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The purpose and value of integrated  
reporting to key stakeholders:  
Promulgator and adopter perspectives.

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*A thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy,*

*The University of Auckland 2019.*



## **Abstract**

*The International Integrated Reporting Committee (IIRC) promulgated integrated reporting <IR> in 2010 to provide a framework for sustainability and since that time <IR> has gained international interest and support. The research questions in this thesis will, firstly, examine the purpose of <IR> from the perspective of the IIRC as the promulgator of <IR> and from one New Zealand organisation that adopted <IR> and prepared integrated reports from 2013. Secondly, the value of <IR> will be examined from the viewpoint of the promulgator and adopters of <IR>. The research questions were examined using semi-structured interviews and documentary analysis.*

*Using a theoretical framework based on institutional and legitimacy theory this study finds that the initial idealistic purpose of the IIRC to create a framework for sustainability was adapted to consider business sustainability as a pragmatic reality. The value of <IR> was the potential to improve trust in organisations and ultimately, to reduce the cost of capital.*

*For one organisation (IRCO), the purpose of <IR> was to present its unique story using an innovative platform. The purpose was driven by pragmatic legitimacy as it was seen to benefit the organisation by better communicating its change management strategy. Integrated thinking, provided evidence of potential cognitive legitimacy as it made the job easier for internal stakeholders. Users of the integrated reports were sceptical of the value of an integrated report although they perceived that there was potential benefit to the organisation to adopting <IR>, providing further evidence of pragmatic legitimacy for the purpose of <IR>.*

*The motives for the adoption of <IR> by IRCO deviated from those suggested by members of the IIRC. The IIRC saw the purpose of <IR> would be to ultimately lower the cost of capital of an organisation through reduced agency costs as a result of better information. In IRCO, <IR> was adopted as part of a strategy to retain legitimacy and therefore the adoption was pragmatic. Users of integrated reports were slow to see how the information presented in an integrated report could be utilised without comparability. If the momentum of adoption of <IR> continues, developments will be required that enable users to assess businesses using integrated reports on a stand-alone basis thereby potentially bringing significant cost savings and benefits to decision makers.*



## Acknowledgements

*When you come to a fork in the road, take it. Yogi Berra*

This journey started with Alan Teixeira and his ideas which prompted me to think about the potential for integrated reporting. I embarked on this journey because I had a passion for the topic and managed to persuade my supervisors to come along with me for the ride. As a result, I have met and talked to many people that have added to my knowledge that I would not otherwise have met. The quote above is apt because life's journey is full of choices and decisions that can take you down one path or another. For me, a PhD was not a path I had seen in my future but I am grateful I took the opportunity that has led me along this amazing journey.

I knew that studying was not a linear process and, although immensely rewarding, I am also very glad to be at the end of it. As Dorothy Parker once said "I hate writing, I love having written". It is time to reflect on what I have learned and take up some of the research opportunities I have considered along the way but not had time to pursue.

Family is very important and life has changed for my children and I while I have been studying and I am grateful for their support and alongside my journey, my daughter Laura has become a mother herself, twice, and my son Robbie has graduated from University and left home. I hope to spend more time with Theo and Lachlan because being a Nana really is fun.

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# Table of Contents

Abstract.....	iii
Acknowledgements.....	v
List of Figures .....	xi
List of Tables .....	xiii
Glossary.....	xv
Chapter 1. Introduction.....	1
1.1. Motivation for research into <IR>.....	1
1.2. Introduction to Integrated Reporting <IR> .....	5
1.3. Research Questions .....	6
1.4. What is sustainability? .....	8
1.5. Research Method.....	9
1.6. Outputs and Contribution.....	9
1.7. Summary .....	10
Chapter 2. Literature review .....	11
2.1. Introduction .....	11
2.2. Integrated Reporting <IR>.....	12
2.2.1. Development of <IR> .....	13
2.2.2. Application of integrated reporting <IR> .....	19
2.2.3. Assurance .....	30
2.2.4. Summary .....	34
2.3. Voluntary Disclosure .....	35
2.3.1. Financial information .....	36
2.3.2. Non-financial information-the nature and purpose of CSR reporting.....	37
2.3.3. Non-financial information and analysts.....	42
2.3.4. Summary .....	44
2.4. Non-financial performance measurement .....	45
2.5. Integrated reporting, accountants and the accounting profession.....	47
2.6. Summary .....	50
Chapter 3. Theoretical Frameworks and Research Method .....	53
3.1. Introduction .....	53
3.2. Theoretical Approach.....	53
3.2.1. Introduction .....	53
3.2.2. Neoinstitutional theory.....	55
3.2.3. Legitimacy theory.....	60



3.2.4. Stakeholder theory.....	67
3.2.5. Conclusion.....	68
3.3. Choice of Methodology.....	69
3.4. Research method.....	70
3.4.1. Introduction.....	70
3.4.2. Case Study method.....	71
3.5. Case Study 1.....	74
3.5.1. Data Sources.....	74
3.6. Case study 2.....	79
3.6.1. Data Sources.....	80
3.7. Data Analysis.....	83
3.8. Ethics.....	85
3.9. Summary.....	86
Chapter 4. The emergence of the IIRC and an overview of <IR>.....	89
4.1. Introduction.....	89
4.2. Motivations for the formation of the IIRC.....	89
4.2.1. Climate change.....	90
4.2.2. GFC.....	91
4.2.3. Financial reporting concerns.....	91
4.2.4. Summary.....	92
4.3. Promoters of integrated reporting <IR> and the IIRC.....	93
4.3.1. Formation of the IIRC.....	93
Pilot Companies & Investor Network.....	96
4.3.2. Memorandum of understanding.....	99
4.4. Framework development.....	100
4.4.1. Governance.....	100
4.4.2. A big idea.....	102
4.4.3. Development of framework – iterations.....	103
4.4.4. Analysis.....	106
Development of sustainability concept.....	109
4.5. Integrated Reporting.....	112
4.5.1. Who is the targeted end user – push or pull?.....	112
4.5.2. The changing definition of <IR>.....	119
4.5.3. Business Model.....	122
4.5.4. Expanded discussion of the capitals.....	125

4.5.5. Underlying guiding principles and content elements of an integrated report.....	128
4.6. Discussion and Conclusion.....	129
Chapter 5. The value of an integrated report to internal and external stakeholders of IRCO .....	135
5.1. Introduction .....	135
5.1.1. IRCO Business model reporting .....	136
5.1.2. Formation of steering group.....	137
5.1.3. Board and Senior Management.....	139
5.1.4. Summary .....	140
5.2. Changes to corporate reporting as signals of organisational change.....	141
5.2.1. Summary of content of IRCO Annual Reviews (integrated reports) 2013 to 2017.....	141
5.2.2. Summary of key themes 2013-2017 .....	142
Strategy.....	144
Job Losses.....	145
Technology & Innovation.....	146
Sustainability.....	147
5.2.3. Language used in integrated reports.....	147
5.2.4. Comparison of integrated reports to the Framework .....	148
5.2.5. Summary .....	148
5.3. Stakeholders and the purpose of <IR>.....	149
5.3.1. Identification of stakeholders.....	149
5.3.2. The purpose of <IR> to the internal stakeholders .....	151
5.3.3. Purpose to external stakeholders .....	151
5.3.4. Summary .....	152
5.4. The value of <IR> to stakeholders.....	152
5.4.1. Introduction .....	152
5.4.2. The value from the introduction of additional Capitals.....	153
5.4.3. The value of integrated thinking and the link with the integrated report .....	155
Integrated thinking .....	156
Attaining legitimacy using story telling or narrative.....	158
5.4.4. Assurance and accountability .....	159
Demonstrating accountability to external stakeholders .....	159
The benefit of assurance to the integrated report.....	161
5.4.5. Value derived from the link between strategy and the adoption of <IR>.....	163
5.4.6. The value of regulation to internal and external stakeholders .....	164
5.4.7. Summary .....	165

5.5. Analysis and discussion .....	165
5.5.1. Framework of analysis .....	165
5.5.2. Analysis.....	165
5.6. Discussion and Conclusion .....	168
Chapter 6. Summary and Conclusion .....	171
6.1. Summary of research .....	171
6.2. Summary of findings for preparers, users and regulators .....	173
6.3. Contribution .....	174
6.3.1. What are the implications for practice? .....	174
6.3.2. What are the implications for preparers?.....	175
6.3.3. What are the implications for users?.....	176
6.4. Limitations.....	176
6.5. Suggestions for Future Research .....	177
6.6. Final note.....	178
Appendix 1 List of interview questions .....	181
Appendix 2 Ethics Approval and participation information letters .....	185
Appendix 3 Table of Pilot programme participants .....	193
Appendix 4 Summary of content of IRCO integrated reports 2013-2017 .....	197
2013.....	197
2014.....	199
2015.....	200
2016.....	200
2017.....	201
Appendix 5 Comparison of IRCO integrated reports to <IR> Framework.....	203
Guiding Principles.....	204
Content Elements.....	208
References.....	211

## List of Figures

Figure 1 Level of Corporate responsibility reporting by G250 and N100 Companies (KPMG, 2017) .....	3
Figure 2 Structure of the IIRC from 2015 .....	101
Figure 3 Business Model from Prototype Framework (IIRC, 2012b) .....	123
Figure 4 Value Creation Process from Framework (IIRC, 2013).....	124
Figure 5 The capitals (IIRC, 2013a).....	127
Figure 6 Novo Nordisk Annual Report 2016 p.57 .....	207



## List of Tables

Table 1 Three Pillars of institutions (Scott, 2013).....	57
Table 2 Institutional pillars and carriers (Scott, 2013).....	58
Table 3 Institutional pillars and carriers adapted for the IIRC and <IR> from Scott (2013).....	60
Table 4 Elemental attitudes towards legitimacy for <IR> adapted from Thomas and Lamm (2012)...	64
Table 5 IIRC Interviewee List.....	76
Table 6 Location of IIRC Council meetings and locations .....	77
Table 7 Working Group meeting dates and location .....	78
Table 8 IIRC Document List .....	79
Table 9 Case Study 2 - IRCO interviewees summary.....	82
Table 10 Case Study 2 Document List.....	83
Table 11 Example of thematic analysis.....	84
Table 12 Comparison of pillars and carriers for IIRC.....	109
Table 13 List of IIRC Council meeting dates, numbers of attendees and number of pages in minutes .....	115
Table 14 Summary of classification of attendees to IIRC Council meetings.....	117
Table 15 IIRC Working Group meeting details and number of attendees.....	117
Table 16 IIRC Working Group meeting attendees by interest group.....	118
Table 17 Comparison of description of capitals between IIRC Discussion paper (IIRC, 2011) and White (2010).....	126
Table 18 Key Themes included in IRCO integrated reports 2013 to 2017 .....	143
Table 19 Stakeholder groups as identified by IRCO in integrated reports .....	150
Table 20 Stakeholders' views of assurance of <IR> .....	162
Table 21 Summary of stakeholders' views of regulation of <IR>.....	164
Table 22 Results of dimensions of legitimacy for internal and external stakeholders for the <i>purpose</i> of <IR> (RQ1).....	166
Table 23 Results of dimensions of legitimacy for internal and external stakeholders for the <i>value</i> of <IR> (RQ2) .....	167
Table 24 Composition of IRCO reports 2013 to 2017 .....	197
Table 25 Capitals as renamed by IRCO .....	198
Table 26 <IR> Guiding principles.....	204
Table 27 <IR> Content Elements.....	208



## Glossary

<i>A4S</i>	The Prince's Accountability for Sustainability Project
<i>&lt;IR&gt;</i>	Integrated Reporting
<i>ACCA</i>	Association of Chartered Certified Accountants
<i>Adopter</i>	Organisation that has adopted the principles of <IR>.
<i>Board</i>	Board of the IIRC
<i>BSC</i>	Balanced scorecard
<i>CDP</i>	Carbon Disclosure Project
<i>CDSB</i>	Climate Disclosure Standards Board
<i>CEO</i>	Chief Executive Officer
<i>CFO</i>	Chief Financial Officer
<i>Council</i>	The Council of the IIRC
<i>CSR</i>	Corporate social responsibility
<i>ESG</i>	Environmental, social and governance
<i>FASB</i>	Financial Accounting Standards Board
<i>Framework</i>	The <IR> Framework published in December 2013
<i>GFC</i>	Global financial crisis (2008)
<i>GHG</i>	Greenhouse gas
<i>Greenwashing</i>	Greenwashing occurs when companies disclose positive environmental actions while concealing negative ones to create a misleadingly positive impression of overall environmental performance (Marquis & Toffel, 2015)
<i>GRI</i>	Global Reporting Initiative
<i>IAASB</i>	International Auditing and Assurance Standards Board
<i>IASB</i>	International Accounting Standards Board
<i>ICAEW</i>	Institute of Chartered Accountants in England and Wales
<i>IFAC</i>	International Federation of Accountants
<i>IIRC</i>	International Integrated Reporting Council
<i>IFRS</i>	International Financial Reporting Standards
<i>Internal/External stakeholders</i>	Internal stakeholders are individuals that work for an organisation that has adopted <IR> and have knowledge of its principles.



External stakeholders are representatives of organisations with an interest in adopters of <IR>.

*ISO* International Organization for Standardization

*KPI* Key performance indicator

*MOU* Memorandum of understanding

*SASB* Sustainability Accounting Standards Board

*TBL* Triple Bottom Line

*User* In this thesis, users represents the users of integrated reports and this will include both internal and external stakeholders where stakeholders have been identified by the case study organisation.

*Value* “Value is created through an organization’s business model, which takes inputs from the capitals and transforms them through business activities and interactions to produce outputs and outcomes that, over the short, medium and long term, create or destroy value for the organization, its stakeholders, society and the environment” (IIRC, 2013b, p.1).

*Working Group* A working group established by the IIRC to promote and support the activities undertaken by its Board and Council.

## Chapter 1. Introduction

*“In research the horizon recedes as we advance and is no nearer at 60 than it was at 20. As the power of endurance weakens with age, the urgency of the pursuit grows more intense... And research is always incomplete”.<sup>1</sup>*

Integrated reporting <IR> represents an innovation in corporate reporting. The International Integrated Reporting Committee (IIRC) introduced <IR> in 2010 to provide a framework for sustainability and since that time the concept of <IR> has gained international interest and support.

The aim of this research is to examine the perspective of different key stakeholders on <IR>. The purpose of this research is to examine promulgator (IIRC) and adopter views of the purpose and value of <IR>. This will be investigated through three research questions. Firstly, examine the motivation for the introduction of <IR> and its intended purpose both by the IIRC and by one organisation in New Zealand that published integrated reports from 2013 to 2017. Secondly, the value of <IR> from the viewpoint of the promulgators and one adopter of <IR> will differ and this thesis will examine the concept of value by each. Thirdly, the understanding of <IR> between the IIRC and adopters of <IR> will be examined to assess whether there is a shared motivation. The approach taken in this thesis is qualitative research based on interviews and documentary evidence.

Richard Howitt the Chief Executive Officer (CEO) of the IIRC, stated that “now there are over 1,750 businesses worldwide using <IR> as a key mechanism for presenting their value creation story”.<sup>2</sup> The members of the IIRC have promoted the concept of <IR> and encouraged organisations to experiment with adoption.

### 1.1. Motivation for research into <IR>

This thesis provides evidence on a new area of research namely <IR>. <IR> first appeared after the formation of the International Integrated Reporting Council (IIRC) in 2010. Since then, <IR> has attracted interest in the investment community, as well as regulators and academics. There have been calls for research into this new topic to explore how it is being adopted as well as the introduction of a new reporting framework (de Villiers, Rinaldi &

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<sup>1</sup> Mark Pattison 1813-84

<sup>2</sup> At a conference held in Auckland in May 2018

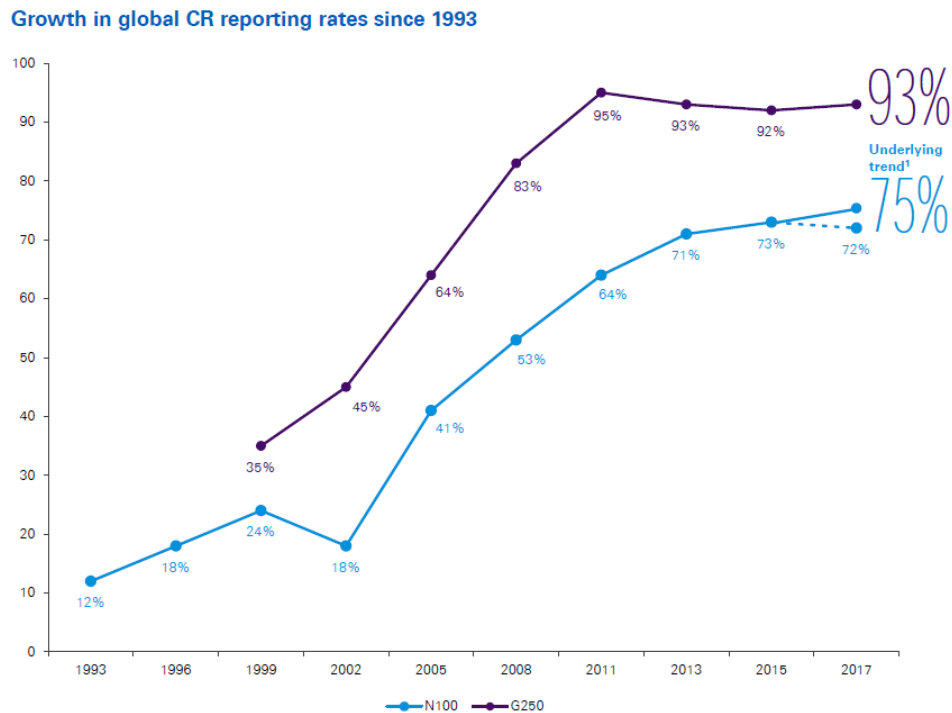
Unerman, 2014, Cheng, Green, Conradie, Konishi & Romi, 2014) as it is a new topic for research and this thesis adds to the emerging research. There are many reasons why <IR> has attracted attention by preparers including concerns of a loss of corporate trust following the global financial crisis of 2008 and the failure of existing corporate reporting models to predict financial distress. In addition, anticipated threats from climate change encouraged organisations to seek methods of incorporating potential effects of climate change into business reports.

Financial reporting has been criticised for increasing the volume of disclosure to produce more and more complex reports yet, there has been a growing disparity between the value of equity recorded in the balance sheet and the market value for equity caused by an increase in the value of unrecorded or undocumented intangible assets so that “intellectual capital and other intangible assets not captured on the balance sheet now drive market value” (e.g., IIRC, 2014b, p.13). The IIRC has used this difference to promote <IR> as a way to improve financial reporting.

The increase in sustainability reporting by organisations has increased in the last 30 years so that it is now the norm for large multinationals to produce a sustainability report which may have a variety of names such as corporate responsibility report (CSR) or environmental, social and governance (ESG) report. Together these reports include information on non-financial information that is relevant for their organisations. There may be a variety of reasons the reports have been created and there is little consistency over the information that is produced however, the information has increasingly been created (Financial Markets Authority, 2017) and is now “ubiquitous” (Cho, Laine, Roberts, & Rodrigue, 2015). In Figure 1, KPMG report that in 2017 the G250 which represents the largest companies by revenue are leaders in corporate responsibility reporting. The G250 consistently report more often than the N100.<sup>3</sup> The graph shows a significant increase in reporting rates since 2002 which appeared to plateau from around 2012. The report also notes that there has been an increase of 17% in sustainability reporting by New Zealand companies between 2015 and 2017 although they note this comes from a low base. Overall, in New Zealand, corporate responsibility reporting rates are lower than the global average (KPMG, 2017).

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<sup>3</sup> The N100 “Refers to a worldwide sample of 4,900 companies representing the top 100 companies by revenue in each of the 49 countries researched in the study” (KPMG, 2017, p.3)



**Figure 1 Level of Corporate responsibility reporting by G250 and N100 Companies (KPMG, 2017)**

An integrated report is not the same as a sustainability report. However, an organisation that has the knowledge base to report on sustainability is in a better position to consider the connectedness between the financial and non-financial drivers for the business and then be able to report in a more holistic way on the organisation. Companies with enhanced reputations have a lower cost of capital (Cao, Myers, Myers, & Omer, 2015) and if the use of <IR> enhances a company's reputation then the cost of capital could be expected to decrease and therefore provide positive benefits.

<IR> provides a way for businesses to tell the story of their business to explain their business model and strategic objectives using more than just financial information. However, the lack of prior experience in non-financial reporting can provide a barrier to the adoption of <IR> by organisations and slow the level of adoption.

*A significant barrier for many organizations is that they don't have a strong story to tell — yet — about their company's ESG performance. Most companies acknowledge the importance of a sustainability strategy to their overall competitiveness, but only a*

*minority of managers' report that their organizations have developed a business case for their sustainability efforts.*<sup>4</sup>

The adoption of <IR> globally has been uneven, some countries such as South Africa have mandated <IR> for their largest companies but the adoption in Australia has been slow. The Institute of Directors in Australia (AICD) “supports flexible, voluntary adoption of relevant content elements of IR” rather than a complete support for the <IR> framework “due to directors’ liability concerns with forward-looking statements and the need for a directors’ compliance statement under the formal [IR] framework” (Dempsey, 2017). In New Zealand the Financial Markets Authority (FMA) produced a handbook for directors on corporate governance principles and “entities are encouraged to disclose their policies and performance relating to ESG issues” (Financial Markets Authority, 2017, p.18) and the Framework is one possible framework that can be used.

Mervyn King, the Chairman of the IIRC said in an address in 2018;

*The outcomes-based approach of integrated reporting is to look at the value creation chain from inputs into the company's business model, its output, being its product or service and the effects that that product or service has when it goes out into society on the three critical dimensions of sustainable development, the economy, society and the environment. This outcomes-based approach is now recognised in the Sustainable Development Goals of the UN of April 2015 in which the UN states that in order to achieve sustainable development by 2030, account has to be taken of the indivisible and integrated dimensions of the economy, society and the environment. The goal is to achieve this by 2030 otherwise planet earth may not be sustainable for those who come after us by the end of this century.*<sup>5</sup>

The requirement of any new reporting framework to respond to the requirements above is a tall order. There has been considerable rhetoric on the benefits of adopting <IR> by organisations although some of these benefits are hard to prove as there is little supporting evidence. The Association of Chartered Certified Accountants (ACCA) stress the potential

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<sup>4</sup> <http://sloanreview.mit.edu/projects/investing-for-a-sustainable-future/> accessed 2 June 2016

<sup>5</sup> <http://integratedreporting.org/news/2018-address-by-judge-professor-mervyn-king-chairman-of-the-council-iirc/>

benefit of an integrated report to bring clarity and transparency to an organisation's report thereby improving "public trust and confidence" (ACCA, 2017, p.5).

## **1.2. Introduction to Integrated Reporting <IR>**

The IIRC introduced the framework for adopting <IR> in 2013 (IIRC, 2013c) and in this thesis the framework will be referred to as the Framework. There have been several iterations as the Framework developed and these are listed in Chapter 3 (Table 8).

In the Framework, <IR> is defined as

*<IR> is a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation. An integrated report is 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 in the short, medium and long term (IIRC, 2013c).*

A number of organisations globally adopted the principals of <IR> and formed a pilot group. The number of organisations within the pilot group grew to over 100 and included large multinational companies as well as large not for profit and public-sector organisations (see Appendix 3). The pilot organisations are geographically spread with a mix of industries. The existence of the pilot group created a pseudo <IR> association and this lent credibility to the idea of <IR> as a valid framework. It created legitimacy for the IIRC as they sought to institutionalise <IR> as a reporting framework. The pilot organisations have also benefited from the collaboration and provided legitimacy for themselves by membership.

There is potentially a temptation for the IIRC to over-sell the benefits of <IR> in order to increase the participation of organisations to adopt <IR> over other competing frameworks. Indeed, the IIRC suggested that the demand for <IR> comes from investors and this drives the production of the information. However, it is also possible that <IR> was pushed to investors by preparers to legitimise themselves. During interviews by ACCA<sup>6</sup> with capital market users of financial information, it was suggested that an integrated report lacks "decision usefulness". Therefore, the reports are of little use to capital market analysts. In addition, the inclusion of

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<sup>6</sup> <http://www.accaglobal.com/us/en/member/member/accounting-business/2016/11-12/insights/integrated-reporting.html> accessed 20 February 2018.

multiple capitals and lack of a reporting template has created confusion about the information included in a report.

<IR> has been discussed in professional magazines and business newspapers:

*The battle for integrated reporting has not yet been won. 'A large number of professionals – issuers and investors-have not yet heard about integrated reporting or confused the issue with social and environmental responsibility, which in fact has very little to do with it. Indeed, the integrated report is not a Corporate Social Responsibility (CSR) report: it should only include CSR initiatives that contribute directly and clearly to the creation of long-term shareholder value. The integrated report is much more ambitious than a CSR report. It has a strategic content,' claims Jean-Florent Rérolle. (Smithfield, 2017)*

The advantage of the approach taken by the IIRC is that the initial idea of <IR> gained popular support because there was no detail of what exactly this was and how it could be operationalised. It can also be viewed as aspirational (Gibassier, Rodrigue, & Arjaliès, 2017) and therefore a myth incapable of being realised in reality, which can provide significant barriers for organisations trying to adopt the new reporting paradigm.

However, the importance of the <IR> approach has led to changes in the professional training of students studying to become members of the Association of Chartered Certified Accountants (ACCA). ACCA consider <IR> to be important and the principles were included in its training curricula. The training of accountants requires them to consider more than the financial statements and to focus on “business performance metrics rather than on narrower external financial reporting data or audit compliance” (G. Owen, 2013, p.340). <IR> has therefore contributed to the corporate reporting landscape more than the simple concept that was announced in 2010.

### **1.3. Research Questions**

The research questions in this thesis are, firstly, to establish the foundations that encouraged the development of <IR> which appeared only as an idea or concept at the outset. The main promoters will be identified and this may explain how it was developed as each promoter contributed towards shaping the understanding of <IR>. This will be examined first by examining the details of the IIRC itself and then by examining the motivations for adopting

<IR> by one organisation that was one of a number of organisations that contributed towards its development. The motivation for the adoption of <IR> can be from a moral purpose where it is seen as the right thing to do regardless of the benefits or costs to the organisation. There can also be a belief that adoption of <IR> is part of the corporate reporting landscape and decisions regarding adoption are not necessary. There can also be a pragmatic view towards the adoption of <IR> where the decision to adopt <IR> is viewed as beneficial for business purposes. This leads to the first research question:

*Research Question 1: What is the purpose of <IR> to promulgators and adopters?*

Secondly, the value of <IR> will be examined to understand what is meant by value in the context of <IR>. This will be examined by distinguishing between the promulgators of <IR> and the adopters of <IR> and, further, to distinguish preparers and users. The concept of value is vague and therefore it must be examined by viewing how key stakeholders viewed and interpreted value. The way value was promoted in 2010 when the IIRC was formed may have changed by the time the Framework was published in 2013 and, similarly, the understanding by the members of the IIRC may also have changed. Assurance of integrated reports can add to the value placed on them and it is important to consider how assurance would change the concept of value. The understanding of what is meant by value according to the IIRC represents more than the ability to create financial returns for the organization, but to create value to stakeholders and society (IIRC, 2013c, p.4). The concept of value creation (or destruction) represents “Value created through an organization’s business model, which takes inputs from the capitals and transforms them through business activities and interactions to produce outputs and outcomes that, over the short, medium and long term, create or destroy value for the organization, its stakeholders, society and the environment” (IIRC, 2013b, p.1). In this thesis value represents the value ascribed to either the IIRC or to the stakeholders of the adopter of <IR> in this case study. In addition, the value that was suggested by the adopters of <IR> may be different to the users of integrated reports and this leads to the second research question:

*Research Question 2: What is the value of <IR> to promulgators and adopters?*

Thirdly, this thesis will examine to what extent the view of <IR> promoted by the IIRC is understood by the adopters of <IR>. There is potential for <IR> to be adopted for reasons other than those proposed by the IIRC. <IR> may be adopted for reasons that are in the best



interest of the organisation regardless of the benefits listed by the IIRC. This leads to the third research question:

*Research Question 3: To what extent is there a shared understanding of the purpose and value of <IR> between promulgators and adopters?*

The results of this thesis will help academics and practitioners further understand the development of <IR>, explain how the development of <IR> can be understood within the context of reporting guidelines and how the IIRC may consider the future development of <IR>. In addition, understanding the representation of value in <IR> and how it is being understood within organisations will add to the debate on future development and potential regulation of <IR>.

#### **1.4. What is sustainability?**

In this thesis, the concept of sustainability will be discussed as the prime motivation for the introduction of <IR>. It is useful therefore to consider what is meant by sustainability and consider various definitions that appear in the accounting literature and in general business parlance.

In 1987 the “Brundtland Commission” published a report that had been commissioned by the United Nations on “Our Common Future” and sustainable development was defined as, “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.<sup>7</sup>

The definition of sustainability above is very broad and sustainability accounting generally has a narrower focus. Accounting for sustainability and sustainability accounting are not necessarily the same thing (Gray, 2010) as the entity concept limits (sets boundaries) how an organisation will account for its impact on the environment in which it operates. Sustainability accounting can have different meanings (Schaltegger & Burritt, 2010) and be a broad term that covers initiatives that consider social and environmental information but may not be complete and therefore biased. Alternatively, it can also represent a more targeted approach to developing tools and reports that measure and manage environmental, social and economic aspects in a meaningful way (Schaltegger & Burritt, 2010). This would suggest that

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<sup>7</sup> <http://www.un-documents.net/our-common-future.pdf> , p.41, accessed 1 February 2018

a framework which accounts for sustainability will record the effect of their activities on the environment in a comprehensive way.

Business sustainability limits the consideration of sustainability to the extent that the business organisation is affected by people, planet or economic sustainability. The entity concept restricts the boundary objects that are included in considering business sustainability. This understanding of business sustainability will be used in this thesis.

## **1.5. Research Method**

As a new research concept, <IR> is evaluated using qualitative research methods to establish what is understood by <IR>. In this thesis the research questions will be evaluated using two case studies; one examining the IIRC and one examining the adoption of <IR> by an organisation. The theoretical approach uses theories commonly used to explain the voluntary disclosure of financial and non-financial information and will be applied here using frameworks that have been adapted to <IR>.

## **1.6. Outputs and Contribution**

The outputs of the research are a deeper understanding of the purpose of <IR> that first led to its introduction and then to its development over time as well as the purpose and value of <IR> to adopters. The understanding of how the promulgators and adopters of <IR> share a common view will be better understood.

This research adds to the emerging research of <IR> and provides a more nuanced view of <IR> by adopters using legitimacy theory. This research also examines the introduction of <IR> by the IIRC and the specific carriers that have been used to create normative pressures for the institutionalisation of <IR>. Regulators will be interested in this research as it provides insight into the motivations behind the introduction of <IR> and how organisations are adopting the principles of <IR> as they consider whether <IR> should be voluntary or mandatory. Preparers will be interested in how the reports they produce are used by stakeholders and users will be interested to understand how the information contained within an integrated report is prepared. The IIRC will also be interested in research that examines how the Framework is being adopted by organisations and the information in an integrated report is being used.

## 1.7. Summary

<IR> is a new concept that has attracted strong interest from business, regulators and academics. There have been calls for research (de Villiers, Rinaldi & Unerman, 2014) that helps to understand why an organisation would adopt <IR> and the extent to which any report conforms to the concept of <IR> from the Framework. The Framework specifies that the targeted users of an integrated report are the providers of financial capital (IIRC, 2013c, p.7) and the IIRC has also described <IR> as being demand led and therefore it is important to understand how the users of the integrated report assess and use the reports. This thesis examines the development of <IR> through the actions of the IIRC as they sought to develop interest in <IR> and establish global reach whilst other competing frameworks were also attempting to gain a similar level of public support. It also contrasts this with the experience of one organisation as it embarked on their <IR> journey and considers the views of both internal and external stakeholders.

A literature review of relevant research is included in Chapter 2. Chapter 3 outlines the theoretical framework, research method and data. Chapter 4 examines the development of the IIRC and in Chapter 5 the experience of one organisation that adopted <IR> is examined. In Chapter 6 the concepts of the Framework are examined to see if they are reflected in the actions of one organisation using the Framework to prepare integrated reports and a conclusion.

## Chapter 2. Literature review

*“If you steal from one author, it’s plagiarism; if you steal from many, its research”.*<sup>8</sup>

### 2.1. Introduction

This thesis examines the purpose of <IR> and the value of <IR> to key stakeholders. This chapter reviews the literature on <IR> and related literatures that examine why companies disclose information, the value of those disclosures to stakeholders, and how the value creation process can be measured. Although <IR> is a relatively new phenomenon, there has been some research in this area and, firstly, a review of this existing literature will be considered. Secondly, as the production of an integrated report is voluntary, a review of the literature related to voluntary disclosure is provided to identify the reasons companies make additional disclosures. In particular, literature related to Corporate Social Responsibility (CSR) disclosures will be considered, given the overlap of many of the types of disclosures contained in CSR reporting and <IR>. Thirdly, developments in performance measurement have provided many of the techniques that have been incorporated into the <IR> framework. In this thesis the integrated report is the focus rather than the process of creating the report. The process in <IR> is called integrated thinking and an organisation with a well formulated performance management system is more likely to find integrated thinking to be an easier process. Accordingly, a brief review of the relevant literature is provided to identify the link between integrated thinking and the value of an integrated report to inform the analysis of the value of <IR>. The accounting profession has been heavily involved in the development of <IR> and accountants are pivotal to the reporting process so it is also important to consider how the accounting profession and accountants have influenced standard setting.

Research on <IR> is discussed in section 2.2, section 2.3 discusses voluntary disclosures and section 2.4 discusses non-financial performance measurement. Section 2.5 discusses the contribution of the accounting profession to the development of <IR> and section 2.6 concludes the chapter.

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<sup>8</sup> Wilson Mizner, 1876-1933 American playwright.

## 2.2. Integrated Reporting <IR>

The appearance of <IR> in the research agenda is relatively recent given that the IIRC was only formed in 2010. Research topics have been suggested to stimulate interest and develop insight (Cheng, Green, Conradie, Konishi, & Romi, 2014; de Villiers, Rinaldi, & Unerman, 2014; de Villiers, Venter, & Hsiao, 2016). These suggestions are wide ranging as befits a new area of research. Cheng et al. (2014) suggest four topics: (i) the relevance of <IR> to decision making; (ii) the relationship between <IR> and capital markets; (iii) how <IR> has been adopted in practice and; (iv) the role of assurance in <IR>. De Villiers et al. (2014) grouped potential research questions into themes: (i) integrated reports target shareholders and how this differs to other frameworks that have a wider stakeholder focus; (ii) how the future focus of integrated reports may affect risk assessment; (iii) the demand for assurance and ; (iv) the effect of <IR> on internal management decisions. De Villiers et al. (2016) discuss measurement issues and suggest approaches used in voluntary disclosure literature can be extended to <IR> research.

Cheng et al. (2014) highlighted potential issues for the IIRC as <IR> continued to develop as a result of the IIRC's consultation draft. Firstly, the selection of the providers of financial capital as the key user of an integrated report. Limiting the stakeholder to just one group risks eliminating information in an integrated report that would be of considerable interest to a wider stakeholder base because it is not material to shareholders and the providers of financial capital. Secondly, the introduction of the six capitals<sup>9</sup> while broadening the base of accountability for an organisation, also introduces considerable subjectivity on accounting for movements both within and across capitals. This can lead to difficulty in comparisons between organisations if a different approach is used to recognise movements in capitals other than financial. Lastly, assurance of an integrated report, either in part or in total, will improve the integrity and degree of reliance that can be placed on the information provided. These issues provide challenges to be addressed using evidence from organisations as more integrated reports are produced.

<IR> was conceived as a high-level concept and its Framework was developed once credible support was evident. <IR> was never intended to be a replacement for financial reporting although the links between them are considered strong (IIRC, 2011). This approach resulted in a change of direction by the IIRC from an accounting for sustainability framework,

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<sup>9</sup> financial, manufactured, intellectual, human, social and relationship and natural

as first proposed, to a story about value and how it is created or lost over time. It was criticised as a missed opportunity to address ecological concerns for the planet (Milne & Gray, 2013) and on the basis it may not change corporate reporting (Flower, 2015). Indeed, <IR> has been considered a development of accounting regulation (de Villiers et al., 2014). The IIRC stated that <IR> was demanded by investors (IIRC, 2013c) although there has been discussion of an expectations gap between the information needs of investors and the information provided in integrated reports (Mio & Fasan, 2016).

In the rest of this section, the three main areas of the literature on <IR> are reviewed. Firstly, research considering development of the IIRC will be reviewed to identify the intended purpose of <IR> (2.2.1). Secondly, a review of research considering the application of <IR> from an organisational perspective will be summarised including the effect of the mandatory adoption of <IR> in South Africa (2.2.2). This literature considers the views of stakeholders on the value of IR. Lastly, the role of assurance of <IR> will be reviewed to determine the value of assurance to integrated reports (2.2.3).

### **2.2.1. Development of <IR>**

The IIRC was formed in 2010 and research on the development of <IR> has examined the objective of the IIRC to provide a framework for sustainability and how this sustainability aspect was not evident in the ensuing documents. Also, research has examined the way the IIRC has sought alliances with competing organisations to institutionalise the practice of <IR> and legitimise the IIRC as the predominant corporate reporting framework.

#### *Accountability for sustainability*

The development of the IIRC framework and the support of significant parties to its development demonstrates that it has gained momentum. However, not all of the comments have been positive. Many of the more critical comments are from academics concerned that <IR> is another movement to justify a business as usual mentality with a gesture towards soft values. Milne and Gray (2013) suggest that <IR> is part of the “institutionalisation of floating signifiers” of sustainability and “despite its [the IIRC’s discussion paper] claims for sustainable development and sustainability, it is exclusively investor focused and it has nothing and certainly nothing substantive to say about either accountability or sustainability” (Milne and Gray, 2013, p.20). The Global Reporting Initiative (GRI) and the triple bottom line (TBL) are other frameworks that have attempted to institutionalise a business case for sustainability and

while they are related to corporate sustainability they are not related to the sustainability of the planet. Using <IR>, GRI or TBL may substitute for accountability for sustainability but it is more likely that they will encourage an environment where businesses adapt their reporting to appear to be sustainable while maintaining existing business practices (Milne & Gray, 2013). The intended users of the integrated report are the providers of financial capital (IIRC, 2013c) which is a narrower stakeholder audience than GRI or TBL (Cheng et al., 2014; de Villiers et al., 2014).

Brown and Dillard (2014) provide a critical review of <IR> and argue it provides too narrow a focus on the business case without consideration of the wider opportunities for <IR> to contribute towards sustainability. The authors consider that the IIRC has managed to sideline past research on sustainability to focus on a very narrow aspect of business sustainability resulting in a move away from opportunities to improve environmental sustainability. It is argued conflicts between the role of business to maximise the financial returns for shareholders and the demands by a wider base of stakeholders are unlikely to be resolved by <IR>. Potentially producing one single (integrated) report would be seen as a negative development as it may reduce the amount of disclosure on social and environmental information (Brown and Dillard, 2014).

Flower (2015) also views the potential for <IR> to promote change as limited. He suggests the abandonment of sustainability to be the work of the accounting profession due to regulatory capture. Flower (2015) suggests this was not part of a genuine interest in improving corporate reporting but a way to avoid any threats to their position as the primary preparers of corporate reports and the providers of assurance. The accounting profession was therefore motivated to be strongly represented as part of the IIRC. The addition of multiple capitals also changes the way information is likely to be reported. Adams (2015) suggests that sustainability accounting was not part of the original brief for the IIRC and therefore they cannot be accused of abandoning it as suggested by Flower (2015).

Thomson (2015) suggests that an integrated report has the potential to either expand or limit the sustainability programme for an organisation. There is an acknowledgment that there is the potential for positive change brought about by the adoption of integrated thinking and that it is “well-intentioned” (Thomson, 2015, p.21). In addition, Adams (2015) suggests that the IIRC has potential to change the behaviour of business professionals to have a more long-term view of a business’ operations. Adams (2015) commented on the distinction between

<IR> and sustainability reporting where the latter has a much wider audience than the former. Sustainability reporting focuses on the environment, society and the economy rather than capitals. The difference in stakeholder groups will affect the materiality of items to be considered for inclusion in either a sustainability report or an integrated report. Thus, the target of an integrated report will affect both the materiality and focus of the report.

