi-stakeholder Global Reporting Initiative whose standards are used by organisations across other sectors and geographies. Public reporting by universities on sustainability issues has tended to focus on university operations and CO_2 emissions rather than the contribution of research and teaching to addressing sustainable development issues. Yet universities have a critical role to play in the achievement of the UN Sustainable Development Goals and, in the context of national governments having agreed to them, it is quite possible that they will be held to account and expected to demonstrate a net contribution.

Universities contribute to solving the world's challenges and improving future workforce skills. At a time when people and planet face challenges from digitisation, over population, climate change, deforestation, urbanisation, poverty, governance failures, threats to food, energy and water security, etc., these are important contributions. But few university strategies explicitly incorporate many, if any, of these considerations in their strategy or report on their outcomes.

PRACTICE

Integrated reporting is an evolution of corporate reporting, with a focus on conciseness, strategic relevance and future orientation. As well as improving the quality of information contained in the final report, integrated reporting makes the reporting process itself more productive, resulting in tangible benefits. Integrated reporting requires and brings about integrated thinking, enabling a better understanding of the factors that materially affect an organization's ability to create value over time. It can lead to behavioural changes and improvement in performance throughout an organization.

As a principles-based framework, the International <IR> Framework has helped over 1,600 organizations in more than 65 countries to start really thinking about what it means to create value, which resources and relationships they rely on to do so, and how they can tell this story to their core audience in a concise and meaningful way.

The University of Edinburgh incorporated integrated reporting into its 2015/16 Annual Report and Accounts. The university has since continued its integrated reporting journey in its 2016/17 accounts. Integrated reporting allows them to provide a better understanding of the university's story to their varied group of stakeholders and to communicate its contribution to the SDG's in terms of teaching and research.
Integrated reporting, according to Phil McNaull, director of Finance at the University of Edinburgh, is a really good initiative for Edinburgh as a university as it helped them to articulate their value creation model. To do that they needed to have a shared understanding of how the organisation works, its sources of income and the costs incurred to run it on a sustainable basis.

PRACTICE

As a research intensive university they operate a cross-subsidy portfolio of symbiotic activities but it is important that they are clear what subsidises what. Edinburgh University are here, in Phil's view, to fulfil an academic mission and to make a positive impact on society; they don't have shareholders and don't pay dividends and all surpluses are recycled to support the academic mission. Consequently they don't focus on just the financial approach but on many non-financial (or rather pre-financial) measures of success. An integrated thinking and reporting approach broadens the discussions you have in almost every meeting.

Phil would like to think that integrated reporting could give the university a competitive advantage. Edinburgh University wants to attract as many high potential students and staff as they can. They are very collaborative as a sector and not competitive in a ruthless way against other organisations, but they recognise that students have a choice to learn; researchers have a choice as to where they work; funders have a choice as to where they put money; the government can choose what it wants to support. So whether you like the notion of competition or not, according to Phil, it is the reality. Edinburgh University have to embrace it and consider what it means for their long-term value creation model – and it means they need a steady supply of people who want to come to them, rather than go somewhere else, in Phil's view.

Edinburgh University are already very successful, but integrated reporting will help them, according to Phil, to fine tune and optimise their performance. Phil states that there is more Edinburgh University could do, particularly when it comes to choosing whether to support one initiative or another. For example, prioritising which capital project to support; or choosing revenue investment in a long-term or short-term project. Integrated reporting helps their understanding in an integrated way of how different options fit with their strategic plan and the trade-offs involved.

OBSTACLES

Integrated reporting was reasonably easy to adopt, according to Phil, but they still encountered challenges, mainly cultural and organisational. The big challenge is to try and take the rest of the business with you when you are innovating, in Phil’s view. They spent about a year and a half trialling the fact that they were going to make more substantial changes to the accounts. For the year-ends 2014 to 2017 they were trying to improve the quality of the story we told in in the accounts by improving disclosures each time. They were also introducing leading edge concepts in their university accounts from other sectors and from new reporting guidance from, for example, the Financial Reporting Council and the International Integrated Reporting Council. Some colleagues took more persuasion on these, such as 'fair and balanced' reporting – some people think you only report the good stuff and play down the 'not-so-good' stuff – so that was quite a challenge, according to Phil. Fair and balanced has a specific interpretation from an audit perspective and making such statements would have required more audit work to validate it. Experience across all sectors indicates that increasing disclosure is sometimes a cultural novelty but there is steady progress.

Their biggest debate has been on the presentation of risk, in Phil’s view. There was genuine concern about how they present information that senior management regard as a potential risk – it's a sensitive issue. They try to write in a nuanced way. The point is to tell a balanced story. You need to understand the ability, appetite and position of your reader. If Phil’s perception is that the reader will take the wrong message from the report, or place undue focus on one aspect, then he has probably not done the report justice, in his view.

OBSTACLES

Phil had already tried to describe Edinburgh University's business model before he came across the International Integrated Reporting Council's (IIRC's) Framework. Some of his colleagues thought that calling what the university does a 'business model' was a step too far. So they called it a 'value model' (which actually fits better with the IIRC model). He broke down the end-to-end elements for teaching, research and commercialisation and included this model in the financial statements for the first time in 2013. We have updated it each year.

He realised that they would have to think very carefully about the 'capitals' they should identify and how they relate to Edinburgh University's 'products'. As a university, they have a product which is an undergraduate degree, which takes four years; they also have postgraduate degrees, which take perhaps one year; then they have research products and they all have different lifecycles. So when looking at value creation over time, which box do they go in – short, medium or long term – was a dilemma.

The capitals in Edinburgh University's value model are different to those in the IIRC's Framework. They had to change the language to help people in their organisation understand it better. The capitals they report on are university reputation, social and relationship, people, knowledge, finance, physical assets and natural resources.

In their value model (see the 2016/17 accounts pages 10 and 11) the top half contains the intangible assets, so it starts with reputation. The bottom has the physical assets, such as the estate and the IT infrastructure. Somewhere around the middle is the intangible asset value of knowledge. Edinburgh are already reviewing this and identified an additional value source; data sets that you can analyse and use as research tools. According to Phil, they will make these more prominent in next year's accounts. In the very middle of their model, knowledge – which is divided into research and learning – is the main stock or capital that every university draws on. It's twisted in their model, according to Phil, because research-informed teaching allows an iterative process of learning, challenging, researching and informing. This cycle is at the heart of their value creation model.

BENEFITS

The benefits of integrated thinking and reporting for universities relate to the information content they provide to stakeholders and their ability to change internal thinking and strategy to focus on broad value creation and the resources needed to achieve it. The process of developing an integrated report inevitably leads to changes in: decision making processes; informal and formal communication processes; materiality and risk identification processes amongst others. The emphasis on the long term, on the focus on creating value across a range of capitals leads to better outcomes for a range of stakeholders.

The benefits of integrated reporting to universities include: highlighting what's important – as opposed to what is covered in university rankings; tells the university's value creation story; providing information which is of value to key stakeholders; and underscoring the importance of cross disciplinary work, engagement between academics and operational functions and stakeholder relationships.