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(ISAR)**

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reporting**

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COMPLYING WITH THE STAKEHOLDER CAPITALISM PRINCIPLES IN THE COVID-19 PANDEMIC

Joanna Dyczkowska



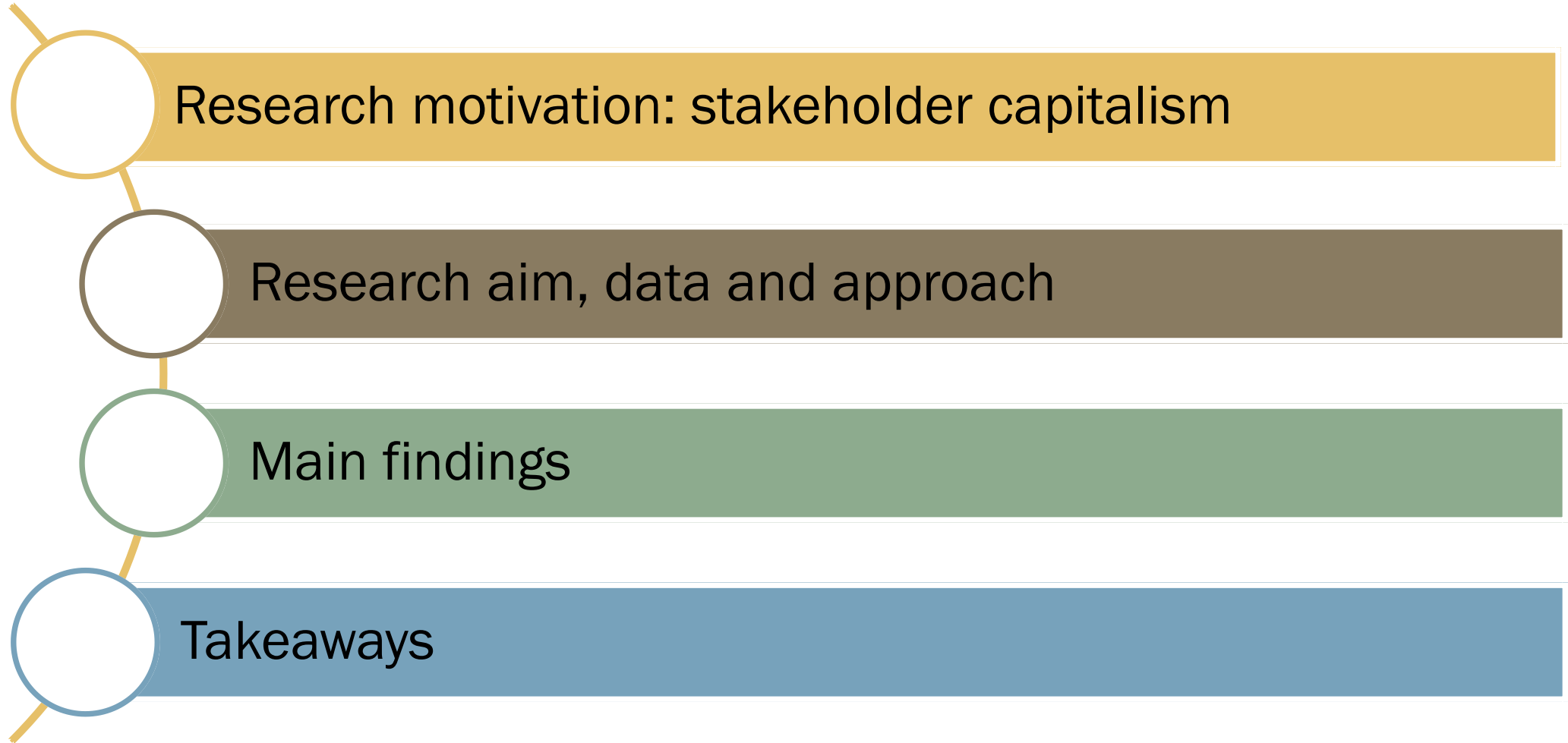
Joanna Krasodomska



Fiona Robertson



Scope of Presentation



Stakeholder capitalism

- **Stakeholder capitalism** it is a form of capitalism in which companies do not only optimize short-term profits for shareholders, but **seek long term value creation, by taking into account the needs of all their stakeholders, and society at large** (Schwab, 2020).
- Rather than focusing on individuals in competition over limited resources as in traditional narratives of capitalism, **stakeholder capitalism focuses on individuals freely working together to create sustainable relationships in the pursuit of value creation** (Freeman et al., 2007).
- It stays in compliance with the **normative approach within the stakeholder theory** as it requires companies to consider all stakeholders' interests in the economy and society, including ecological and social impacts and the natural environment.