Critical reviews of <IR> suggest that it has taken the wrong path towards accountability for sustainability and instead has narrowed the area of focus to a simple business case for business sustainability (Brown & Dillard, 2014; Flower, 2015; Milne & Gray, 2013; Thomson, 2015). However, these authors do not provide suggestions for how <IR> could be used for a more holistic attempt to improve sustainability for the planet. Corporations by their very nature are not altruistic and any suggestion that producing an integrated report will result in sustainability reform and environmental accountability seem doomed to failure. The potential for <IR> to represent accountability for sustainability is unlikely to eventuate but <IR> does present an opportunity to manage business risk by preparers.

<IR> has the potential to improve corporate reporting (Adams, 2015, Thomson, 2015) but there is also the potential to be ineffective, that is, there will be no change to the reporting environment (Brown and Dillard, 2014, Milne and Gray, 2013). This may be due to the dominance by the accounting profession (Flower, 2015) or other reasons. This suggests that research that answers whether the adoption of <IR> is effective at changing corporate behaviour is required. While these papers are generally critical of the potential of <IR> to improve or even change corporate reporting, research on the effect of adopting <IR> will be valuable. Evidence from this research will therefore contribute towards this evidence.

#### *Legitimacy of the IIRC*

Humphrey, O'Dwyer and Unerman (2017) examined the emergence of <IR> and the attempts of the IIRC to institutionalise <IR> as a reporting practice. That is, as a reporting practice which seeks to improve the relevance of corporate reporting as well as the sustainability of business. Humphrey et al. (2017) describe the initial discussion paper (IIRC, 2011) as "evangelical" (Humphrey et al, 2017, p.12). The problems caused by globalisation, demands for greater transparency and accountability in corporate reporting together with the scarcity of resources, growth in population and concern over the environment led the demand for better and more transparent corporate reporting (IIRC, 2011). The fact that little of a listed company's market value was represented by tangible assets was suggested as another reason



to adopt <IR> (IIRC, 2011). The broader range of disclosures included in an integrated report would “automatically enhance trust” (Humphrey et al., 2017, p.12).

Humphrey et al. (2017) framed the research within Suddaby and Viale’s (2011) theory on how professionals change the institutional field in which they operate. Examining the institutional context within which <IR> enabled a broader understanding of the developments that occurred since inception. The authors found that the IIRC managed to create a set of relationships with other bodies competing for the same professional status to improve corporate reporting. The IIRC sought to keep relationships open to ensure that new entrants would be able to contribute to the development of <IR>. The authors suggest that seeking legitimacy for the IIRC has meant appealing to the “mainstream investor” (Humphrey et al, 2017, p.3). The authors used IIRC documents both formal and informal to build a timeline of data supplemented by participation by some of the authors in the process of developing the <IR> framework and interviews with members of the IIRC.

Humphrey et al. (2017), suggest that examining integrated reports should not be completed without considering the context within which <IR> is adopted. The authors conclude that the IIRC has been strategic in the way they have incorporated differing professionals and individuals to support and develop <IR>. Their success in producing a framework demonstrates this strategy was correct. The authors speculated however that the future for <IR> contains a number of challenges. That is, no single set of standards was available by which an integrated report could be assessed, and no way of assessing the value of any integrated report with no single professional body taking responsibility for that assurance. There are multiple professional groups within the IIRC (although Flower (2015) suggested that accountants and the accounting profession dominated the IIRC agenda) and no <IR> profession and no evidence of one being formed. The future of the IIRC would be led by the profession with the most influence.

In addition to the professional groupings within the IIRC, memoranda of understanding (MoU) were signed with several organisations that may be considered to compete with the objectives of the IIRC such as the GRI and the Sustainability Accounting Standards Board (SASB) on the basis that these organisations would be more successful if they appear as having similar rather than competing objectives (Rowbottom & Locke, 2016). For organisations with multiple regulatory body connections, there was potential confusion when preparing their integrated reports and the MoUs were also useful at confirming the IIRC was made up of a

group of different organisations and not dominated by one profession (Humphrey et al., 2014). The presence of a MoU while useful for the IIRC was both a source of legitimacy and confusion. Preparers would be confused as to the best standards and which standards were most appropriate for their organisation (Gibassier, 2015). The discussion document (IIRC, 2011) provided a high level view of <IR> without providing practical assistance on how an integrated report could actually be created (Buhr, Gray, & Milne, 2014). The compliance cost of producing reports that comply with multiple frameworks could be costly as well as confusing to users of the reports and the lack of a framework to prepare integrated reports would add to the confusion.

Using actor network theory, Rowbottom and Locke (2016) examined the development of <IR>. They accessed official documents and other publicly available documents of the IIRC as well as interviews with key individuals participating in the IIRC. The authors discussed how the IIRC sought alliances with other standard setting bodies and these alliances are recognised as important to both the credibility of the IIRC and the development of the <IR> project. The identification of the providers of financial capital as the primary users of an integrated report was seen by the authors as a pragmatic response to gain the support of asset rich supporters. Preparers of an integrated report bear the highest cost in its preparation and large organisations have the greatest resources that can be used to trial run the <IR> framework (IIRC, 2011) thus providing a cost-effective way to develop <IR> that could be used by a wider variety of organisations at a later stage. The authors suggested that regulation in South Africa provided a useful example on <IR> that could be used to adapt Connected Reporting as developed by Accounting for Sustainability (A4S) into the <IR> framework. A4S, a UK not for profit organisation, created connected reporting in order to incorporate the wide-ranging effects of corporate decisions. Connected reporting was intended to reflect the “interconnected nature of financial, environmental, social and governance factors” (Hopwood, Unerman, & Fries, 2010, p.36). The Connected Reporting Framework was designed to make sure internal reporting structures were linked to external reporting rather than separated (Hopwood et al., 2010). Both Humphrey et al. (2017) and Rowbottom & Locke (2016) used different theories to apply to a similar dataset. In this thesis the data also includes publically available data including meeting minutes but will apply another theory to explain the progress of the IIRC.

The creation of the IIRC framework required several iterations and represented a political process (Reuter & Messner, 2015). Reuter and Messner (2015) used the published comment letters on the IIRC’s discussion paper issued in 2011 and Sutton’s (1984) rational

choice model of lobbying to examine whether lobbying behaviour for <IR> followed the same pattern as financial reporting standards. Sutton (1984) suggested a rational individual will take part in a lobbying process if the perceived benefit exceeds the cost considering the potential for influencing any change. The authors highlighted the self-serving nature of some of the comment letters. The majority of the comment letters were by preparers (not users) from large multinational firms. Other comments by providers of sustainability reporting services and other professional service firms were found to be critical of the focus by the IIRC in the discussion paper on the providers of financial capital. Thus, there was evidence of the political nature of the comments on the IIRC discussion paper.

<IR> was introduced to respond to perceived limitations with the existing corporate reporting environment as well as a wider concern for social and environmental challenges. The IIRC attracted significant parties to its development and engaged in a series of agreements with other organisations to try and limit potential fragmentation of the response to these challenges and this represented a political process (Reuter & Messner, 2015). MoUs have been successful in legitimising the IIRC as a credible source of authority for improved reporting (Humphrey et al., 2017 and Rowbottom and Locke, 2016) however, there is still the potential for confusion among preparers as to the most appropriate framework to use (Gibassier, 2015).

Criticism of the IIRC framework extends towards the basic premise of <IR> as having any possibility of providing an opportunity for accountability for sustainability. In the discussion document (IIRC, 2011) discussion of accountability and sustainability are hardly mentioned. The targeting of investors as the primary object of integrated reports limits the discussion on wider issues that affect the operations of an organisation. Further, the ability of any reporting framework to provide any true accountability for sustainability is probably limited (Buhr et al., 2014) although this should not prevent the use of corporate reporting to increase transparency over an organisation's operations to increase accountability (Buhr et al., 2014; Thomson, 2015).

The concept of <IR> can be seen as aspirational and therefore any organisation seeking to adopt the framework will have challenges in implementation (Dumay, Bernardi, Guthrie, & Torre, 2017; Gibassier et al., 2017). If <IR> is seen as a desirable objective, but the mechanism for adopting the framework is vague and the disclosures and metrics are uncertain, then the resultant integrated report will be a report based on reality which may deviate from the aspirational view of <IR> at the outset. In this way, the adoption of <IR> may diverge from

the initial intentions as the requirements of the framework are operationalised by each organisation. This thesis will provide evidence of how the adoption of <IR> is viewed by both the promulgators and users of <IR> and integrated reports.

### **2.2.2. Application of integrated reporting <IR>**

A variety of research methods and theories have been used to look at the reports and processes of organisations that are producing integrated reports in order to evaluate the level of integration of information of the resultant reporting. There are three main strands of research, the first examines the application of <IR> by organisations based on the draft framework (IIRC, 2013a) to see how <IR> can be adopted and examines the effect on managers within organisations (Beck, Dumay, & Frost, 2015; Higgins, Stubbs, & Love, 2014; Lodhia, 2015; Robertson & Samy, 2015; Stubbs & Higgins, 2014). Lastly, the mandatory adoption of <IR> in South Africa (Atkins & Maroun, 2015; Rensburg & Botha, 2014; Setia, Abhayawansa, Joshi, & Huynh, 2015) and Denmark (Lueg, Lueg, Andersen, & Dancianu, 2016) provide a unique environment to examine mandatory <IR>.

Organisations applying the principles of the IIRC framework include those that participated in the IIRC pilot programme and other adopters. The IIRC pilot programme ran from 2011 to 2014 and included over 60 organisations worldwide. They experimented with the <IR> framework and contributed towards a database of integrated reports accessible from the IIRC website. A case study approach is the most common method applied to examine organisations as they trial <IR> and these case studies have primarily used interviews and an analysis of published reports by each organisation. Due to the experimental nature of implementing <IR>, a case study approach allowed each organisation to be examined using the widest possible lens.

It has been argued organisations have used <IR> potentially as a tool for legitimacy (Beck, Dumay and Frost, 2015). Other research papers have not explicitly used any particular theory but simply present initial results from exploratory research to develop an understanding of how <IR> is being implemented within organisations. These studies contribute towards an understanding of the value of <IR> within organisations.

#### *Voluntary adoption*

Australia has provided a rich environment for the examination of the application of <IR> despite the fact that there were only four companies participating in the pilot programme

and only two of these were listed companies. In Australia, the transition to <IR> by two organisations has been examined from different perspectives. In the first, a customer owned business without the attention of analysts has enabled the embedding of <IR> and allowed them to differentiate themselves from their competitors (Lodhia, 2015). In the other, the initial driver for the adoption of <IR> was a crisis within the organisation which threatened legitimacy (Beck, Dumay, & Frost, 2015).

Lodhia (2015) documents the case of a participant in the pilot programme in Australia. The case study relates to a customer-owned mutual bank. The lack of external pressure towards short-term earnings targets enabled the bank to explore innovative approaches to corporate reporting. Lodhia (2015) draws on criticisms of sustainability reporting to present <IR> as a new development that has the potential to counteract some of the criticisms that sustainability reports are simply a not very important “add-on” to corporate reporting. Lodhia (2015) conducted interviews with internal stakeholders and used document analysis to understand the transition of the organisation to <IR>. In this case study the structure of a bank which is mutually owned provided the opportunity to accommodate the innovation of telling a story without completely replacing prior reporting practices. This opportunity may not have been available without the particular structure of this organisation as a customer owned bank. The idea of being an early adopter and therefore an innovator was seen by the bank’s employees as providing a competitive advantage in their market. The employees considered being part of the pilot programme was a positive step that provided an opportunity to contribute to a global discussion on the development of <IR>. <IR> was seen as important and likely to be around for some time. The development of integrated thinking<sup>10</sup> within the organisation was also regarded as very important by bank employees and the views of external stakeholders, while also relevant to the adoption played less of a part than the opportunity to develop integrated thinking opportunities and break down internal silos to demonstrate a culture of transparency within the organisation.

Dumay and Dai (2017) also looks at an Australian bank to look at integrated thinking or the internal processes required to produce an integrated report and finds that existing cultural norms are more influential than integrated thinking when utilising the Framework. The authors

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<sup>10</sup> Integrated thinking requires reflection of the relationships between activities of the business and results in decision making that integrates the effect on all aspects of the business.

suggest that <IR> may not always be appropriate where problems with siloed reports are not a material concern.

Beck, Dumay and Frost (2015) examined one Australian company's journey in corporate reporting from their first sustainability report to an integrated report. The authors use a legitimacy lens to view the evolution in corporate reporting for this particular Australian organisation that was subject to regulatory scrutiny as a listed company and therefore different to the organisation in Lodhia (2015). Suchman (1995) was used to assess the institutional and strategic legitimacy used by the Australian organisation. Interviews with staff involved in preparing corporate responsibility reports were analysed together with the actual reports produced and public announcements made by the organisation during the period between 2003 and 2013. The authors found that adopting <IR> was seen as part of a broader strategy of legitimisation and reports were not prepared in isolation from other activities. The motivation to adopt <IR> can stem from the improvement to reputation through improved reporting to reduce information asymmetry or through improved performance from improved communication within the business through integrated thinking (Eccles & Krzus, 2014). The strategy towards legitimacy was regarded as a necessity in response to irregular trading losses and enabled the organisation to demonstrate good corporate citizenship and any improvements to internal processes was a by-product of <IR> adoption. Within the organisation there was a belief that <IR> would not affect the cost of capital as analysts already had the information that they need to determine this. Therefore, the adoption of <IR> was part of a strategy to improve legitimacy and was deemed a success. Both Australian organisations viewed the adoption of <IR> as a positive move although for different reasons. The status of the organisation as listed or shareholder owned contributed towards the perceived benefits of adoption. The benefits were less tangible than estimating the costs of preparing an integrated report although costs are rarely mentioned as a barrier to adoption (Eccles & Krzus, 2014) and cost was not evident as a constraint in the Australian bank.

Stubbs and Higgins (2014) investigated the way <IR> had been adopted by Australian early adopters. Since the launch of the IIRC there had been increasing attention paid to integrated thinking or the internal processes required in order to be able to prepare an integrated report. Stubbs and Higgins (2014) used interviews with 15 organisations in various stages of preparing an integrated report. Given that there were only four Australian companies participating in the pilot programme and one of those was not a listed company this demonstrates that interest in <IR> extended widely. Laughlin's (1991) theory of organisational

change was used to understand how the organisations managed their reporting to see if <IR> changed and stimulated innovation. The findings suggest that Australian companies faced challenges as they attempted to adapt the <IR> framework to each business. This has not led to significant innovative processes although the authors noted a trend towards an inside-out approach (Burritt and Schaltegger, 2010). This study found that the <IR> process was commonly led by the sustainability team and a sustainability committee was a popular way of managing sustainability reports. Representation from finance was not included in all committees. Overall “there appeared to be little engagement of the finance people with IR, as indicated by the lack of participation of finance people in the research study” (Stubbs and Higgins, 2014, p. 1082). In particular they found that there were incremental changes to management processes that were already created to support sustainability reporting and the adoption of <IR> did not fundamentally change the internal practices of the organisation.

The ability of the Framework to drive change was investigated in four Italian organisations and found to provide benefits and provoke change by a push strategy without fundamentally making changes to the business (Guthrie, Manes-Rossi, & Orelli, 2017). The previous approach to sustainability reporting was also found to be important to the approach taken to adopting <IR>. Together, these papers suggest that the adoption of <IR> is complex and dependent on various factors that interact to determine the way integrated reports will be prepared and how integrated thinking will be operationalised.

Higgins, Stubbs and Love (2014) also investigated the institutionalisation of <IR> by early adopters in Australia. The authors used interviews with internal managers of organisations identified as leaders in reporting with an integrated format. An interpretivist approach to analysing the interviews was seen as appropriate given the newness of the field and to identify how managers were contributing to the institutionalisation of <IR> within Australia. <IR> was seen as a “storytelling” opportunity allowing organisations to tell their individual stories. Higgins Stubbs and Love (2014) found uncertainty over the direction of <IR> in the future and that the expectations of external stakeholders with individual demands provided challenges for <IR> adoption. In addition, the authors suggested that <IR> will be most appealing to organisations that wanted to integrate their sustainability strategy and use it to provide individual storytelling opportunities. This research also suggested the value of <IR> to preparers will be in reducing business risk arising from sustainability issues through the adoption of integrated thinking.

Robertson and Samy (2015) examined how the principles of <IR> have been diffused through companies in the FTSE 100. The authors used content analysis of reports in 22 organisations as well as interviews with senior management in five organisations in four industries. The authors applied the diffusion of innovation theory<sup>11</sup> to suggest how <IR>, as an innovative process can be translated into standard practice. The organisations selected for the research were leaders in their field for corporate reporting although not necessarily adopting <IR>. The results suggest that individual reports, annual reports and sustainability reports, were written for different audiences and linkages between them were minimal. Robertson and Samy (2015) argued on this basis that preparing an integrated report could provide an innovation to existing practices as it would force organisations to combine the information in reports that were previously stand alone. However, there was little evidence of integrated thinking found within the organisations or evidence that the adoption of <IR> improved the integration of sustainability objectives into strategy development. While <IR> was seen as a positive development, there were reservations by some of the interviewees towards potentially competing demands from other standard-setting bodies. Sustainability reporting was seen as an opportunity to improve the company image and reputation to improve corporate legitimacy. Robertson and Samy (2015) suggested adopting <IR> as an innovative practice which could then be adopted to manage business risk by incorporating sustainability objectives into overall strategy management. In particular, adopting <IR> could reduce concerns of greenwashing<sup>12</sup> by external stakeholders by clearly demonstrating a thorough understanding of overall business risk.

The focus of corporate reports in the US has been on short-term financial performance which conflicts with the long-term view which is the aim of the IIRC. Verschoor (2014) suggests that this is the reason that only seven US companies participated in the IIRC pilot programme. However, only two integrated reports could be located by the author. These two integrated reports were reviewed and while they demonstrated a commitment to <IR>, as public companies in the US they were also required to file form 10 K annual reports and these were different to the integrated reports available on the corporate websites which rather defeats the objective of one integrated report. The aspiration of talking to stakeholders beyond financial

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<sup>11</sup> The diffusion of innovation theory explains how, over time, an idea or product gains momentum and diffuses or spreads.

<sup>12</sup> Greenwashing occurs when companies disclose positive environmental actions while concealing negative ones to create a misleadingly positive impression of overall environmental performance (Marquis & Toffel, 2015)



investors is however seen as a step in the right direction but the regulatory environment in the US discourages this. The existing regulatory requirement in the US challenges the adoption of <IR> in that environment. While Verschoor (2014) sees <IR> as providing useful information beyond the financial investor it is these investors that are the target in an integrated report. The perception of <IR> in the US differs from the research conducted in Europe and Australia and according to Verschoor (2014), <IR> will continue to make slow progress without changes to the regulatory environment.

One of the aims of the IIRC at the time of the issue of the Framework in 2013 (IIRC, 2013c) was to “enhance accountability and stewardship for the broad base of capitals...and promote understanding of their interdependencies” (IIRC, 2013c, p.3). The “accountability” in this document refers to the providers of financial capital who are identified as the key or primary stakeholders. However, the use of integrated reports by those users is little understood (Eccles, 2014). Analysts typically view corporate results over a short time period while <IR> is intended to encourage a view over a much longer time horizon. The anecdotal evidence suggests that investors have modest interest in <IR> and are unlikely to be the driving force for widespread adoption of <IR> (Eccles, 2014). However, there is limited evidence examining the views of external stakeholders and how they use <IR>.

The original aspirations of the IIRC were to improve corporate reporting and provide a framework for accountability for sustainability. Limited research has examined how those aspirations been borne out by organisations that have trialled <IR> either through the pilot programme or otherwise. According to Eccles and Krzus (2015), referring to research from EY,<sup>13</sup> the benefits for organisations (preparers) have been largely intangible. The EY report looked at US organisations where the primary focus from stakeholders and regulators was on financial information. However, demands for non-financial information in Europe have had an effect on the information provided by US firms but in an ad hoc way. In contrast to this lack of interest, the report suggested there has been increasing attention to <IR> at the Board level. Of note, 69% of the respondents in the EY study stated that the IIRC was having an effect at promoting sustainability.

Research on the voluntary adoption of <IR> has identified a tool that appears to have potential to change business practice while acknowledging that the organisations examined are

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<sup>13</sup> <http://www.ey.com/US/en/Services/Specialty-Services/Climate-Change-and-Sustainability-Services/Six-growing-trends-in-corporate-sustainability>

in a preliminary state of adopting <IR>. Interviews of internal stakeholders of organisations has provided information on how <IR> is perceived within the organisation and how internal processes and structures have changed to accommodate accounting for the separate capitals. This suggests that adopting <IR> provides a way for an organisation to tell their individual story in a way that was not previously possible (Higgins et al., 2014; Lodhia, 2015) which may be a way of seeking legitimacy (Beck et al., 2015) or providing a competitive edge and setting themselves apart from the competition in a relatively homogenous market or industry (Lodhia, 2015). At the same time, adopting integrated thinking within the organisation to break down the silos of individual business units or departments is complex and there appears to be little evidence of a fundamental shift in business processes (Guthrie et al., 2017; Stubbs & Higgins, 2014).

In the US there has been little evidence of a trend towards increased disclosure of social and environmental information and this is primarily due to the litigious environment in the US and the lack of any regulatory imperative (Verschoor, 2014).

However, there is limited discussion on stakeholders and identified users of integrated reports, or the providers of financial capital, and lowering the cost of capital does not appear to be a priority. The demand for <IR> by analysts is modest (Eccles & Krzus, 2014) and there is also limited discussion on a moral purpose to adopting <IR>, that is, a desire to do the right thing, although individual managers mentioned this in interviews (Lodhia, 2015; Robertson & Samy, 2015). The research also provides no suggestions about how users are expected to disseminate the information contained in integrated reports. This thesis extends the existing research by examining in more detail the different perspectives of both the preparers and users of integrated reports for one organisation.

#### *Mandatory adoption of integrated reporting*

In South Africa <IR> has been mandatory on a comply or explain basis since 2011 for all companies listed on the Johannesburg stock exchange (JSE). This has provided a unique environment to examine the effects of mandatory adoption. South Africa has endeavoured to increase the level of corporate governance of the largest companies coming from a low base. The King III (King Committee on Corporate Governance, 2009) governance report recommended the introduction of <IR> in response to “social, political and economic challenges” (Atkins & Maroun, 2015, p.1). Research has looked at the integrated reports that have been produced to evaluate if there has been a reduction in analysts’ forecast errors

(Bernardi & Stark, 2015) and to examine the view of external stakeholders to the integrated reports (Rensburg & Botha, 2014). In addition to South Africa, European countries have also considered the mandatory adoption of <IR>. In Denmark, the government has “nudged the largest 1,100 companies to report on their CSR footprint” (Lueg et al., 2016, p.21).

In South Africa, the research has found that external stakeholders are sceptical that <IR> represents a fundamental change as they consider integrated reports can present a positive (rather than balanced) view on the organisation’s activities despite protestations to the contrary.

The introduction of <IR> in South Africa was motivated by different drivers to those of the IIRC. In South Africa, the King III reports on corporate governance recommended <IR> as a way to integrate financial reports, sustainability reports and improve corporate governance. <IR> was not introduced to provide a framework for accounting for sustainability as stated by the IIRC in their initial press release (The Prince's Accounting for Sustainability Project & Global Reporting Initiative, 2010). After Apartheid, which led to social and economic inequalities, a modified form of governance was required to create a more inclusive form of management that would include accountability for a wider range of stakeholders than simply investors (McNally, Cerbone, & Maroun, 2017).

McNally et al. (2017) used interviews with preparers of integrated reports in South Africa to explore the challenges of preparing an integrated report. In South Africa listed organisations are required to prepare an integrated report, however, some changes that were implemented in the reports by some companies were described as “cosmetic” by PWC (pwc, 2015b). The authors identified eight impediments to producing an integrated report within an organisation. These were;

- 1. A push down approach to implementing <IR> that stifled proactivity. The requirement to produce an integrated report was the main driver rather than a review of the best systems for the organisation.*
- 2. Managerial attitudes that provide a barrier to an integrated approach. The connectivity between the financial systems and finance teams to the sustainability managers was lacking and the finance teams dominated the hierarchy.*
- 3. Hesitation by internal managers over the relevance of <IR>. There was a belief among the preparers that investors looked at the financial information first and did not value the integrated report.*

4. *Uncertainty over report content. The reporting guidelines were the driver for report content rather than the result of embedded integrated thinking within the organisation which compromised the perceived validity of the report.*
5. *Balancing the requirements of qualitative and quantitative information. There was uncertainty over the value of qualitative information where there was no link to the effect on value creation.*
6. *Determining the materiality of information to be included. Using the GRI framework was useful but it was difficult to ensure material items only were reported.*
7. *Challenges to data collection and relevant systems to provide information. Obtaining the relevant data to ensure that accurate and relevant information was collected proved problematic for many businesses. Across different business units within one organisation, there were challenges in determining the most appropriate measurement units to ensure consistency overall for the business reports.*
8. *Impression management. There were some indications that companies carefully consider the information included in an integrated report or potentially be biased towards positive information.*

*(McNally et al., 2017, p.488)*

The challenges for South African companies as they implement <IR> were important and clearer guidance was required to avoid a compliance mentality. The researchers do not use a specific theory to analyse the interview data but present their results as providing evidence of the implementation experience of real world businesses. The researchers conclude by saying, “Unless more is done to assist preparers and investors develop an integrated thinking framework, it is very possible that integrated reports will be little more than an exercise in documenting corporate unsustainability” (McNally et al., 2017, p.499).

Rensburg and Botha (2014) used a survey document to understand the use of integrated reports by external stakeholders towards integrated reports and how they are valued. The authors found that the reports form only part of the information set used by investors and not usually the main source. Stakeholders with degrees and higher levels of education were more able to read and understand the content in the reports indicating the language used in the reports was a challenge to stakeholders with lower levels of education (Rensburg & Botha, 2014). The

more complex language was found to be considered superior (Elda, 2017). Together, the research suggested that the value of <IR> for users will be different than preparers. The value to preparers will be significantly higher than users because users were found to be not familiar (yet) with integrated reports enough to use them as the primary source of information.

Preliminary reports produced in South Africa were initially lengthy documents which have reduced over time as there has been a learning effect in their preparation. There has been a trend to produce more integrated reports as the initial reports were potentially a combination of the annual report and sustainability (Black Sun plc, 2014) The standard of reports has improved since the first reports were published (WBCSD, 2014). It is argued that the mandatory environment in South Africa influenced the production of integrated reports and there is the potential for <IR> to be regarded as a compliance exercise rather than undertaken as a genuine desire to improve reporting (Busco, Frigo, Quattrone, & Riccaboni, 2013). The transition from traditional annual reports to integrated report was not regarded as easy for many companies and the balance required in an integrated report has been found to be lacking in the earlier attempts (EY, 2013). In 2015, EY reviewed later reports by South African companies and the assessments are stricter than in previous years as standards have become higher. EY (2013) noted a growing disparity between the best and worst performers and that reports were not yet at a mature stage (EY, 2015) and the reports appear to have improved in quality over time. However, Setia et al. (2015) find that while disclosure increased, the increase in information relating to social and relationship capital was greater than for all of the other capitals which indicates that disclosure was part of a legitimation strategy and symbolic management where there is the appearance of a change in management strategy without any fundamental change following from Suchman (1995).

Atkins and Maroun (2015) investigated the views of institutional investors on integrated reports produced by companies in South Africa. The integrated reports which were the subject of the study were produced before the introduction of the IIRC framework in 2013. The authors suggested that <IR> was introduced into South Africa to provide balanced reporting on both the financial and non-financial measures. The results from this study suggested that institutional investors were in the process of developing methods to incorporate ESG factors into investment decision-making. The lack of progress did not suggest that it was regarded as unimportant, rather that incorporating non-financial variables was seen as problematic. However, a focus on short-term variables was still in evidence in respect of how investors used information from corporate reports. Atkins and Maroun (2015) suggested that

the integrated report represents an attempt at legitimisation by the preparer. Further they suggested that compliance with the IIRC framework is evidence of an attempt at organisational credibility. In South Africa there is a regulatory requirement for institutional investors to take into account the ESG factors and as a consequence there is evidence in South Africa that <IR> is becoming the norm, that is, “societal expectations embodied in formal codes of best practice are a powerful source of normative isomorphic pressure”<sup>14</sup> (Atkins and Maroun, 2015, p.9). They suggest there are also mimetic pressures<sup>15</sup> on investors to emulate the South African government pension fund, which is generally understood to be the most advanced in analysing and understanding integrated reports and a leader “in terms of responsible investment” (Atkins and Maroun, 2015, p.10).

The ability of the IIRC framework to improve reporting and stakeholder engagement has been criticised as previously discussed in 2.2.1 above. In particular, it has been argued that preparers of integrated reports have demonstrated a commitment to the process of preparing an integrated report but have not focused on how sustainability has been managed within an organisation. In addition, integrated reports in South Africa have been criticised by institutional investors because they are viewed as too long with information repeated several times resulting in important information not being highlighted (Black Sun, 2014). Critics have also argued that there is a potential risk of a strictly compliance or tick-the-box approach in a mandatory environment (Atkins and Maroun, 2015).

It is argued that improvements to <IR> can be achieved by reducing their length by focusing on the most important and material items, and improving credibility by demonstrating the process by which the information has been gathered in order to prepare the integrated report (Atkins and Maroun, 2015). However, <IR> is regarded as an improvement to prior reporting structures and expected to further develop in time (Atkins and Maroun, 2015) but is not regarded as a “silver bullet” (Rensburg & Botha, 2014).

Research on the application of the principles of <IR> in the framework and the earlier draft frameworks have used interviews and case studies to examine the effect of the preparer and in the case of South Africa, the users of integrated reports. No common theory has been used to understand the application of <IR> and as it is a relatively new topic an interpretivist

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<sup>14</sup> Normative isomorphic pressure represents the processes that result in uniform reporting practices using socially constructed values.

<sup>15</sup> Mimetic pressures are similar to normative pressures except they are as a result of copying peers.

approach has been used in a number of studies. <IR> has been found to be adopted as part of a legitimising strategy by organisations as a result of poor past performance or as a novel way of storytelling that differentiates the organisation from competitors. Users of integrated reports have been found to be wary of using it as the primary communication method with analysts and it is often a part of an array of information used by analysts to assess the organisation. In South Africa, mandatory <IR> has been through several iterations and there is some evidence of a learning effect in reducing the volume of the reports increasing the focus on the most material items. Integrated thinking has the potential to change the way organisations break down silos internally, although there is little evidence that demonstrate this. Challenges to <IR> exist from competing standard setting bodies which have the potential to confuse organisations considering using <IR>. The introduction of additional capitals under <IR> is innovative for many organisations but there is little evidence of a fundamental change in business practice arising from <IR>'s introduction. In this thesis, the examination of <IR> from both adopters and users will add to and extend the existing literature.

### **2.2.3. Assurance**

<IR> represents a new form of corporate reporting and assurance would provide a “robust mechanism” to “build the credibility and trust in IR” (IIRC, 2014a, p.4). The IIRC called for comments on new ideas of assurance (IIRC, 2014a) to stimulate discussion on what assurance of an integrated report would look like and who would be an appropriate practitioner to perform the assurance. The IIRC acknowledged that without assurance the aims of the IIRC to be a globally accepted form of corporate reporting and the primary reporting vehicle for organisations (Cheng et al., 2014) are unlikely to be achieved (IIRC, 2014a). However, interest in the assurance of integrated reports will continue to grow as the number of published integrated reports increases. The comments received on the initial discussion document on assurance (IIRC, 2014a) were summarised and reported on (IIRC, 2015) and the majority were from accounting bodies and the minority from investor groups suggesting that interest in assurance is viewed strongly by investors. The systems developed for preparation of an integrated report are relatively immature compared to traditional financial information and therefore both internal systems and standards for assurance will have to evolve over time (IIRC, 2015). Assurance practitioners will have to develop a complete appreciation of how an organisation creates value and significant technical challenges remain for potential assurance providers (IIRC, 2015). The International Accounting Standards Board (IAASB) has commented on assurance of <IR> (IAASB, 2015). The IAASB acknowledged that there have

been considerable developments in reporting on non-financial matters for all types of organisations including public sector and not-for-profits (IAASB, 2015). The IAASB also argued that there are considerable opportunities to develop methods of assurance to improve the credibility of the non-financial information and improving the transparency of the information provided (IAASB, 2015). The IAASB has adopted an “open mind as to the way forward” (IAASB, 2015, p.4) of assurance on <IR> and other non-financial reporting and it is regarded as a work in progress.

The market for assurance of non-financial information is growing. KPMG (2013, p.12) reported that 59% of the G250 companies seek assurance on their corporate responsibility report and two thirds of those are using an accounting firm to provide assurance. Companies have been found to be motivated to get assurance for non-financial information by “a need to demonstrate credibility with external stakeholders, to meet the requirements of sustainability indices and by the benefit assurance can create internally through more reliable data and a clearer understanding of CR [corporate reporting] issues” (KPMG, 2013, p.33). KPMG also reported that assurance of the sustainability report is not held in ‘as high regard’ as traditional assurance of financial information. This may not be too surprising given the much longer history of the traditional assurance process.

There is a body of research on the assurance of CSR which has examined why assurance may be sought and the type of assurance that will be obtained and who is likely to provide that assurance. This will inform research on the assurance of integrated reports and therefore it is appropriate to review the findings in this area. Research into the assurance of CSR reporting has focussed on standalone reports that is, assurance on reports that are published separately to the Annual Report. Non-financial information provided in an Annual Report and subject to separate assurance would provide confusion in the Annual Report and is less easy to analyse (Simnett, Vanstraelen, & Chua, 2009). <IR> is voluntary and the same motivations that apply to the assurance of non-financial information such as a sustainability report apply to the assurance of an integrated report. The benefits of assurance are expected to improve reputation (Pflugrath, Roebuck, & Simnett, 2011; Simnett et al., 2009) and improve access to finance (O’Dwyer, Owen, & Unerman, 2011). These provide external benefits to the organisation although internal benefits are also expected through improved management information systems (Casey & Grenier, 2015; Cohen & Simnett, 2015; O’Dwyer et al., 2011). Conversely, although the information included in a stand-alone sustainability report has been found to be



associated with lower analyst forecast error, the assurance of the reports has not been found to have an effect on accuracy (Dhaliwal, Radhakrishnan, Tsang, & Yang, 2012).

Academic research on standalone sustainability reports has found that assurance is more likely to be sought by a company with a desire to improve the credibility of their reports and corporate reputation (Simnett et al., 2009). Experimental research has examined the effect of assurance and the results suggest that assurance increases credibility by financial analysts (Pflugrath et al., 2011) although the effect is relative in different countries. Assurance provided by a professional accounting firm has benefits over any other assurance provider because the auditing profession has an existing superior reputation and standards that have been in place for some time although the effect is less pronounced in Australia and the UK (Pflugrath et al., 2011). While specialists outside the accounting profession have subject specific knowledge this can be purchased by the auditing profession (Simnett et al., 2009).

Assurance of non-financial information provides an additional revenue stream for accountants and a growing business opportunity. However, this involves accountants providing opinions on new areas outside their field of expertise e.g., greenhouse gas emissions (O'Dwyer et al., 2011). In addition, the lack of auditing standards is regarded as challenging (Cohen & Simnett, 2015). It is argued the current expertise of auditors to provide assurance does provide a benefit over other consultancies attempting to enter this area, for example, O'Dwyer et al. (2011). Therefore, assurance of integrated reports will most likely be dominated by the accounting profession (Simnett, 2014). Standards on some aspects of non-financial information are currently being developed<sup>16</sup> (such as greenhouse gas emissions (GHG)) although these are not complete. There is strong demand for assurance of GHG emissions and by the mining, production and utilities industries due to the high exposure of environmental risks (Simnett et al., 2009). This suggests assurance standards will be drafted where there is the most demand.

The assurance of an integrated report presents several challenges compared to CSR reports. An integrated report includes both financial and non-financial information and the assessment of each element may require specialist knowledge (Simnett & Huggins, 2015). Different experts with different skill sets could work together as a team to garner together the very diverse demands of assurance of an integrated report. The very nature of an integrated

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<sup>16</sup> The IAASB issued guidance for assurance of a greenhouse gas statement <http://www.iaasb.org/projects/assurance-greenhouse-gas-statement> accessed 6 November 2015.

report implies that assurance will have to address not only metrics and statements made but also how the information has been integrated. Guidance on materiality will be required to determine what information should be included in an integrated report and how this will be balanced between matters to be included (Adams, 2015; Simnett & Huggins, 2015). Further, the <IR> framework lacks firm criteria that can be used to compile assurance standards (Humphrey et al., 2014; Simnett & Huggins, 2015).

The form of any assurance statement presents challenges. Currently, the financial statements of large companies in the UK, Australia and New Zealand are audited and this assurance takes the form of a ‘true and fair’ opinion which may not be appropriate for an integrated report (Cheng et al., 2014, Eccles et al., 2012). The Institute of Chartered Accountants of Scotland (ICAS) has suggested that assurance for the first part of an annual report, which may form part of an integrated report, could be given instead a “balanced and reasonable” opinion to reflect the different nature of the assurance (ICAS, 2013). The nature of the effort by one or several assurance practitioners will need to be resolved before the level (“reasonable” or “limited” for instance) of any final assurance statement can be prepared (Simnett & Huggins, 2015).

Based on a review of the consultation draft of the <IR> framework (IIRC, 2013a), Cheng et al. (2014) highlighted concerns over the introduction of assurance on integrated reports related to the professional liability for accounting firms and the ability of the current <IR> framework to provide appropriate criteria to enable an opinion on the integrated report. In order to provide assurance a much greater understanding of the concepts within the <IR> framework is required. The lack of consensus on how an integrated report should be prepared as a result of the high level principles based <IR> framework suggests that developments in assurance will lag the emergence of integrated reports. Without assurance there can be doubts around general acceptance of integrated reports by stakeholders (Cheng et al., 2014).

Future research topics for CSR have been suggested (Cohen & Simnett, 2015; Simnett, 2014) to investigate the demand for assurance of CSR and how this can be completed by teams of professionals with different skill sets. The type of assurance opinion that can be provided has also been suggested as another avenue for investigation. Research on CSR will inform the development of <IR> assurance although the differences between CSR reports and an integrated report introduce additional areas for future development. The role of regulatory relationships in the creation of an integrated report is an interesting topic to be investigated as

the report will potentially use several different regulatory frameworks (de Villiers et al., 2014; Simnett & Huggins, 2015). Determining the level of integration that can be measurable and assessed with the existing framework provide new challenges for assurance (Simnett & Huggins, 2015).

Research on assurance of <IR> is informed by prior research on CSR assurance. Assurance is sought to improve credibility and corporate reputation with potential benefits to external and internal stakeholders. Accountants do not have a monopoly on the provision of non-financial assurance although they continue to dominate due to their existing professional reputation. There are significant challenges in the assurance of integrated reports because there are no existing assurance standards and no professional body in a position to formulate them. The role of different experts in determining the assurance of an integrated report has been suggested and this will require a determination of the risk of material elements of the integrated report. Research from this thesis adds to the debate regarding assurance and contributes to the development of appropriate assurance standards.

#### **2.2.4. Summary**

The literature on <IR> has found that the published framework (IIRC, 2013c) does not provide accountability for sustainability (Brown & Dillard, 2014; Flower, 2015; Milne & Gray, 2013) although there is *potential* for positive effects (Adams, 2015; Thomson, 2015) but the likelihood of any framework to provide true accountability for environmental effects is limited (Buhr et al., 2014).

Case studies on the application of the principles of <IR> have found that the opportunity for an organisation to tell their story is valued even though the objective of adopting <IR> may be to reclaim or restore legitimacy (Beck et al., 2015; Lodhia, 2015). Other research has found little evidence of integrated thinking being adopted (Higgins et al., 2014; Stubbs & Higgins, 2014). In South Africa, the mandatory adoption of <IR> has provided more data to examine how corporate reporting has changed. External users of integrated reports found incorporating non-financial metrics into valuation models to be problematic (Atkins & Maroun, 2015; Rensburg & Botha, 2014) rather than unimportant. The adoption of <IR> can therefore be motivated by business risk or moral risk. That is, as a response to negative publicity or perceived loss of corporate trust by directing the narrative on the organisation or the intention to improve the standard of reporting and improve efficiency within the organisation. This

thesis will examine whether one of these risks dominates the decision to adopt <IR> and the purpose of <IR> as well the value placed on the integrated reports and integrated thinking.

Assurance of integrated reports has been set as a priority by the IIRC (IIRC, 2014a) although there are issues to be resolved about who should perform an audit and the form any report should take. Accountants and the accounting profession have expertise in reporting that provides them with an advantage (Simnett et al., 2009). However, the audit of integrated reports presents challenges beyond those in providing assurance for sustainability reports (Adams, 2015; Simnett & Huggins, 2015). This thesis will examine how the value of assurance contributes to the research question on the value of <IR> to promulgators and adopters.

### **2.3. Voluntary Disclosure.**

It is likely that the production of an integrated report will be voluntary in most countries, therefore, it is appropriate to review the literature related to voluntary disclosure. Firstly, the voluntary disclosure of financial information will be examined. Voluntary disclosure provides information that is costly to produce and therefore agency theory applies to evaluating if the information is useful. If the information is useful it is likely to reduce information asymmetry and risk for investors and stakeholders and have a positive effect on firm value and cost of capital. Secondly, the voluntary disclosure of non-financial information will be examined. Sustainability information in the form of environmental, social and governance information has typically been reported in separate reports. The research has found that these reports can be manipulated to produce only good news and used for marketing and reputational purposes. There is the potential for sustainability reports to be produced as a result of ethical decision making, however, this requires cooperation from senior management and can be compromised without it. As integrated reports will include both financial and non-financial information this literature can inform our understanding of the information that is likely to be disclosed and the motivations for disclosure. Lastly, analysts are the main user of financial reports and therefore the way analysts use non-financial information is important to understand. Analysts use non-financial information although the method is not transparent. Experience of analysts affects the quantity of information acquired with less experienced analysts requiring more information to make valuations decisions.

### **2.3.1. Financial information**

The economic theory associated with voluntary disclosure states that if the marginal cost of providing information is less than the marginal benefit of supplying it, then disclosure will be provided. The cost of producing information for larger firms is on average less expensive than for smaller firms and therefore larger firms are more likely to derive benefits from the disclosure of additional information (Salamon & Dhaliwal, 1980). Changing the information set is costly as producing the additional information requires additional information and exposes the organisation to potential litigation risk and proprietary risks (Francis, Philbrick, & Schipper, 1994).

Agency theory (Jensen & Meckling, 1976) suggests that information is asymmetrical. Information that reduces information asymmetry will result in less risk for the principal in the principal (shareholder) and agent (management) relationship. Less risk will lead to a lower required rate of return and make investment opportunities more accessible. Reduced agency costs can also lead to improved access to capital at a lower investment cost or a higher gearing ratio (B. Cheng, Ioannou, & Serafeim, 2011). However, the alternative can also be true. If increased disclosure reduces information asymmetry this also reduces the incentives to trade on private information and reduce liquidity. Any reduction in market liquidity will reduce the benefits of increased information disclosure (Lambert, Leuz, & Verrecchia, 2012; Verrecchia, 2012). The IIRC aims to “support decision making and actions that focus on the creation of value over the short, medium and long term” (IIRC, 2013c, p.2) and the reduction in market liquidity would represent trading with a short term focus.

The cost of capital will decrease with the provision of voluntary information if the information is decision useful and positive. Lambert, Leuz and Verrecchia (2007) found higher quality disclosures affect a company’s real decisions and performance. It is argued that risk associated with the company should decrease with additional disclosure and, as a result, the cost of capital for the firm should also decrease (Choi, 1973; Healy & Palepu, 2001). Leuz & Verrecchia (2000) found that additional disclosure can have an effect on reducing the information asymmetry component of the cost of capital.

The literature on voluntary disclosure of financial information suggests that producing an integrated report that provides useful additional information should result in a reduction of risk and therefore a reduction in the cost of capital (agency theory). Further, a large organisation is more likely to produce an integrated report than a smaller organisation (based

on the relative costs and benefits). The IIRC suggests that <IR> will lower the cost of, and provide better access to capital because of improved disclosure (IIRC, 2011 p.21).

### **2.3.2. Non-financial information-the nature and purpose of CSR reporting**

In recent years, organisations have increased disclosure of non-financial information including environmental, social and governance (ESG) measures (KPMG, 2015). These measures have been included either as separate reports, as additional disclosures or included within annual reports. The distribution channels include company websites and media releases (Cohen, Holder-Webb, Nath, & Wood, 2012). Literature related to non-financial voluntary disclosures include CSR and sustainability reporting. In some jurisdictions there have been increasing requirements for mandatory disclosures on specific non-financial items for instance the EU has introduced disclosures on strategy and non-financial disclosures.<sup>17</sup> Owen (2008) reflected on 20 years of articles in *Accounting, Auditing & Accountability Journal* and noted a lack of consensus on the precise nature of social and environmental accounting research and the potential for a lack of effectiveness in creating a social change towards an accountability for sustainability. Despite the increase in reporting of sustainability information research has highlighted the focus on low hanging fruit or environmental disclosures which are increasingly, mandatory requirements in markets around the world. The tendency towards reporting only positive information has labelled the sustainability reports as increasingly confusing and largely marketing driven.

The identification of additional information in reports other than the Annual Report such as a CSR report or ESG or sustainability report can be confusing. These additional reports can contain quite different information and be focussed on one aspect of non-financial information. The definition of sustainability is different depending on who is identifying sustainability and the context that is used to discuss it (Milne, Tregidga, & Walton, 2009). The association of sustainability with ecological or environmental sustainability of the planet rather than corporate sustainability has resulted in some confusion. KPMG (2013) noted different terminology was used by different companies; 14% of companies used the term “corporate responsibility”; 25% use “corporate social responsibility” and; 43% used “sustainability report”. In this context, therefore, sustainability does not necessarily refer to the continued health of the planet and can relate to corporate sustainability where “Corporate Sustainability

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<sup>17</sup> [http://ec.europa.eu/finance/company-reporting/non-financial\\_reporting/index\\_en.htm](http://ec.europa.eu/finance/company-reporting/non-financial_reporting/index_en.htm) accessed 28 October 2015.

is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments” (Dow Jones Sustainability World Index).<sup>18</sup> Dahlsrud (2008) lists different definitions of “corporate responsibility” to highlight the lack of a consistent definition although all are “congruent” (Dahlsrud, 2008, p.6). The differences lie in the social construction of CSR and a strategy for business that will be effective.

De Villiers, Rinaldi & Unerman (2014) suggested the greatest motivation for disclosures on CSR issues appears to be a response to the interests of the most important stakeholders (see also Deegan, Rankin, & Tobin, 2002). The Annual Report contains information of relevance to shareholders. Other information on social and environmental matters has been increasingly published in a stand-alone report to appeal to other stakeholders. This has increased the demarcation or siloing of information whereas <IR> hopes to provide a holistic view of an organisation’s activities. The information contained in a report separate to the financial report can contain whatever information an organisation deems useful although there are frameworks that can be used to standardise the information. Orij (2010) found there were differences in social disclosures caused by culture which corresponded to stakeholder theory. Therefore, disclosures would be expected to differ between countries and cultures as a response to different stakeholder preferences.

Standardisation of CSR reporting provides an opportunity for the user to compare different organisations over time. The Global Reporting Initiative (GRI) framework designed to address these issues by introducing a standard approach to reporting that provides for comparability between organisations. However, reporting on CSR using GRI metrics has resulted in documents that have been found to be increasingly complex and not necessarily linked to other reports (de Villiers et al., 2014). It is argued the introduction of GRI has not significantly improved reporting as the reports have become larger, more complex and have included information that was not necessarily helpful to readers trying to assess the relationship between various aspects of financial and non-financial areas of the business (de Villiers et al., 2014).

Sustainability accounting can be broken into two aspects with either an inside-out approach or an outside-in approach (Burritt & Schaltegger, 2010). An inside-out approach is

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<sup>18</sup> <http://www.sustainability-indices.com/sustainability-assessment/corporate-sustainability.jsp> Dow Jones Sustainability World Index.

intended to provide management accounting information flows that are useful for decision-making. Information collected in this context is provided to solve specific social and environmental problems. The sustainability balanced scorecard can be regarded as an example of an inside-out approach to sustainability accounting. Metrics and key performance indicators are created to support decision-making and devise strategy directions.

An outside-in approach is a stakeholder approach to providing sufficient useful information for stakeholders focusing on external stakeholder requirements. The GRI framework is directed at managing the requirements of external stakeholder groups. The sustainability accounting system requirements will be different to an inside-out approach as they represent different requirements. It has been suggested that in order to prepare a successful inside-out framework management will first need to have knowledge of stakeholder expectations and requirements (Burritt & Schaltegger, 2010). Stakeholder demands may change and be subject to fad and political attention as “everyone is in power relationships” (Burritt & Schaltegger, 2010, p. 838) and therefore their opinion may not be totally independent. The inside-out or outside view of reporting dovetails with the views of Spence, Husillos & Correa-Ruiz (2010) who argue that the perspective with which we view the adoption of <IR> will affect the way it is interpreted.

Adams and Larrinaga-González (2007) define “managerial capture” as the way by which the management of an organisation adapts the dialogue of CSR to benefit themselves and focus on a profit maximisation imperative. The authors referenced studies which provided examples where sustainability accounting had been used to maintain the status quo of the organisation or pursue its own agenda (Adams & Larrinaga-González, 2007). They suggested that engaging with management in documenting sustainability reporting will enforce ideas of managerial capture and will not result in anything other than business as usual. This view was similar to Gray et al. (1997) and Tinker and Gray (2003). However, O’Dwyer (2003) suggested that the situation is more complex and social accountants that are “motivated by a concern, inter alia, of human rights and social justice” (O’Dwyer, 2003, p.526) can hold contradictory opinions towards CSR. Thus, within the organisation there can be aspirations to improve reporting and be more societally responsible regarding CSR and at the same time constraints by corporate structures can inhibit development. Integrated thinking which is a pre-requisite for effective <IR>, while supported by managers, has the potential to be inhibited by narrow corporate focus on financial results.



Organisations have been accused of highlighting “good” news and minimising “bad” news in the social and environmental reports (Adams, 2004; Loh, Deegan, & Inglis, 2015; Marquis & Toffel, 2011) which would be an example of managerial capture. This may be perceived as “greenwashing” and reduce the credibility of any sustainability reports in the absence of any external assurance. The “good” news disclosures can be a way of enhancing either reputation, market presence or corporate image (Cho et al., 2015) which would explain the greenwashing effect.

The bias towards good news and away from bad news and the quality of disclosure will affect reputation. Hasseldine, Salama & Toms (2005) found that quality is more influential in improving reputation than quantity for UK plcs. This implies that quality disclosures are more likely to be perceived by stakeholders as a signal and influence an organisation’s environmental reputation.

Cho, Guidry, Hageman and Patten (2012) examined disclosures of large US companies in environmentally sensitive industries and their membership of the Dow Jones sustainability index (DJSI) and found that disclosures were more an attempt to improve corporate reputation than a genuine attempt to improve performance. A similar study used a Spanish setting where there was mandatory reporting of environmental issues. The findings showed that the environmental disclosures were an attempt at corporate legitimacy. Regulation was found to have improved disclosure although there appeared to be attempts to avoid transparency (Criado-Jiménez, Fernández-Chulián, Larrinaga-González, & Husillos-Carqués, 2008).

Researchers have also examined the relationship between corporate characteristics and non-financial disclosures. Gray, Javad, Power and Sinclair (2001) extended prior research showing inconclusive results on whether there is a relationship between corporate characteristics and the type of disclosure in environmental reports. They found that any relationship is dependent on the type of disclosure and the relationship is not static but changes over time.

Cormier, Magnan and Van Velthoven (2005) looked specifically at a non-US environment (Germany) and found evidence of a relationship between environmental disclosure and economic significance using a multi-theoretical lens. The authors found evidence of convergence over time. That is, similar companies gradually disclose similar information in their environmental reporting over time. The authors also found that risk, ownership, fixed assets, age and firm size were all useful in identifying the level of

environmental disclosure in a country where environmental disclosures were of significant interest. Voluntary disclosure of information will be of interest to stakeholders if it adds to the information environment.

Porter and Kramer (2006) identified that sustainability reporting can be motivated by a desire to do “the right thing” that is, it can be an ethical decision to provide information that improves society and mitigates concerns over environmental impact. They argued CSR has become an expected output for organisations even though reporting can be disconnected from strategy and effects on society. Porter and Kramer (2006) stated that there are potential opportunities to identify positive effects for shareholders and society from the reporting of organisational impacts on CSR issues using a shared value approach where shared value means creating value both for society and the organisation. Creating a shared value approach and embedding (corporate) sustainability strategies within the organisation will be expected to provide benefits to them and will result in a more efficient resource allocation. Financial investors and other stakeholders (Porter & Kramer, 2011) will also benefit.

Ballou, Casey, Grenier and Heitger (2012) found that non-financial disclosures promote opportunities to link a strategy within the business through information sharing and identification of value drivers. Ballou et al. (2012) found that environmental initiatives provided the main focus for sustainability reporting possibly as organisations consider these the easiest to report and most likely to be subject to regulation. The authors noted that support from the board of directors is pivotal to providing the highest level of sustainability initiatives (Ballou et al., 2012).

Research has also looked at the effect of adopting sustainability practices on firm performance (Eccles, Ioannou, & Serafeim, 2012). Companies that adopt sustainability practices have been found to be more successful in terms of stock market return and accounting performance over the long term (Eccles et al., 2012). However, the findings were mixed across different types of companies. Businesses that market directly to the consumer, where branding is important and extractive industries that adopted environmental and social policies, were more likely to outperform businesses in the same sectors than those that did not. If the adoption of high-quality sustainability practices positively impact firm performance then it is probable that adopting <IR> will also improve firm performance. The objective of <IR> has been stated to encourage investors to adopt a more long-term view of the performance of an organisation.

Research on voluntary disclosure of non-financial information has centred on information contained in reports other than the Annual Report. Voluntary disclosure of positive social and environmental information is positively received by stakeholders, however, the motive may be to improve reputation but avoid transparency. If <IR> provides an integrated report that discloses positive news it is likely that it will also have positive impact. However, if the positive news is perceived as unbalanced and ignores the negative this may result in the reports being seen as simply marketing documents and ignored. The provision of an integrated report may also come from the desire to do the right thing, that is, there is a moral purpose but this may be hard to discern if users are sceptical of the motivations of the preparers.

### **2.3.3. Non-financial information and analysts**

This literature examines how financial analysts use non-financial information. Analysts have been identified as the prime users of corporate information (Schipper, 1991), therefore, investigating how they use this information will inform how analysts will use the information in integrated reports. The experience of analysts in disseminating information will affect what information will be accessed and used, although how analysts use information is not well understood even by the analysts themselves. There are differences in the way information is provided in different countries and differences in the way the information is used. Breaking down non-financial information into environmental, social and governance provides insights into which indicators are regarded more highly by analysts. Social indicators are the least used partly because they are harder to incorporate into valuation models.

Analysts are known to access non-financial information and Orens & Lybaert (2010) determined that there were firm specific factors that guided the use of non-financial information by analysts. Analysts of firms with high leverage and earnings volatility access more non-financial information than those with lower leverage and less volatility. Analysts with less experience will also obtain more non-financial information than experienced analysts. Specifically, the less experienced the analysts, the greater the reliance on non-financial information. Additional information that supplements the financial results is required with companies that have higher leverage and stock volatility for all analysts. Holm and Rikhardsson (2008), using an experimental setting, found that there was no difference between experienced and inexperienced analysts in the way they used positive environmental information.

The relationship between non-financial disclosures and analyst forecast accuracy has been investigated using CSR reports. In a global context, lower forecast error has been found to be associated with the issuance of CSR reports (Dhaliwal, Li, Tsang, & Yang, 2011). These results support the importance of CSR reports in providing useful information to the market. In an analysis by country the findings also suggest the effect on forecast error is most marked in countries with a stakeholder orientation suggesting that disclosure standards do not have to be identical across all countries. The authors suggest that these findings also support the introduction of <IR> or “integrating the financial and CSR reporting systems” (Dhaliwal et al, 2011, p.724).

Investors and analysts consider the use of non-financial information to be important although the way the information is used is not consistent across different jurisdictions (Eccles & Serafeim, 2011). Direct comparison is problematic where different metrics are used by competitors and assessing benchmarks is difficult (Eccles & Serafeim, 2011). In addition, there can be wide variations in the volume of information disclosed which also provides challenges in calculating valuations of companies (Eccles & Serafeim, 2011).

Eccles, Serafeim & Krzus (2011) examined the use of non-financial information using Bloomberg ESG disclosures and how often the data was accessed. Bloomberg include over 300 metrics for their ESG data. The authors found that information on environmental metrics was accessed more often than social information. The authors suggested this was because environmental information was easier to quantify and aggregate into valuation models than social metrics. Governance information was also accessed more often than social information because there is a large of body of existing research on the importance of governance for corporate performance (Eccles et al., 2011). It is argued the increase in interest in non-financial information can be attributed to a growing disparity between market-to-book values. On average intangible assets have grown to 80% of firm value in 2005 from 20% in 1975 (Eccles et al, 2011). It is argued social measures were accessed less than environmental and governance information because information on social issues is hard to incorporate into valuation models and therefore harder to interpret and compare between businesses (Radley Yeldar, 2012).

Holm & Rikhardsson (2008) investigated how environmental information was used by investors using a controlled experiment. The authors found that environmental information does affect investment decisions even though investors did not rate the information as

important. The results are consistent with Eccles et al., (2011) and this suggests that non-financial information is important to investors despite analysts reporting that it is not important. The analyst valuation processes incorporate an element of sense making rather than a true scientific valuation.

Analyst experience affects the quantity of non-financial information that is accessed (Orens & Lybaert, 2010) although positive environmental information is important to analysts regardless of their experience (Holm & Rikhardsson, 2008). The financial health of a business also influences the amount of information accessed by analysts (Orens and Lybaert, 2010). Environmental disclosures are the most common non-financial information accessed, followed by governance and then social indicators (Eccles et al., 2011). Together this suggests that non-financial information is used by analysts and is valuable information although the “black box” of analyst valuation methods may be less scientific. Integrated reports include financial information and non-financial information and analysts will need to incorporate not only details and facts but also the sense making of the report itself. That is, the way the facts are connected within the report will be as important as the facts themselves. This is traditionally a difficult exercise for analysts however, Holm and Rikhardsson (2008) and (Eccles et al., 2011) demonstrated that analysts are able to use non-traditional information even if the method is unclear.

#### **2.3.4. Summary**

There is extensive literature on the value of voluntary disclosure of both financial and non-financial information contained in CSR reports. Additional information has been found to be useful to both investors and other stakeholders and, in particular, used by analysts. Although how exactly the information is used has been found to depend on the distribution channel and the industry (Cohen et al., 2012).

The voluntary disclosure of financial information can provide useful information in reducing risk and information asymmetry (B. Cheng et al., 2011) but if there is less incentive to trade due to increased transparency this can be seen negatively (Lambert et al., 2012). The IIRC has stressed that its aim is to create value over the short, medium and long term contrary to the focus on short term market reactions found in finance research.

There is a large body of research into the voluntary disclosure of non-financial information which encompasses ESG information contained in reports that are separate from

the Annual Report. The research has found evidence of managerial capture (Adams & Larrinaga-González, 2007; Gray et al., 1997; Tinker & Gray, 2003) with disclosures focussed on good news (Hasseldine et al., 2005) and used to avoid transparency (Criado-Jiménez et al., 2008).

## **2.4. Non-financial performance measurement**

The development of non-financial performance measures used in CSR reporting has its roots in the research related to the use of internal performance measures. This research has focussed on how performance measures can be used as strategic tools within organisations. This literature is relevant in understanding the content and of an integrated report. However, this thesis aims to understand the importance of the reporting process rather than internal control measures. Therefore, only a brief review of non-financial performance measures will be included here.

The performance measurement literature has developed in the last 30 years from a traditional focus on financial performance measures to a focus on the inclusion of both financial and non-financial measures. Johnson & Kaplan (1987) were among the first to identify the limitations of traditional financial measures, which focus on short-term performance. They advocated the inclusion of non-financial measures that better capture the drivers of performance.

The seminal paper by Kaplan and Norton (1992) on the balanced scorecard was one of the first to develop a comprehensive framework of performance measures. The balanced scorecard incorporates both financial and non-financial measures that are explicitly linked to strategy and value creation. Based on a company's strategy, key performance measures in four areas related to financial, customer, internal business processes and learning and growth are created. For each area a small number of measures with targets are selected. Typically this information is used for internal management and control purposes and therefore the measures are specific to the organisation and overall strategy. The balanced scorecard has influenced financial reporting by emphasising the links between the measures and targets selected and strategy (Hoque, 2014). It has been argued these internal performance measures can contribute towards the development of integrated reports given that articulating the strategy of the business is one of the content elements identified by the IIRC, namely that "an integrated report

should provide insight into the organisation's strategy, and how it relates to the organisation's ability to create value in the short, medium and long term" (IIRC, 2013c, p.6).

As a managerial tool the balanced scorecard presents a way to consider how non-financial information can be used to apply strategy and evaluate performance. The way information is presented influences the weight given to non-financial measures compared to financial measures (Cardinaels & van Veen-Dirks, 2010). The performance measures have significant influence on incentives within an organisation as well as how the performance is reported to external stakeholders. The strategy of an organisation is critical towards identifying the key performance targets and how they will be measured (Eccles, 1991).

The balanced scorecard represents one of a number of developments to link performance with strategic objectives. Other initiatives in the performance measurement literature combine financial and non-financial measures to demonstrate linkages across the value chain between customer satisfaction and financial results and they have implications for a business as they consider producing an integrated report (Chenhall & Langfield-Smith, 2007). A number of different frameworks for strategic performance measurement systems have been developed (Lynch & Cross, 1995; Neely, Adams, & Kennerley, 2002; Rouse & Putterill, 2003) that while reflecting similar factors of performance do not always provide a consensus on how best to measure performance (Chenhall & Langfield-Smith, 2007).

Another framework that was intended to introduce non-financial reporting was the Triple Bottom Line (TBL) by Elkington (Elkington, 1998). Mitchell, Curtis and Davidson (2012) note several criticisms regarding the TBL that it is driven primarily for impression management, the reports can be manipulated by managers and the effect on the sustainability is likely to be limited. Gray and Milne (2002) suggest that triple bottom line reporting remains largely a financial reporting system with an add-on for environmental (people and planet) considerations.

The trade-off between accountability for sustainability and profit driven goals means that achieving both objectives is problematic and management accountants will be key to implementing integrated thinking into an organisation to fully understand the value creation model given their existing role in performance measurement systems (Busco, Frigo, Quattrone, & Riccaboni, 2014). Management accountants are viewed as having superior knowledge of internal management systems and are well placed to coordinate efforts to produce an integrated

report (Busco et al., 2014) as integrated (internal) thinking is required within an organisation to document the interactions between and on the different capitals in the value creation process.

The IIRC's framework (IIRC, 2013c) incorporates concepts relating to value creation and strategy. Accordingly, the development of <IR> by organisations is likely to be influenced by the performance measurement systems in place given the parallels between them. A business can link strategy to performance and better understand (and communicate) how changes to strategy will impact business. Eccles and Krzus (2010) suggested <IR> would help companies to develop a sustainable strategy. In addition to the holistic view of reporting provided by <IR>, they argued there is an opportunity for organisational change and the implementation of an integrated strategy supported by integrated thinking. This holistic view suggests that the proper place for integrated thinking will be at the Board and senior management of the organisation. However, it is unclear whether this means there is no place for lower levels of management in the <IR> process or whether integrated thinking is solely a top management tool to provide a holistic view of the organisation and support the value creation process.

The literature on TBL and balanced scorecard (BSC) agree that providing true accountability through reporting is challenging (Frigo, 2012; Mitchell et al., 2012) although there is the potential for organisations to improve their strategy implementation and articulate interdependencies between financial objectives and social and environmental impacts. This can only be achieved by producing reports that are accurate and trustworthy (Mitchell et al., 2012). Integrated reports will, therefore, only be useful if they contain information that is accurate and trustworthy. This requires the reporting structures within the organisation to be transparent and accurate. If an organisation has been using a BSC or other integrated performance measurement system, then the ability to prepare integrated reports that demonstrate the value creation process will be improved compared to organisations where internal reporting mechanisms are underdeveloped.

## **2.5. Integrated reporting, accountants and the accounting profession**

Accountants have contributed to the development of <IR> since the announcement of the formation of the IIRC. Accountants are regarded as having a privileged position in relation to corporate reporting as they have the expertise and credibility to be authoritative (Ballou et al., 2012). This may explain why accountants have played a central part in the development of



<IR> to date. However, the role played by the accounting profession is contentious and the IIRC are conscious that there is a balancing act. The steering committee in July 2010 noted that “the representation from the accounting community could reduce to enable a rebalancing of membership over time”.<sup>19</sup> This was a recognition that the accounting profession and accounting bodies were significant contributors to the debate but that their contribution should not exclude the participation of other individuals.

Accountants and the accounting profession have been involved in the development of the IIRC from the beginning. The minutes of the IIRC Council<sup>20</sup> note the influence of accountants. From examining the responses to the Discussion Document (IIRC, 2011), Reuter and Messner (2015) acknowledge that the accounting profession has played a significant role in the standard setting process. Approximately half of the original members of the IIRC were qualified accountants (Flower, 2015) and this is also emphasised by the acknowledgement that many of the IIRC team are principally from the major accounting firms (Flower, 2015). The IIRC website confirms that the accountancy profession provides pro bono secondments and they account for a “substantial part of the IIRC team”.<sup>21</sup> Thus while there were substantial efforts made to ensure diversity of organisations on the IIRC Council, the same cannot be said of the IIRC Secretariat.

Management accountants especially are more knowledgeable about the business model than any other segment within an organisation due to their holistic perspective of an organisation and they are therefore best placed to be at the centre of both integrated thinking and <IR> (Busco et al., 2014). Adams (2015) suggests that the accounting professional bodies have a role to play in supporting and encouraging CFO’s to adopt IR. The accounting bodies have played an important role in developing the <IR> framework and although this has been criticised (e.g. Flower, 2015) it is feasible that their contribution is efficient in ensuring that the development of the framework remains on track considering their expertise in developing standards and frameworks. That is, their contribution has been efficient and not an opportunistic attempt to develop new revenue streams (although this is a possibility). The emphasis on short term goals and objectives in relation to budgets and cost control which is predominantly financially assessed provides an obstacle to the adoption of <IR> and a more long-term perspective. Engagement by accounting academics also has a role to play to

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<sup>19</sup> Minutes of the IIRC Steering Committee 16 July 2010.

<sup>20</sup> <http://integratedreporting.org/iirc-council-meetings/> accessed 9 August 2015

<sup>21</sup> <http://integratedreporting.org/how-is-the-iirc-funded/> accessed 17 October 2015.

reinforce that business as usual will not result in the necessary improvement in corporate reporting. While accountants are seen by some to be part of the problem, they are crucial to the solution (Adams, 2015).

Humphrey et al. (2017) suggest accounting academics should be interested in research into <IR> as part of the ongoing exploration into how it is being practised. At the same time the authors also acknowledge that there are many other professions and, therefore, academics in other disciplines are also interested in how <IR> is being operationalised. Therefore, they see <IR> as not being dominated by accountants, rather they are part of the professional bodies that perceive an opportunity in this area.

Parker and Guthrie (2016) suggest that the accounting profession will experience significant change in the future as a result of innovation and there is a risk that the accounting profession will not keep pace with the impending changes. They acknowledge that much of the value of organisations is now in intangible assets that are not being valued in the financial statements and that there is a risk that the accounting profession will be left behind in valuing these assets. <IR> includes five capitals other than financial which are manufactured, human, natural, intellectual, and social and relationship. There is an opportunity for accountants to use <IR> as a way to incorporate the value that is unaccounted for in the financial capital to retain their legitimacy as the primary advisors for risk and strategy.

Eccles and Krzus (2015) discuss the involvement of accountants and the accounting profession in the development of <IR>. Accountants are an important part of the process of building momentum towards global adoption of <IR>. They represent a common profession to provide advice to organisations and are “integral to the success of the <IR> movement” (Eccles and Krzus, 2015, p. 77). They acknowledge their support in providing personnel and physical premises for the IIRC. They also provide “technical legitimacy through institutionalisation” (Eccles and Krzus, 2015, p. 77).

The role of accountants in the implementation of <IR> is key whether as management accountants, CFO’s or auditors.<sup>22</sup> This viewpoint is promulgated by some professional bodies that may be considered self-serving when they suggest that accountants are the key. The nature of the accounting profession is changing along with many other professions and it is important

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<sup>22</sup> <http://www.imanet.org/resources-publications/thought-leadership-new/new-external-reporting-disclosure-management/share-value> accessed 21 January 2016

for the accounting profession to maintain its status by promoting themselves as playing a central part in the implementation of <IR>.

## **2.6. Summary**

There have been a number of calls for research into <IR> (Cheng et al., 2014; de Villiers et al., 2014; de Villiers et al., 2016). One of the several topics for research is the effect on the success of the IIRC by limiting stakeholders to the providers of finance. By focussing on only one stakeholder this potentially limits information that will be disclosed in an integrated report. The materiality levels applied to a report devoted to one stakeholder is predicted to limit information that may be relevant to other stakeholders such as employees. There is little research to examine how stakeholders respond to information contained within the integrated report. Nor has the research examined how the introduction of multiple capitals will affect corporate reporting, if at all.

There are examples of companies that have published integrated reports and these have found that the initiative was driven by a desire to legitimise the organisation (Beck et al., 2015). This can also be interpreted as a desire to drive the narrative for the organisation (Lodhia, 2015). Case studies on the use of <IR> within companies have used different theories to explain the effect of adoption. The motivation to prepare an integrated report can therefore be explained in different ways and this thesis will add to the evidence of the motivations of organisations that have adopted <IR>.

The disclosure of voluntary information by an organisation in a separate report has been found to be useful to stakeholders (investors and analysts) although the way information has been used appears unclear. The motivation to disclose voluntary information can be to reduce information asymmetry although there is evidence of a desire to disclose only good news and therefore avoid regulatory attention.

The IIRC has achieved a level of success that has had many scratching their heads and attempts to explain the success have determined that the IIRC sought to become the dominant framework and the initiatives that were adopted by the IIRC were structured to form alliances with other potentially competing frameworks. The continued support for the IIRC is evidence that this strategy has been effective. However, there is little analysis of changes in <IR> as it developed and the effect of key stakeholders on the change in direction away from a sustainability focus.

The ability of any reporting framework to provide accountability for an organisation has been found to be limited and therefore the <IR> framework is also unlikely to provide accountability for an organisation's environmental impacts. However, research examining the views of the IIRC towards how <IR> can improve reporting standards is important to understand the effect on both preparers and users of corporate reports.

The progress of the IIRC has been examined using various theories to explain the methods by which the IIRC has sought legitimacy. The existing research provides a basis for further examination of the IIRC and how the purpose of <IR> has been articulated by its members. In this thesis, the institutionalisation of <IR> is examined in more detail using Scott (2013) to examine the pillars of institutionalisation in more detail. In addition, research has examined <IR> with various theories and with emphasis on the perspectives of the *preparers* of integrated reports without comparing to *users* of integrated reports. Also, McNally et al. (2017) examined South Africa where <IR> has been pushed out to preparers and identified challenges with adoption but in this thesis the challenges with adoption will be different where adoption is voluntary. The review of the literature has identified weaknesses (external users) and problems with compliance where <IR> is mandatory and there is limited evidence of the drivers for adoption of <IR> by organisations. There is therefore an opportunity for the research to further develop the understanding of <IR> by examining external stakeholders as users of integrated reports as well as internal stakeholders as preparers. This discussion has led to the research questions to be answered in this thesis: i) what is the purpose of <IR> to promulgators and adopters; ii) what is the value of <IR> to key stakeholders including preparers and users, and; iii) to what extent is there a shared understanding of the purpose and value of <IR> between promulgators and adopters.

In reviewing the literature on <IR> and voluntary reporting a number of methodological approaches have been used and a more detailed examination of research methods and theories is necessary to explain the research method used in this thesis. The next chapter will review research methods and theory to explain the research approach that has been adopted in this thesis.



## **Chapter 3. Theoretical Frameworks and Research Method**

*“Research processes are usually, neither simple, systematic, nor clean, because research rarely proceeds exactly to plan”<sup>23</sup>*

### **3.1. Introduction**

The purpose of this chapter is to outline the theoretical framework, the research methodology and the research methods for the study. A researcher is required to select the most appropriate research method which requires judgement. In this chapter, the theoretical frameworks selected will be examined to explain the choices that were made. This thesis contains two case studies and two separate theories have been used. In Case Study 1 (Chapter 4), neo-institutional theory has been used to explain the formation of the IIRC as an organisation that was formed to influence corporate reporting. In Case Study 2 (Chapter 5) legitimacy theory has been used to explain the adoption of <IR> by an organisation under threat by changing consumer tastes, which had a significant influence on the operation of the business.

In the rest of this chapter section 3.2 describes the theoretical approach Section 3.3 explains the choice of methodology and Section 3.4 explains the selection of the case study method. Section 3.5 provides an introduction to Case Study 1 and provides details of the interviews that were conducted and documents included in the research project. Section 3.6 provides an introduction to Case Study 2 with similar detail of the interviews and documents used in the project. Section 3.7 provides details of the data analysis method and a summary of the thematic analysis approach adopted. Section 3.8 provides details of the ethics approval granted by the University of Auckland and in Section 3.9 a summary concludes this chapter.

### **3.2. Theoretical Approach**

#### **3.2.1. Introduction**

In this section a review of potential theories will be discussed to explain the selection of theories to be applied in Case Study 1 and 2.

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<sup>23</sup> Smith (2014)

In order to create a thesis within which the motivations and actions of the participants can be understood, it is necessary to apply a theory to explain these actions. Without any theory, the description of the results from the research will remain just a story

In the CSR literature, numerous theories have been used without a dominant theory emerging (Spence et al., 2010). Indeed, Spence et al. (2010) suggest that theories have been applied inconsistently. Political economy theories are articulated to explain the pattern of CSR disclosures to add to the theoretical frameworks that have been utilised (Gray, Kouhy, & Lavers, 1995). The linked theories of stakeholder and legitimacy theory, which are examples of political economy theories have also been used to explain CSR information and corporate disclosures (Chen & Roberts, 2010; Deegan, 2014; Loh et al., 2015; Spence et al., 2010). Legitimacy theory has been commonly used to explain the drivers for disclosure.

Within political economy theory there are two approaches, firstly the Marxist approach which views the State or government at the centre of the relationship between organisations and corporate disclosures are seen as a declaration of power by stronger individuals to the detriment of weaker individuals. Secondly, the bourgeois approach to political economy sees society as more pluralistic and ignores the control by the State or government. Legitimacy theory and stakeholder theory are developed using the bourgeois view of the political economy (Deegan, 2014; Gray et al., 1995) and the classical or Marxist theory is ignored in most accounting research (Gray et al, 1995). Therefore, this discussion continues by examining the bourgeois view of stakeholder theory.

Legitimacy theory, stakeholder theory and institutional theory are linked and it is difficult to consider one theory discretely without reference to the others (Deegan, 2014). It is therefore reasonable to review these political economy versus systems theories to determine their applicability to the examination of the development of <IR> and the voluntary adoption of <IR> by an organisation.

In this thesis, two case studies are examined. The first considers the development of <IR> by the IIRC. The IIRC published the <IR> Framework after a relatively short time compared to the development of international financial reporting standards and auditing standards. The individuals that came together to promote and develop <IR> were motivated to change the corporate reporting landscape and create momentum internationally that would lead to the acceptance of <IR>. In this thesis neoinstitutional theory has been used to explain the creation of the IIRC. Specifically, the IIRC used normative pressure, one of the pillars of

neoinstitutional theory, to ensure they created a framework that was considered appropriate and reasonable and therefore acceptable for use by organisations.

Legitimacy theory will be used in the second case study which considers the adoption of <IR> by a New Zealand organisation. Legitimacy theory suggests that “organisations undertake actions, including disclosing information, in an endeavour to appear legitimate to the societies in which they operate” (Deegan & Samkin, 2013, p. 1192). The concept of legitimacy within a society changes over time and will be different for each society and there is a “social contract” between society and the organisation (Deegan, 2014) that changes over time. That is, legitimacy for an organisation is not static but rather a fluid representation of the relationship between an organisation and the society within which they operate.

In the next section, firstly, neoinstitutional theory will be discussed followed by legitimacy and finally, stakeholder theory.

### **3.2.2. Neoinstitutional theory**

Organisations may adopt CSR reporting not as a result of considered thought and planning but as a result of activity by other organisations in the same field or location (Higgins & Larrinaga, 2014). Institutions represent “rules and regulations as well as ideas, understandings and cultural frameworks which have reached a degree of social permanency in particular context” (Higgins and Larrinaga, 2014, p.169). Practices which have achieved this level are said to have become institutionalized and organisations will tend towards homogenisation through a process of institutional isomorphism (Powell & DiMaggio, 1991). The process of creating institutions with uniform reporting practices can be divided into three types (DiMaggio & Powell, 1983) or three pillars (Scott, 1995). The three types are coercive, normative and mimetic mechanisms and the three pillars are regulative, normative and cognitive structures. These types and pillars are similar although they “operate at different levels” (Higgins and Larrinaga, 2014, p.170). Coercive mechanisms and regulative structures reflect the law or professional standards operating in each jurisdiction to ensure all organisations perform in a uniform way. Normative mechanisms and structures represent socially constructed values that have been created through education to encourage people to act in the same way. Mimetic mechanisms and cognitive structures represent organisations that copy or mimic their peers or the symbols and roles that encourage organisational legitimacy. The expectations of a society change over time and between countries so that observations and conclusions made using institutional theory are therefore context specific.



Institutional theory provides a macro view of the adoption of <IR> although the cultural background of any institutional environment is usually determined at a country level. Therefore, expanding the analysis beyond the borders of individual countries to provide a generalizable result is problematic (Amenta & Ramsey, 2010). Institutional theory is concerned with examining the institutionalization of a given practice such as sustainability reporting and this is a process that happens over time. The longitudinal profile of the adoption of sustainability reporting may be more appropriately explained using institutional theory in conjunction with legitimacy theory (Judge, Li, and Pinsker, 2010).

The adoption of CSR disclosure practices has been identified with dirty or unsocial industries such as the oil and petroleum industry using legitimacy and stakeholder theory (Deegan et al., 2002). That is, CSR practices demonstrate legitimacy in the face of a negative image. An alternative view using institutional theory however, can also explain the adoption of CSR practices. For example, the institutionalisation of GRI started with a normative reporting standard that developed into a mimetic mechanism that encouraged adoption on a global basis. The emergence of GRI came at the same time as the development of international financial reporting standards (IFRS) which added to the potential “regulatory power” (Higgins and Larrinaga, 2014, p.173) of GRI as the accounting profession was also involved in the development of the GRI framework as well as IFRS. Similarly, the development of the IIRC was also linked to the accounting profession and accounting bodies and supported by the GRI, suggesting that similar institutional mechanisms may help explain <IR>’s development.

Higgins and Larrinaga (2014) consider the initiation of a change in organisational behaviour can be caused by an event or series of events that creates a vacuum to be filled with the next new thing. This can be caused by an external shock or disaster or new legislation that requires new ways of thinking. The vacuum creates the potential for a change in power of organisational leaders. Any new initiative has the opportunity to succeed if it can demonstrate it is a legitimate successor. For example, Livesey and Kearins (2002) document the emergence of social responsibility (SR) reporting where a small coalition of interested parties cross-referenced each other in the literature and worked in each other’s organisations to direct the conversation on SR reporting in a manner that was mutually beneficial. The development of the IIRC can also be seen this way – as a new entrant to corporate reporting that emerged because there was demand for a new innovation.

Institutional theory is useful in explaining the adoption of international accounting standards (Judge et al., 2010). Judge et al. (2010) find that all three effects (normative, coercive and mimetic) were identified in the decision to adopt IFRS although normative pressures may be driven by conditions unique to accounting standards.

This thesis explains the emergence of <IR> as created by the IIRC using institutional theory. To do so, requires a means of analysis to organise the results and come to some conclusion. Scott (2013) provides a method to consider the different elements of institutionalisation to introduce dimensions that can be discussed. Table 1 provides levels of recognition for regulative, normative and cultural-cognitive pillars.