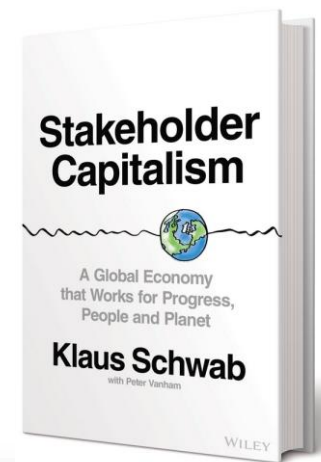
Stakeholder capitalism

Types of Capitalism	State Capitalism	Shareholder Capitalism	Stakeholder Capitalism
Key Stakeholder	Government	Company Shareholders	All stakeholders matter equally
Key Characteristic	Government steers the economy, can intervene where necessary	The social responsibility of business is to increase its profits	Society's goal is increase the well-being of people and the planet
Implication for Companies	Business interests are subsidiary to state interests	Short-term profit maximization as highest good	Focus on long-term value creation and ESG measures
Advocated by		Milton Friedman ('70) «Shareholder Theory»	Klaus Schwab ('71) «Davos Manifesto» ('73)

Visualisation by Peter Vanham, World Economic Forum, based on «Stakeholder Capitalism: A Global Economy that Works for Progress, People and Planet»



<https://twitter.com/wef/status/1268096852207026179>



Davos Manifesto 2020: The Universal Purpose of a Company in the Fourth Industrial Revolution



A general view shows the mountain resort of Davos, Switzerland, January 25, 2019 Image: REUTERS/Arnd Wiegmann

02 Dec 2019

Klaus Schwab

Founder and Executive Chairman, World Economic Forum



A. The purpose of a company is to engage all its stakeholders in shared and sustained value creation. In creating such value, a company serves not only its shareholders, but all its stakeholders – employees, customers, suppliers, local communities and society at large. The best way to understand and harmonize the divergent interests of all stakeholders is through a shared commitment to policies and decisions that strengthen the long-term prosperity of a company.

<https://www.weforum.org/agenda/2019/12/davos-manifesto-2020-the-universal-purpose-of-a-company-in-the-fourth-industrial-revolution/>

Stakeholder Capitalism Principles



Prof. R. Edward Freeman

Journal of Business Ethics (2007) 74:303–314
DOI 10.1007/s10551-007-9517-y

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Stakeholder Capitalism

R. Edward Freeman
Kirsten Martin
Bidhan Parmar

Stakeholder Capitalism Principles

1. *The Principle of Stakeholder Cooperation* – “Value can be created, traded, and sustained because stakeholders can jointly satisfy their needs and desires by making voluntary agreements with each other that for the most part are kept.”

2. *The Principle of Stakeholder Engagement* – To successfully create, trade and sustain value, a business must engage its stakeholders.” Almost every business transaction involves: customers, suppliers, communities, employees, and financiers. Other stakeholders, such as media, additional civil society representatives, NGOs, etc. are often affected or can affect value creation.”

3. *The Principle of Stakeholder Responsibility* – Value can be created, traded, and sustained because parties to an agreement are willing to accept responsibility for the consequences of their actions. When third parties are harmed, they must be compensated, or a new agreement must be negotiated with all of those parties who are affected.”

4. *The Principle of Complexity* – Value can be created, traded, and sustained because human beings are complex psychological creatures capable of acting from many different values and points of view.” Individuals are socially situated and their values are connected to their social context.

5. *The Principle of Continuous Creation* – “Business as an institution is a source of the creation of value. Cooperating with stakeholders and motivated by values, businesspeople continuously create new sources of value.”

6. *The Principle of Emergent Competition* – “Competition emerges from a relatively free society so that stakeholders have options.” “Competition is an emergent property rather than a necessary assumption to capitalism.”

The research purpose and data used

- Our study explores **whether and how preparers of integrated reports have applied stakeholder capitalism principles** during the COVID-19 pandemic and **how these efforts were communicated**.
- The study is based on the analysis of the text extracted from the integrated reports of **22 companies categorized as Top 10 and Excellent** in the *EY Excellence in Integrated Reporting Award 2020*.