<b>Level of recognition</b>	<b>Regulative</b>	<b>Normative</b>	<b>Cultural-Cognitive</b>
<b>Basis of compliance</b>	<i>Expedience</i>	<i>Social obligation</i>	<i>Taken for grantedness Shared understanding</i>
<b>Basis of order</b>	<i>Regulative rules</i>	<i>Binding expectations</i>	<i>Constitutive schema</i>
<b>Mechanisms</b>	<i>Coercive</i>	<i>Normative</i>	<i>Mimetic</i>
<b>Logic</b>	<i>Instrumentality</i>	<i>Appropriateness</i>	<i>Orthodoxy</i>
<b>Indicators</b>	<i>Rules Laws Sanctions</i>	<i>Certification Accreditation</i>	<i>Common beliefs Shared logics of action Isomorphism</i>
<b>Affect</b>	<i>Fear Guilt/ Innocence</i>	<i>Shame/ Honour</i>	<i>Certainty/confusion</i>
<b>Basis of legitimacy</b>	<i>Legally sanctioned</i>	<i>Morally governed</i>	<i>Comprehensible Recognisable Culturally supported</i>

**Table 1 Three Pillars of institutions (Scott, 2013)**

The pillars of institutions are changed or stressed by carriers. Carriers represent the method by which institutions are conveyed or connected. Using Scott's (2013) tables of institutional pillars and carriers, this can be adapted to consider how these carriers are in evidence in the creation of the IIRC and the introduction of <IR>. Table 2 represents the original description of the carriers in Scott (2013). Four different types of carriers were identified by Scott (2013): symbolic systems, relational systems, activities and artefacts. According to Scott (2013) the carriers that are employed affect the way messages are received. As messages are developed, the type of carrier will affect how the message is changed. More

than simply explaining how an idea spreads through society, the carriers are examined to see how the ideas become “sticky” or permanent.

Carriers	Pillars		
	Regulative	Normative	Cultural-Cognitive
Symbolic systems	<i>Rules Laws</i>	<i>Values Expectations Standards</i>	<i>Categories Typifications Schemas Frames</i>
Relational systems	<i>Governance systems Power systems</i>	<i>Regimes Authority systems</i>	<i>Structural isomorphism Identities</i>
Activities	<i>Monitoring Sanctioning Disrupting</i>	<i>Roles, jobs, Routines Habits Repertoires of collective action</i>	<i>Predispositions Scripts</i>
Artefacts	<i>Objects complying with mandated specifications</i>	<i>Objects meeting conventions, standards</i>	<i>Objects possessing symbolic value</i>

**Table 2 Institutional pillars and carriers (Scott, 2013)**

In Table 3 the carriers have been repurposed to the IIRC and the development of <IR> so that the evidence specifically relating to the development of <IR> can be examined. Using institutional theory requires a way of examining how the formation and composition of the IIRC shaped and changed the corporate reporting landscape to ensure that <IR> was seen as a credible and attractive option to organisations and became “sticky”. Scott (2013) stresses that each participant will place emphasis on one pillar over another. Applying this to <IR>, each participant or actor will have agency to shape the development of the IIRC and <IR> and the way “a message arrives affects its interpretation and reception” (Scott, 2013, p.96). Scott (2013) explains this further, referring to Abernethy (2000) surveying European colonization in Africa, the method that was used for colonization affected the way Western ideas were received for instance either through missionaries seeking new converts, traders seeking new trading partners or armies looking to plunder new lands. The IIRC sought to institutionalise the concept of <IR> more akin to missionaries seeking new converts than starting a war and using an institutional framework adapted from Scott (2013) provides a useful analytical tool.

A semiotic system or collection of symbols are often used to represent culture (Scott, 2013) and the symbols can include the range of rules, values and typology will change depending on the elements of institutions that is being emphasised. The internet allows for the

symbols to be represented by both words, pictures and videos in publications, websites and YouTube videos. The symbolic systems for <IR> and the IIRC considering regulative theory will consider the specific rules and laws for <IR> and how they apply across different countries. In this thesis, the country setting is specific to New Zealand but originate from the IIRC which is composed of individuals and representation from a number of global organisations. The symbols and systems relating to the normative element of institutions is the shared value or <IR> and the expectations of adopting <IR>. The symbols for the cognitive elements of <IR> lie with the specific tool kit for identifying <IR>.

The relational systems specific to <IR> for the regulative theory include the organisation of the IIRC and how the governance of the IIRC is managed. The normative view of relational systems also examines governance from the perspective of how governance is created and the details of the administration of the IIRC. The cognitive theory of relational systems examines the way members of the IIRC identify themselves and exert their influence.

The activities or habits of members of the IIRC can be viewed from the three theories of institutions. These represent the actions of the IIRC rather than the decision making systems. Both are required to institutionalise the IIRC and influence and change the behaviour or organisations to adopt a new form of corporate reporting. The patterns of behaviour are important to establish routines that reinforce symbols and governance systems. The regulative theory examines the oversight of the application of <IR> principles by the IIRC. The normative activities are the habits created by the IIRC which can be reflected in the jobs that have been created. For the cultural and cognitive theory these habits are created from tacit knowledge based on “unarticulated knowledge and beliefs” (Scott, 2013, p.101).

Lastly, the artefacts that represent carriers of understanding can represent physical artefacts of complex technological systems. These artefacts can be represented by certificates of standards or assurance of integrated reports for the regulative theory or by the bringing together of like-minded organisations and individuals at conferences for normative theories. The cultural-cognitive theory of institutions would represent artefacts as those where objects can have symbolic value greater than their intrinsic value. For the IIRC and <IR> the artefacts are more likely to be evident for the regulative and normative pillars to regulate integrated reports and integrated reporters or to establish standards for <IR>. Symbolism for the IIRC and <IR> is more problematic to identify.

<b>Carriers adapted for the IIRC and &lt;IR&gt;</b>	<b>Pillars</b>		
	<b>Regulative</b>	<b>Normative</b>	<b>Cultural-Cognitive</b>
<b>Symbolic systems</b>	<i>What are rules and laws regarding &lt;IR&gt;? Are the laws consistent across countries?</i>	<i>What are the values of the IIRC and are they consistently applied?</i>	<i>Is there a general understanding of what &lt;IR&gt; represents/means and what an integrated report actually reports on?</i>
<b>Relational systems</b>	<i>Who controls the composition of the IIRC and how has it changed over time. How is governance of the IIRC controlled?</i>	<i>How is the IIRC administered?</i>	<i>How do members of the IIRC identify themselves?</i>
<b>Activities</b>	<i>Are there rules to control how &lt;IR&gt; is discussed and applied/used?</i>	<i>How has the IIRC created jobs from &lt;IR&gt;?</i>	<i>How do members of the IIRC convey their understanding of &lt;IR&gt;?</i>
<b>Artefacts</b>	<i>Are there certifications for an integrated report or qualifications for an integrated reporter?</i>	<i>Are there Annual Conferences, publications on progress of companies producing integrated reports?</i>	<i>Is the &lt;IR&gt; framework promoted as representing the IIRC?</i>

**Table 3 Institutional pillars and carriers adapted for the IIRC and <IR> from Scott (2013)**

The IIRC was formed to introduce new standards to corporate reporting that would lead to better reporting that was more useful and explained how organisations created value. The IIRC was formed by influential individuals and organisations to shape the reporting landscape by introducing <IR> as a legitimate reporting option. A key assumption “within institutional theory is that all social actors are seeking legitimacy, and/or reinventing legitimacy norms, within the institutional environment” (Judge et al., p.163) and institutional theory can be a useful method to help explain how the IIRC created an interest and demand for <IR>.

In the next section, the origins and dimensions of legitimacy theory will be examined.

### 3.2.3. Legitimacy theory

Legitimacy theory can be broken down into two components: strategic and institutional legitimacy. Strategic legitimacy will be further disaggregated into three dimensions of pragmatic, moral and cognitive legitimacy. Legitimacy theory has been widely adopted to explain CSR disclosures and a short discussion of the research findings follows. Finally, a

legitimacy framework to be used in this thesis to explain the adoption of <IR> in Case Study 2 will be outlined.

*Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995, p.574).*

Legitimacy is a relative concept, and an organisation would wish to see itself as legitimate relative to the social sphere in which it operates. The organisation is considered as a whole. The legitimacy of an organisation can be seen as a social contract between the organisation and society. The social contract has no written rules or standards and therefore knowing the boundaries within which they are allowed to operate are unknown. Individual managers may have different views of the perceptions of society as they have different views on acceptable strategies and actions that an organisation can take (Deegan, 2014).

The social contract is unseen and changes over time. That is, the expectations of society changes as a result of new information or changes in sentiment. This can give rise to legitimacy gaps if an organisation stays the same when societal expectations change (Sethi, 1979). The legitimacy gaps give rise to legitimacy threats if an organisation does not recognise and respond to these changes or does not fully communicate that society concerns have been addressed (Deegan, 2014).

#### *Suchman (1995) strategic vs institutional legitimacy*

Legitimacy theory can be divided into “two distinct rhetorics” to “invoke the concept of legitimacy – one strategic and the other institutional” (Suchman, 1995, p.573). Strategic legitimacy considers that legitimacy represents a resource of the organisation that can be used to control the process of legitimisation (Suchman, 1995). There is an “almost limitless” level of control and “malleability” over “symbols and rituals against the exogenously constrained recalcitrance of ‘tangible, real outcomes’ such as sales, profits and budgets” (Suchman, 1995, p.576). Strategic legitimacy considers that symbols can be manipulated to achieve legitimacy.

Institutional legitimacy looks at the larger organisational realm that can be controlled by government or disclosures to achieve access to resources (Suchman, 1995). Legitimacy is not extracted “from the environment in a feat of cultural strip mining” (Suchman, 1995, p.576) but conferred by the norms and expectations of the society in which the business operates. In this way institutional legitimacy forms part of the cultural expectations not just of the

organisation but of entire sectors or fields. There is no difference between symbolic or substantive legitimacy. This has been further developed by DiMaggio and Powell (1983) and discussed in Chapter 3.2.4 as institutional theory.

The difference between strategic and institutional legitimacy becomes a difference between an outside looking in approach (institutional) and inside looking out approach (strategic) (Suchman, 1995). In the SER literature, the approach has typically been from an inside looking out perspective or strategic legitimacy perspective (Deegan, 2014).

Strategic legitimacy can be further examined by looking at three dimensions; pragmatic, moral and cognitive. This will be examined in the following section.

#### *Pragmatic vs moral vs cognitive legitimacy*

In line with a strategic approach to legitimacy, Suchman (1995) discusses three dimensions of organisational legitimacy: pragmatic legitimacy, moral legitimacy and cognitive legitimacy. Each of these dimensions assumes that they produce different results despite a similar belief in the efficacy of aligning behaviour with socially accepted outcomes.

Pragmatic legitimacy is based on the self-interest of the managers of an organisation to the relationship with an audience. A policy may be adopted that positively influences a significant stakeholder. Pragmatic legitimacy also relates to introducing symbols of a stakeholder into the organisation. Thomas and Lamm (2012) have interpreted pragmatic legitimacy for an individual as considering if adopting sustainability practices will lead to improved business practice, reduced business risk or improved brand image for example. Research has considered the application of pragmatic legitimacy (discussed in Chapter 3.2.3.4) extensively.

Moral legitimacy represents the consideration of the adoption of a course of behaviour or action as a response to a moral imperative and is “sociotropic”<sup>24</sup> (Suchman, 1995, p.579), that is, the action is based on whether it is the right thing to do. Suchman (1995) goes on to suggest that statements by an organisation that justify a course of action based on morality are often undermined by other statements and “moral claims can be undercut by even an appearance of cynicism, and managers charged with enunciating such claims frequently find it

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<sup>24</sup> Sociotropy – the tendency of a person to place greater importance to (interpersonal) relationships than personal independence <https://psychologydictionary.org/sociotropy/> accessed 25 October 2017.

difficult to avoid buying into their own initially strategic pronouncements” (Suchman, 1995, p.579). Thomas and Lamm (2012) suggest that more often there is a business case for adopting sustainability practices and this “encourages managers and executives to seek ‘low hanging fruit’ or ‘win-win’ opportunities and enables the business community to embrace a weak form of sustainability at best” (p.194). Thus, promoting <IR> on the basis of morality has the potential to be problematic as it has the potential to be undermined by comments made by managers.

Cognitive legitimacy represents the degree to which an action is deemed to be understood and meaningful for an organisation to adopt. Actions taken by an organisation will be accepted if they are seen as inevitable, necessary or “taken for grantedness” (Suchman, 1995, p.583). Thomas and Lamm (2012) adapt this to consider if adopting sustainability will improve the ease of performing an operation or job. The perception of the effect of adopting <IR> will be based on existing knowledge and in the case of adopting a new framework, this would be expected to add to job loading both for internal and external users of integrated reports. There would be additional skills required to learn about <IR> and consider before it can be adopted and interpreted. For the preparer of integrated reports, there is also the requirement to source data that may not be currently available in the necessary form. Suchman (1995) suggests that while some policies for an organisation could be given taken-for-granted status it is unlikely to be achievable for an organisation.

The pragmatic, moral and cognitive aspects to legitimacy can coexist although there are degrees to the level that can be assessed within an organisation (Suchman, 1995). Pragmatic legitimacy relies on self-interest and as legitimacy moves towards moral and then cognitive legitimacy “legitimacy becomes more elusive to obtain and more difficult to manipulate but it also becomes more subtle, more profound, and more self-sustaining, once established” (Suchman, 1995, p585).

Dimensions of legitimacy related to pragmatic, moral and cognitive legitimacy have been considered by others (Hummel & Schlick, 2016; Setia et al., 2015; Thomas & Lamm, 2012). Thomas and Lamm (2012) extend the Suchman (1995) framework to consider how individuals within organisations or individuals in external stakeholder groups form views of the legitimacy of sustainability efforts. In Table 4 this framework has been extended to attitudes towards <IR>. Consideration of the location of views towards sustainability of <IR> address the research questions in this thesis, namely the perception of the purpose and value of



<IR> by internal and external stakeholders. The views towards legitimacy can change over time and are not static. Additionally, attitudes towards <IR> can be affected by changing external norms.

	<b>Dimensions of legitimacy</b>		
<b>Stakeholder groups</b>	<b>Pragmatic</b>	<b>Moral</b>	<b>Cognitive</b>
<b>Internal stakeholder groups (proprietary)</b>	<i>Is there a business case? Do I believe that adopting &lt;IR&gt; will benefit the organisation?</i>	<i>Do I believe that adopting &lt;IR&gt; is the “right” thing to do?</i>	<i>Do I believe that adopting &lt;IR&gt; will make my job easier or more difficult?</i>
<b>External stakeholder groups (validity)</b>	<i>Do peers/authorities believe there is a “business case?” Do they think that adopting &lt;IR&gt; will benefit the organisation?</i>	<i>Do peers/authorities believe that adopting &lt;IR&gt; is the “right” thing to do?</i>	<i>Do peers/authorities believe that adopting &lt;IR&gt; will make my job easier or more difficult?</i>

**Table 4 Elemental attitudes towards legitimacy for <IR> adapted from Thomas and Lamm (2012)**

*Insights from research*

The response to perceived challenges to legitimacy depend on how the challenge has arisen. Legitimacy may be gained, maintained or defended (O’Donovan, 2002). Organisations will find maintaining legitimacy easier than gaining or defending legitimacy (O’Donovan, 2002; Suchman, 1995). According to Deegan (2014a), the theoretical development of the legitimisation strategies to respond to legitimacy gaps is under developed. Additionally, there is little support for the effectiveness of the legitimisation strategies.

Strategies to limit or reduce the effect of any threat to the legitimacy of an organisation can include “making, real, material changes in organisational goals, structures, process and socially constructed practices” (Ashforth & Gibbs, 1990, p.178) that make substantive changes or making symbolic changes only to make it *appear* that they are consistent with expectations (Ashforth & Gibbs, 1990; Setia et al., 2015). For instance, increases in corporate disclosure on social and environmental issues from the late 1980s (Deegan, 2014a) have been explained using legitimacy theory where symbolic changes only have been made.

An organisation that is subject to political costs may see this as a threat to their legitimacy. An organisation that faces additional costs or increased regulation as a result of their activities may be motivated to change their behaviour or increase disclosure to reduce the

threat. An alternative motivation could be to deflect attention away from activities of the organisation where public scrutiny would be unwelcome (Deegan, 2014). Therefore, increased disclosure, or in the case of <IR>, providing a new form of corporate reporting, may provide a method of deflecting the public's attention from negative aspects of the business and an example of pragmatic legitimacy.

Alternatively, a change in the reporting structure can also represent the opportunity to rebrand the organisation as more enlightened or improved in the light of a change in strategy by the organisation. Guthrie and Parker (1989) state that legitimacy is largely "reactive" (p.344) to the location where legitimising actions are conceived.

The CSR literature has used legitimacy theory to explain the link between the continued operations of an organisation relative to their social contract (Deegan, 2014) and social and environmental researchers have used legitimacy theory to explain why organisations disclose information. Legitimacy theory is a positive theory used to explain or predict actions by management (Deegan, 2014) and for this reason, legitimacy theory provides a useful tool to examine a single organisation as it embarks on <IR>. Legitimacy theory has been widely used to explain CSR disclosures although Deegan (2014) notes criticisms of legitimacy theory which suggest that its use restricts the consideration of other reasons that encourage an organisation to make disclosures. For example, voluntary disclosures may be in response to disclosures made by competitors and therefore have more in common with institutional theory, specifically mimetic pressures, where institutions copy the actions of others.

Legitimising objectives identified in the literature for the adoption of <IR> include being seen as having the best practice for corporate reporting, demonstrating leadership in corporate reporting, or to enhance "brand value" (Eccles and Krzus, 2014 p. 98). Eccles and Krzus (2014) suggest that enhancing brand reputation is one of the top reasons organisations adopt <IR>. Increasing the reputation of the organisation also represents the aim of legitimising the organisation within the societal context within which they operate. McNally et al. (2017) report that for the South African firms there was evidence of mimetic isomorphism as a result of uncertainty over what to include in an integrated report and, therefore, imitating the reports of the most successful members would be a useful strategy.

The motivation towards a legitimisation strategy using corporate disclosures may be difficult to identify as the quality of the information disclosed may be difficult to assess. If an organisation discloses new information or measures in an integrated report it may be difficult

to assess the validity of the information. Disclosures that seek to obtain or maintain legitimacy may use symbolic or substantive activities to disclose information in corporate reports. It may not always be obvious whether disclosures represent one or the other and there is the potential for an organisation to use disclosures that are vague and ambiguous to cover up poor performance (Hummel & Schlick, 2016).

Disclosures made to respond to threats to legitimacy depend on the perceived threat (Deegan, 2014). Actions may be taken to obtain, maintain, or repair or legitimacy. Maintaining legitimacy is seen as easier than repairing or gaining legitimacy (Deegan, 2014; Suchman, 1995). Dowling and Pfeffer (1975) describe four strategies to obtain or maintain legitimacy. These are:

- Educate and inform stakeholders about actual changes in the activities of the organisation to align with societal expectations.
- Change the perception of stakeholders by indicating a change in behaviour while maintaining the activities of the organisation using corporate disclosures.
- Deflect attention away from contentious activities to related issues to demonstrate alignment with societal expectations using symbols.
- Change external expectations through a demonstration that they are unreasonable.

#### *Summary of legitimacy theory*

Suchman (1995) suggests that repairing legitimacy arises where there has been a crisis or action that has visibly affected the organisational legitimacy or social contract between the organisation and society. Thus, disclosures will react to an existing situation rather than be pre-emptive.

Legitimacy theory can therefore be of assistance in explaining managerial actions although it cannot be inferred whether disclosures represent a real (substantive) attempt at increasing legitimacy or are only gestures (symbols) (Suchman, 1995). It would seem logical to assume that society would want organisations to undertake only substantive actions that are reflected in disclosures and, therefore, if any symbolic disclosures are detected this would heavily impact on an organisation's legitimacy.

Legitimacy theory has been criticised as too blunt an instrument to adequately explain voluntary corporate disclosures and does not identify components of the social contract to

which an organisation responds. That is, the organisation may respond to specific stakeholders only and not society as a whole. This leads to a consideration of stakeholder theory as an alternate approach.

Legitimacy theory has been selected as the theory to use in this thesis to explain the adoption of <IR> by an organisation because it can explain managerial actions and why an organisation discloses information. Adapting Thomas and Lamm's framework (Thomas and Lamm, 2012), legitimacy can be used to examine the three dimensions of strategic legitimacy, and the use of symbols (in this case <IR>) to change the legitimacy status of the organisation.

#### **3.2.4. Stakeholder theory**

Stakeholder theory and legitimacy theory can be seen as theories with common characteristics and not as competing theories. They represent differences in "levels of resolution" (Gray et al., 1995, p.52). The political economy perspective acknowledges that the organisation operates within society and will undertake actions as a reflection of the economic, social and political environment and they cannot be considered as discrete environments (Gray et al, 1995).

Stakeholder theory can be considered in two ways; from the managerial perspective and from the ethical viewpoint (Deegan & Samkin, 2013). The managerial branch views corporate disclosures as a response to the demands of the most influential stakeholders that have an effect on the resources of the organisation. The influential stakeholders are identified by the organisation and from observations it is possible to identify the important stakeholders. The responses by the organisation are to a limited range of stakeholders as distinct from legitimacy theory which looks at the way an organisation responds and relates to society (in which they operate) as a whole. Businesses operate within society and the expectations of society and important stakeholders change over time. Important stakeholders may also change as the business changes and develops.

The ethical branch of stakeholder theory suggests that stakeholder power is not directly relevant and the needs of all stakeholders should be considered in determining corporate disclosures and not just the most powerful. The ethical branch is an example of a normative theory in that the consideration of what should be disclosed represents an obligation by a business and does not represent a discussion of what is actually disclosed (Deegan & Samkin, 2013).

Stakeholder theory has been a popular theory to explain social and environmental reporting (Gray, Owen, & Adams, 1996) and is one of the “main social reporting theories” (Adams, 2002, p.224). However, the number of studies using stakeholder theory are few according to Spence et al. (2010). Studies have discussed the use of new issues to assess stakeholder groups and adjust disclosure to individual groups based on stakeholder requirements for each issue (Spence et al., 2010).

This thesis investigates practical activities undertaken by individuals and groups and uses results from observations and records and is therefore not suited to the ethical branch of stakeholder theory. The managerial branch of stakeholder theory, however, may provide insights to inform the results.

### **3.2.5. Conclusion**

Legitimacy and stakeholder theory, which encompass both ethical and economic considerations, have been the most popular and widely used theories (Casey and Grenier, 2015; Deegan et al., 2002) in CSR and <IR> research. In addition, Casey and Grenier (2015) refer to shared value theory, whereby CSR reporting creates value for both the provider and user of CSR information. Voluntary disclosure theories suggest that CSR information reduces information asymmetry (Cormier et al., 2005). Gray et al. (1995) acknowledge that no dominant theory has been used to research CSR disclosures. A review of the emerging literature on <IR> also finds no common approach to the topic, therefore, there is no specific guidance on a prevailing theory that can be used to explain and predict who will likely adopt <IR> and how it will be used and interpreted.

Theory needs to be incorporated at each stage of the research process. In a dynamic environment where there are changes to the perspectives by both the observer and the observed, the notion of theory needs to be reviewed. Eisenhardt (1989) suggests that while theory is important to guide the research process it should not limit the research outcome. A critical use of theory to limit the opportunity to fit the results to an existing theory may not be appropriate (Maxwell, 2013). Parker (2012, p.56) suggests that in management accounting qualitative researchers embrace multiple theories in their desire to explain observed phenomenon. This would be equally applicable to financial accounting researchers. In summary, theory is important in identifying research questions but it should be constantly reviewed in light of insights from data analysis. Events that may be observed during a research project can be explained with reference to more than one theory. That is, different participants can relate

better to one theory than another and within an organisation and over time the most appropriate theories may change (Ahrens and Chapman, 2006).

Parker and Guthrie (2016) discuss the concern over theory in academic research. While acknowledging that theoretical foundations are important, they suggest that attention should also be given to “methodology, actual findings, policy and practice engagement or relevance” (Parker and Guthrie, 2016, p .5). It should be acknowledged that qualitative methodologies do not have to presume a theory in order to be of value. The purpose of this research is exploratory and, therefore, the use of a dominant theory while preferable is problematic considering this is a nascent topic and the theories that have been used to explain the adoption of <IR> are not homogenous. A case study is the focus of this thesis as;

*In general, case studies are the preferred strategy when “how” or “why” questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context. (Yin, 2003, p.1)*

In summary, the choice of theoretical perspective is problematic. The introduction of <IR> by the IIRC has similarities to the introduction of GRI and following Higgins and Larrinaga (2014), legitimacy theory and neo-institutional theory would be an appropriate theory to explain the purpose of <IR> and the value of <IR> to promulgators and adopters of <IR>.

### **3.3. Choice of Methodology**

The research questions to be answered in this thesis relate to the purpose of <IR> and the value of <IR> to internal and external stakeholders. In order to examine this, we have to understand how different groups view and use integrated reporting. To understand the value of integrated reporting, this value or benefit will be different depending on whether we are examining the perspective of the IIRC, users or preparers. That is, we are, firstly, seeking to explain causes and consequences of a phenomenon, being the introduction of integrated reporting. Secondly, <IR> is being evaluated to see if the initial purpose of <IR> is exhibited in the reports that have been published and the views of users and preparers. This requires examining the motivations of people and how they understand the effects of integrated reporting. Therefore, scientific methods are problematic as there are many unmeasurable variables at work (Smith, 2014). The aim of this research is to explore the social effect of <IR> and understand that a generalizable result will not be available. A case study approach using

an interpretivist methodology is, thus, the most appropriate as it can address these social phenomena and contribute towards developing theory as results will accumulate from other case studies published.

Choices in methodology are dictated by the perception of the researcher towards the objective or subjective view of the reality that is being observed. <IR> is part of a social system and is being examined using an interpretive approach. Therefore the emphasis is less on the economic view of <IR> and more on the nature of the social system. Hopper and Powell (1985) state that:

*People constantly create their social reality in interaction with others. It is the aim of an interpretive approach to analyse such social realities and the ways in which they are socially constructed and negotiated (Hopper and Powell, 1985, p.446).*

The observations collected through the research process are influenced by the pre-existing knowledge of the researchers.

Research in financial accounting has been dominated by quantitative research conducted using a positivist methodology and it has been acknowledged that the top tier journals which are predominantly based in the US seldom publish qualitative research (Parker, 2012). Management accounting research has used case studies and interpretive qualitative research to a much greater extent (Parker, 2012, Parker and Guthrie, 2016). Interpretive qualitative research requires “scholars to get out from behind their desk and connect with actors at the organisational coalface” (Parker, 2012, p.56).

Interpretive field studies require an ongoing reflection of how the data fits with different theories to evaluate how the data can contribute or develop the research questions. There is the potential for interpretive qualitative research to be more about storytelling than exploring issues and testing theories, however, this risk can be limited by continually reflecting on how the evidence aligns with the theoretical approach that is being tested.

### **3.4. Research method**

#### **3.4.1. Introduction**

The growth of the IIRC and the reasons for the adoption of <IR> represent a unique situation and interviews with the members of the IIRC together with documents published by

the IIRC provide an ideal case study to examine whether the purpose of <IR> both for the IIRC as promulgators and by adopters of <IR>. As <IR> was a new topic for research at the start of this project there was a shortage of published research and integrated reports, accordingly, qualitative research method using two separate case studies was selected and the research method for each is discussed in detail at 3.5 and 3.6, respectively.

### **3.4.2. Case Study method**

#### *Standards of research*

A case study method was applied to two case studies (described in section 3.5 and 3.6) using a combination of data from semi-structured interviews and published sources. These data were used to obtain a deeper understanding of the perceptions of the case study organisations' management and external stakeholders towards <IR>. This method should enable participants to provide their own views through a guided conversation with enough space for them to provide any other comments they feel may be appropriate.

In the initial specification for this research it was intended to use several case studies to provide a comparative result and contribute towards theory. Ethics approval was sought for interviews in multiple locations. However, in seeking participants for this study it became clear that this was not going to be possible. It is not unusual for organisations to provide access to researchers, but access to multiple researchers is unlikely. As <IR> had been highlighted as a 'hot topic' there were multiple researchers also interested in investigating integrated reporting. It became clear that multiple case locations would not be available and that the most effective approach in the circumstances was to focus on two case studies, the first being the IIRC and the second an organisation that had adopted integrated reporting. The first case study used interviews and IIRC documents and other publicly available information. The second case study used interviews and publicly available information for an organisation that was a preparer of integrated reports. The results from the two case studies in this research add to the emerging research on integrated reporting, contribute to theory formulation and allow for comparison between the views of standard setters (the IIRC) and preparers and users of <IR>.

Qualitative research is subjective to the views of the researcher. The advantage of qualitative research for the research questions under examination is that it provides the opportunity to explore the nature of <IR> and provide insights into opinions and motivations



of the individuals involved in forming the <IR> framework as well as individuals attempting to produce an integrated report.

Qualitative research requires certain characteristics in order to address these subjectivity concerns and to ensure the robustness of the results. Yin (2014) suggests that construct validity, internal validity, external validity and reliability be considered. Yin (2014) continues by explaining how each type of validity can be considered. Construct validity can be mitigated by using multiple sources of evidence. In this study the data is drawn from interviews and using reports and documents from several sources. Internal validity is not as important in exploratory studies. However, in this study the data is analysed to see if the results can be explained using an existing framework. The external validity sought by the research in this paper seeks to understand if the results can be generalised to a theory. Reliability concerns are mitigated by ensuring that each interview conforms to the same set of questions that mitigate bias. Each piece of documentary evidence was analysed in the same way so that if the research was replicated, the similar results would be achieved. There is value in the results of small sample qualitative research that adds to our understanding of integrated reporting. The IIRC represents a potential standard setter for the application of <IR>. Understanding the motives behind its formation represents a unique situation and therefore generalising the motives for its formation may seem uninteresting. However, future organisations that intend to introduce new reporting innovations will benefit from knowing the successes achieved and challenges faced by the IIRC.

In this thesis the research questions are addressed with two case studies. In the first there is a standard setter's view of <IR> and in the second a preparer versus users view. Yin (2014) suggests that case studies rely on "analytic generalisation" (Yin, 2014, p.48) where the results can be generalised to theory, which can influence future case studies. Reliability of case studies can be achieved through thorough documentation of the research process so that the case study could be repeated and the same results reached and;

*The process is one of iteratively seeking to generate a plausible fit between problem, theory, and data. (Ahrens and Chapman, 2006, p.836).*

#### *Interview process*

Both case studies included interviews (discussed further in sections 3.5 and 3.6). Interview questions were drafted to ensure they were open ended and non-judgemental to try

and avoid the effect of implied bias. The questions were formulated to try and address the general research questions that were envisaged at the outset and open ended enough for interviewees to be able to add information where they felt it was relevant. Some pilot interviews were conducted on other academics to ensure that they were non-directional and therefore not leading questions. The questions were designed to elicit information about the topic and provide the opportunity for each interviewee to add anything else they thought was important about the topic. In the introductory information given to participants it was noted that the researchers were qualified Chartered Accountants. There were questions about assurance, which is principally the jurisdiction of the accounting profession, and this may have had the potential to influence the opinion of the interviewees.

The researcher is a qualified Chartered Accountant and this thesis is being submitted in accounting. Therefore, there is the potential for bias in the analysis of the data set. Both the supervisors are also chartered accountants. As suggested in the literature review the role of accountants in corporate reporting is significant and important therefore it is appropriate that <IR> is researched from an accounting perspective. The results from this analysis will be of interest to both accounting academics and accounting professionals.

All of the interviews were recorded using an iPhone and transcribed by the researcher or by a University approved agency. At the start of each interview the researcher outlined the purpose of the project, detailed how the information would be used and stressed confidentiality. That is, it was agreed that no individual would be identified by name or job title. Yin (2014) suggests that anonymity is not preferable in a project but advisable where disclosure may affect consequent actions of the participants. Given the potential sensitivity of some of the data collected, it was determined with the organisations that this approach would be adopted. In the case of the IIRC, the organisation is identified, this was deemed unavoidable, but individuals within the organisation were not identified. For the second case study, anonymity was provided for both the organisation and the individuals. Each interviewee was required to sign a participation consent form and provided with a participant information sheet and approval by a senior manager with the authority to sign for each organisation was also obtained. The details for each case study site are outlined in sections 3.5 and 3.6.

### **3.5. Case Study 1**

Case Study 1 examines the IIRC. The purpose of the case study was to identify the major supporters of the IIRC and how their status and position shaped the <IR> framework that was published in December 2013. Major supporters were identified as members of the IIRC Council, IIRC Board, and employees of the IIRC. The development of the IIRC and <IR> was shaped by the members of the IIRC's view of corporate reporting. These members shaped the <IR> framework, but were also influenced by submissions made to the IIRC.

The IIRC has made documents and minutes publicly available as evidence of a transparent process which also provides evidence of the development of the framework. The number of individuals involved in the IIRC Council meetings and working groups was significant and, therefore, identifying the individuals with the most influence requires careful attention to who attended what meetings and the organisation(s) they represented. The varying interests of these individuals and the organisations they represented should have impeded the development of the framework, but this was not the case, which represented significant success for a new organisation.

In this research project, the data was collected over a particular period of time and it is impossible to predict if the opinions of the participants would change over time. Thus, the results are specific to the time and location of the case study.

#### **3.5.1. Data Sources**

##### *Interviews*

Prior to the commencement of the research, initial contact was made with certain members of the IIRC. Their names were available from the IIRC website. Informal meetings with senior members of the IIRC were conducted prior to the commencement of the project and these IIRC members suggested who would be the most suitable people to be interviewed to gain the greatest insight. This is an example of a snowballing technique. In addition, personal contacts were utilised to obtain access. The formal interviews were conducted either in person or by telephone. Face-to-face interviews were the preferred method. The first initial face-to-face contact was made in October 2012. Funding was available to go to London to conduct some of the interviews with IIRC members. Although the IIRC membership is global, the IIRC Secretariat is based in London and staff are commonly seconded from their employer

to work there. The IIRC website notes that many of the staff are accountants by profession or work for accounting firms.

The initial contact with the IIRC came through personal connections with board members. Through their introductions the researcher identified a number of individuals to contact. The list of interviewees is included in Table 5. A pseudonym has been allocated to each interviewee that will be used in the analysis in Chapter 45. A female interviewee is provided with a female name and a male interviewee with a male name. There were two women and eight men interviewed. An ex-member, as noted in the role of interviewee in Table 5 indicates that the interviewee was no longer part of the IIRC on a day-to-day basis at the time of the interview. Interviewees were generally happy to cooperate and discuss integrated reporting. The interviewees were interested in developing the concept of <IR> and considered that participating in this research would be part of the outreach for the IIRC. The researcher was accompanied by one of their supervisors for five of the interviews, five interviews were conducted by the researcher only. The ten interviews were completed between October 2012 and May 2016. The interviews lasted between 42 and 61 minutes.

	<b>Date and place</b>	<b>Role of interviewee</b>	<b>Allocated Pseudonym</b>	<b>Length of recorded interview</b>
<b>1</b>	<b>October 2012</b>	<i>IIRC Board member</i>	<i>Alec</i>	<i>53 minutes</i>
<b>2</b>	<b>Auckland July 2013</b>	<i>Former IIRC Board member</i>	<i>Brian</i>	<i>55 minutes</i>
<b>3</b>	<b>Wellington August 2013</b>	<i>IIRC Board member</i>	<i>Alice</i>	<i>43 minutes</i>
<b>4</b>	<b>Auckland 16 April 2014</b>	<i>Ex A4S Board Member</i>	<i>Colin</i>	<i>1 hour 1 minute</i>
<b>5</b>	<b>London 12 May 2014</b>	<i>IIRC Board member</i>	<i>Don</i>	<i>55 minutes</i>
<b>6</b>	<b>London 12 May 2014</b>	<i>Member of IIRC Working Group</i>	<i>Eric</i>	<i>51 minutes</i>
<b>7</b>	<b>London 13 May 2014</b>	<i>Ex IIRC Secretariat</i>	<i>Fred</i>	<i>42 minutes</i>
<b>8</b>	<b>London 15 May 2014</b>	<i>Ex IIRC Secretariat</i>	<i>Becky</i>	<i>51 minutes</i>
<b>9</b>	<b>Phone 8 August 2014</b>	<i>Ex IIRC Board Member</i>	<i>Gary</i>	<i>42 minutes</i>
<b>10</b>	<b>Maastricht May 2016</b>	<i>IIRC Working Group member</i>	<i>Harry</i>	<i>48 minutes</i>

**Table 5 IIRC Interviewee List**

### *IIRC Documents*

The structure and governance of the IIRC was available from the IIRC website. A number of publications produced by the IIRC that directly related to the development of the framework, published between 2010 and April 2017, were included in the case study analysis. Other documents were noted but not included in detailed analysis as they were not part of the core documents.

The IIRC was divided into three main groups to develop <IR> along with a Secretariat that provided administration support. These were the Board of directors of the operating company, the Council and the Working Group. The Council's relationship to the Board is discussed as follows:

*The Council acknowledged that, given both the legal structure of the IIRC and because the Board meets more frequently than Council and is therefore better able to take day-to-day operational decisions, the final decision-making authority rests*

*with the Board. As a matter of course, however, the Board would elect not to go against the wishes of Council, and would take the Council’s “non-binding approval” of proposals into account. (IIRC Council minutes, 27 April 2012, p 1).*

The Council “is the primary institutional forum for expression of the coalition’s broad market view and collective voice, as well as the medium for its interaction and provision of advice, guidance and input on issues of relevance for the organisation”.<sup>25</sup> The minutes for the Board minutes are not publicly available, however, the Council meeting minutes were available on the IIRC website and added to the analysis. Accordingly, the minutes for the Council provide a window into the working processes of the IIRC. The Council met twice a year in different locations and the members that were in attendance at these Council meetings were often different individuals representing different organisations with interests in the IIRC. A list of the Council meeting minutes included in the analysis, and details of the location of the meetings to December 2017 is shown in Table 6.

<b>Year</b>	<b>Date</b>	<b>Location of meeting</b>
<b>2010</b>	<i>16-Jul</i>	<i>London</i>
<b>2011</b>	<i>17-Jan</i>	<i>Beijing</i>
	<i>13-May</i>	<i>New York</i>
	<i>10-Nov</i>	<i>Sao Paolo</i>
<b>2012</b>	<i>27-Apr</i>	<i>London</i>
	<i>2-Nov</i>	<i>Tokyo</i>
<b>2013</b>	<i>19-Mar</i>	<i>New York</i>
	<i>5-Dec</i>	<i>London</i>
<b>2014</b>	<i>1-Apr</i>	<i>New York</i>
	<i>3-Dec</i>	<i>Istanbul</i>
<b>2015</b>	<i>28-May</i>	<i>London</i>
	<i>3-Dec</i>	<i>Tokyo</i>
<b>2016</b>	<i>27-Apr</i>	<i>Eschborn, Germany</i>
	<i>6-Dec</i>	<i>London</i>
<b>2017</b>	<i>26-Apr</i>	<i>New York</i>

**Table 6 Location of IIRC Council meetings and locations**

The Working Group “meets to provide practical guidance, develop positions and make recommendations as appropriate to the Board and Council”<sup>26</sup> and specifically;

<sup>25</sup> <https://integratedreporting.org/the-iirc-2/structure-of-the-iirc/council/> accessed 2 January 2018

<sup>26</sup> <http://integratedreporting.org/iirc-working-group-meetings/> accessed 2 January 2018

*Draw up proposals for short, medium and long term governance arrangements of the IIRC or its eventual successor including nomination process, relationship with existing organisations, remit, role and responsibilities and funding;*

- *Develop proposals relating to the scope and content of integrated reporting, including an outline work plan covering areas that need to be addressed by the IIRC prioritising those aspects that require most urgent attention;*

- *Commission additional research, as needed, to support recommendations made;*

- *Develop and execute engagement and communication plans to gain support from key stakeholder groups, including governments, regulators, companies and investors; and*

- *Leverage WG member networks to achieve the outcomes set out above*

<http://integratedreporting.org/wp-content/uploads/2011/04/Working-Group-Terms-of-Reference-July-2010.pdf> accessed 1 January 2017)

The Working Group met nine times before it was disbanded in October 2014. The minutes for the Working Group are also available and details of the dates and locations of the meetings is included in Table 7. The analysis of the minutes of both the Working Group and Council are in Chapter 4.

<b>Year</b>	<b>Date</b>	<b>Location of Meeting</b>
<b>2012</b>	27-Feb	London
	29-May	London
	17-Sep	Amsterdam
<b>2013</b>	12-Feb	Paris
	17-Jun	Paris
	22-Oct	London
<b>2014</b>	26-Feb	Geneva
	16-Jul	London
	17-Oct	Paris

**Table 7 Working Group meeting dates and location**

In addition, details of the key IIRC publications included in the analysis are shown in Table 8.

<b>Date</b>	<b>Title</b>	<b>Content</b>	<b>Number of pages</b>
<b>August 2010</b>	<i>Press release (The Prince's Accounting for Sustainability Project, &amp; Global Reporting Initiative, 2010).</i>	<i>Announcing the formation of the IIRC</i>	5
<b>September 2011</b>	<i>Towards integrated reporting – communicating value in the 21<sup>st</sup> century (IIRC, 2011)</i>	<i>Discussion paper containing consultation questions</i>	17
<b>July 2012</b>	<i>Draft Framework outline (IIRC, 2012a)</i>	<i>Working document to indicate progress.</i>	12
<b>November 2012</b>	<i>Prototype framework (IIRC, 2012b)</i>	<i>Working document to indicate progress.</i>	51
<b>April 2013</b>	<i>Consultation draft of the international &lt;IR&gt; framework (IIRC, 2013b)</i>	<i>Draft framework for consultation by stakeholders</i>	40
<b>December 2013</b>	<i>The international &lt;IR&gt; framework (IIRC, 2013c)</i>	<i>Final Framework.</i>	37

**Table 8 IIRC Document List**

### **3.6. Case study 2**

Case Study 2 examines an organisation involved with the IIRC as part of its pilot programme trialling the basic concepts of integrated reporting. The organisation (IRCO) was identified as a suitable case study because it was involved in <IR> and had prepared and published an integrated report at the commencement of the research. IRCO is a New Zealand State Owned Enterprise and is 100% owned by the New Zealand Government. IRCO is accountable to two government ministers appointed as shareholding ministers and, in addition, the providers of capital notes listed on the New Zealand Stock Exchange (NZX). IRCO was made up of three major business units at the commencement of this study. A strategy to transform the business model had been developed prior to the adoption of <IR> and was in the process of being implemented during the research period. The purpose of this strategy was to modernise the business to ensure its continued survival. Due to this strategy the political visibility of the organisation had increased because it had made a number of staff redundant, and this may have led to concerns that this process of transformation would affect its reputation.

As a result of the decision to adopt <IR> IRCO gained a high profile with other companies interested in adopting <IR> and also participating in the pilot programme trialling



the principles of <IR> (See 4.2.1 for further information on the pilot programme). Representatives from IRCO contributed regularly to professional articles and seminars in New Zealand where they talked about their experience. This case study was considered relevant to research questions because it was state-owned, a member of the pilot programme and had commenced publishing integrated reports and it provides a different case object to previous studies as it was in the public sector.

### **3.6.1. Data Sources**

The initial contact with IRCO was made by email followed by a telephone discussion. Once IRCO agreed to be part of the research project a date was selected for the interviews towards the end of 2014 after the publication of IRCO's second integrated report. The researchers were required to sign a confidentiality agreement with IRCO before any interviews could commence and this was signed in September 2014. The first initial face-to-face contact was made in October 2014 and was attended by the researcher and one of the supervisors. All subsequent interviews with IRCO were conducted by the researcher and one of the supervisors. At the initial meeting the format and process of all subsequent interviews were discussed as well as who would be the subject of the interviews. The internal stakeholders would all be members of the steering group that coordinated the production of the integrated report. These members included representatives from each of the business units that made up the organisation. As a result of the ethics approval the researcher obtained, a representative at IRCO was required to identify the external stakeholders that could be approached for interview. IRCO agreed to contact each external stakeholder and request their participation in the research project.

#### *Interviews*

All interviews at IRCO were conducted at their offices in either Auckland or Wellington. All the appointments in Wellington were held over two days. This meant that there were back-to-back interviews and each of the interviewees were aware of who was being interviewed and when. As a condition of access, each participant was only interviewed once. Two integrated reports had been completed for IRCO and a third was in preparation, this allowed participants to reflect on the development of the reporting process.

The steering group membership of internal stakeholders was made up of participants from each business unit as well as the head office. The external stakeholders were less easy to

access and within some of the external organisations it was not always easy to identify the most appropriate person to interview. One external stakeholder would only agree to provide written answers to previously submitted questions.

Understanding the adoption of <IR> inside an organisation and its use by external stakeholders requires engagement with the participants themselves. This study uses in-depth semi-structured interviews. The sustainability manager at IRCO was the initial point of contact and in total, 11 internal stakeholders were selected for interview and the interviews were conducted over four days in November and December 2014. The external stakeholders were also identified by the organisation and they were invited by internal stakeholders to participate. They were contacted by the researcher and four interviews conducted between December and January 2014. All of the interviews with internal stakeholders were conducted face-to-face but this proved problematic with the external stakeholders. Two were conducted by phone, or by written answers to our questions. Written answers were obviously not ideal as there was no opportunity for probing questions however, despite promises of anonymization this was the only solution. Each interview lasted for between 39 minutes and 56 minutes and was recorded using an iPhone.

To ensure anonymity the interviewees have been allocated a pseudonym and no details of the job descriptions is provided in Table 9 which lists the times and locations for each interview and the allocated pseudonym that is used in the analysis in Chapter 4. In Chapter 4 each name is suffixed by either I or E to denote either internal or external stakeholder.

	<b>Date and place</b>	<b>Role – Internal or External stakeholder</b>	<b>Allocated Pseudonym</b>	<b>Length of recorded interview</b>
<b>1</b>	Wellington 29 October 2014	<i>Internal</i>	<i>April</i>	<i>55 minutes</i>
<b>2</b>	Wellington 6 November 2014	<i>Internal</i>	<i>Bruce</i>	<i>51 minutes</i>
<b>3</b>	Wellington 6 November 2014	<i>Internal</i>	<i>Charlie</i>	<i>56 minutes</i>
<b>4</b>	Wellington 6 November 2014	<i>Internal</i>	<i>David</i>	<i>49 minutes</i>
<b>5</b>	Wellington 6 November 2014	<i>Internal</i>	<i>Eliot</i>	<i>49 minutes</i>
<b>6</b>	Wellington 6 November 2014	<i>Internal</i>	<i>Francis</i>	<i>43 minutes</i>
<b>7</b>	Auckland 10 November 2014	<i>Internal</i>	<i>Grace</i>	<i>39 minutes</i>
<b>8</b>	Phone to Wellington 17 November 2014	<i>External</i>	<i>Hannah</i>	<i>56 minutes</i>
<b>9</b>	Wellington 19 November 2014	<i>Internal</i>	<i>Ivan</i>	<i>38 minutes</i>
<b>10</b>	Wellington 19 November 2014	<i>Internal</i>	<i>Jason</i>	<i>41 minutes</i>
<b>11</b>	Wellington 19 November 2014	<i>Internal</i>	<i>Kate</i>	<i>40 minutes</i>
<b>12</b>	Wellington 19 November 2014	<i>Internal</i>	<i>Lionel</i>	<i>54 minutes</i>
<b>13</b>	Telephone interview 16 November 2014	<i>External</i>	<i>Mike</i>	<i>20 minutes</i>
<b>14</b>	Auckland 22 December 2014	<i>External</i>	<i>Nigel</i>	<i>1 hour 6 minutes</i>
<b>15</b>	Telephone interview. 22 December 2014	<i>External</i>	<i>Osborne</i>	<i>56 minutes</i>
<b>16</b>	Written answers received 19 January 2015	<i>External</i>	<i>Philip</i>	<i>N/A</i>

**Table 9 Case Study 2 - IRCO interviewees summary**

### *Documents*

The integrated reports published by IRCO were selected as additional data to be analysed. These reports were publicly available from their website. Details of the documents reviewed are shown in Table 10.

<b>Date</b>	<b>Document</b>	<b>Pages</b>
2012	<i>Annual Report</i>	183
2013	<i>Annual Review Part 1</i>	44
2013	<i>Annual Review Supporting Information</i>	118
2014	<i>Annual Review Part 1</i>	48
2014	<i>Annual Review Part 2</i>	118
2015	<i>Annual Review Part 1</i>	30
2015	<i>Annual Review Part 2</i>	118
2016	<i>Integrated Report</i>	29
2016	<i>Consolidated Financial Statements</i>	88
2017	<i>Integrated Report</i>	44
2017	<i>Consolidated Financial Statements</i>	80
2017	<i>Annual Report</i>	110

**Table 10 Case Study 2 Document List**

### **3.7. Data Analysis**

All interviews and documents were analysed using qualitative coding techniques using an NVivo software package. The data were analysed using a thematic analysis approach (Bryman & Bell, 2015), firstly, by identifying coding based on themes and topics that appeared in the conversations and then, secondly, aggregating these codes to more general themes related to the research questions.

The unit of analysis being coded was usually a sentence or phrase containing an idea to be coded. Following completion of the coding the initial codes were then reviewed to create themes. At the initial coding level, no attempt was made to infer themes. Coding was done on the explicit words used in each interview. The initial coding resulted in more than 50 codes. Some of these were new codes and some were related to the initial research questions and literature review. All of the codes were then reviewed and merged or collated with others to reduce the number of themes in line with the research questions. The first analysis required a considerable amount of time and required getting deeply involved with the individual transcripts and documents. The review process required looking at the transcripts and the codes

in total to see where different words were used, but if the individuals or documents were actually referring to the same theme or idea, then these codes could be combined into one theme. An example of the thematic analysis is shown in Table 11.

Preliminary codes	Examples of quotes from interviews	Resulting Themes
Climate change	<i>“I think we are well within 10 years of climate change signals coming through in such a way that politicians cannot avoid them”</i>	What is the purpose of IR?
Globalisation	<i>“There were other drivers such as the size of organisations has changed and in some of our work prior to that was that if you took the hundred largest economic entities in the world, I think 44 of them are companies and that is just a change people have not recognised”.</i>	
Financial reports less relevant	<i>“Within the accounting profession for a long period that there had been a view that the financial statements were becoming not less relevant, but a less complete picture of the performance of the organisation”.</i>	
Greenwashing	<i>“It’s still down at that we are doing propaganda in a more sophisticated way year on year dynamic”.</i>	What is the value of <IR>
Materiality	<i>“We did actually end up using materiality in the framework but we had I can’t imagine how many man days of discussion about whether we should or not”.</i>	
Measurement	<i>“If we are going to measure some aspects of sustainability performance then we are going to have to measuring some things that we don’t currently measure”.</i>	
Transparency	<i>“So much of undercurrent financial reporting is actually hidden, it’s in the dark, and it’s not transparent”.</i>	

**Table 11 Example of thematic analysis**

The raw data was grouped into four separate data groups. The first group related to interviews with individuals directly connected with the IIRC. The second group related to interviews with case study two participants. The third group related to the IIRC documents.

The last group relates to the minutes for the Council and working group. Each group represented a separate project within the NVivo software and were analysed separately.

The thematic analysis was conducted by the researcher alone and the codes and themes are the choices of the researcher alone based on discussions with the supervisor and a review of the literature and, therefore, are subjective. Another researcher may have chosen different codes and come up with different themes. The coding and analysis was conducted over a period of months of coding and revising. The use of NVivo provided a useful tool to store the analysis and make sense of the codes. The results are not generalizable to the whole population of organisations preparing an integrated report.

### **3.8. Ethics**

The University of Auckland Human Participation Ethics Committee oversee the ethical considerations of all research conducted by the University of Auckland. Ethics approval was obtained on 14 January 2014 and supplemented a previous approval obtained on 4 May 2012.

The purpose was to ensure the research was done in accordance with ethical standards. The first step of obtaining ethics approval was to explicitly state the purpose of the research and identify targets to be interviewed. As part of this process the researcher provided letters to research participants notifying them of the purpose of the research and how the information from the interview would be used. Participation information sheets for both employers and employees are provided in Appendix 4. In some cases, the interviewee was able to sign as both employer and employee.

Draft questions to be asked in interviews is also a requirement of the ethics approval process. The questions were intended to be open-ended and not to anticipate a position or opinion. Questions were designed to elicit information on the main research questions related to the intended purpose of <IR> and the value (whatever value represents to each interviewee) of <IR>. This process made the researcher aware of the potential effect of the interview process and think carefully about the questions. The interview questions for each group are listed in Appendix 1.

A condition of the ethics approval was anonymity for interview participants. This was stated in the information sheets for participants to sign and in the introduction to each interview. In the IIRC interviews, this did not appear to be a problem. In IRCO the issue of anonymity

was more problematic. Every interviewee within IRCO was aware of the other internal stakeholders being interviewed. Initially, it was suggested that quotes by individuals could be referenced. Finally, it was agreed that quotes would only be identified as coming from either an internal or external stakeholder. This would provide an acceptable level of anonymity to each individual and reduce any internal conflict within IRCO that may have arisen as a result of anything that was said within each interview. Within any organisation, there are internal conflicts and politics that are unknown to the researcher. It is important to reduce the probability of any conflict by strict adherence to issues of confidentiality.

In the IIRC documents no individual authors are named although there is often an introduction by either Paul Druckman (CEO) or Mervyn King (Chairman). The minutes to the meetings are publicly available from the IIRC website<sup>27</sup> and provide transparency to the IIRC. Use of these IIRC documents does not, therefore, raise any ethical concerns.

### **3.9. Summary**

The purpose of this chapter is to outline the methodology, theoretical framework and research methods used in this thesis. An interpretative approach was selected as the most appropriate to explain the introduction and adoption of integrated reporting. Research into <IR> was emerging and the limited quantitative information suggested that a qualitative approach would yield more interesting results that would provide future researchers with areas for future investigation.

Previous research into sustainability reporting has favoured legitimacy theory. However, stakeholder theory, which is linked to legitimacy theory, has also been used and it is concluded that a consideration of both is appropriate for examining IRCO's voluntary adoption of integrated reporting. The IIRC introduced <IR> and proceeded to promote the new initiative to dominate other potentially competing frameworks, that is, one of the IIRC's objectives was for <IR> to be seen as the norm for non-financial reporting. Therefore, institutional theory can provide insights into the rapid development of <IR> and the IIRC.

Two case study sites were selected and data collected using interviews and publicly available documents. Data were analysed using thematic analysis for the interviews and

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<sup>27</sup> <http://integratedreporting.org/iirc-council-meetings/> and <http://integratedreporting.org/iirc-working-group-meetings/> accessed 21 January 2016.

content analysis for the integrated reports of IRCO and the IIRC meeting minutes. Ethics approval was granted for interviews to proceed.





## Chapter 4. The emergence of the IIRC and an overview of <IR>

*“The **tipping point** is that magic moment when an idea, trend, or social behaviour crosses a threshold, tips, and spreads like wildfire”.*<sup>28</sup>

### 4.1. Introduction

The purpose of this chapter is to describe the purpose and value of <IR> from the perspective of members of the IIRC as it developed from an introductory concept to a published framework (IIRC, 2013c) using an institutional lens as the theoretical approach. The progress of the IIRC was affected by those that had been most involved in its development and it is appropriate to use the knowledge of those closest to the progress to understand the purpose of <IR>. This Chapter explains why the IIRC developed in the way that it did and the attributes that ensured it attracted positive attention and strong support.

In the rest of this chapter section 4.2 explains the macro-economic factors that provided the drive towards the introduction of the IIRC. Section 4.3 describes the major participants in the formation of the IIRC. Section 4.4 describes the development of the <IR> framework using neo-institutional theory. A summary of the contents of the <IR> framework is described in section 4.5 and a summary in section 4.6 concludes this chapter.

### 4.2. Motivations for the formation of the IIRC

The timing of the emergence of the IIRC was reflective of the perception of a significant loss of trust in business and the quality of information that was being presented to decision makers. The consequences of the global financial crisis (GFC) of 2008 created a negative view of business and in the opinion of members of the IIRC this was due to, “the corporate scandals and the corruption caused by greed and other unethical behaviour” (Fred) and Fred acknowledged that;

*I don't think there were many companies that saw that coming, not just the financial crisis in financial services but across the board in terms of the whole financial instability and credit crunch and the fact that there were a lot of systemic risks that*

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<sup>28</sup> Tipping Point, Malcom Gladwell, 2000

*people were not prepared for as a business and I think there was a recognition that there was far too much short-term thinking and organisations need[ed] to change (Fred).*

The dissatisfaction with the existing reporting regime combined with climate change and the legacy of the GFC of 2008 provided an environment where a new financial reporting initiative that provided an opportunity to respond to these shortcomings was welcomed. Each of these will be further discussed in the rest of this section.

#### **4.2.1. Climate change**

At the time of the IIRC's formation climate change was becoming increasingly important to the general public and there was a growing awareness of the depletion of natural resources. Around the world companies were increasingly being required to disclose information about the effects of their activities on the environment (Eccles & Krzus, 2014). External events affected organisations either directly or indirectly and this prompted considerable discussion in the media and in boardrooms (Eccles & Krzus, 2014).

The effects of climate change were also being more openly acknowledged and the potential long-term consequences anticipated, as Gary suggests, "I think we are well within 10 years of climate change signals coming through in such a way that politicians cannot avoid them any longer". Mark Carney (Governor – Bank of England; Chairman – Financial Stability Board) was quoted as talking of the "tragedy of horizons", in terms of the failure by key market actors, including investors, companies and governments, to look beyond the short-term and far enough ahead into the future to address looming challenges (e.g., relating to climate change) (Working Group minutes, 2014(3)). Don acknowledged that, "gradually people became aware of it, the sustainability thing, people are concerned about the depletion of natural resources and things like that".

The practice of sustainability reporting has increased by organisations around the world and is now standard practice (KPMG, 2017). Globally companies are increasingly being required to disclose information about the effects of their activities on the environment (Eccles, Krzus 2014). Organisations were therefore paying attention to what information could and should be provided to fulfil environmental disclosure requirements.

Sustainability reports have traditionally provided a considerable amount of information that could be perceived as dense and uninteresting (KPMG, 2013b). There was also the

potential for greenwashing and unbalanced or biased reporting (Cho et al. 2015, Marquis, Toffel 2011, Adams 2004, Deegan, Rankin & Tobin 2002). At the time of the IIRC's formation, the future development of sustainability reporting appeared to have stalled and <IR> was promoted as the next development to move sustainability reporting forward (Leinaweaver, 2015).

#### **4.2.2. GFC**

Brian said “the crisis [GFC] probably actually made a number of people rethink or start to challenge whether we had exactly the right formulation for many things”. The GFC demonstrated that financial reporting was not able to highlight the deficiencies of organisations that failed so spectacularly. The IIRC 2011 Discussion Paper discussed “heightened expectations of corporate transparency and accountability” (IIRC, 2011, p.2) and that increased levels of transparency by market participants would be facilitated by producing an integrated report. If reporting affects behaviour then greater transparency that encourages reporting on the use of various resources would help decision makers improve the efficient allocation of capital and make better short and long-term decisions.

Organisations (in Europe and globally) wanted to legitimise themselves and to regain trust and position within society which was lost after the GFC and the acknowledged problems with existing financial reporting. <IR> represented an opportunity to demonstrate a commitment to improved corporate disclosure.

*The call for Integrated Reporting is beginning to rise in volume. With public trust in business undermined by scandal after scandal, we would do well to listen and act quickly (Jean-Marc Huët, CFO, Unilever)<sup>29</sup>*

The GFC created an environment where business felt they had lost their licence to operate. Subsequent to the fall of Enron in 2002 there was an increase in the number of sustainability reports (Owen, 2005). The reports were seen as a response to threats to legitimacy rather than a demonstration of increased accountability (Owen, 2005).

#### **4.2.3. Financial reporting concerns**

The GFC resulted in both market failure and large-scale corporate failure. There was a perception (KPMG, 2013) that there was something wrong with the financial reporting process

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<sup>29</sup> <http://integratedreporting.org/ir-networks/ir-business-network/> accessed 28 February 2016

as corporations did not highlight significant problems in their reports (WBCSD, 2014). Indeed “capitalism itself and sustainable capitalism, the Occupy Wall Street movement, whole lot of other issues were roaming around post the GFC” (Brian). Financial reporting had not signalled corporate failures during the GFC and this led to a loss of trust in both corporations and corporate reporting. The combination of the “financial meltdown” and “climate crisis” (Eccles & Krzus, 2010) suggested a solution was urgently required. The problem of profit being the primary focus of an organisation’s operations was also regarded as part of the problem (Porter & Kramer, 2011). It was argued that a single report that addressed all of these issues was necessary in order to improve transparency and <IR> could contribute to improving corporate sustainability and lead to a more sustainable society (Eccles & Krzus, 2010). Reporting standards (e.g. IFRS and USGAAP) were expected to improve the level of corporate reporting and while the new standards had resulted in much longer reports (IIRC, 2012c), the information was regarded by many as historic and backward looking.<sup>30</sup> <IR> was developed, in part to address concerns arising from the GFC, by improving transparency and corporate credibility and trust.<sup>31</sup> According to Brian;

*Financial reporting standards have encouraged compliance as the primary objective of reporting rather than accountability to the capital markets. Bob Laux [then Treasury Controller Microsoft Corporation] has said of the accounting profession that “our day to day work seems to have become mostly a compliance exercise rather than a communication exercise” (Brian).*

#### **4.2.4. Summary**

Concerns over the loss of corporate trust and the looming effects of climate change led to a background of distrust in the existing corporate reporting as commented by Alice “I think, round the table there was a consensus that reporting is not fit for a purpose” and Becky summarised many comments with:

*I think they quite cleverly embraced a multifaceted zeitgeist, if you like. Even before the IIRC came along there had been so much literature in the public domain about what was wrong with reporting. You know, it was both too short, too long, too cluttered, too many standards, too fragmented, nobody knew where to find it, it was not*

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<sup>30</sup> <http://www.theiirc.org/about/aboutwhy-do-we-need-the-iirc/> accessed 26 November 2013

<sup>31</sup> <http://read.gaaaccounting.com/news/an-interview-with-paul-druckmaniirc-ceo-and-hong-kong-institute-of-certified-public-accountants-member/> accessed 26 November 2013.

*consistent, it was too much publicity. You know, all these problems had been in the public domain for a long time, written about extensively (Becky).*

The macroeconomic drivers that led to the formation of the IIRC were driven by a few organisations that then encouraged the support of other linked parties to push the need for a new approach to corporate reporting. The original members of the IIRC are described in the next section.

### **4.3. Promoters of integrated reporting <IR> and the IIRC**

#### **4.3.1. Formation of the IIRC**

In 2009 A4S hosted a meeting at Clarence House.<sup>32</sup> The result of that meeting was the agreement to form the IIRC. HRH The Prince of Wales provided the forum and was the catalyst to bring together a diverse group of participants as a result of the corporate failures subsequent to the global financial crisis of 2008.

In August 2010 a press release announced the formation of the IIRC (The Prince's Accounting for Sustainability Project & Global Reporting Initiative, 2010). The two signatories were A4S (See Chapter 2.2.1) and the Global Reporting Initiative (GRI) (see later in this section). In addition, regulators, investors, companies, standard setters, the accounting profession and NGOs also agreed to participate in the development of <IR>. The participation of representatives from many influential organisations<sup>33</sup> gave weight to the IIRC. The press release stated “the world has never faced greater challenges: overconsumption of finite resources, climate change, and the need to provide clean water, food and a better standard of living for a growing global population” (The Prince's Accounting for Sustainability Project & Global Reporting Initiative, 2010) In addition, it was stated that integrated reporting (the shorthand description of <IR> was introduced later) would provide a framework which brings together “financial, environmental, social and governance information in a clear, concise, consistent and comparable format”. The aspirations of the IIRC in 2010 had wide ranging

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<sup>32</sup> Clarence House is the London base for HRH The Prince of Wales

<sup>33</sup> Accounting for Sustainability (A4S), International Organization of Security Commissions (IOSCO), Global Reporting Initiative (GRI), UNEP Finance Initiative, International Federation of Accountants (IFAC), International Accounting Standards Board (IASB), Financial Accounting Standards Board (FASB), UN Global Compact, Climate Disclosure Standards Board (CDSB), World Business Council for Sustainable Development.

appeal including sustainability (See Chapter 1.5 for a discussion of sustainability) and this explains the diverse individuals and organisations that supported the launch of this initiative.

At the time of formation of the IIRC there was a recognition that something needed to be done and Alec said:

*I think there was a common understanding that there was an issue .... and it concerned all the people in the room to a greater or lesser extent and there was also a recognition that if this group of organisations couldn't advance it – it wasn't going to advance at all.....I would characterise it as an idea whose time had come (Alec)*

In many of the IIRC documents there was a repeated message that the IIRC consisted of a comprehensive coalition of participants and not limited to one particular body or profession (IIRC, 2011; IIRC, 2012b; IIRC, 2013c). For instance:

*We were aiming to get the right mixture, cross-section of members to ensure we had both the right mix of stakeholders in terms of investors, corporate firms, regulators, NGO's as well as the right geographic split. There was quite a conscious effort to get the right mix of people and not too many of one particular body or one particular geographic grouping. As it happened, probably Europe is the strongest grouping. I think that was in part because of who had been involved in some of the initial meetings (Fred).*

Eric also recognised that diversity in the composition of the IIRC was crucial to its development:

*Prince Charles and through his sources and others was able to identify and get all of the major accounting firms, the Chief Executives would turn up to the Council meetings of the IIRC or committee at an early stage (Eric).*

Potentially, all the parties connected with the IIRC were themselves embarking on legitimising actions to demonstrate that if something needed doing they were ones that were capable of achieving it.

*I went along [to the first meeting] not really knowing what <IR> was about but when I saw who else was around the table I realised it was going to be a very important initiative. When I understood what it was about it seemed to me to be just the logical next step (Alice).*

There has been much written about <IR> by some of the pilot organisations such as the accounting firms (ACCA, 2017; Deloitte, 2011; KPMG, 2012; PWC, 2015a) and the level of interaction between the IIRC and society can be seen to be promoting <IR> within the corporate reporting space. The results are consistent with Humphrey, O’Dwyer, & Unerman (2016).

The rhetoric by members of the IIRC intended to stress that adopting <IR> was superior to other reporting frameworks and would result in a better operated business. Notwithstanding the statements of the IIRC there were still concerns with the challenges with the adoption of <IR> by organisations and some of the initial supporters of <IR> moved away as they saw the original aims of accounting for sustainability had been lost in the development of the framework (Flower, 2015; Thomson, 2015).

The IIRC was seen as an initiative that could do no harm and yet had the potential to bring about change;

*We all saw it was not a bad thing to be involved in this type of thing. Nobody really knew what it was but to say you want to go out and improve on corporate reporting, to simplify it and make it more meaningful and taking into account these wider impacts, it’s not a dumb idea (Eric).*

A4S and the GRI had established backgrounds in developing frameworks for environmental reporting (GRI) and developing the connection between environmental reporting with financial reporting, A4S and GRI were ideally placed to introduce this initiative as they were seen as not politically motivated but rather environmentally motivated.

The Global Reporting Initiative (GRI) was formed in the United States in 1997 by the Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environmental Programme (UNEP). The GRI had developed a framework for voluntary sustainability reporting including metrics and methods for measurement and specific guidelines for different industries had also been published. Of the G250, 89 percent reported some form of corporate responsibility (outside of financial reporting) and of these, 75 percent used the GRI guidelines as the most common framework (Financial Markets Authority, 2017). The GRI guidelines were intended to address the interests of a wide variety of stakeholders to create a globally relevant framework for organisations regardless of size, location or industry (GRI, 2013). Information provided using the GRI framework is extensive to provide useful information to all major stakeholders.



Links between these two organisations persisted (GRI and IIRC) and the past Chairman of the GRI (Professor Mervyn King) was appointed Chairman of the IIRC in 2011. The GRI was one of the co-founders of the IIRC as they saw that “understanding the links between financial results and sustainability impacts is critical for business managers”.<sup>34</sup> In addition, preparing sustainability reports using the GRI reporting framework provided a good basis to understanding the sustainability impacts of an organisation. This information is necessary to begin the process of preparing an integrated report.

A4S was concerned specifically about climate change and embedding sustainability into decision-making and the corporate reporting processes with a focus on UK organisations by creating connected reporting (Hopwood et al., 2010). The concern over the damaging effects of climate change spurred the conviction that business needed to consider climate change in every part of their operation;

*A4S aims to inspire action by finance leaders to drive a fundamental shift towards resilient business models and a sustainable economy. To do this, A4S has three core aims that underpin everything we do:*

- *Inspire finance leaders to adopt sustainable and resilient business models*
- *Transform financial decision making to enable an integrated approach, reflective of the opportunities and risks posed by environmental and social issues*
- *Scale up action across the global finance and accounting community*<sup>35</sup>

HRH The Prince of Wales brought together “representatives from international accounting and business communities, investors, government, academia and civil society”<sup>36</sup> and “big hitters” (Fred) to share his vision. A4S developed the concept of connected reporting in 2007 and in 2009 published a practical guide to connected reporting in conjunction with UK based organisations such as J. Sainsbury’s and HSBC.<sup>37</sup>

### **Pilot Companies & Investor Network**

Alongside the on-going framework development (discussed in Chapter 4.4), the IIRC set up a “pilot programme” in October 2011. Over 100 companies participated from around

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<sup>34</sup> <https://www.globalreporting.org/information/current-priorities/integrated-reporting/Pages/default.aspx> accessed 26 November 2013

<sup>35</sup> <https://www.accountingforsustainability.org/en/about-us/overview.html> accessed 23 July 2018

<sup>36</sup> <http://www.accountingforsustainability.org/about-us/project-history> accessed 26 June 2014

<sup>37</sup> <http://www.accountingforsustainability.org/connected-reporting/connected-reporting-a-how-to-guide>

the world with more than 50% coming from Europe. A summary of the pilot programme organisations by geographic location and industry is available in Appendix 2. The companies include industries in the spotlight such as extractive industries, financial services, and consumer facing companies.

Participants used the principles and concepts of <IR> from the Discussion Paper (IIRC, 2012d) to create their own integrated reports. From inception, the IIRC stated that <IR> was investor driven and therefore it was logical to use both potential preparers and users of integrated reports to test <IR>. The participants in the pilot programme committed to sharing their experiences with the IIRC. An investor network was also created to provide an investors' perspective on the disclosures expected from an integrated report and to comment on reports produced by the pilot organisations;

*The thing about those pilot companies is there is self-selection bias they paid £10,000 each to participate so they are self-selectors and probably thinking about their business in this way anyway or maybe they are marketing, I don't know. (Eric)*

Representatives from some of the pilot companies were on the IIRC Council and integrated reports by the pilot companies contributed to a database of integrated reports.<sup>38</sup> The pilot organisations were able to raise their own profile. The benefits of early adoption included being seen as a frontrunner that could lead to recognition as a business leader and there was an advantage from the shared experience of others also trialling the framework (Black Sun plc, 2014). This extended the volume of information available on <IR> and added to the education environment to portray <IR> as the new norm for corporate reporting.

A review of the reporting by companies participating in the IIRC pilot programme (Black Sun plc, 2014) provided insight into <IR> and;

*Part of the challenge of <IR> is that there is uncertainty over what a truly integrated report looks like. The International <IR> Framework is underpinned by a number of content elements and guiding principles, however what this means in practice to individual organizations is not always clear (Black Sun plc, 2014, p.6)*

The aim of the IIRC was to ensure that <IR> was embedded into mainstream business practice in both the public and the private sector while the public sector was not targeted in the initial

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<sup>38</sup> <http://examples.integratedreporting.org/home> accessed 30 November 2015

stages of the formation of the IIRC. However, a number of the pilot organisations were from the public sector and the drivers for preparing <IR> for this sector appeared to be significant. Public sector organisations face intense (political) scrutiny and the focus is often not only financial. They were also not subject to the short-term focus of analyst attention and the emphasis on long term;

*It was pointed out that the Public and Private sectors went down different routes to develop their respective accounting standards, and this should not happen again with <IR>. The IIRC should convene the Public Sector to get them thinking about <IR> and contributing to its development (Council minutes, 2012(1)).*

In the Council minutes discussion over the focus for future development was reported and especially issues that, while important could be considered at a later date. For instance “it was underlined that, although from a practicality perspective the initial focus of the <IR>’s framework is companies and investors, the approach is equally relevant to public sector and to other types of organisation. This should be considered at a later stage” (Council minutes, 2011(1), p.1).

The applicability of <IR> principles to other not-for-profit and public-sector entities was acknowledged in the Discussion Paper (IIRC, 2011) and in the Framework (IIRC, 2013a) although the main focus was on “reporting by larger companies” (IIRC, 2011 p.8) or “private sector, for-profit companies” (IIRC, 2013a, p. 4). The primary target of the integrated report was the provider of financial capital as stated in the framework although the needs of other stakeholders was acknowledged. In 2014 the public-sector pioneer network<sup>39</sup> was established and in 2015 the long-term strategy of the IIRC was articulated with a mission to establish <IR> in the public and private sector (IIRC, 2014b). In a Discussion document (IIRC, 2011) the issue of accountability to whom was not explicitly stated but as <IR> developed there was a shift in emphasis from profit-oriented organisations to more general forms while at the same time the main focus for the integrated report was narrowed to the providers of financial capital.

The pilot companies provided a network of motivated and enthusiastic supporters of <IR> and an additional channel for knowledge to share to other organisations in the same industry and geographical area. The experiences of the pilot organisations were shared in publications of the IIRC, for example, Black Sun plc (2014).

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<sup>39</sup> <http://integratedreporting.org/ir-networks/public-sector-pioneer-network/> accessed 20 October 2015.

#### 4.3.2. Memorandum of understanding.

The IIRC signed a Memorandum of Understanding (MOU) with the International Federation of Accountants (IFAC) in October 2012 to reflect “the opportunities that exist to work more closely together to promote, support and contribute towards the realization of mutual interests”.<sup>40</sup>

Another organisation, the Sustainability Accounting Standards Board (SASB)<sup>41</sup> sought to advance disclosure on sustainability matters and considered that the GRI and the IIRC to provide complementary vision towards this purpose. SASB signed a MOU with the IIRC in December 2013. Subsequently, a landscape map was created by the corporate reporting dialogue<sup>42</sup> to compare and contrast other frameworks and to distinguish them from one another as there had been accusations of an “alphabet soup of the reporting landscape”.<sup>43</sup> These frameworks are the International Accounting Standards Board (IASB), Financial Accounting Standards Board (FASB), Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), and International Organisation for Standardisation (ISO), Sustainability Accounting Standards Board (SASB) and Carbon Disclosure Project (CDP). There was a concern that the “battle” will result in a less optimal outcome.<sup>44</sup>

Similarly, in the turf war for the most popular method for non-financial reporting, the GRI and SASB might have been expected to voice some criticism of the IIRC. However, these bodies entered into MOUs to specifically recognise that each has something to offer and support each other. The MOUs increased the network of organisations discussing <IR> and limited competition between frameworks which could threaten to split support for any new innovation. The co-creators of the IIRC (GRI and A4S) were focussed on the development of

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<sup>40</sup> <https://www.ifac.org/news-events/2012-10/ifac-and-iirc-sign-mou-cooperation-collaboration-ir> accessed 25 February 2016.

<sup>41</sup> The Sustainability Accounting Standards Boards (SASB) was formed in the US 2012 with similar objectives to the IIRC. SASB set out to provide a set of guidelines for US companies to report on sustainability through the Form 10K reports by developing industry specific standards in conjunction with the Securities and Exchange Commission (SEC). Their aim is to provide a more standardised form of sustainability report for investors. The SASB work “alongside” the GRI and the IIRC to advance the development of sustainability reporting initiatives (<http://www.sasb.org/>).

<sup>42</sup> “The Corporate Reporting Dialogue is an initiative designed to respond to market calls for greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements”. And it is composed of CDP, CDSB, FASB, GRI, IASB, IIRC, IOS, SASB. They have their own website <http://corporatereportingdialogue.com/>

<sup>43</sup> <http://integratedreporting.org/news/providing-clarity-across-frameworks-and-standards/> accessed 25 February 2016.

<sup>44</sup> <http://csr-reporting.blogspot.co.nz/2014/01/gri-vs-iirc-vs-sasb-round-nine-all-lose.html> accessed 21 January 2016.

corporate reporting to incorporate sustainability metrics and improve transparency so that the risks and opportunities faced by the organisation were more transparent. They were able to attract the support of influential parties to support their initiative so that the concept of <IR> developed internationally with interest beyond the borders of Europe into Asia, Australasia and South America and into North America. The main players of the IIRC invested considerable time and effort in promoting <IR> around the world with presentations, interviews and publications. The pilot programme participants provided another source of interested parties that helps raise the profile of <IR> and the IIRC. This contributed towards the stated objective of the IIRC to be the acknowledged leader in corporate reporting.

## **4.4. Framework development**

### **4.4.1. Governance**

The development of <IR> occurred through a series of preliminary and draft frameworks which were available on the IIRC website (<http://integratedreporting.org/>). The responses from the exposure drafts were also collated and published on the IIRC website and provided an insight into the development of the framework. The website of the IIRC provided a mechanism for it to be transparent in the disclosure of its processes and governance.

The Council members were representatives from key organisations and stakeholders;

*The global coalition of parties comprises entities drawn from broad global communities, including business and other reporter entities; providers of financial capital; policy makers, regulators and exchanges; the accountancy profession; reporting framework developers and standard setters; civil society; and academia.*<sup>45</sup>

And the composition of the working group included representatives from key stakeholder groups;

*Membership of the Working Group will include international representation from the following stakeholder groups: companies, investors, regulators and standard-setters, intergovernmental organizations, academia, the accounting profession and civil society. Members will sit on the Working Group as representatives of their organisations, in addition to bringing individual expertise. The Working Group will be*

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<sup>45</sup> <http://integratedreporting.org/wp-content/uploads/2015/09/IIRC-CONSTITUTION-2015-SEPTEMBER.pdf> accessed 22 June 2018.

co-chaired by Paul Druckman, *The Prince's Accounting for Sustainability Project (A4S) Executive Board Chairman*, and Ian Ball, *Chief Executive Officer, International Federation of Accountants (IFAC)*. The project secretariat will be jointly resourced by A4S, the Global Reporting Initiative and IFAC.<sup>46</sup>

The organisational structure of the IIRC is shown in Figure 2. A list of the current members of the Board and Council together with the working groups and technical taskforce were available from the website but details of the activities of the operating company and Board minutes were not publicly available. The minutes of meetings of the Council and Working Group, however, were available. Individuals on these various governance bodies were sponsored by their employers to be part of the IIRC Board and Working Group and not paid by the IIRC. The Working Group was disestablished in 2014 and therefore does not appear in Figure 3.

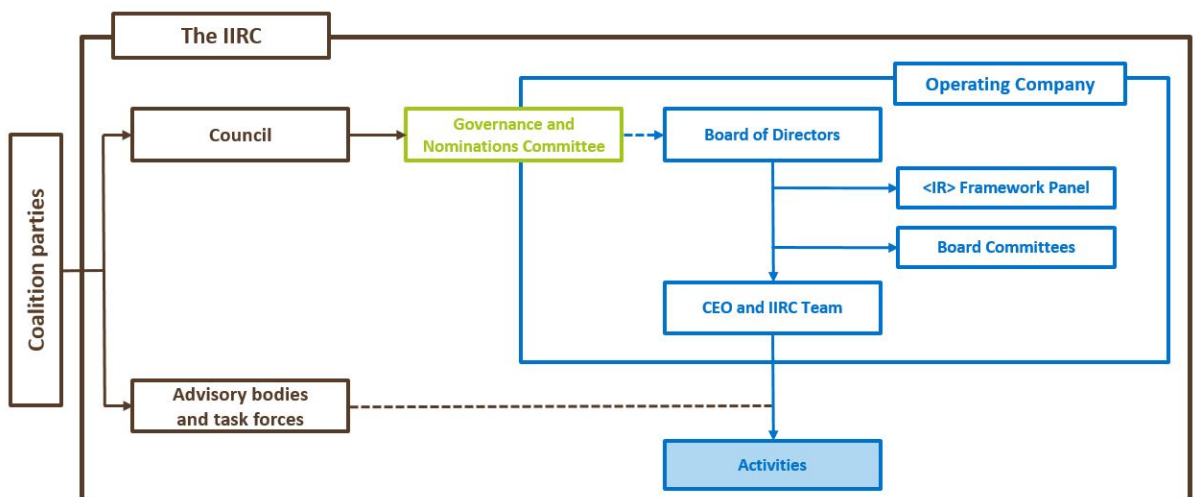


Figure 2 Structure of the IIRC from 2015<sup>47</sup>

The IIRC recognised and quantified the support it received as originating from four sources: other organisations, participants in the networks and the pilot programme, secondments to the IIRC Secretariat and other support by way of office space for example. The IIRC acknowledge the “substantial” support from the “major accounting firms”<sup>48</sup> in the supply of staff to the Secretariat. The Secretariat provided the basis for the creation of framework development documents and the influence of the accounting profession (Flower, 2015). Flower

<sup>46</sup> <http://integratedreporting.org/wp-content/uploads/2011/04/Working-Group-Terms-of-Reference-July-2010.pdf> accessed 22 June 2018.