Absa Group Ltd
 Anglo American Platinum Ltd
 Anglo American plc
 Aspen Pharmacare Holdings Ltd
 Attacq Ltd
 Exxaro Resources Ltd
 Impala Platinum Holdings Ltd
 Kumba Iron Ore Ltd
 Life Healthcare Group Holdings Ltd
 Nedbank Group Ltd
 Netcare Ltd
 Pick n Pay Stores Ltd
 Redefine Properties Ltd
 Reunert Ltd
 Royal Bafokeng Platinum Ltd
 Sappi Ltd
 Sasol Ltd
 Standard Bank Group Ltd
 Telkom SA SOC Ltd
 Truworths International Ltd
 Vodacom Group Ltd
 Woolworths Holdings Ltd



Adcock Ingram Holdings Ltd
 African Rainbow Minerals Ltd
 AngloGold Ashanti Ltd
 Barloworld Ltd
 Clicks Group Ltd
 Coronation Fund Managers Ltd
 Discovery Ltd
 Glencore plc
 Gold Fields Ltd
 Growthpoint Properties Ltd
 Hammerson plc
 Harmony Gold Mining Company Ltd
 Hyprop Investments Ltd
 Imperial Logistics Ltd
 Investec Property Fund Ltd
 JSE Ltd
 Liberty Holdings Ltd
 MAS Real Estate Inc
 Massmart Holdings Ltd
 Mondi plc
 Mr Price Group Ltd
 MTN Group Ltd
 Northam Platinum Ltd
 RCL Foods Ltd
 Remgro Ltd
 Shoprite Holdings Ltd
 Sibanye Gold Ltd
 The Foschini Group Ltd
 Transaction Capital Ltd



Astral Foods Ltd
 BHP Group plc
 Bid Corporation Ltd
 British American Tobacco plc
 Capital & Counties Properties plc
 Dis-Chem Pharmacies Ltd
 Distell Group Holdings Ltd
 Equites Property Fund Ltd
 FirstRand Ltd
 Fortress REIT Ltd
 Investec plc
 Mediclinic International plc
 Momentum Metropolitan Holdings Ltd
 Motus Holdings Ltd
 Naspers Ltd
 Old Mutual Ltd
 PSG Konsult Ltd
 Quilter plc
 Rand Merchant Investment Holdings Ltd
 Resilient REIT Ltd
 RMB Holdings Ltd
 Sanlam Ltd
 Santam Ltd
 Sirius Real Estate Ltd
 The SPAR Group Ltd
 Tiger Brands Ltd
 Tsogo Sun Gaming Ltd
 Vivo Energy plc
 Vukile Property Fund Ltd



AECI Ltd
 Allied Electronics Corporation Ltd
 Anheuser-Busch InBev SA/NV
 Assore Ltd
 AVI Ltd
 Capitec Bank Holdings Ltd
 Compagnie Financiere Richmont SA
 EPP NV
 Globe Trade Centre SA
 Italtile Ltd
 KAP Industrial Holdings Ltd
 MultiChoice Group Ltd
 NEPI Rockcastle plc
 Pepkor Holdings Ltd
 Pioneer Foods Group Ltd
 PSG Group Ltd
 Reinet Investments SCA
 South32 Ltd
 Super Group Ltd
 The Bidvest Group Ltd

Research approach

1

- Adjusting the comprehension of the principles to the new circumstances of the COVID-19 pandemic

2

Identifying the words related to COVID-19 pandemic in companies' integrated reports

3

Extracting the paragraphs that covered these terms to separate document for each company under examination

4

Coding the extracted pieces of text by testing compliance with particular stakeholder capitalism principle

The length of the investigated reports and the number of COVID-19 related words identified

No.	Company name*	Position in the ranking 2020	Integrated report length (number of pages)	Number of word occurrences in an integrated report (disjoint sets)				
				'Covid-19'	'Covid'	'Coronavirus'	'virus'	'pandemic'
1	Sasol*	Top 10	103	132	0	3	10	10
2	Woolworths Holdings Limited	Excellent	107	163	3	2	7	29
3	Truworths International*	Top 10	81	187	1	3	0	34
4	Impala Platinum Holdings*	Top 10	164	243	2	3	6	27
5	Aspen Pharmacare Holding	Excellent	168	130	0	2	12	24
6	Attacq	Excellent	97	73	0	1	3	17
7	Redefine Properties*	Top 10	128	173	1	4	8	23
8	Netcare	Top 10	238	493	2	4	13	111
9	Life Healthcare Group Holding	Excellent	200	314	3	0	4	91
10	Sappi	Excellent	186	107	4	12	1	30
11	Reunert	Excellent	142	154	2	5	0	45
12	Royal Bafokeng Platinum	Excellent	172	266	0	2	14	19
13	Absa Group	Excellent	98	163	1	0	2	37
14	Standard Bank Group	Top 10	148	162	6	2	2	94
15	Nedbank Group*	Top 10	108	203	0	1	12	40
16	Exxaro Resources	Excellent	136	161	0	0	7	16
17	Anglo American	Excellent	266	268	5	2	5	70
18	Anglo American Platinum	Top 10	164	125	7	1	2	48
19	Kumba Iron Ore*	Top 10	142	155	19	1	5	34
20	Pick n Pay Stores	Excellent	118	106	0	2	4	17
21	Vodacom*	Top 10	90	61	0	2	4	17
22	Telkom SA SOC	Excellent	141	185	7	0	2	24