<sup>47</sup> <http://integratedreporting.org/the-iirc-2/structure-of-the-iirc/> accessed 22 June 2018.

<sup>48</sup> <http://integratedreporting.org/how-is-the-iirc-funded/> accessed 28 February 2016.

(2015) states that half of the IIRC's initial members were accountants and there were few on the Board that were truly independent of the accountancy profession and big business (Flower, 2015, p.2). The influence of accountants and preparers on the direction of the IIRC dominated despite the attempts to attract a diverse range of organisations and individuals.

#### 4.4.2. A big idea

In 2010 the intention of the IIRC was to produce an <IR> model but there was no definition of what that actually meant but it was a big idea or an idea to convey a brand of corporate reporting that was better than what had gone before. As a consequence, the success of the IIRC in introducing a new framework built on prior developments (for example GRI and A4S) and;

*I don't think any of it is new but the packaging is new and I think that has really struck a chord with lots of people and that's good (Becky)*

The IIRC intended to make <IR> an improvement to corporate reporting but did not set out to be a standard setter. The engagement of governments was identified as a requirement to achieve that end (Council minutes, 2010(1)) and in order to create global awareness of <IR>, an increasing number of participants were invited to contribute as the framework developed. Some of those were represented on the IIRC as part of the Board, Council and Working Groups.<sup>49</sup> The aim of attracting a diverse range of stakeholders meant these new contributors influenced the development of the framework but there was a time dimension to the development as;

*I would see it more as an intention on the part of the IIRC to get a framework in place and get the notion of <IR> out there before there are too many developments with national variations that we have subsequently to try and converge in the way that we have had to with a convergence process with IFRS for example (Alec).*

And;

*There is a clear difference between being market-led and being voluntary. If the aspiration is for <IR> to become a corporate reporting norm, the key question is how an enabling regulatory environment is created. In some cases, this will be a question*

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<sup>49</sup> <http://integratedreporting.org/the-iirc-2/structure-of-the-iirc/> The Council provide guidance and input on issues relevant to the IIRC. The Working Group drew up and developed proposals on <IR> (dissolved in 2014).

*of working to remove regulation, while in others, it might be working to create regulation. The key is to identify in any given jurisdiction what is required to encourage an enabling environment (Council minutes, 2013(2), p.10).*

The big idea of <IR> targeted influencers that would enable the concept to take hold and participate in the development of the idea into a workable framework as described in the next section.

#### **4.4.3. Development of framework – iterations**

The IIRC in its initial press release did not provide any details about *what* an integrated report would look like or *how* it could account for sustainability but it was promoted as new and innovative (The Prince's Accounting for Sustainability Project & Global Reporting Initiative, 2010). At the time of formation of the IIRC “there were those in the room who wanted to turn the world upside down and some who wanted more of an evolutionary process” (Eric). The focus of the IIRC changed away from sustainability as a result of the influence of the people that invested time and energy to develop a framework and:

*The outcome I felt, at the IIRC, was sitting on the fence, was a bit sustainability, a bit financial reporting, it was a bit governance and the theory of change had not been worked out. The outcome wasn't clear and I think that is why we vacillated wildly (Becky).*

A discussion on sustainability was missing in the Council meeting minutes in 2010. Later Council meetings discussed the focus of the integrated report and the shareholder versus stakeholder approach. It was noted that the shareholder approach was adopted but acknowledged that the needs of stakeholders should not be overlooked by investors. In limiting the targeted users of an integrated report to shareholders, the information contained on environmental and social issues would only be included if relevant to shareholders. In this way sustainability was restricted to business sustainability rather than sustainability of the planet. Therefore, the move away from planetary sustainability was taken relatively soon after the formation of the IIRC. Paul Druckman, the CEO of the IIRC at that time acknowledged that the initial inspiration for the IIRC was to;

*contribute to financial stability and a more sustainable planet through better reporting [there may be an opportunity to] “take stock”, in terms of considering whether the IIRC has in any sense lost its edge, missed the point, become too*



*conservative in its ambition and/or really made the difference yet.....the coalition is engineering corporate societal change, which is a slow process. There will always be pioneers taking a strategic view who are willing to lead in this respect, but the great mass of organisations will go at a much slower pace, focusing on change at a far more tactical, needs driven level (Council minutes, 2013(1)).*

The significance of the move towards the shareholder approach was understood by the members of the Council and was adopted for pragmatic reasons to ensure the momentum for <IR> continued and the majority of supporters (big business and the accounting profession) maintained their support.

The Discussion Paper (IIRC, 2011) was released in September 2011 and stated that;

*Integrated Reporting combines the different strands of reporting (financial, management commentary, governance and remuneration and sustainability reporting) into a coherent whole that explains an organization's ability to create and sustain value (IIRC, 2011, p.7).*

And;

*Research has shown that reporting influences behaviour. Integrated Reporting results in a broader explanation of performance than traditional reporting. It makes visible an organization's use of and dependence on different resources and relationships or "capitals" (financial, manufactured, human, intellectual, natural and social), and the organization's access to and impact on them. Reporting this information is critical to: A meaningful assessment of the long-term viability of the organization's business model and strategy; meeting the information needs of investors and other stakeholders; and ultimately, the effective allocation of scarce resources (IIRC, 2011, p.2).*

The integrated report was suggested to be the "primary reporting vehicle" (IIRC, 2011, p2) for an organisation and the reasons to justify the introduction of <IR> included environmental and social concerns and the desire to add value to the information being provided and not simply add to the volume. There were over 200 responses to the discussion paper (IIRC, 2012c) and included comments such as "some respondents provided interpretations.....including the misinterpretation that <IR> is the evolution of sustainability reporting". Reuter and Messner (2015) find the comment letters represent a form of political

lobbying as they were written primarily by preparers and large multinational firms. Subsequently, in 2012 the IIRC published a Draft Outline of an <IR> Framework (IIRC 2012a) followed by a Prototype Framework (IIRC, 2012b).

The Consultation Draft of the <IR> Framework was issued in April 2013 (IIRC 2013a) to assist with the *process* of preparing an integrated report, which was the integrated thinking required to prepare a high standard integrated report. The draft framework did not specify benchmarks or detail specific measurement bases to use and it was intended that each organisation determine the content of the report based on their view of the creation of value for their business (IIRC, 2013a). There were 359 submissions in the three months the draft was available for comment and a detailed summary of responses was produced which highlighted the difficulty in assessing “what role an integrated report plays in relation to existing financial, sustainability, and corporate governance reports” (IIRC, 2013c, p.10). This was further reiterated by commentators concerned regarding “confusion stemming from a proliferation of definitions” and the “burden associated with reconciling divergent approaches” (IIRC, 2013c, p.66). The level of interest in the development in a framework for <IR> and the participation in the Council meetings demonstrated that there was support for the IIRC and <IR>.

There was “lengthy discussion and rigorous debate” (Council, 2013(2)) on the framework by the Council before it was finally submitted to the Board for approval although the exact nature of the debate was not specified in the minutes. There was an acknowledgement that “the Framework is not a perfect document” but represents the “start of a journey” (Council, 2013(2), p.4).

The IIRC published the International <IR> Framework in December 2013 (IIRC, 2013c). <IR> was intended to act as a “force for financial stability and sustainability” (IIRC, 2013c, p.2) and an integrated report was anticipated to become the “corporate reporting norm” and be “consistent with numerous developments in corporate reporting taking place within national jurisdictions across the world” (IIRC, 2013b, p.2). In 2014, the IIRC stated that <IR> was expected to “act as an ‘umbrella’ for corporate reporting, behaviour and decision-making” (IIRC, 2014b p.2). In addition, as a top-level report it was viewed as a potential replacement for the management commentary or management discussion and analysis and potentially useful to investors by providing a coherent narrative (Lai, Melloni, & Stacchezzini, 2017).

#### 4.4.4. Analysis

<IR> has been adopted by a number of large multinational companies which has gained attention and publicity and the development of <IR> by the IIRC so far can be compared to normative mechanisms. Normative views shape the way organisations consider the right way to do things as opposed to the compulsory view of cultural or cognitive mechanisms. Normative views are shaped by several methods including education and the creation of professional networks to identify values and inform others. Education and persuasive argument by esteemed individuals and organisations encourage best practice. The most effective method to create normative pressures can be specific to each country or locale or industry and therefore the utilisation of a multitude of methods to successfully influence behaviour is required to create a global effect.

Following from Table 3 on page 60 the three pillars of institutions of which the IIRC can be compared are regulative, normative and cultural/cognitive. The symbolic systems of <IR> are values and concepts that have been consistently promoted by the promulgators of the IIRC (normative carrier) without definitions and in the Framework it states that “this Framework does not prescribe specific key performance indicators, measurement methods or the disclosure of individual matters” (IIRC, 2013c, p.7).

Without standards for integrated reports, <IR> has not been embedded into legislation other than in South Africa (regulative carrier). Instead, regulation and guidance has been limited to additional requirements for disclosures, for instance, on strategy by the EU.<sup>50</sup>

While the development of the Framework has meant there is a general understanding of what <IR> represents (cultural/cognitive carrier), within the integrated reporting community there is not enough evidence that it has spread to the general population. The symbolic systems of <IR> align as normative carriers rather than regulative or cultural/cognitive as the values of the IIRC are understood but not in the wider population. There are still only a small number of organisations that have adopted <IR>.

The relational systems carrier for each of the three pillars is based on the way the governance systems of the IIRC are organised and the way in which decisions are made. The organisation of the IIRC is controlled by a board of directors that are not government appointed.

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<sup>50</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095> accessed 24 July 2018. The EU Directive on disclosure of non-financial information and diversity information (2014/95/EU).

When the IIRC was formed the membership consisted of members that were connected through personal contact or as a result of their position or organisation they belonged to and, therefore, did not conform to regulative pillars and the relatively unstructured approach to appointing members to the Council and Board mean that the systems did not conform to the cultural/cognitive pillar.

The method by which the IIRC conveyed their message was through multiple meetings (Council meetings) and the MOUs to form alliances with other similar organisations. In this way, the message of the value of <IR> was disseminated but not to the public at large. The activities of the IIRC did not conform to regulative actions and supervision of how the principles of <IR> were disseminated were not monitored or supervised. The Council meetings brought together like-minded people to form a cohort of interested parties. Conferences were held for organisations that prepared integrated reports and this created a collegial atmosphere for organisations to discuss their successes and challenges in applying the principles of the Framework. The activities of the IIRC conformed to the normative view of creating groups of individuals and organisations invested in seeing the success of <IR> and over the period covered by this thesis it remained an innovation and whilst attracting interest it did not appear to be seen as the norm or the expected report produced by organisations as the number of organisations producing an integrated report are still small in relation to the total number of organisations.

The artefacts of the IIRC were created over time expanded to include publications produced by the IIRC and conferences as mentioned above. The Council meetings also provided an opportunity to bring together interested parties for discussion and updates on the progress of developing the Framework as well as discussing any innovations that had been introduced by participants. The IIRC created a website<sup>51</sup> to showcase of examples of integrated reports and to help other organisations considering adopting the principles of <IR>. Some of the publications by the IIRC were to record the experiences of organisations on the <IR> journey for example Black Sun, 2014. Anecdotally, when Richard Howitt, the CEO of the IIRC, gave a presentation to an <IR> roundtable in Auckland in May 2018, he acknowledged that it would be difficult to know what an integrated report looked like and this would suggest that it would then be difficult to assess the level of integrated-ness and compliance with the Framework which provides a challenge to provide assurance or certification for an integrated

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<sup>51</sup> <http://examples.integratedreporting.org/home> created in October 2012.

report. The artefacts of the IIRC have developed over time to a number of resources and information that fall short of providing regulation on an(y) integrated report and is not yet taken for granted by organisations globally. However, these artefacts provide evidence of a development in terms of resources to guide business to creating an expectation for an integrated report.

In Table 12 the carriers of the IIRC are compared to the pillars of neo-institutional theory. The evidence of the development of the IIRC shows that there are normative initiatives by the IIRC to develop the Framework so that it is adopted by a wider audience to become institutionalised. There is little evidence of regulation relating to <IR> in systems in law and the rules regarding the discussion of <IR> are not regulated. To date there is no professional body to oversee the standard of integrated reports. Similarly, there is little evidence of cognitive systems to explain the understanding of <IR>. There is some understanding of the concept of <IR> but there is little evidence of scripts as activities by members of the IIRC. Members of the IIRC promote their understanding of <IR> and the Chief Executives have promoted their activities through the Council meetings.

However, in Table 12 there is evidence that the activities of the IIRC align with the normative pillar of neo-institutional theory. The Framework represents the values of the IIRC and the guidance provided by the content elements and guiding principles shape the expectations of an integrated report. The administration and governance of the IIRC is affected by the authorities that form part of the Secretariat and the main contributors to the Secretariat come from the Big4 accounting firms. The activities of the IIRC have developed and in 2016 they introduced a training scheme to allow accredited training partners to develop organisational skills to adopt and report on <IR>.<sup>52</sup> There is evidence of normative artefacts in conferences, publications by the IIRC and the examples database<sup>53</sup> as well as the numbers of individuals that attended the Council meetings (see Table 14).

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<sup>52</sup> <http://integratedreporting.org/resource/ir-training/> accessed 16 August 2018.

<sup>53</sup> <http://examples.integratedreporting.org/home> accessed 16 August 2018.

Carriers	Pillars		
	Regulative	Normative	Cultural-Cognitive
<b>Symbolic systems</b>	<i>What are rules and laws regarding &lt;IR&gt;? Are the laws consistent across countries?</i>	<i>What are the values of the IIRC and are they consistently applied?</i>	<i>Is there a general understanding of what &lt;IR&gt; represents/means and what an integrated report actually reports on?</i>
	<i>&lt;IR&gt; is not enshrined in law.</i>	<i>The IIRC developed a Framework incorporating seven guiding principles and eight content elements to assist in preparing an integrated report.</i>	<i>The overall concept of &lt;IR&gt; is understood but it is inconsistently applied.</i>
<b>Relational systems</b>	<i>Who controls the composition of the IIRC and how has it changed over time. How is governance of the IIRC controlled?</i>	<i>How is the IIRC administered?</i>	<i>How do members of the IIRC identify themselves?</i>
	<i>The Board of the IIRC control the composition of the IIRC. Governance is also controlled by the Board.</i>	<i>The IIRC is administered by staff seconded to the Secretariat and the majority are from the Big4 accounting firms.</i>	
<b>Activities</b>	<i>Are there rules to control how &lt;IR&gt; is discussed and applied/used?</i>	<i>How has the IIRC created jobs from &lt;IR&gt;?</i>	<i>How do members of the IIRC convey their understanding of &lt;IR&gt;?</i>
	<i>No</i>	<i>The IIRC has set up a training program with authorised partners to help organisations adopt &lt;IR&gt;</i>	
<b>Artefacts</b>	<i>Are there certifications for an integrated report or qualifications for an integrated reporter?</i>	<i>Are there Annual Conferences, publications on progress of companies producing integrated reports?</i>	<i>Is the &lt;IR&gt; framework promoted as representing the IIRC?</i>
	<i>No</i>	<i>There is an Annual Conference and multiple publications from the IIRC. A website hosts examples of integrated reports. The Council meetings were a form of targeted conference forum to disseminate the principles of &lt;IR&gt;</i>	

**Table 12 Comparison of pillars and carriers for IIRC**

### Development of sustainability concept

The IIRC wanted to “forge a global consensus on the direction in which reporting needs to evolve” (IIRC, 2011 p.7). The notion of developing a global framework was evidenced in the initial press release and subsequent reports. The engagement of participants targeted provided a balance of backgrounds, industries and geographic spread to ensure that no one party dominated the process. This resulted in a level of agreement that would be far less than some participants would be prepared to contribute and Becky stated:

*If you think about it, you're bringing together all these different players in the same room, it's inevitable that the points of agreement, if there is a scale of one to 100, the points of agreement is going to be around the number 35 if 100 is the highest, the most pure thing you can agree....That's where you get the thing is safe enough, palatable enough that everyone can agree to and I felt that diluted the process (Becky).*

She continued:

*That's where sustainability kind of got eroded out if you like because, for no reason as far as I'm concerned other than political institutional tensions within GRI and A4S so it's hardly a surprise is it? (Becky).*

The positioning of <IR> vis a vis other frameworks and past developments was identified and debated. Eric stated that <IR>, “is not sustainability accounting it's about whether you've got a sustainable business model” and Fred considered that:

*This [<IR>] was seen as an improvement in corporate reporting, so it's better reporting rather than wider reporting, and while sustainability reporting is reporting, it's very much appealing to a specific audience, whereas <IR> is really trying to appeal not just to investors but to a wider audience that is trying to look at what is the holistic view of reporting not just a narrow, or just one aspect like environmental reporting (Fred).*

Sustainability became one of the casualties of the process and the debate within the IIRC around sustainability is evident in the minutes such as;

*Additional discussion revolved around the challenges of 1) maintaining an appropriate balance between sustainability and other components of integrated reporting in the document [Discussion Paper], 2) introducing something new, that in the short-term would impose additional demands on companies, and 3) the tension between additional transparency and commercial sensitivity. The Discussion Paper should set out some of these challenges and solicit comment (Council minutes 2011(2), p.2).*

There were also challenges in gaining the acceptance of the business community if the sustainability objective was front and centre as it was considered possible that as Eric stated,

“if you describe this [IR] as sustainability they [the business community] are not interested” and the frame of reference to sustainability was important;

*Use of the term “sustainability” in the value proposition should be actively encouraged in the broader sense of “business sustainability”, which is crucial to the concept of long-term value creation in the context of the overarching goal of <IR> (Council minutes, 2014(1), p.9).*

Minutes of later IIRC Council meetings discuss the focus of the integrated report and the shareholder versus stakeholder approach. It was noted that the shareholder approach was adopted but acknowledged that the needs of stakeholders should not be overlooked by investors.

The participants and primary financial supporters of the IIRC were motivated to ensure that <IR> continued to be promoted and achieve a tipping point where <IR> became the norm for corporate reporting on a global basis. Sustainability was not pursued and instead the focus was on a consensus of ideals. Later, the CEO noted;

*In terms of what the evolution of corporate reporting might be, we are aiming for an “epidemic” of <IR>. We need to ensure we maintain flexibility and don’t apply too much rigidity to what an integrated report will look like, on the basis that a lot of small changes can collectively make a big difference (Council minutes 2015(1), p.4).*

As the framework developed, the focus of sustainability diminished and became only part of the objective of <IR>. Environmental focus was replaced by business sustainability with the introduction of multiple capitals of which natural capital was but one. The reason for this change lay with the key decision makers within the IIRC. The key participants in the formation of the IRC were driven by a similar group of macro-economic factors that were commonly mentioned by interviewees and in articles written about <IR>.

Sustainability of the planet was little discussed in the discussion documents of the IIRC but appears in later academic articles on <IR> (Buhr et al, 2014, Thomson, 2015). The change in direction to limit the scope of <IR> to business sustainability using the six capitals was a disappointing result for observers with a focus on global sustainability. It was suggested that <IR> would not change corporate reporting or behaviour and will result in business as usual (Flower, 2015).



The change in the focus of the IIRC was concentrated in the people that invested time and energy to develop the Framework and the principles-based nature of the final Framework meant that;

*Many organizations claim to have produced integrated reports – the danger is that the IIRC loses control of what <IR> means (Council minutes, 2012(1)).*

In the next section the details of the <IR> principles are discussed.

## **4.5. Integrated Reporting**

### **4.5.1. Who is the targeted end user – push or pull?**

In contrast to other CSR frameworks such as the GRI, the primary audience for the final framework for <IR> in 2013 is much narrower, being only to the providers of financial capital. The objectives of the IIRC changed and sustainability was no longer the primary focus. Multiple potential stakeholders were reduced to one, being shareholders and;

*It was suggested that there is no conflict between shareholder value and the stakeholder concept – shareholders have to take stakeholders into account – customers, employees, government, community, suppliers etc. have a clear impact on performance (Council minutes 2010(1), p.1).*

In the framework “an integrated report benefits all stakeholders that are interested in an organisation’s ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers” (IIRC, 2013c, p.7).

One of the key questions in the Council minutes 2011(1) considered whether there was any demand for <IR> by investors. To this point the concept of <IR> was being pushed out to investors by preparers and by 2014 it was acknowledged that;

*Investors will not take a lead in terms of generating the “pull” for <IR> in the short term. We need to drive <IR> into the investor community and prompt a reaction that way (Working Group minutes, 2014(1)).*

The strategy to increase the demand for <IR> was suggested to be through education and promoting the benefits through professional networks (Working Group minutes, 2014(1))

thus establishing <IR> as a valid institutional approach to corporate reporting. The minutes also mention this as the “breakthrough phase” (Working Group minutes, 2013(3)).

A geographical approach to developing the thrust of <IR> was successful in Brazil although there were comments that suggest that the promotion of <IR> was not without criticism;

*Drawing on legitimacy theory, the sociology of professions and the sociology of science, I characterised the project to promote integrated reporting in Brazil as an alliance between management, which is benefitted by developing a means to influence the social dispute over the meaning(s) of sustainability, favouring a business-friendly approach, and the accountancy profession, which expands its jurisdiction and incorporates new lines of services to its portfolio (Junior, 2017).*

In the quest for global acceptance the IIRC acknowledged that the support of the US would be required;

*The IIRC and <IR> have very little visible presence in the US and are consequently at best regarded as a sideshow. It will continue to be perceived as a European initiative unless its US profile is strengthened (Council minutes, 2013(1), p.15).*

On the other hand, Alice noted that;

*When you look at the list of pilot companies, Microsoft, Coca Cola, Pepsi Cola, there are a number of very large American companies that are piloting it so, that sits on the other side of the ledger (Alice).*

In addition to a balance of organisations to include the US the Council also outlined an ideal diversity balance within the composition of the Council as: providers of financial capital 25%; report preparers 20%; civil society 15%; accountants 15%; standard setters of 10%; policymakers 10%; academia and others 5% (Council minutes, 2013(1)). It was noted that a geographic diversity in the composition of the Council was also a desired objective and new members should be encouraged from underrepresented regions. The minutes note the organisations that were represented by the individuals participating on the Council and this emphasised that the composition of the Council was important.

*We were aiming to get the right mixture, cross-section of members to ensure we had both the right mix of stakeholders in terms of investors, corporate firms, regulators,*

*NGO's as well as the right geographic split. There was quite a conscious effort to get the right mix of people and not too many of one particular body or one particular geographic grouping. As it happened, probably Europe is the strongest grouping I think was in part because of who had been involved in some of the initial meetings (Fred).*

It was acknowledged in the Discussion Paper (IIRC, 2011) that <IR> was built on previous developments and sustainability represented an important element. In 2015 “reporters see internal benefits, including better decision making, as well as positive changes in external relations” (IIRC & Black Sun plc, 2015, p.2) and the effective allocation of scarce resources appears to remain elusive. Potentially, <IR> could have a significant influence in the public sector where finance was not the only objective and an integrated approach may be appropriate.<sup>54</sup>

#### Minutes

The minutes of meetings available from the IIRC website<sup>55</sup> relate to both the Council and the Working Group. The Council represented the “institutional forum”<sup>56</sup> for the IIRC. The Working Group which was disbanded in 2014 provided recommendations for further research and proposals for the scope of integrated reporting<sup>57</sup>. The operating company of the IIRC based in the UK had a Board of directors and the Board minutes were not available to view and this was the main decision-making body of the IIRC. Despite the transparency of process that was demonstrated by the IIRC, the Board remained the decision-making centre and the direction of the IIRC was centred at this point. The individuals represented on the Board were the players that directed the direction of the IIRC although they were guided by feedback from the Council and Working Group as well as presentations made by members of the IIRC Secretariat. In this way “the behaviour of standard-setting organisations can be considerably deepened by studying the characteristics and motivations of the individuals within those organisations rather than via the abstraction of treating standard-setting organisations as though they were a ‘black box’, ignoring the complex sub-systems that drive their internal functioning” (Howieson, 2016, p.3)

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<sup>54</sup> <http://www.publicfinanceinternational.org/news/2015/06/pioneers-agree-integrated-reporting-could-improve-resource-allocation> accessed 30 November, 2015

<sup>55</sup> <http://integratedreporting.org/>

<sup>56</sup> <http://integratedreporting.org/the-iirc-2/structure-of-the-iirc/council/> accessed 6 February 2017.

<sup>57</sup> <http://integratedreporting.org/wp-content/uploads/2011/04/Working-Group-Terms-of-Reference-July-2010.pdf> accessed 6 February 2017.

The meetings of the Council were held approximately twice a year and in different cities around the globe (See Table 13 List of IIRC Council meeting dates). Each member was required to pay their own way to each meeting which may have compromised the ability of some members to attend. The maximum number of attendees at a Council meeting was 76 in May 2015 (London), 17 months after the launch of the framework. The number of pages for each set of minutes gives some indication of the level of debate at each meeting.

	<b>Year</b>	<b>Date</b>	<b>Location of meeting</b>	<b>Total number of people</b>	<b>Number of members in attendance</b>	<b>Number. of observers and other attendees</b>	<b>Number of pages in minutes</b>
<b>1</b>	2010	<i>16-Jul</i>	<i>London</i>	39	23	16	6
<b>2</b>	2011	<i>17-Jan</i>	<i>Beijing</i>	28	21	7	7
<b>3</b>		<i>13-May</i>	<i>New York</i>	46	26	20	8
<b>4</b>		<i>10-Nov</i>	<i>Sao Paolo</i>	27	20	7	14
<b>5</b>	2012	<i>27-Apr</i>	<i>London</i>	44	30	14	7
<b>6</b>		<i>2-Nov</i>	<i>Tokyo</i>	37	26	11	13
<b>7</b>	2013	<i>19-Mar</i>	<i>New York</i>	44	37	7	18
<b>8</b>		<i>5-Dec</i>	<i>London</i>	36	31	5	16
<b>9</b>	2014	<i>1-Apr</i>	<i>New York</i>	53	35	18	15
<b>10</b>		<i>3-Dec</i>	<i>Istanbul</i>	48	28	20	16
<b>11</b>	2015	<i>28-May</i>	<i>London</i>	76	50	26	15
<b>12</b>		<i>3-Dec</i>	<i>Tokyo</i>	56	35	21	8
<b>13</b>	2016	<i>27-Apr</i>	<i>Eschborn</i>	52	40	12	12
<b>14</b>		<i>6-Dec</i>	<i>London</i>	68	46	22	12
<b>15</b>	2017	<i>26-Apr</i>	<i>New York</i>	72	64	26	12

**Table 13 List of IIRC Council meeting dates, numbers of attendees and number of pages in minutes**

The minutes are careful to note the name and affiliation of each attendee. This was important to advertise the support of a wide range of organisations involved in the development of integrated reporting. At each meeting it was common to have a different representative from each affiliation. Indeed, there were only four individuals that are recorded as attending every Council meeting.<sup>58</sup> There does not appear to be continuity in attendance for the individuals although the same organisations are represented and it could be inferred that these meetings would be unable to set detailed policy without continuity of attendees. The minutes represented a summary of the meetings discussions including key points but comments are not attributed to an individual in most cases so it is not possible to identify the change in direction of the IIRC

<sup>58</sup> These are Paul Druckman, Jessica Fries, Mervyn King and Charles Tilley.

from these documents. The minutes do, however, document the discussion and publicity surrounding the development of <IR>. The minutes also demonstrate the plan to widen the engagement of discussion of <IR> and to ensure it became the topic of interest to policy makers at such events as the G20 and others (Council minutes, 2010(1)).

In the minutes each individual is listed as well as the organisation they are representing. In Table 13 the attendees are grouped by the organisations they represent at each meeting. There may have been individuals that were representing an organisation but were also qualified accountants, for instance. The organisation listed in the minutes was used to compile the information in Table 13. The organisations that attended the meetings did represent the broad range that was suggested by the IIRC although the accounting profession made a significant representation through the accounting firms and accounting bodies. In addition, the IIRC Secretariat were commonly staffed by individuals seconded from international accounting firms. For instance, there were 38 representatives from 16 accounting bodies that made 97 attendances at the 15 Council meetings held between 2010 and April 2017 (see Table 14). Each individual could potentially attend a maximum of 15 meetings but the most common (mode) number of attendances was one meeting as a different person was selected to represent each organisation at each meeting. In this way, a wider selection of individuals was able to participate in the discussion of <IR>. A total of 245 individuals attended Council meetings.

<b>Classification of attendees at Council meetings</b>	<b>Number of different organisations attending meetings</b>	<b>Number of different individuals attending meetings</b>	<b>Total number of attendances by representatives over all 15 meetings of Council</b>
<b>Accounting Body</b>	<i>16</i>	<i>38</i>	<i>97</i>
<b>Accounting Profession</b>	<i>6</i>	<i>28</i>	<i>71</i>
<b>Civil Society and Not for Profit</b>	<i>24</i>	<i>49</i>	<i>153</i>
<b>Company - not part of pilot organisations</b>	<i>4</i>	<i>7</i>	<i>9</i>
<b>Pilot Organisations</b>	<i>7</i>	<i>14</i>	<i>34</i>
<b>Government</b>	<i>1</i>	<i>1</i>	<i>1</i>
<b>IIRC Directors and Secretariat</b>	<i>1</i>	<i>42</i>	<i>137</i>
<b>Investors</b>	<i>10</i>	<i>17</i>	<i>30</i>
<b>Professional body -other than accounting</b>	<i>7</i>	<i>9</i>	<i>17</i>
<b>Regulators</b>	<i>9</i>	<i>16</i>	<i>52</i>
<b>Standard Setters</b>	<i>7</i>	<i>24</i>	<i>52</i>
<b>Totals</b>	<b><i>92</i></b>	<b><i>245</i></b>	<b><i>620</i></b>

**Table 14 Summary of classification of attendees to IIRC Council meetings**

The Working Group also met in different locations although these were all within Europe (see Table 15) and the meetings were attended by an average of 31 people and over individuals attended Working Group meetings overall.

<b>Year</b>	<b>Date</b>	<b>Location of meetings</b>	<b>Total number of people in attendances</b>
<b>2012</b>	<i>27 Feb</i>	<i>London</i>	<i>22</i>
	<i>29 May</i>	<i>London</i>	<i>41</i>
	<i>17 Sept</i>	<i>Amsterdam</i>	<i>28</i>
<b>2013</b>	<i>12 Feb</i>	<i>Paris</i>	<i>28</i>
	<i>17 June</i>	<i>Paris</i>	<i>27</i>
	<i>22 Oct</i>	<i>London</i>	<i>33</i>
<b>2014</b>	<i>26 Feb</i>	<i>Geneva</i>	<i>43</i>
	<i>16 July</i>	<i>London</i>	<i>35</i>
	<i>17 Sept</i>	<i>Paris</i>	<i>24</i>

**Table 15 IIRC Working Group meeting details and number of attendees**

Table 16, the composition of the working group attendances by interest group did change between the first and last meeting in that the attendance by accounting bodies and accounting firms increased but the representation by civil society and not for profit was maintained as the representation by investors increased as time went on. This suggests that the

IIRC maintained representation from “a cross-section of representatives from civil society and the corporate, accounting, securities, regulatory, non-government organisations (NGO), international governmental organisations (IGO) and standard-setting sectors” (The Prince’s Accounting for Sustainability Project & Global Reporting Initiative, 2010) even if the balance of representation changed.

<b>Classification of attendees at Working Group meetings by interest group</b>	<b>No of individuals that attended meetings from each interest group</b>	<b>Number that attended first meeting Feb 2012</b>	<b>Number that attended last meeting Sept 2014</b>
<b>Accounting Body</b>	7	3	2
<b>Accounting profession</b>	16	4	8
<b>Civil Society and Not for profit</b>	23	3	4
<b>Companies - not part of pilot organisations</b>	3	1	1
<b>Companies - pilot</b>	12	4	1
<b>IIRC</b>	13		
<b>Investors</b>	14	3	5
<b>Other Professional Body</b>	1		
<b>Professional Body</b>	1	1	1
<b>Standard Setters</b>	10	3	2
<b>Total</b>	100	22	24

**Table 16 IIRC Working Group meeting attendees by interest group**

From the outset the IIRC wanted to create momentum for the adoption of the concept of <IR>. It was recognised that events that created demand for a new form of corporate reporting were time limited because competing frameworks would have the opportunity to take the position of leading framework over <IR> and the IIRC would not achieve its aim of becoming the norm for corporate reporting. By 2015 the Council were seeking an “epidemic” of <IR> (Council minutes 2015(1), p.4). This could only be achieved by not being too prescriptive in the way an integrated report should appear on the basis that if a large enough number of organisations produced an integrated report then <IR> would achieve its aim of being one of the dominant reporting frameworks (Council minutes 2015(1)) and create an epidemic or mass adoption. The IIRC was conscious of the necessity of creating a critical mass of organisations invested in seeing <IR> being successfully adopted and implemented.

The IIRC intended to make <IR> a legitimate approach to corporate reporting but did not set out to be a standard setter (Council minutes 2010(1)). In order to create global

awareness of <IR>, as many individuals as possible were invited to contribute as the framework of <IR> developed. The aim of attracting a diverse range of stakeholders meant that these new contributors had an influence on the development of the framework. Of the initial supporters of <IR> some moved away as the original aims of accounting for sustainability were lost in the development of the framework (Flower 2015, Thomson 2015) although the IIRC managed to retain the interest of a broad range of interest groups.

While the Council meetings provided an opportunity to consult with influential global businesses on <IR> to develop a framework, they also served as a way to educate as many influencers as possible. These influencers would influence decision makers in business and in government (for instance) on the benefits of adopting or recommending the adoption of <IR>. The Working Group provided another opportunity to solicit support for <IR>. The decision makers of the IIRC at the Board level made the final decision on the content of the framework. The Council were able to provide comments on the final framework but any suggested changes were on a “fatal flaw” condition which suggested that the Council was not the final decision maker. The composition of the Board was important to understand the direction of <IR>. There was a significant representation by accountants which drove the direction towards the business perspective and despite the broad range of interest groups the writing of the framework was significantly influenced by the accounting profession.

#### **4.5.2. The changing definition of <IR>**

The remit of the IIRC as described in the original press release was to “create a globally accepted framework for accounting for sustainability” (The Prince's Accounting for Sustainability Project & Global Reporting Initiative, 2010). The term sustainability was removed from discussion of <IR> in later documents. The Discussion paper published in 2011 (IIRC, 2011) described <IR> as:

*Integrated Reporting brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and creates value. (IIRC, 2011, p.6)*

The environment is included within this early definition and an integrated report is suggested to be the output from <IR> so that:



*The main output of Integrated Reporting is an Integrated Report: a single report that the IIRC anticipates will become an organization's primary report, replacing rather than adding to existing requirements. Such a report enables evolving reporting requirements, both market-driven and regulatory, to be organized into a coherent narrative. An Integrated Report provides a clear reference point for other communications, including any specific compliance information, such as investor presentations, detailed financial information, operational data and sustainability information. Much of this information might move to an online environment, reducing clutter in the primary report, which will focus only on the matters that the organization considers most material to long-term success. (IIRC, 2011, p.6)*

This suggested that <IR> provided accountability for sustainability in a description related specifically to the activities of the organisation. The IIRC also asserted their aim to have global influence with <IR>.

The definition of <IR> in the Framework (IIRC, 2013c) built on responses to the Discussion document, and the Prototype document so that the definitions were refined:

*Integrated reporting is a process **founded on integrated thinking** that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation. (IIRC, 2013c, p. 33)  
[Emphasis added]*

And:

*An integrated report is 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. (IIRC, 2013c, p.33) [Emphasis added].*

By the time of publication of the Framework, there was a clearer distinction between the process of <IR> (integrated thinking) and the integrated report. The concept of value creation was retained and the capitals were also retained although explicit mention of the environment or sustainability was removed as they were rolled into the capitals. There was more flexibility in the manner in which an integrated report could be produced, either as a standalone document or as part of another document that is part of a regulatory requirement (IIRC, 2013c).

## Integrated thinking

The Council minutes 2014(1, p.4) comment that “integrated thinking is the key differentiator for <IR> compared to other reporting frameworks and the key to demonstrating value in adopting <IR> to CFOs” and this is repeated again in Council minutes 2014(2, p.8) as “integrated thinking is the key issue, on the basis that unless better decisions are made, fundamentally nothing will change”. The link between integrated thinking and <IR> although outlined in the early discussion document (IIRC, 2011) is given greater emphasis in later documents. In the initial discussion document, it was acknowledged that integrated thinking was an underlying component of <IR> but the focus was on the integrated report;

*Integrated Reporting reflects what can be called “integrated thinking” – application of the collective mind of those charged with governance (the board of directors or equivalent), and the ability of management, to monitor, manage and communicate the full complexity of the value-creation process, and how this contributes to success over time. It will increasingly be through this process of “integrated thinking” that organizations are able to create and sustain value. The effective communication of this process can help investors, and other stakeholders, to understand not only an organization’s past and current performance, but also its future resilience. (IIRC, 2011, p.6)*

Feedback from the discussion document led to the distinction between <IR> and integrated thinking as a result of;

*A number of key challenges were identified, however, which include: distinguishing the process (integrated thinking and Integrated Reporting) from the product of an Integrated Report; some respondents stated that the IIRC should focus on embedding integrated thinking practices in organizations rather than focusing on the report, as they believed that genuine Integrated Reporting can only flow naturally from integrated thinking (Summary of Responses to the September 2011 Discussion Paper and Next Steps, p.7)*

The support and selling point changed and to encourage adoption of <IR> by organisations the benefit of integrated thinking to the “bottom line” was emphasised “<IR> is really in the long run, of relatively limited value unless it’s a reflection of integrated thinking in an organisation” (Alec) and; “it was an integrated reporting framework but ultimately,

organisations need to think in an integrated way before they can produce an integrated report” (Fred).

#### 4.5.3. Business Model

In the Framework (IIRC, 2013c) the definition of <IR> emphasised the long-term focus and value creation process. In order to gain acceptance to the widest audience possible, and through the development process, the initial aim of <IR> was changed from being primarily focused on “green” or environmental information to the current framework which could be described as “greenish” as environmental concerns remained as one the capitals to be reported on. The understanding of value creation in the context of <IR> highlighted that a purely financial focus was not sufficient to describe the value created by an organisation.