*A company which has been recognized as Top10 in integrated reporting over the years of 2020, 2019 and 2018.

Complying with the stakeholder capitalism principles in the context of COVID-19 pandemic

Company name*	Principle of Stakeholder Cooperation	Principle of Stakeholder Engagement	Principle of Stakeholder Responsibility	Principle of Complexity	Principle of Continuous Creation	Principle of Emergent Competition
Sasol*	☑ (5)	☑ (6)	☑ (17)	☑ (6)	☑ (10)	☑ (7)
Woolworths Holding	☑ (2)	☑ (11)	☑ (30)	☑ (4)	☑ (19)	☑ (10)
Truworths International*	☑ (2)	☑ (8)	☑ (11)	☑ (7)	☑ (18)	☑ (14)
Impala Platinum Holdings*	☑ (4)	☑ (20)	☑ (18)	☑ (1)	☑ (4)	☑ (2)
Aspen Pharmacare Holding	☑ (4)	☑ (8)	☑ (20)	☒	☑ (11)	☑ (4)
Attacq	☑ (1)	☑ (3)	☑ (7)	☒	☑ (6)	☑ (2)
Redefine Properties*	☑ (5)	☑ (13)	☑ (19)	☑ (3)	☑ (14)	☑ (8)
Netcare	☑ (13)	☑ (40)	☑ (41)	☑ (6)	☑ (38)	☑ (15)
Life Healthcare Group Holdings	☑ (9)	☑ (16)	☑ (26)	☑ (6)	☑ (23)	☑ (5)
Sappi	☑ (2)	☑ (6)	☑ (15)	☑ (1)	☑ (7)	☑ (3)
Reunert	☑ (1)	☑ (9)	☑ (10)	☑ (10)	☑ (14)	☑ (13)
Royal Bafokeng Platinum	☑ (14)	☑ (16)	☑ (37)	☑ (1)	☑ (8)	☑ (1)
Absa Group	☑ (2)	☑ (9)	☑ (31)	☑ (6)	☑ (23)	☑ (3)
Standard Bank Group	☑ (4)	☑ (16)	☑ (30)	☑ (3)	☑ (17)	☑ (9)
Nedbank Group*	☑ (5)	☑ (11)	☑ (18)	☒	☑ (26)	☑ (1)
Exxaro Resources	☑ (8)	☑ (11)	☑ (15)	☒	☑ (5)	☒
Anglo American	☑ (4)	☑ (16)	☑ (25)	☑ (5)	☑ (6)	☑ (7)
Anglo American Platinum	☑ (6)	☑ (10)	☑ (22)	☑ (1)	☑ (2)	☑ (6)
Kumba Iron Ore*	☑ (12)	☑ (11)	☑ (17)	☑ (1)	☑ (8)	☑ (6)
Pick n Pay Stores	☑ (5)	☑ (4)	☑ (13)	☑ (1)	☑ (12)	☑ (7)
Vodacom*	☑ (3)	☑ (2)	☑ (4)	☒	☑ (13)	☑ (1)
Telkom SA SOC	☑ (7)	☑ (9)	☑ (26)	☑ (2)	☑ (17)	☑ (3)

☑ - YES (the number of times when an entity provides evidence in various threads of the integrated report that it observes a given principle); ☒ - NO

*A company which has been recognized as Top10 in integrated reporting over the years of 2020, 2019 and 2018.

The Principle of Stakeholder Cooperation

REGULATORY LANDSCAPE

We believe that partnerships between healthcare providers and governments are critical to finding solutions for the challenges faced by our industry globally. In South Africa, given the enormity of healthcare challenges facing our country, the outbreak of COVID-19 emphasised the importance of engagements between the public and private sectors. We believe healthcare providers have a moral obligation to engage, cooperate and partner with government to find solutions and support the fundamental principle of universal healthcare coverage.