The terms used in the framework such as “value” were used in the initial stages without any clear definition of what these terms meant. Becky commented that;

*If <IR> could do something to find terms and coalesce around those definitions and get rid of some of this fragmentation of objective definition, we will get somewhere (Becky).*

The lack of standardised definitions provided challenges to users of <IR>. In an effort to provide a deeper understanding, background papers were produced to explain the most contentious concepts in more detail (business model, capitals, connectivity, materiality and value creation). The concept of value has many connotations depending on who is using the term. Within economics, value is a synonym for price where price is in monetary terms.<sup>59</sup> In the <IR> framework value has a much broader meaning. The IIRC produced a background paper specifically on value creation (IIRC, 2013d) which acknowledged there was no universally accepted definition for value creation. The paper goes on to explain themes that inform its understanding. Value is created, changed or lost through interactions with all of the capitals (not just financial) and an integrated report will look at these changes. Adams (2015) suggests that, considering the impacts of climate change, it would be illogical to report on changes to financial value only and unacceptable to ignore emissions where there will be a requirement to reduce them in the future. Adams (2015) goes on to explain that the Framework

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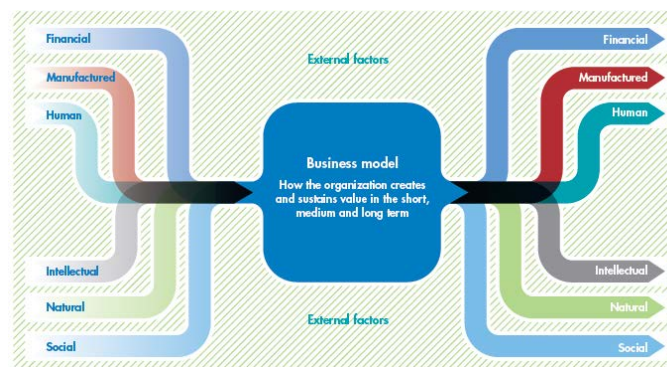
<sup>59</sup> Black, J., Hashimzade, N., & Myles, G.(2012). value. In A Dictionary of Economics. : Oxford University Press. Retrieved 8 Dec. 2015, from <http://www.oxfordreference.com.ezproxy.auckland.ac.nz/view/10.1093/acref/9780199696321.001.0001/acref-9780199696321-e-3283>.

was not prescriptive in the way an organisation should explain the movement in the capitals. There was no requirement to monetize any movement in the capitals and both qualitative and quantitative information could be used to describe how value is created, changed or lost (IIRC, 2013c).

For example in the background paper to value creation (IIRC, 2013d) the following statement is included;

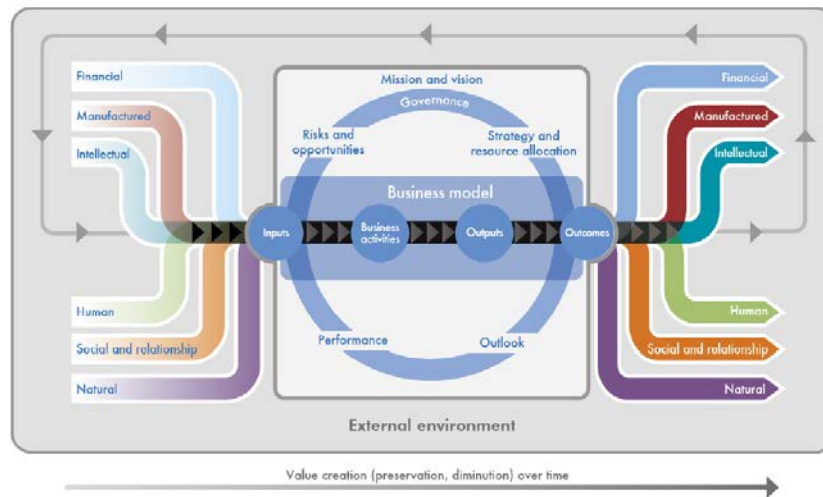
*The explanation of value creation in this Background Paper should be distinguished from the meaning of value. This Background Paper does not define value. Value has different meanings for different people and in different contexts and those meanings and contexts are not explored here. This Background Paper focuses on explaining the process of value creation for <IR> purposes. (IIRC, 2013c, p.3)*

In the Prototype framework (IIRC, 2012b), the six capitals were identified and the business model shown as a black box with no detail on the process of using each capital (Figure 3).



**Figure 3 Business Model from Prototype Framework (IIRC, 2012b)**

In the Framework (IIRC, 2013a), a more detailed view of the business model is shown in Figure 4 where the black box was expanded to show the business model in more detail including the relationship within the capitals with a comprehensive view of how an organisation creates value. The capitals remained mostly unchanged except that the social capital was expanded to represent social and relationship capital.



**Figure 4 Value Creation Process from Framework (IIRC, 2013) <sup>60</sup>**

The Framework did not provide a template or the opportunity for a “tick the box” approach. The principles-based approach provides an opportunity for an organisation to select the most appropriate presentation to tell their story of value creation, however, it also provides the opportunity to also be selective about the information to be presented. This poses a significant challenge for an organisation to prepare its first report. The presence of only good news in an integrated report may be perceived as marketing rather than a balanced story telling exercise and the absence of any bad news may indicate a bias towards information disclosure. In fact;

*How do you stop the integrated reporting just being the glossy bit?....I went to a function and there was this high level summary of the report and they were all successes and no failures, so it didn't meet the definition of an integrated report. It wasn't neutral because it was supposed to have the good and the bad so it wasn't balanced, it was gloss. (Eric).*

The essence of the understanding of <IR> was refined as the Framework developed and expanded to include the importance of integrated thinking. The concept of the capitals is described in more detail in the next section.

<sup>60</sup> The complete picture of an organization’s value creation process, showing the “interaction of the content elements and the capitals in the context of the organisation’s external environment” (IIRC, 2013b, p.11)

#### 4.5.4. Expanded discussion of the capitals

The capitals were introduced in the discussion paper (IIRC, 2011) and were initially referred to in quotation marks as they represented a new innovation and understood to be new to readers of integrated reports. The source of the innovation was acknowledged to be Forum for the Future (2009)<sup>61</sup> and White (2010). White (2010) described five capitals with the acronym INFOS being intellectual, natural, financial, organisational and social capital. A comparison between White (2010) and the discussion paper description of the capitals is shown in Table 17. The description of the capitals is similar and the discussion paper introduces manufactured as another capital without adding another acronym thus there are six capitals. The discussion paper acknowledges that the description given on each of the capitals is not definitive. Capitals have been introduced to facilitate the description of the value creation model for each organisation. The six capitals include financial, manufactured, intellectual, human, social and relationship and natural. A description of each of these capitals is provided in the framework. According to Porritt (Porritt, 2007) the capitals are an extension of the more common understanding of capital as land, buildings and machinery and money. In a sustainable world the effects of the operations of a business on other forms of capital would be assessed and acknowledged. The capitals are interdependent and dealing with each capital separately may not suit every business, however, looking at the capitals individually can be helpful in addressing a detailed understanding of the value creation process (Porritt, 2007).

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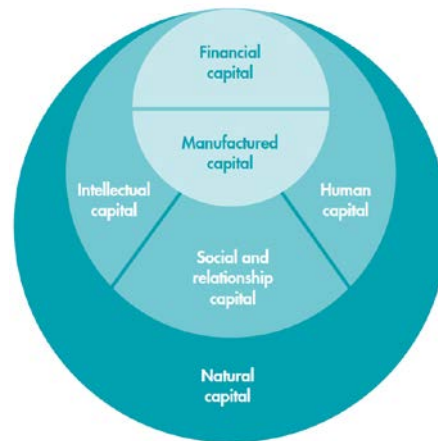
<sup>61</sup> <https://www.forumforthefuture.org/project/five-capitals/overview> accessed 30 August 2016.

	<b>IIRC Discussion paper (2011)</b>	<b>White (2010)</b>
<b>Financial Capital</b>	<i>The pool of funds available to the organisation for use in the production of goods and services and obtained through financing such as debt, equity or grants as well as generated through operations.</i>	<i>Funds either owned or borrowed by the firm that are available for productive uses.</i>
<b>Manufactured Capital</b>	<i>Manufactured physical objects that are available to the organisation in the production of goods and services including buildings and infrastructure.</i>	<i>Not included in White (2010)</i>
<b>Human Capital</b>	<i>The skill and experience of the employees. This includes their ability to align with the ethical values and respect for human rights.</i>	<i>Organisational capital The ability for efficient production within the organisation.</i>
<b>Intellectual Capital</b>	<i>Intangibles for competitive advantage. Intellectual property including brand value and reputation.</i>	<i>Intangibles that can provide the opportunity to create patents and other intellectual property including relationships with suppliers.</i>
<b>Natural Capital</b>	<i>An organisation's activities use natural capital in creating value and this includes water, land, minerals and forests. The business activities can have an adverse effect on biodiversity and health of the eco-system.</i>	<i>Goods and services provided by use of the natural environment including the biodiversity of air, water, land and sea.</i>
<b>Social Capital</b>	<i>Within stakeholder and other networks, the social capital reflects the relationships that will "enhance well-being". It also reflects the social licence to operate.</i>	<i>The activity within a network to create protocols for efficient production. This includes attitudes towards human rights</i>

**Table 17 Comparison of description of capitals between IIRC Discussion paper (IIRC, 2011) and White (2010)**

Despite some negative comments that were received in response to the Discussion paper (IIRC, 2012c) regarding the concept of capitals, they were retained. Comments on the Discussion paper (2012) suggested that the introduction of capitals created confusion as they were not clearly defined (Humphrey et al, 2015). Others suggested there is a need for an enlightened shareholder approach in order to utilise the capitals in a useful way. The term capitals refers to any "store of value" (IIRC, 2013a, p.2) used by an organisation to produce goods and services and the capitals have also been referred to "resources and relationships" (IIRC, 2013a, p.2) which distinguishes them from connections with financial ideas. The IIRC

produced an explanatory document on the capitals (IIRC, 2013a) to explain them in more detail and to explain that each capital could change in value and the relationship between the capitals was fluid and could change over time. The IIRC acknowledged that reporting on the capitals of an organisation would change over time as organisations apply the principles of <IR> to their reporting.



**Figure 5 The capitals (IIRC, 2013a)**

Each organisation uses capitals to a greater or larger extent and have a different effect on society. Another way of looking at the capitals is shown in Figure 5 where the capitals are nested so that financial and manufactured capitals are most likely to be reported followed by man-made capitals and surrounded by natural capitals which affects all others. The content elements (see 4.5.5) will address how the capitals are changed or affected by the business in the relevant area. How each capital would be affected by the business is specific to the organisation although commonalities would be expected across the same industry. Some of the capitals would be owned by the organisation and others by external stakeholders e.g. society, therefore, the report would identify how various stakeholders are affected by the business (IIRC, 2013a).

The IIRC recognised that measurement is important and the inclusion of quantitative measures and key performance indicators (KPIs) were expected to be helpful in assessing how an organisation creates value, although this was not a requirement of the framework (IIRC, 2013c). Indeed, the framework (IIRC, 2013c) goes on to say:



*It is not the purpose of an integrated report to quantify or monetize the value of the organization at a point in time, the value it creates over a period, or its uses of or effect on all the capitals. (IIRC, 2013b, p.8)*

The concept of capitals other than financial was not new but the IIRC managed to incorporate the capitals into a concept that allowed organisations to see how their introduction could add value to reporting models. In addition, guiding principles and content elements were introduced to guide the creation of the integrated report.

#### **4.5.5. Underlying guiding principles and content elements of an integrated report**

The framework contains a set of guiding principles and content elements. The guiding principles inform the content and how much information is presented such as strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness as well as consistency and comparability. The content elements were not meant to be standalone and are fundamentally linked. They include organisational overview and operating context, governance, business model, risks and opportunities, strategy and resource allocation, performance, outlook and basis of presentation. The Framework considers that;

*The intent is to strike an appropriate balance between flexibility and prescription that recognises the wide variation in individual circumstances of different organisations while enabling a sufficient degree of comparability across organisations to meet relevant information needs....on a basis that is consistent over time (IIRC, 2013, p.7).*

The use of qualitative measures to present a narrative of the value creation process using the capitals created significant challenges to ensuring comparability across organisations for instance, Eric comments;

*I say if one person has a story that says I don't hedge the fuel for my airline and another one says I do, that is what they are doing. You want to find out why people are acting differently. The difference is the story. (Eric)*

The balance between consistency and comparability is a challenge that each organisation will be required to consider as they prepare an integrated report.

## 4.6. Discussion and Conclusion

The IIRC was launched in 2010 to create a framework for sustainability. In late 2013, the IIRC launched the Framework for <IR> that emphasised the value creation process and provided a way to incorporate financial and non-financial measures to create an integrated report for an organisation that would explain the effect of their operations on six capitals.

In this chapter the people behind the introduction of the IIRC and the drivers for the formation of the IIRC have been examined, as well as the evolution of its objectives and the development of <IR>. The creation of the IIRC brought together a diverse group that had a common goal in developing a new form of corporate reporting. There was a mutual recognition that the IIRC had created an organisation composed of recognised leaders that provided credible leadership towards developing a new corporate reporting regime although each group of stakeholders had different motivations that brought them together.

HRH the Prince of Wales was the catalyst that brought together the many groups that supported the IIRC. Its formation would likely not have happened without him. A4S had already developed the idea of connected reporting with a significant contribution from the accounting profession. The accounting profession also provided technical skills and standard setting skill and experience to rapidly develop the <IR> Framework as well as providing headquarters and personnel to run the IIRC in London. For the accounting profession and related regulators, <IR> represented a potential change to existing business practice which would involve them and therefore it made sense for them to be part of the new initiative.

The initial concept for <IR> was almost universally seen as a good idea. The alliances formed with other competing bodies such as IFAC, IASB, GRI and SASB were easier to negotiate when there was agreement on the concept of this new form of corporate reporting without having the detail or minutiae of a reporting framework.

The composition of the IIRC and acceptance of the initial concept of <IR> were factors in the rapid development of the <IR> Framework gaining legitimacy on an international scale. Among the promoters for the IIRC, there were those that wanted a system to provide accountability for business and save the world along the way. They were disillusioned and ultimately left the IIRC. Comments by members were almost evangelical in their passion for this new initiative and this zeal helped promote the concept of <IR> to business.

The development of the IIRC can be seen in the context of an evolution in the institutional field of corporate disclosure that was truly global and not regional or country specific. The economic shock caused by the GFC which was linked to a significant loss of corporate trust and a growing awareness of climate change created a vacuum for a new approach to corporate reporting that included more than traditional financial records. In addition, the growing disparity between value as recorded in financial statements and the market value of equity prompted calls to recognise previously unrecorded intangible assets.

The failure of business as revealed by the GFC prompted concerns over a continued license to operate and encouraged the participation of business and governance groups in the IIRC and <IR>. Others were motivated by improving transparency and relevance in financial reporting. Others wanted to see sustainability incorporated within mainstream corporate reporting.

The decision to make the providers of financial capital the target of an integrated report was decided early on, and was influenced by recommendations from the technical committee. Despite the fact that <IR> targeted large multinational users and long-term investors, this did not limit the organisations that adopted <IR>. Ultimately, restricting the targeted stakeholder group diluted the sustainability or green agenda but it did not limit the application of <IR>.

Press releases and papers written by the IIRC all stressed the support of civil society, non-governmental organisations which added to the perception of an organisation without political alliances. Further, the collaboration of leaders with competing interests but the same motivation to create a new corporate reporting regime created a unifying body that enabled the development of the framework.

The IIRC, once formed, engaged in a campaign to raise the profile of <IR> by engaging the participants to reference each other in research, interviews and articles to maintain a level of momentum. The leaders of the IIRC held Council meetings in various locations and invited business leaders to participate in the discussion of <IR>. There were also interviews and meetings to proselytise interested parties and convert them to the <IR> way and recruit them as champions in their own area of influence.

The addition of MOUs supported the institutionalization of the IIRC as a legitimate organisation and alliances with competing networks limited competition. <IR> was an innovation that although based on existing ideas was repackaged to be “sold” that provided a

solution that was fit-for-purpose and better suited to a post GFC environment. Instead <IR> was described to be the right thing to do or an idea whose time had come stressing the imperative of adopting <IR>. The IIRC limited the requirement to harmonise or converge with existing national standards or regulatory frameworks. Instead the IIRC created alliances with other novel and potentially competing frameworks to avoid conflicts that could derail its progress.

The initial remit of the IIRC was a concept that that was broad enough and non-specific enough to ensure that all of the stakeholders had little objection to being part of it. Despite different motivations and competing interests, the shared goal and zealous outreach of the members of the Board that made speeches and conducted interviews with many parties, ensured the IIRC created momentum and developed with speed.

The original announcement of the formation of the IIRC was in August 2010 (The Prince's Accounting for Sustainability Project & Global Reporting Initiative, 2010). A discussion paper was released in September 2011 (IIRC, 2011), a draft framework in July 2012 (IIRC, 2012a), a prototype framework in November 2012 (IIRC, 2012b) and a consultation draft in April 2013 (IIRC, 2013b). The Framework was published in December 2013.

The pilot programme of organisations practicing the principles of <IR> before a framework had been developed, created a ready-made network of motivated participants as early adopters and therefore leaders in the practice of producing an integrated report further supported by producing a website of exemplars of <IR>. The success of the pilot programme attracted over 100 organisations from a diverse range of countries and industries and not all were large multinationals

There was evidence of disagreement between parties that is recorded in the minutes of the Council meetings that the framework did not go far enough towards achieving the sustainability objective. The minutes also recorded the influence of accountants and the accounting profession was seen as a threat to the credibility of <IR>. As suggested by Humphrey et al. (2016), <IR> would provide a credible innovation to corporate reporting but only if it was not promoted by the same groups that had caused existing problems in the current financial reporting regime.

The sustainability objective as noted in the original press release was replaced by the identification of six capitals one of which is identified as natural and another is social.

Corporate reporting alone is unlikely to address the sustainability of the planet and self-interest of business ensures that a wider view of sustainability can only be addressed with regulation. However, within the context of <IR>, the social and natural capitals provided the opportunity to consider many of the issues commonly considered part of sustainability.

The results of this study suggest that the vision of the IIRC as an ideological organisation was changed to a pragmatic reality as the framework was developed in order to satisfy the many parties that had joined the IIRC and create a framework within a (relatively) short period of time. The IIRC utilised existing networks to create normative pressures to encourage the acceptance of <IR> as a valid reporting framework and led to “ungreening”, i.e., the earlier emphasis on sustainability has been removed. This change has been recognised by several researchers (de Villiers, Rinaldi & Unerman 2014, Humphrey, O'Dwyer & Unerman 2016) and at the direction of the Board who had day to day control of the framework and its direction. The process was driven by a complex mixture of sustainability and improved business practices and reporting. Its evolution saw the sustainability aspects of <IR> given less emphasis, and providers of capital given more emphasis, and more than some of its early supporters would have expected. This was directed by the nature of the groups who formed the Board and influenced by the attendees at the Council and Working Group meetings.

The most important stakeholders in the final framework were those tasked with preparing the integrated reports (preparers) and not the final users which considered a pragmatic approach and similar to the target audience for financial statements, however, this conclusion was controversial both within the IIRC and by academic commentators. The <IR> framework has developed in a way to attract the widest audience and the language of sustainability was removed to encourage transparency through the communication of a value creation model for business. As there appears to be no global movement to make <IR> mandatory it is likely the voluntary adoption of <IR> will be motivated by the desire of individual organisations to be seen as good corporate citizens, thereby legitimising their organisation. Accordingly, there is still the potential for greenwashing if there is the appearance of transparency without the clear articulation of how the business model or the business itself is sustainable.

The importance of integrated thinking was highlighted by the pilot companies as they developed resources and techniques for preparing an integrated report. As a result the emphasis on <IR> grew as the framework developed.

There exists the potential for <IR> to revolutionise corporate reporting. Greater transparency in reporting should benefit the organisation itself in understanding the major risks and opportunities and help develop sustainable strategic objectives. It should also enable users to have a deeper understanding of an organisation and how it creates value and therefore the potential for more accurate valuations. However, “it’s not sustainability accounting, it’s about whether you’ve got a sustainable business model” (Eric). Sustainability is embedded within the capitals of the value creation process and whether this will be enough to elevate the sustainable reporting practices of those adopting <IR> is yet to be seen.

In 2010, the purpose of <IR> by the IIRC as the promulgators of <IR> was envisioned as a framework for sustainability and by 2013 the focus was on the business model with environmental sustainability forming only a part. The definition of <IR> changed as a result of the individuals and organisations that were involved in its development from an idea to published framework. The global alliance of interested parties was in evidence from the start and was relevant to the way the framework developed. The engagement of a number of important decision makers was seen as key to create normative pressures to institutionalise <IR>. The organisation and creation of a Secretariat provided the structure for the development of standards and the Secretariat had strong representation from the accounting profession by both firms and accounting bodies. There was a commitment to see <IR> as the norm for corporate reporting. The cooperation of a number of large multinational firms provided an opportunity to pilot the draft framework and contribute to its development by adding their comments into the conversation of <IR> as evidence of artefacts of normative pressure.

The IIRC viewed the value of <IR> to provide a solution to the existing problems of corporate reporting and restore trust lost through the GFC as well as other concerns. The value in <IR> was the ability to provide a holistic and transparent view of an organisation’s value creation process that would encourage investment and ultimately lead to a lower cost of capital. The message of the value of <IR> to business was continued in the IIRC publications as part of the artefacts of the IIRC and normative pillar.



## **Chapter 5. The value of an integrated report to internal and external stakeholders of IRCO**

*“Those who tell the stories, rule the world” Native American proverb*

### **5.1. Introduction**

The IIRC’s stated primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time. It therefore contains both financial and non-financial information, and the Framework states that this report will benefit all stakeholders “including employees, customers, suppliers, business partners, local communities, legislators, regulators and policymakers” (IIRC, 2013, p.7).

The purpose of this chapter is to address the perception of the purpose of <IR> and the value of <IR> in relation to the integrated reports for one organisation by internal and external stakeholders using documentary evidence from published integrated reports and interviews with internal and external stakeholders. There have been calls for research on how <IR> has been applied by organisations as they seek to produce an integrated report including how an integrated report is used by external stakeholders (de Villiers et al, 2014) and this chapter contributes to this research. The purpose and value of <IR> to both a New Zealand organisation (IRCO) as an adopter of integrated reporting and to the users of IRCO’s integrated reports will be examined using a legitimacy lens and using dimensions of legitimacy adapted from Thomas and Lamm (2012).

Previously, organisations have commonly included large amounts of non-financial information in a separate report to the Annual Report with a variety of names such as sustainability report, or corporate social responsibility report. These reports have been identified as being targeted at a different range of users than financial reports (Robertson & Samy, 2015). Therefore, the information contained in these reports (Annual Report and sustainability report for example) was often siloed and not cross referenced to make easy connections between the reports. Different groups of stakeholders would not be expected to have the same view on the purpose of integrated reports and their value and this chapter contributes to our understanding of these differences. An integrated report should therefore help the reader understand the relationship between items that were previously included in separate reports.



The rest of this section describes the New Zealand case study organisation and provides an overview of the changes made to the annual reports to their stakeholders between 2012 and 2017. Section 5.2 provides more details on the way the corporate reports changed between 2012 and 2017. Section 5.3 examines the purpose of <IR> for both internal and external stakeholders using legitimacy theory. Section 5.4 examines the value or benefit of adopting <IR> to both internal and external stakeholders with a discussion of how legitimacy theory explains the changes that have occurred at IRCO using the framework introduced in Chapter 3.3.2. Section 5.5 analyses the results of this examination. Finally, section 5.6 provides a summary to this chapter.

### **5.1.1. IRCO Business model reporting**

In this chapter the researcher examined the reporting practices of a New Zealand company (IRCO) that adopted <IR> in 2013. IRCO has been a New Zealand State-Owned Enterprise (SOE)<sup>62</sup> since 1987 and is accountable to the government through a shareholding minister for its operating and financing activities. The obligations of IRCO as set out in legislation include “social, price and service undertakings” (website for IRCO accessed 16 August 2016). Therefore, the accountability of the organisation includes the fulfilment of a wide range of both financial and non-financial undertakings.

In 2012 IRCO stated in the Foreword to its Annual Report that they were, “at a crossroads, facing necessary changes.....which will be the most significant since its creation as a State Owned Enterprise 25 years ago” (IRCO Annual Report 2012, p.5) and in 2014 they reported a 24% decline (IRCO Annual Review, 2014) in the volume of their traditional business offering over a five-year period which was described by one media source as a “sunset business”.<sup>63</sup> As a result, the organisation had to rethink their strategy and business purpose to stay relevant to stakeholders. Thus adopting <IR> was part of a change management programme to assist IRCO remain a legitimate organisation and relevant to the New Zealand economy. Change management theory (Kotter, 1996) suggests that there are eight stages to a successful strategy summarised into three phases and this was clearly evident at IRCO. The first phase (Phase One) being establishing a sense of urgency over an impending problem

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<sup>62</sup> State-owned enterprises are government-owned companies created by the State-Owned Enterprises Act 1986. They are often referred to by the acronym SOE <https://teara.govt.nz/en/state-owned-enterprises/page-1> accessed 13 October 2017.

<sup>63</sup> <http://www.stuff.co.nz/business/XXX> accessed 29 August 2016. The full details have been deleted to ensure anonymization.

followed by Phase Two, a formal strategy and commitment to change. Lastly, in Phase Three, once change has been enacted the success of the strategy needs to be reinforced in order to be fully embedded within the organisation (Kotter, 1996). Within IRCO, the adoption of <IR> in 2013 provided a platform to outline a new strategy of diversification in light of the impact that internet-based technology was having on its “traditional operations”. The new format for reporting signalled a change in direction that promised to be new and innovative and adopting <IR> was part of the change management programme.

The strategy of an organisation can be a plan or action that forms a pattern (Mintzberg & Waters, 1985). The strategy can be seen in decisions made by a company but also in the mission statements and goals of the organisation (Casadesus-Masanell & Ricart, 2010; Maguire & Rouse, 2006). It is evident from reading the integrated reports of IRCO that communicating strategy was important and many of the strategic objectives are in the form of goals or targets for the future. The business model is an outcome of a realised business strategy (Casadesus-Masanell & Ricart, 2010) and the outcome for IRCO was not certain at the outset. Over time, as the strategy was operationalised the business changed even though the overall goals remained the same. By 2017 the objectives were specified in narrative terms without providing benchmarks for future comparison. Objectives were sometimes quantified but often expressed in relative rather than specific terms, for example, an objective to reduce emissions whilst reporting the changes between 2016 and 2017 in percentage terms.

### **5.1.2. Formation of steering group**

Senior management team members and members of IRCO’s board attended presentations by members of the IIRC when they visited New Zealand to promote <IR> and were convinced of the merits of adoption. IRCO agreed to take part in the IIRC's pilot programme in 2013 and to test the principles of <IR> for the IIRC and it was agreed that an integrated report would be produced for the 2013 financial year. Further details on the pilot programme and the IIRC can be found in Chapter 4 on page 96.

The changing business environment provided the opportunity to embrace <IR> and explain the changes to the business in a way that would not have been possible through another format:

*The reason that we saw value in becoming part of the pilot and adopting integrated reporting was beyond just having a different style of annual report. It was very much*

*that the concept of value in this framework appealed to us and resonated with some of the work that we had been doing around the environmental side of things. I had looked at triple bottom line in the past but the notion that you effectively try and monetise these other measures, the people and the planet I guess and the environment and the people side of things and you describe them in financial terms didn't sit well with me whereas with this framework there was the acknowledgement right up front that you can talk about value in non-financial terms. (David)(I)<sup>64</sup>*

The decision to adopt <IR> within IRCO was seen as a natural progression from the developments made in preparing sustainability reports. IRCO had employed a full-time sustainability manager from 2009 and the reporting line for the sustainability manager changed over time but had always been a Head Office role. The sustainability manager and the sustainability team had previously used GRI reporting guidelines to prepare sustainability reports:

*Sustainability is a big deal at IRCO. As an organisation that has been around for 175 years, it is in our DNA (IRCO website accessed 16 August 2016).*

A steering group was assembled within IRCO in 2013 to share the responsibility for the preparation of the integrated report. The sustainability manager during the research period was responsible for its coordination. The steering group consisted of representatives from each business unit within IRCO as well as others from IRCO's head office who were directly responsible for communicating to stakeholders. The creation of the steering group represented a significant shift in assigning external reporting responsibilities from the external communications team at head office to a much larger group and the members of the steering group formed the internal stakeholder interviewee group. Thereby, accountability for externally reporting financial and non-financial metrics to shareholders was more widely spread. At first, there was some resistance to the idea of doing something new especially from the external communications team as there were time constraints. However, the steering group worked together to produce a report that they felt was more useful than before and the co-operation between them meant that the participants in the interviews reported that the workload was not overwhelming despite the short deadlines. The internal interviewees were in the

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<sup>64</sup> The suffix (I) or (E) denotes either an internal or external stakeholder.

process of producing the integrated report for 2015 (their third report) at the time of the interviews.

<IR> was a new topic to many of the internal stakeholders that formed the steering group and were introduced to the topic by the sustainability manager. IRCO had used GRI guidelines in the Sustainability Report but there was not a general understanding of these metrics by all senior managers, and for some they had no relevance in their operational roles. Members of the steering committee each read the <IR> Framework and reasoned that using <IR> would provide an opportunity to find a common narrative to describe IRCO operations and a different “lens” (David)(I) to view the business. Initially, the focus was on preparation of the report itself with the intention of developing internal systems to reflect the <IR> view of value creation (integrated thinking) in the future.

*I heard the phrase integrated reporting, I just assumed it would be related to the societal stuff and stakeholders and things like that (Mike) (E).*

Within the organisation, members of the steering group had seen their role change, their job title changed or line of responsibility change and in some cases a combination of all three. Therefore, the disruption outlined in the Annual Review in terms of changes to the business was felt by each member of the <IR> steering group and they were not disconnected from the operational changes in the organisation.

### **5.1.3. Board and Senior Management**

The Board of IRCO were government appointed and an analysis of the board composition shows that the Chair remained the same for the period analysed and five of the nine directors remained the same. This suggests a level of stability and continuity despite the changes occurring at the operational level.

Details of the composition of the Finance and Investment Committee as well as the Human Resources Committee were only available for 2012 and 2013 but as all of the directors were classified as independent this does not necessarily give rise to any concerns.

The composition of the Senior Management Team reflected the changes in the organisation as job titles for some individuals changed. Other roles disappeared as business lines were combined and positions lost after the sale of a major business unit. However, the

CEO changed in 2017 after almost seven years in the job which provided continuity in the management team in contrast to many other senior roles.

The Chairman and CEO signed the foreword contained within the Annual Review, which provided support for the information contained within to be authorised by the senior management of IRCO from 2013 to 2015. In 2014, there was a section of the Annual Review called Governance with names and pictures of the Board and Senior Leadership Team. In 2015 a page called Directory listed the Directors and Senior Leadership Team without photos. In 2016 the CEO and Chairman's message was unsigned although a picture of both accompanied the message. Also, in 2016, a section labelled Governance was included with detailed curriculum vitae for each of the Directors and leadership team for one business unit. The Foreword in 2016 related to the entire IRCO group even though the integrated report only related to one business unit. The reason, as explained by IRCO, was to remove complexity but it noted that subsequent to the publication of the 2016 report, there was a significant change of ownership in one of the business units (not included in the Annual Review) which may have prompted the change. In 2017 the integrated report contained a governance section with details of the Board and senior leadership team as well as governance principles and this coincided with a change in the CEO during the 2017 year. The Foreword was replaced in 2017 by a section called "Outlook" signed by the Chair and Chief Executive.

The disclosure of governance information contained within the reports changed during the period 2013 to 2017. The changes may have been prompted by an attempt at conciseness within the Annual Review although there is no information provided by IRCO to explain the expansion and contraction of governance information. It would appear that the lack of consistency in the way governance information was presented reflected the lack of attention paid to this information, it was not a high priority. This may have been because the directors were government appointed and therefore appointed by one of the main stakeholders.

#### **5.1.4. Summary**

IRCO represents a state-owned organisation that provides services to benefit a wide range of stakeholders including the people of New Zealand generally. The adoption of <IR> in 2013 enabled IRCO to articulate some important changes in strategic direction through the change in corporate reporting. Within IRCO, the steering group provided a useful way to bring together the different business units to produce the integrated report. There were changes in senior management over the time of the review reflecting the underlying changes within the

organisation although the Board members remained relatively stable. The steering committee was able to oversee the production of the integrated report despite the personnel changes. The details of the changes to corporate reporting brought about by the adoption of <IR> are detailed in the next section.

## **5.2. Changes to corporate reporting as signals of organisational change**

In this section changes in the integrated reports produced between 2013 and 2017 will be examined to highlight changes in the way the reports were constructed.

### **5.2.1. Summary of content of IRCO Annual Reviews (integrated reports) 2013 to 2017**

In IRCO, the adoption of <IR> provided an opportunity to articulate the changes in the business model and explain how this would help the business maintain relevance within the New Zealand economy and continue to be economically viable. At the heart of the integrated report, the value creation model (See Figure 4) as published in the Framework provided the context to explain how the organisation created value using a narrative or story. This story is an opportunity to set the tone for how the organisation is perceived by both internal and external stakeholders.

The integrated reports that were issued from 2013 changed the way IRCO communicated with its stakeholders, which was critically important in the midst of job losses and declining revenues involving all segments of the business. The integrated report reported on new strategic initiatives to respond to the changed business environment. That is, adopting <IR> did not prompt a review of operational strategy.

The recognition that the preparation of the integrated report required significant thought was acknowledged by external stakeholders. For instance:

*You can get one person to sit down in an organisation and write a sustainability report and that requires very little from anyone, apart from some data. And so that's a very different investment from a complete shift in strategy and governance and thinking that's required for integrated reporting (Hannah)(E).*

Five integrated reports produced by IRCO were reviewed; 2013, 2014, 2015, 2016 and 2017. These are summarised in Table 24. The main sections are highlighted and additional pages such as contents and end pages are grouped together. The integrated reports were either

created using the capitals (or “value areas”) or strategies adopted by IRCO as the main explanatory narrative. The way the report was constructed changed over time as IRCO adapted to the Framework. The number of graphics (tables and diagrams) and photographs increased over time to explain information within the report. The Annual Report for 2012 was a “traditional” Annual Report and is also included in the comparison. In a traditional Annual Report, the financial statements and management discussion are reported separately from any social and environmental information.

The order of items within the reports changed over time. In 2013, each strategy was clearly outlined for IRCO with reference by icon to the relevant capital that was affected and then each capital was then explained in more detail. In 2014 this changed so that the capitals became the main signposts within the report and the strategies were explained within each capital. This format remained in 2015 but in 2016 and 2017, the discussion of strategic objective formed the main structure of the report with links to each capital and materiality. The change in the way the integrated report was constructed reflects the organisational changes over the period under review. At first, the strategy was most important to demonstrate the real changes that were being made by IRCO to ensure the continued existence of the organisation. As the strategy was enacted, the capitals played a more important role and in 2016 and 2017 as the results of the strategy were evident, the strategy again became important.

In the next section the key themes from the Foreword to each integrated report under review are compared.

### **5.2.2. Summary of key themes 2013-2017**

The integrated reports for the period under review show a growing experience with the principles of <IR> and maturity in bringing together the various guiding principles and content elements as these are discussed in the integrated reports. In Table 18 the topics addressed in the Foreword to each integrated report are compared for each year the integrated reports have been prepared.

<b>Key Themes in integrated reports</b>					
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Strategy</b>	<i>Ongoing work to implement new strategy</i>	<i>Delivering strategy and progressing with confidence</i>	<i>Nearly 2 years into 5 year reset strategy</i>	<i>Passed the half way mark of 5 year transformation into a much stronger position</i>	<i>Over the past 4 years we have transformed the company's structure, operations and competitiveness. Change transformation is about positioning for growth.</i>
<b>Job losses</b>	-	<i>Staff numbers will reduce by around 2,000 from 10,600</i>	<i>1,300 staff participated in or gained qualifications from Future Zone services</i>	<i>We are significantly reducing our headcount, resulting in a number of people leaving the business, and the changes depend on successfully embedding a completely new way of working.</i>	<i>Change has brought disruption in some areas....Skilled and dedicated people remain the heart of IRCO.</i>
<b>Technology</b>	<i>Physical to digital services</i>	-	<i>Continue to look for ways technology can build business and reduce costs.</i>	<i>Digital disruption</i>	<i>More innovation required.</i>
<b>Sustainability</b>	<i>Sustainability targets set for environmental efficiency and workplace sustainability.</i>	-	-	-	<i>Embed sustainability into strategic planning process.</i>

**Table 18 Key Themes included in IRCO integrated reports 2013 to 2017**



In 2016 IRCO noted:

*This is IRCO's fourth integrated report using the International Integrated Reporting Council (IIRC) Integrated Reporting (IR) Framework. We were a participant in the IIRC pilot programme, producing New Zealand's first integrated report in 2013. Our adoption of integrated reporting has been a work in progress; each year we have aimed to advance our understanding and application of the framework. Our integrated report is intended to be a succinct communication of the value created for stakeholders in the short, medium and long term (Annual Review 2016 Volume 1, p.40).*

The position of IRCO as an SOE shielded the organisation from scrutiny for short-term profit targets from analysts and bankers and enabled it to paint a picture of an organisation requiring a significant change in direction in order to stay relevant to New Zealanders and as a legitimate business without incurring a share price penalty:

*We are a sort of a hybrid organisation acting, you know, trading in the commercial world but being an SOE. But on reflection that's probably, a really good position to be in because you've got the disciplines of formal reporting without the analyst review of what you say publicly. So, you've got a little bit of licence in some ways to actually test the waters (Charlie) (I).*

## Strategy

Key to the change management process for IRCO was the strategy that was used to enable the transformation of the organisation. Strategy was highlighted in all the reports reviewed including 2012 before they produced their first integrated report. In 2013 each strategy was outlined in detail and linked to the capitals (under The Framework) affected. Between 2014 and 2016, as the strategy was implemented there was an acknowledgement that the strategy was being implemented to transform the organisation. By 2017, the tone of the discussion on strategy had changed and recognised that the reorganisation was complete and IRCO was in the position to look forward to growth in the future and this would contrast with the prior periods which were all about downsizing and changing the operation of each business unit.

## Job Losses

One of the dominant themes is job losses. The job losses arising from the change in strategy were not mentioned in 2013 but quantified in 2014. In the Annual Review part 1 for 2013 the challenges faced by IRCO were described as significant and it was mentioned eight times within the report, including three times when describing the people capital. Significant job losses were signalled in 2013 as a result of the decline in the most significant revenue stream and reflected in the description of the decline in the traditional business sector and in the number of “disestablished” positions during the year.

The language of each report provided an insight into how IRCO saw themselves and demonstrated the real threat to their organisational legitimacy caused by the downturn in revenue to their existing business which was recognised as likely to continue into the foreseeable future. In 2013, the narrative outlined the real threats to the business to explain strategies and a five year plan to change the organisational structure to replace lost revenue with new business lines:

*We face significant challenges in our traditional business and the maintenance of our store network. Change is therefore inevitable as we design and execute a new service model that allows for a financially sustainable future (Annual Review 2013, p.6)*

In 2014, the number of job losses was quantified in the foreword to the Annual Review (integrated report) and the expected final headcount was also quantified. The number of job losses was significant. The tone in the report suggested that change was inevitable:

*Our traditional business model is no longer fit for purpose, and we must change and innovate if we're to meet the market's changing needs (IRCO Annual Review 2014, p.8).*

In 2015 there was little discussion on the number of jobs that had “altered or ceased to exist” (Annual Review Volume 1, 2015, p.16). Discussion instead focused on training programmes to help affected employees. It provided the opportunity to discuss operational dimensions of the business that may not have been included in a traditional report. By 2016, the majority of the job losses had occurred and the tone of the report was more optimistic and forward looking. In 2017, details of the headcount were provided in a table for the first time since 2014 and an acknowledgement that the decline in staff numbers was due to “significant restructuring” (Integrated Report, 2017, p.28). The 2017 report also stated that employee

engagement and lost time injury frequency rate had declined from 2016 as a consequence of the operational changes.

The loss of employees over the period was large and significant. The reports are evidence that during the period of heaviest losses the narrative used euphemisms to describe the restructuring and the headcount was only quantified in 2017. The language in the reports did not consistently discuss the change to the job descriptions and job losses. It would appear that job losses were bad news and were played down despite people being described as an important part of the business.