The Principle of Stakeholder Engagement

Appreciation

The Covid-19 pandemic impacted our employees, communities, suppliers, customers, funders and shareholders. Without their support and willingness to collectively seek solutions, the impact of the pandemic on our business would have been even more severe. In these difficult times, close relationships, transparency and trust are most vital. We thank you for the faith you have shown in us.



The Principle of Stakeholder Responsibility

Telkom, supporting a nation through crisis

To assist the government in its objective to contain the virus, Telkom set out on many initiatives to help combat the effects of the virus on the economy and on society. We began developing the novel track-and-trace COVID-19 system after partnering with the NICD, and donated 1 500 devices and data to the Department of Health to assist with track and trace. We zero-rated educational sites of institutions of higher learning and expanded free high school learning content through our BCXLearn platform. Telkom further pledged R15 million and formed a disaster relief fund that supports the Red Cross in support of our unsung heroes – the frontline healthcare workers.



The Principle of Complexity

Employee health and safety

We remain committed to protecting our employees' health and safety, and seek to create a working environment supporting this responsibility. We consistently improve our health and safety policies and practices, which became even more critical during this past year.

COVID-19 presented significant challenges to our employees' safety, health and wellbeing. Government measures differed from country to country, and we tailored our responses to comply with local requirements. We also adhered to country-specific government and health policy guidelines within an overarching Group best practice framework. We introduced daily, weekly and monthly reviews in all regions to ensure real-time responses as the situation changed.



The Principle of Continuous Creation

Internally, we have challenged our employees to continually innovate solutions and to be ahead of the curve across the digital landscape. It is no longer good enough to just be a technology company, we must be able to provide a comprehensive and flexible package that will ensure the success and security of our customers and society on this digital transformation journey. Workspaces have changed, automation has increased, and industries are becoming decentralised. A new normal is being created.

This goes to show how the role of technology has changed since the start of the outbreak, and as each day passes our dependency on technological innovation grows.



We are also determined to be a simpler and more effective organisation. We are modernising our ways of working, including the structure and organisation of our head office teams, our meeting and decision-making processes, and our use of information and other technologies. As with many other organisations and individuals around the world, the COVID-19 outbreak is rapidly teaching us about the power of modern communications and remote working, and about what is really required to run a business effectively, even in the most difficult of times.



The Principle of Emergent Competition

MANAGING TRADE-OFFS THAT INFLUENCE OUR VALUE CREATION

Protecting our employees to drive future growth

In light of the impacts of COVID-19, we had to carefully balance the expectations of our key stakeholders. This year, we made the decision to as far as possible not to reduce our employee headcount or apply any decreases to their salaries. We initiated several measures to assist employees including, establishing an employee assistance fund, accommodation, providing PPE and payment of funeral costs amongst others. As part of this decision we have, however, reduced temporary staff and increased the utilisation of our permanent employees. While this decision had a short-term cost impact, we believe this was the right decision to ensure we had sufficient capacity during the period to respond to the pandemic. Furthermore, this decision will drive the sustainability of our business in the long term, with the new ways of working being incorporated into future operating models.

BALANCING STAKEHOLDER EXPECTATIONS AGAINST LIQUIDITY AND SUSTAINABILITY

Deferred dividend payments to preserve cashflow

Given the ongoing uncertainties around COVID-19, we were not able to forecast cash flow with any degree of certainty. We are committed to ensuring Redefine remains sustainable over the long term and, with it, preserving cash flow and protecting liquidity. This year – in deciding on the dividend declaration – we had to balance our shareholders' and funders' needs, as well as regulatory requirements (including the JSE Listings Requirements applicable to REITs) and the long-term sustainability of our business.

In making this decision, we had to trade off the short-term needs of our shareholders and the long-term expectations of our broader stakeholders, including our funders, tenants, employees, the greater community and our suppliers. The impact of this trade-off on our broader stakeholders is set out below.

Key takeaways

- **Integrated reports preparers** presented how the strategy's execution was affected by the COVID-19 and how they planned to recover growth, profitability and returns. Though IIRC's position is originally much closer to the instrumental perspective of stakeholder theory, they **extended their approach and regard broad stakeholders' expectations in these highly uncertain times.**
- The impact of global pandemic alongside the current burning issues of climate change, resource scarcity and poverty **may lead to the better understanding of the stakeholder capitalism and redirect organizations towards 'managing for stakeholders'** (Freeman et al., 2007),
- In the analysed cases of reports' preparers for **South Africa**, the reasons for observance of the stakeholder capitalism principles may lie not only with the current pandemic situation but also may stem from a **stakeholder-inclusive approach adopted by King IV.**

THANK YOU FOR YOUR ATTENTION!

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