### **Technology & Innovation**

The integrated reports of IRCO reflected the change in the structure of the business by the language that was used to describe how IRCO could remain relevant when their past experience reflected an operation that was being replaced by technology. In 2013:

*Digital services are moving from being an adjunct to our core business activities, to being a core part of our business service strategy (IRCO Annual Review, 2013, p.13).*

And in 2015:

*We will continue to look for ways technology can build our business, reduce costs and give a better customer experience (IRCO Annual Review, 2015, p.13).*

The introduction of a materiality matrix in 2016 saw digital disruption identified as a significant challenge and this was expanded in 2017 with explanations of required innovations to meet the needs of customers into the future. Technology and digital disruption whilst providing the most challenge to the business was also identified as providing the most opportunities to ensuring a future for the business:

*As we pass the half-way mark of our five year transformation plan the IRCO is in a much stronger position to withstand and respond positively to the challenges faced by our ..... businesses. The ongoing effects of digital disruption and competition in both markets prompted a reset of our strategic thinking in late 2013 and has led to a range of responses since then (IRCO Integrated Report, 2016, p.9).*

## Sustainability

In 2013, the foreword of the integrated report commented on success in sustainability where sustainability was not defined but the explanation described reductions in environmental efficiencies as well as “ethics, diversity and people capabilities” (Annual Review Volume 1, 2013, p.5). Although the foreword mentions targets for measurement of sustainability these were not disclosed. There was no mention of sustainability in the integrated reports for 2014 to 2016 inclusive. In 2017, sustainability is reported as a separate strategy for IRCO to “grow its contribution to the sustainability of New Zealand and the world” (Integrated Report, 2017, p.32). The sustainability strategy was described as covering people, planet and prosperity and in line with the UN Sustainable Development Goals. The prosperity material issues were listed and linked to increasing prosperity for IRCO. Together, the material issues for sustainability were listed without specific future targets. Sustainability as it appeared in the reports related to business sustainability and not to accountability for the effect of the operations of IRCO on the planet.

### 5.2.3. Language used in integrated reports

In addition to the consideration of the construction of the integrated report, the language used in the report was also an important consideration.

*It actually gave us a language to talk about ourselves rather than treating it as a tickbox exercise (Bruce) (I).*

In order to make sure the language throughout the report consistent, a professional writer was employed in 2014 to collate the information and ensure consistency in approach in the second integrated report. This demonstrated a commitment to getting across the right message.

*I think the language is a big challenge, how do you kind of talk about this internally in a way that's relevant for people? So it's that, you know, there's a whole lot of theory and how do you get people to see the benefit and value of that and translate that into action and different ways of working (Kate) (I).*

The consistency of narrative led to continuity in the story about IRCO portrayed in the report. This enabled the report to be seen as one story, from one organisation and not a series

of unrelated stories from different business units. It also provided a document that could be used for more than one purpose:

*I think it's helping us really take a fresh look at our business. How it's structured. I don't think it's changing any decisions just yet. But I think it's helping us understand where the sensitivities lie, could lie. And maybe in the very early stages, where you needed to adjust your language when you're talking to people around the business (Charlie) (I).*

#### **5.2.4. Comparison of integrated reports to the Framework**

In Appendix 4 and 5 details of the integrated reports of IRCO are listed (Appendix 4) and then compared to the Framework (Appendix 5). The integrated reports are between 42 and 53 pages and the structure of each report is distinct from each other which hinders comparability. Although themes are repeated and the overall strategy of IRCO remained the same, the various stages of enactment changed each year which changed the emphasis on the information provided.

The guiding principles and content elements included in the Framework provide support for an organisation as they prepare an integrated report. The discussion on stakeholder relationships, for instance, is more detailed in later reports and connectivity between capitals and content elements was not always easy to understand there was a more understandable link in later reports even if the detail was lacking. Comparability between reports was more difficult to establish due to the changing nature of the presentation of the reports. The reports show evidence of a learning curve in the level of information provided and the links to the Framework. In 2017 there are more symbols and evidence of consultation with stakeholders as well as more discussion of the inter-relatedness of the information.

#### **5.2.5. Summary**

The changes in IRCO were reflected in a change in strategic direction that were notified by the organisation and conform to the stages in change management as outlined by Kotter (1996). The adoption of <IR> provided an opportunity to expand the dialogue of the changes required by IRCO to stay relevant and legitimate as an organisation. IRCO wanted to be seen as continuing to provide a useful function within the New Zealand economic environment. The change from an Annual Report to an integrated report were reflective of this change in direction. The consideration of the language of the report was important to portray IRCO as

one organisation rather than a collection of dissimilar businesses. Comparing the integrated reports of IRCO to the elements and principles in the <IR> Framework reveals that these were considered by IRCO even if the presentation changed each year. In the next section, there is an examination of the perception of both internal and external stakeholders to the adoption of <IR>.

### **5.3. Stakeholders and the purpose of <IR>**

#### **5.3.1. Identification of stakeholders**

In the 2013 Annual Review (integrated report), IRCO described the stakeholders as central government, regulators, local government, shareholders, staff, customers, the business community, suppliers, unions and communities. In the Annual Review for 2014 its main stakeholder was identified as the Crown in the introduction to integrated reporting. Elsewhere in the 2014 Annual Review the stakeholders were described as “customers and other stakeholders” (Annual Review 2014, p.7, p.11 and p.14) or “shareholder, customer, our people and community” (Annual Review 2014, p.13).

Stakeholders identified in integrated reports of IRCO				
2013	2014	2015	2016	2017
<i>Central Government</i>		<i>Central Government</i>	<i>Stakeholder groups were not identified and, instead, six specific stakeholders were listed.</i>	<i>Government</i>
		<i>The Crown</i>		
<i>Regulators</i>		<i>Stock Exchange</i>		
<i>Local Government</i>				
<i>Shareholders</i>	<i>Shareholders</i>	<i>Bond Holders</i>		
<i>Staff</i>	<i>Our People</i>	<i>Our People</i>		
<i>Customers</i>	<i>Customers</i>	<i>Customers</i>		<i>Customers</i>
<i>Business Community</i>				
<i>Suppliers</i>		<i>Suppliers</i>		<i>Suppliers</i>
<i>Unions</i>				
<i>Communities</i>	<i>Communities</i>	<i>Communities</i>		<i>Communities</i>
		<i>Credit Rating Agencies</i>		
		<i>Media</i>		
			<i>Partners and other NGOs</i>	

**Table 19 Stakeholder groups as identified by IRCO in integrated reports**

In the process to obtain access to IRCO, the researchers asked the internal stakeholders to provide introductions to the external stakeholders they deemed important. Therefore the interviewees selected were representative of the stakeholders although the views they provided were their own. The internal stakeholders of IRCO were selected as the group that came together to oversee the production of the integrated reports. The interview process did not include all of the stakeholders listed in the 2013 Annual Review and the list of stakeholders is similar to the Framework.<sup>65</sup> However, not all stakeholders had a view on <IR> or an integrated report. The stakeholders that formed part of the data for this research project were those that had the most direct connection to their organisation's view of <IR>.

In the integrated report for 2016 there was a discussion of who the stakeholders were and how individual stakeholders had been consulted in creating the integrated report. IRCO described interviews with individual stakeholders and the development of a materiality matrix although the stakeholders were not grouped in the same way as in 2015. This reveals more information than was included in previous reports and conforms more closely to the principle of stakeholder relationships as described in the Framework. In 2016 there was no list of generic

<sup>65</sup> Employees, customers, suppliers, business partners, communities and others (IIRC, 2013, p.20)

stakeholders but a discussion of specific stakeholders that had been consulted in order to create a materiality matrix. In 2017 the integrated report notes that a review of the relevant importance of each of the stakeholders would lead to a “rebalancing” (Integrated Report, 2017, p.9) of the stakeholder engagement process. By 2017, when the group had changed form and become more homogenous following the divestment of one business unit, the list of stakeholder groups also changed and some stakeholders were identified as more important than others. However, the report does not identify the most important stakeholders or rank them.

Over time, through the reports, IRCO changed the way they considered stakeholders and stakeholder views which indicates that they were developing a level of maturity in understanding how stakeholders viewed the business and potential threats to their future performance.

### **5.3.2. The purpose of <IR> to the internal stakeholders**

The primary motivation at the time of preparation of the first report was the report itself and “it wasn’t about changing the management focus of the organisation” (Ivan) (I) and to some steering members this was not terribly useful. However, others saw the report as a stage towards a more reflective view of the management of the organisation and the “potential to be more influential and help understand where value can be lost or made” (Charlie) (I). The use of <IR> to demonstrate a more ethical business practice was not a motivation by the internal stakeholders and not mentioned in the interview transcripts. The motivation to adopt <IR> by IRCO was not therefore driven by a moral dimension of legitimacy but instead the decision was more pragmatic. The perception of <IR> to the members of the steering committee was not homogenous and disparate views were held but this did not impede decision making within the group.

The changing dynamic of IRCO provided a stimulus for the adoption of <IR> among another initiatives and business strategy. The business units were heterogeneous and therefore operated in silos and independent of each other. This evolved through the process of preparing the integrated report “We have been focused on change and now we are looking a bit groovier and a bit less about the change and a lot more about who we are in the future” (Kate)(I).

### **5.3.3. Purpose to external stakeholders**

In the interviews, external stakeholders were less specific of the purpose of <IR> beyond demonstrating that IRCO was willing to try something new and a progression from



traditional financial reporting. Their knowledge of <IR> did not reflect more than a superficial familiarity with the general concept of <IR>.

#### **5.3.4. Summary**

The internal stakeholders of IRCO in relation to the decision to adopt and then prepare <IR> were the Board and senior management as well as the members of the steering group. The steering group were the representatives that formed part of the research study. The external stakeholders that formed the interviewees for the research study were stakeholders that had some knowledge of the integrated reports and did not extend to all of the external stakeholders identified by IRCO in their Annual Review. Therefore, the comments may not be representative of all stakeholders.

From the stakeholders consulted, there was a difference in the view of <IR> between the internal and external stakeholders of IRCO. Internal stakeholders were concerned with the opportunity to describe their business using a different voice and the opportunity to appear as a more coordinated operation. External stakeholders were interested in the way IRCO had adopted <IR> but their comments did not demonstrate a deep knowledge of <IR> and the level of interest was not as great as internal stakeholders.

In the next section, the view of the value or benefit of adopting <IR> by stakeholders is examined.

### **5.4. The value of <IR> to stakeholders**

#### **5.4.1. Introduction**

This section analyses stakeholders' perceptions of the value of the integrated reports to the company. The term "value" will have different meanings to different stakeholders, while the IIRC has provided guidance on the concept of value (IIRC, 2013b) but stakeholders of IRCO were allowed to form their own view of "value".

#### 5.4.2. The value from the introduction of additional Capitals<sup>66</sup>

<IR> has many innovations and one of these is the introduction of capitals (see section 4.5.4). The concept was introduced as a way to help organisations explain the effect of their activities on “different resources and relationships” (IIRC, 2013a). The concept was seen as useful by commentators of the draft framework and kept in the final framework (IIRC, 2013a). Adoption of the capitals by an organisation provides challenges despite the acceptance that it is a useful concept. Within IRCO there was a common belief that the notion of capitals was seen as positive. For example:

*Thinking about these six capitals, it is a no brainer to say actually that is a good idea. (Eliot)(I)*

And:

*The capitals....give us a really good way to articulate all this random stuff that we do as a business (Bruce) (I)*

And:

*Putting the capitals at the centre of the conversation you then bring back into focus some of the really important things that you are doing. I have found that it helps to connect a lot of staff who previously were saying well these strategic programs are good but what does that mean for me and where do I fit in? I think it helps develop a stronger connection between what is important to the organisation and how people's day jobs are. It's been a really useful engagement tool internally. (David)(I)*

Despite the positive view of the capitals, there was some confusion among the steering committee about translating the concept of the capitals to their business. This may have led to some confusion over the number of capitals in the IIRC Framework (six). For example:

*I am not completely clued up about the underpinnings of each of the capitals. I reviewed them but I actually cannot name them all to be honest (Ivan) (I).*

The <IR> Framework is principles based and does not dictate how an organisation should prepare an integrated report nor how the capitals should be referenced within the report.

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<sup>66</sup> Financial, manufactured, intellectual, human, social and relationship, and natural (See 4.5.4 for more details).

*This Framework does not require an integrated report to ...be structured along the lines of the capitals. Rather, the primary reason for including the capitals in this Framework are to serve...as a guideline for ensuring that organizations consider all the forms of capital they use or affect (IIRCa, 2013, p.13).*

The internal stakeholders saw value to viewing the business through the capitals as it provided an opportunity to comment on information that might otherwise be excluded from the report. In addition, the information was useful for dissemination within the organisation as well as to external stakeholders. There was an acknowledgement that managing the transition to a multi-capital approach was a multi-period development process:

*I think that at the moment, we're probably looking at the capitals and then fitting what we're doing into there. Not the other way around. That would be my opinion. (Grace)(I).*

And:

*Because it's a strange amalgamation..... To try and make the group more cohesive, I think an aim should be to make this document something that brings the group together (Charlie) (I).*

For the external stakeholders, there was an appreciation for the initiative in adopting <IR> and curiosity in how the capitals were applied by IRCO.

One external stakeholder (Osborne) (E) commented that the structure of the integrated report changed between the first and second year and the change was not logical, in their opinion. A logical presentation of detailing strategic objectives and then describing each of the six capitals around that made more sense to Osborne in understanding the value creation proposition for IRCO than structuring the report around the capitals.

Another external stakeholder (Hannah) (E) highlighted the need for the effects of climate change to be elaborated on in the report in the change to the relevant capitals:

*Those big trends [increasing urbanisation, climate change, water scarcity] are really going to impact on all the different capitals and values within an organisation. And those are happening now, and there wasn't enough discussion about what that meant for the business and how that was going to create or destroy value for them*

*within those capitals within the next few years, you know, the next 20 years (Hannah)(E).*

The introduction of capitals prompted discussion for both internal and external stakeholders. The concept was interesting to both even if the details of each capital were not completely understood. The value of the capitals represented a pragmatic approach by the internal stakeholders as they saw the opportunity of using the capitals to introduce topics into their reports that would not otherwise be included and thereby portray a positive view of the organisation. This did not extend to a moral or cognitive view of the capitals, that is, they did not consider including the capitals was the right way to report, nor did they consider it represented a way to make reporting easier to do. The external stakeholders appreciated the capitals as an opportunity to be innovative although their level of support was not as strong as the internal stakeholders.

#### **5.4.3. The value of integrated thinking and the link with the integrated report**

The adoption of <IR> was anticipated to provide benefits beyond other corporate reporting models and one of those was the link between strategy of the business and the business model:

*[In an integrated report] there is a clearer distinction between business model and strategy, which has resulted in a clearer story around what the organisation does, where the organisation wants to go and how it intends to get there, helping to create greater connectivity between these two different areas (Black Sun plc, 2014, p.14)*

The story that IRCO wanted to tell was best constructed using integrated thinking where:

*Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term (IIRC, 2013b, p.2)*

The narrative or story was important for IRCO in defining the direction that they wished stakeholders to follow in understanding their value proposition. The story was also a method for IRCO to weave together the identities of the different businesses into a single unit that demonstrated that IRCO was one business. This was achieved by consistency of language and grouping the report by capitals (in the second report) for sense-making. In this section, the creation of the story was also a method to demonstrate the legitimacy of IRCO.

## Integrated thinking

Internal stakeholders of IRCO viewed the greatest value of <IR> to be in the application of integrated thinking. The use of integrated thinking would provide a way to assess the performance of the organisation using the same framework that could apply to both external and internal reporting. Consistent performance indicators that were used in the integrated report as well as within each business unit would make the overall assessment of value more transparent and connected between both senior management and each business unit as well as across different business units:

*So I think integrated reporting, integrated thinking, helps thread the whole business cycle together. It has the potential to anyway (Charlie) (I).*

Members of the steering committee were in a better position to form a view of the potential benefits of adopting integrated thinking within the organisation. The steering committee members were able to consider how <IR> could be applied to their business units and the others within IRCO. Their position in the development of the integrated report from concept to reality provided a unique perspective. IRCO adopted <IR> to prepare the integrated report first without adopting integrated thinking:

*The process was very much a piece of incremental work around replacing the marketing puff with some descriptions around the capitals and the frameworks. We had done some thinking around KPI's, it was a bit more work but not that much more work. We managed to take some work out of the system in terms of telling the promotional story (David) (I).*

Through participation in the steering committee, each member learned much more about the other business units and this created a greater understanding of the differences between each operation and the challenges of bringing them together to create one narrative in the integrated report.

Several internal stakeholders expressed the hope that integrated thinking could be embedded within the organisation but this had not been achieved because of the way <IR> had been adopted within the organisation. For example:

*And none of them [previously adopted reporting frameworks] were aligning either in their language sets, in their hierarchies, in the way that they were being utilised in*

*the organisation. There was, it was a completely disjointed approach was my initial impressions. And then I found this integrated reporting thing and I thought if only.... (Eliot)(I).*

In the second integrated report there was the opportunity to refine the report. However, the transition to taking the report, which was prepared at an organisational level, and embedding the principles into the day to day activities of the organisation remained a challenge and a “golden opportunity” (Ivan)(I). The extension towards integrated thinking remained a goal for the future. One stakeholder commented that:

*At first I didn't feel that integrated thinking was there. It did feel like we were still silos and so I do think it's evolved quite a bit (Kate) (I).*

The external stakeholders could not know if the integrated report reflected integrated thinking and this could only be inferred from their reading of the report and their past knowledge of IRCO and its operations. Each external stakeholder expressed interest in seeing how the organisation saw itself. The narrative was interesting although this was not always the most important part of the integrated report. It was understood that preparing an integrated report was a challenge for IRCO, “I am really impressed that they have attempted this [integrated reporting] as a big complicated organisation undergoing immense change” (Osborne) (E). However, external stakeholders also wanted to see improvements as:

*There is not much in the way of key performance indicators or hard numbers to get to grips with and while the integrated reporting as presented by IRCO provides a really good framework, it is going to be quite hard without some change or without some more detail to see how much progress they have made from one year to the next (Osborne) (E).*

External stakeholders were able to observe that the adoption of <IR> was aimed initially at producing a report rather than producing an integrated report that resulted from embedded integrated thinking:

*Seeing IRCO take the first steps along that line, along those lines [adopting integrated reporting], is really cool, although it does seem to me that IRCO will probably be taking more steps along the formative capital in the way that it's reporting rather than in the process component (Osborne)(E).*

In the interviews, integrated thinking was easily accepted by the internal stakeholders as having significant positive potential but the integrated report was observed by the external stakeholders as a representation of change in the business activities of the business. Integrated thinking was an example of moral legitimacy, that is, being the best way to prepare a report, and also cognitive legitimacy as the internal stakeholders viewed the opportunity of adopting integrated thinking would make their jobs easier by merging their day to day KPIs to the strategic objectives of the board at IRCO. The external stakeholders were not able to view the adoption of integrated thinking within the organisation and therefore without a much greater level of detail and transparency that demonstrated evidence of integrated thinking, they were not relevant.

### Attaining legitimacy using story telling or narrative

In the interviews, the internal stakeholders used analogies to describe the operations of the business. The analogies helped frame the way the participants wanted IRCO to be perceived both by external stakeholders and others within the organisation.

The participants also described the narrative of the integrated report in terms of the story that they wished to portray so that the report appeared as a coherent narrative rather than disjointed sections. Clarity around the story developed with the second published integrated report:

*The [integrated] report provides a referenceable cohesive story about what the organisation is trying to do into the future so that we don't have to tell that story every time we engage. We are not requiring investors to join the dots from several disparate pieces of communication that may have happened during the year (David) (I).*

The ability of the integrated report to provide a coherent narrative was appealing to the internal stakeholders and:

*I think GRI doesn't tell a strategy story, it doesn't tell a future story, it's about ticking boxes. Whereas what I love about integrated reporting is it's not a box-ticking exercise. It is a story-telling exercise (Jason) (I).*

The importance of creating a narrative that guides the reader and helps direct the conclusion that IRCO intended rather than simply providing information and asking the reader to interpret what that means for the organisation. For an organisation undergoing change, the

ability to direct the narrative provided a pragmatic approach to legitimacy. As a state-owned enterprise there was accountability both to the New Zealand government Minister and to the public at large and the integrated report was one mechanism to frame the legitimacy of the organisation.

#### **5.4.4. Assurance and accountability**

The principles based approach of <IR> means that finding the best way to present information in an integrated report can be challenging and it may take several iterations of reports to find the most successful way of reporting. A successful integrated report will demonstrate a deep understanding of how the organisation creates value using the capitals and content elements. This will reflect transparency and accountability so that users and stakeholders will find the report credible. A credible report that provides useful and accurate information will be valuable to readers. It will also demonstrate that the values of <IR> are reflected in the way the organisation operates.

#### **Demonstrating accountability to external stakeholders**

Within IRCO, the report was the visible outcome of the application of <IR> and external stakeholders were able to make judgements based solely on the published report. The external stakeholders interviewed were all supportive of the initiative of IRCO to adopt <IR> and were able to comment on both the application for IRCO and for corporate reporting in a more general sense. Participating in the research project also encouraged the stakeholders to think more deeply about the implications of <IR> for IRCO. The importance of a report to be of high quality is stressed by ACCA as follows:

*<IR> is about much more than reporting – it's also about integrated thinking across an organisation. Nevertheless, integrated reports need to be of high quality if providers of financial capital and other stakeholders are to value them, Only if the reports are valued will companies get due credit for preparing them (ACCA, 2017, p.38).*

When thinking about <IR> in general, there was a view among the external stakeholders that <IR> was yet another framework among many other competing frameworks and while the IIRC had cleverly promoted <IR> to appeal to senior managers there was little guidance on how <IR> could be adopted by organisations that made it easy to compare organisations. In addition, the iterative nature in the learning process for developing the reports themselves made



it difficult to analyse trends in consecutive reports. There was a lack of consistency in approach and a lack of common performance indicators that made interpretation of the reports at anything more than a cursory level problematic as: “It is very hard to compare, especially as a stakeholder or an investor across companies” (Hannah) (E).

There was also a level of scepticism over reports in general from the external stakeholders and “I think it’s a hangover with sustainability reports and a lot of other reports being used as marketing documents” (Hannah) (E). Knowledge of <IR> was also low among the external stakeholders who had less direct involvement in IRCO such as:

*If you hadn’t called it integrated reporting, I would have skipped over the same pages and focus on the pages I was interested in. I wouldn’t have changed it. To be honest I don’t even recall seeing integrated reporting section or headings I just looked through the pages for the headings I wanted to read and that was it (Mike)(E).*

And:

*There are things in there that they would have said regardless and they have put it in the integrated reporting section whereas they could just as easily have been part of the business update (Mike) (E).*

There was a generally critical view of the integrated report and its ability to demonstrate accountability. Research has shown that organisations prefer to give good news and less bad news and there is also a greater adverse reaction to bad news as opposed to a positive reaction to good news (Clatworthy & Jones, 2003; Lang & Lundholm, 2000). The same is also true of the integrated report. IRCO is government owned and publicly accountable and therefore less open to financial analysts focused solely on short term results but even so:

*The one thing for me was the balance was still out. It was definitely better, but there was still a focus on the good, and I think that’s a common theme. (Hannah)(E).*

Thus, despite the challenges facing IRCO that were documented in the Annual Report and Annual Review there was still a perception that its <IR> report was not balanced.

## The benefit of assurance to the integrated report

Assurance of the integrated report would improve the quality and credibility to external stakeholders and potentially internal stakeholders as well. A report by IAASB on assurance on <IR> stated that: “The IAASB has an open mind as to the way forward” (IAASB, 2015).

Assurance was discussed with all stakeholders and was the one topic where there was no agreement on how assurance could be implemented in a way that would provide a benefit. Table 20 provides a sample of the comments given by stakeholders on assurance. There were suggestions that assurance could be produced purely by internal auditors or a group of external experts to provide assurance over the whole report. Another suggestion was for only part of the integrated report to be assured. Hannah reflected many comments with:

*I think it's always better to have assurance, of course it is, but I think with an integrated report it might be slightly different because the financials are in there and there are systems and requirements to assure that and to have that [integrated reports] audited that might be slightly different. And whether those regulations are expanded to include the others, or not, but from an assurance point of view for anything other than an integrated report, I just don't think there's an appetite from business or stakeholders at the moment for that (Hannah) (E).*

Issues	Quotes from internal stakeholders	Quotes from external stakeholders
<b>Yes there should be External Assurance/ Internal Assurance</b>	<p><i>“Assurance will keep people honest”.</i></p> <p><i>“Assurance is linked to transparency”.</i></p> <p><i>“There is value internally in external assurance”.</i></p> <p><i>“Assurance will allow people to trust what they are reading a lot more than they can now”.</i></p>	<p><i>“Until you get an assurance framework you won’t be able to get true accountability”.</i></p> <p><i>“Assurance is critical to give &lt;IR&gt; the integrity that it needs”.</i></p>
<b>If so, how?</b>	<p><i>“The big 4 have the credibility to provide the assurance”.</i></p> <p><i>“Assurance provided internally would be able to look at areas that auditors would not touch”.</i></p>	<p><i>“Each of the six capitals could be audited within different assurance frameworks”.</i></p>
<b>No, assurance is not required.</b>	<p><i>“Assurance to line the pockets of consultants is not good”.</i></p> <p><i>“Assurance can often cost more than the report did to produce”.</i></p>	<p><i>“It is always better to have assurance but there may not be the appetite for it from business or stakeholders”.</i></p> <p><i>“I don’t see it as necessary in the short-term. The whole thing has to gain traction first without too many hurdles in place”.</i></p>

**Table 20 Stakeholders’ views of assurance of <IR>**

The credibility of information affects different users differently. As an external stakeholder, Mike (E) was more interested in the financial information and only marginally curious about additional information disclosed in the integrated report as it was not relied upon for decision making, although Mike conceded that the type of business greatly affects the usefulness of information. Therefore, the assurance of the financial information was more important and the rest of the report could have been included elsewhere.

*Any industries that are subject to greater public interest and oversight [would be appropriate to adopt <IR>], such as energy and extractive industries. Anything resource focused is going to get that attention. I think when you see it spread into IT area and stuff like that you kind of think it seems a bit less relevant (Mike) (E).*

The topic of assurance provided the greatest difference between the stakeholders that were consulted for this project. There was no consensus or agreement that assurance was in fact, necessary. There was a belief that assurance was the right thing to do and therefore

evidence of a moral dimension to legitimacy, however, the perception of the practical difficulties associated with achieving credible assurance meant that there was no evidence of the benefits of assurance by either internal and external stakeholders.

#### **5.4.5. Value derived from the link between strategy and the adoption of <IR>**

*An integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term, and to its use of and effects on capitals (IIRC, 2013b, p.5)*

The strategy for IRCO was placed front and centre of the Annual Report for 2012 and the Annual Review for 2013. The focus on strategy was important to reinforce the necessity to demonstrate that IRCO “remain relevant” as outlined in the Annual Report for 2012. The Annual Review became a “strategy showcase” (Charlie) (I).

The change in the IRCO business strategy brought challenges in how to articulate to stakeholders the process of change, and the adoption of <IR> provided IRCO with the opportunity to present themselves differently using their corporate reporting as a representation of change. The integrated report meant that the annual reporting looked and felt different to what had gone before:

In addition, the position of IRCO as an early adopter was another signal that they were innovative and modern in both their operations and outlook were not stuck in the past. IRCO was willing to adopt new initiatives to be perceived as adapting and embracing change.

*If we weren't transforming anything, if we weren't growing, if we weren't downsizing, I don't know that there'd be as much value. But given our level of reinvention, I think it's pretty, pretty relevant right now (Bruce (I)).*

And:

*If you're looking for your most captive or earliest audience, which is probably financial markets, without things to get their teeth into in terms of key performance indicators and comparatives year to year or between entities, it will tend to be dismissed at least in the early stages (Osborne) (E).*

In the later reports produced after the interviews had been completed, strategy remained an important component of the integrated report. There was no evidence from the interviews, or from the reports that the strategy was influenced in any way by the decision to adopt <IR>.

#### 5.4.6. The value of regulation to internal and external stakeholders

Much of the literature on <IR> has been based on the voluntary disclosure research. However, <IR> is mandatory for firms on the Johannesburg stock exchange. Therefore, the stakeholders for IRCO were asked about their views on the mandatory adoption and regulation of <IR>. The views of the stakeholders are summarised in Table 21.

	<b>Internal Stakeholders</b>	<b>External Stakeholders</b>
<b>Regulation of &lt;IR&gt; should be introduced.</b>	<p><i>“I am a firm believer that what gets managed, gets done”.</i></p> <p><i>“Regulation is good from a quality assurance point of view”.</i></p> <p><i>“Regulation of &lt;IR&gt; as part of regulating general non-financial reporting disclosures”.</i></p>	<p><i>“Regulation would help widespread adoption but I am not sure the NZX would go as far as mandating &lt;IR&gt;”.</i></p>
<b>Regulation of &lt;IR&gt; should NOT be introduced.</b>	<p><i>“If we are doing it right it will be a competitive advantage”.</i></p> <p><i>“It will encourage a compliance or box ticking exercise”.</i></p> <p><i>“Those organisations that wish to differentiate themselves in the market place will take it up”.</i></p>	<p><i>“I think the sticks and carrots are missing in New Zealand. We don’t have legislation requiring it, stakeholders aren’t asking for it and stakeholders don’t understand it. And the value proposition is not clear enough for business”</i></p>

**Table 21 Summary of stakeholders’ views of regulation of <IR>**

The external stakeholders were not in favour of regulation but the internal stakeholders could see the potential of regulation to improve the standard of reports and therefore their credibility even though it was acknowledged that regulation might also foster a compliance or “tick the box” attitude towards the creation of integrated reports. This indicates that although assurance was seen as improving the quality of information included within the reports, adding regulation was not seen as adding to transparency or accountability.

#### **5.4.7. Summary**

The value to stakeholders of the adoption of <IR> between internal and external stakeholders was inconsistent. Within the internal stakeholders and especially within the steering committee there was support for the adoption of <IR> as the members benefitted from membership of the committee and felt connected to the rest of the organisation beyond their own business unit. It enabled a larger view of the organisation to be formed that allowed them to look forward to a future with a more profitable and relevant organisation and develop integrated thinking within the organisation. The potential for integrated thinking to add value to the organisation was accepted although there was a difference between internal stakeholders on the extent to which that had already happened.

The external stakeholders were able to identify a different trend to the corporate reporting model and this was welcomed although there were clear differences between stakeholders focussed on financial aspects of the business and stakeholders with a holistic interest in identifying where potential challenges may lie and where information was not credible.

Assurance of reports was considered an important issue by all stakeholders although there was no uniformity between them on how this could be achieved.

### **5.5. Analysis and discussion**

#### **5.5.1. Framework of analysis**

In Chapter 3.3.2 an extended analysis of theories used to analyse voluntary disclosure was discussed and legitimacy theory was selected as appearing to have the most to offer as the framework of analysis for this case study. Following Suchman (1995) and Thomas and Lamm (2012) a framework for assessing the dimensions of legitimacy has been developed.

The dimensions of legitimacy following Thomas and Lamm's (2012) framework that will be used to analyse the qualitative data collected in relation to the company were discussed and shown in Table 4.

#### **5.5.2. Analysis**

In Table 22 the discussion in section 5.3 is summarised into the dimensions of legitimacy framework. The results show the purpose of <IR> for internal stakeholders was

pragmatic, namely, to change the report that was produced without changing any fundamental aspect of the organisation. There was the potential for adopting <IR> to have a deeper understanding of the value creation process.

	<b>Dimensions of legitimacy</b>		
	<b>Purpose of &lt;IR&gt; to internal and external stakeholders</b>		
	<b>Pragmatic</b>	<b>Moral</b>	<b>Cognitive</b>
<b>Internal stakeholder groups (proprietary)</b>	<i>Is there a business case? Do I believe that adopting &lt;IR&gt; will benefit the organisation?</i>	<i>Do I believe that adopting &lt;IR&gt; is the “right” thing to do?</i>	<i>Do I believe that adopting &lt;IR&gt; will make my job easier or more difficult?</i>
	<i>“It wasn’t about changing the management focus of the organisation”.</i>	<i>“It actually gave us a language to talk about ourselves rather than treating it as a tickbox exercise”. “It [&lt;IR&gt;] sort of made sense”.</i>	<i>“There is the potential to be more influential .....and help understand where value can be lost or made”.</i>
<b>External stakeholder groups (validity)</b>	<i>Do peers/authorities believe there is a “business case?” Do they think that adopting &lt;IR&gt; will benefit the organisation?</i>	<i>Do peers/authorities believe that adopting &lt;IR&gt; is the “right” thing to do?</i>	<i>Do peers/authorities believe that adopting &lt;IR&gt; will make my job easier or more difficult?</i>
	<i>“Integrated reporting is progression of previous reporting. And it’s a new lens for business on how to value the non-financial aspects of business”.</i>	<i>No comments</i>	<i>No comments</i>

**Table 22 Results of dimensions of legitimacy for internal and external stakeholders for the purpose of <IR> (RQ1)**

In Table 23 the discussion in section 5.4 is summarised into the dimensions of legitimacy framework. The results show that the value of <IR> for the internal stakeholders of IRCO exhibit characteristics of both pragmatic, moral and cognitive legitimacy as each of the

themes from the value of <IR> are considered. By comparison, the external stakeholders exhibit pragmatic dimension of legitimacy only.

<b>Dimensions of legitimacy</b>			
<b>Value of &lt;IR&gt; to internal and external stakeholders</b>			
	<b>Pragmatic</b>	<b>Moral</b>	<b>Cognitive</b>
<b>Internal stakeholder groups (proprietary)</b>	<i>Is there a business case? Do I believe that adopting &lt;IR&gt; will benefit the organisation?</i>	<i>Do I believe that adopting &lt;IR&gt; is the “right” thing to do?</i>	<i>Do I believe that adopting &lt;IR&gt; will make my job easier or more difficult?</i>
	<i><b>Capitals</b> – “the capitals gave us a really good way to articulate all this random stuff” <b>Regulation</b> – can be a compliance exercise. There is <u>no</u> business case to introduce regulation.</i>	<i><b>Assurance</b> – “assurance will keep people honest”</i>	<i><b>Integrated thinking</b> – “integrated thinking helps thread the whole business cycle together. It has the potential to anyway”</i>
<b>External stakeholder groups (validity)</b>	<i>Do peers/authorities believe there is a “business case?” Do they think that adopting &lt;IR&gt; will benefit the organisation?</i>	<i>Do peers/authorities believe that adopting &lt;IR&gt; is the “right” thing to do?</i>	<i>Do peers/authorities believe that adopting &lt;IR&gt; will make my job easier or more difficult?</i>
	<i><b>Capitals</b> – strategy is more important than the capitals” There is <u>no</u> business case to introduce the capitals. <b>Storytelling/Narrative</b> – a referenceable cohesive story <b>Integrated thinking</b> – “while this is a really good framework, without some hard numbers it will be hard to see how they have performed”. <b>Regulation</b> – stakeholders are not asking for it. There is <u>no</u> business case to introduce regulation.</i>	<i><b>Assurance</b> – “assurance is critical to give &lt;IR&gt; the integrity that it needs”</i>	<i>No comments</i>

**Table 23 Results of dimensions of legitimacy for internal and external stakeholders for the value of <IR> (RQ2)**

Both internal and external stakeholders see a moral purpose and the right thing to do for the assurance of integrated reports despite the practical problems of achieving adequate



levels of assurance. Both internal and external stakeholders view regulation as not providing any benefit to the organisation.

While the internal stakeholders saw a business case for the introduction of capitals, the external stakeholders saw no business base for their introduction. Instead, they consider a detailed description of the strategy of the organisation provides more information to help users understand information contained in the integrated report.

Integrated thinking reflects the internal processes within an organisation that should result in a better view of the value creation model and while internal stakeholders see integrated thinking as making the internal processes more cohesive, the external stakeholders were wary of any description without explicit evidence of transparency and accountability.

## **5.6. Discussion and Conclusion**

The main purpose of this chapter is to examine the purpose and value of integrated reports for one organisation by internal and external stakeholders. The findings from this chapter reveal that there was a difference between different stakeholders. In this chapter the activities of IRCO were examined, firstly, by examining the changes in the integrated reports between 2013 and 2017 and, secondly, by cross-sectional review of the internal and external stakeholders of IRCO as they prepared their third integrated report in 2014.

IRCO adopted <IR> to ensure that they were seen as a legitimate organisation and remained relevant in light of significant changes in the organisation. Legitimacy theory is often used to illustrate actions taken by organisations to maintain, restore or repair legitimacy or social licence to operate (Suchman, 1995). Legitimacy can be divided into pragmatic, moral and cognitive dimensions. Adopting <IR> became a tool to signal a dynamic operation that was innovative and responding to the enforced changes in a positive way. <IR> was a pragmatic approach to communicating the challenges faced by IRCO and the strategies they adopted as a response. <IR> enabled IRCO to find their voice to control the narrative or story and discuss the changes in their operations and articulate their approach to change management.

Elements of the principles of <IR> such as the introduction of multiple capitals were adopted by IRCO as a result of introducing <IR>. The capitals were used by IRCO as a narrative device to maintain legitimacy for IRCO in the face of threats to its existence. In the

interviews, the internal stakeholders saw potential in taking ownership of the capitals by re-naming the capitals identified in the Framework although it was acknowledged that it would take more than one iteration to transition to a multi-capital report. The integrated reports changed the way that the capitals were used to construct the narrative. At the start, the report was structured around the strategic objective of IRCO and then discussed with links to the capitals affected. Later, this was replaced by using a discussion of each capital to provide the order of the report. Finally, the last two reports analysed in 2016 and 2017 went back to using strategy to link the report. Within each strategic objective, the links with each capital became more sophisticated supporting the development in integrated thinking and understanding of the inter-dependencies between capitals and materiality effects. It appears that the IRCO integrated reports matured and reflected the potential in the use of capitals as stated by the internal stakeholders at the time of the interviews. The strategic objectives of IRCO remained the same over the review period but the way they were articulated in the integrated reports changed and matured as familiarity developed with the capitals that underpinned the report.

The content of the integrated reports remained a largely narrative style with few quantitative KPIs and these were all grouped together and not linked to capitals or strategies. In later reports, some performance measures were included with relevant strategic targets and this indicated a positive development. However, no additional KPIs were introduced and few future targets were given but descriptive words such as “lower” or “reduce” were used instead to indicate a trend that was anticipated.

The integrated reports of IRCO showed that the purpose of <IR> by internal stakeholders was to demonstrate innovation and relevance for an organisation undergoing significant change to their operations. The change triggered by a significant shift in their business which threatened the legitimacy of the business coincided with the emergence of <IR>. The innovation enabled IRCO to produce a report on the business as a whole and not in segments as previously reported.

In the interviews, the members of the steering group (internal stakeholders) stated that their participation in preparing the integrated reports had a positive effect as they were able to see the organisation as a whole rather than separate disparate segments. They also felt more connected to the rest of the organisation and developed a greater knowledge of other business segments. The responsibility for the preparation of the integrated report was shared by the steering group members which was different from the previous reporting practice where

responsibility for external reports (Annual Report and Sustainability Report) was distinct from the operating units. The ability to synthesise the activities of different business activities into one report was achieved more easily when the business was viewed as a whole. However, there were challenges for IRCO to construct consistent benchmarks within each business unit so that they aligned with the <IR> principles. There was evidence that this was an opportunity and a threat. If the principles of <IR> are not embedded within the business units there is the potential for the integrated report to also become siloed and less relevant to internal decision making but if the same KPIs are used both internally and for external reporting then was the opportunity to match internal and external needs. The evidence from the integrated reports over time shows that embedding KPIs within the report remained a challenge and there was no indication if the same benchmarks were used internally.

The external stakeholders perceived a pragmatic dimension to the purpose of <IR> and the potential of integrated thinking to benefit the organisation although there was no perceived benefit for the capitals or regulation.

In the next Chapter, the thesis is concluded with a comparison of the results of this Chapter and Chapter 4 to see how the views of the promulgators of <IR> compared to the views of adopters and users towards <IR>.

## Chapter 6. Summary and Conclusion

*“The only true wisdom is in knowing you know nothing”.*

— *Socrates*

### 6.1. Summary of research

The first research question in this thesis is “what is the purpose of <IR> to promulgators and adopters?” The organisations and individuals that constituted the IIRC were the promulgators of <IR> and oversaw its development from an initial concept to the publication of the Framework. Using institutional theory and data from interviews and publications of the IIRC, the carriers of <IR> of each pillar are examined. For each carrier, the evidence suggests that the IIRC employed strategies to create socially constructed values or activities relating to the normative pillar. The purpose of <IR> was to improve corporate reporting and this idea was consistently conveyed by the symbolic systems set up by the individual members of the IIRC and in publications. Reuter and Messner (2015) describe the standard setting process for <IR> as a political process and the evidence in this thesis supports the approach of the IIRC as a managed process to ensure the message of <IR> was maintained amid other potentially competing frameworks. The promulgators were “evangelical” (Humphrey et al, 2017, p.12) and created enduring relationships to promote <IR> by limiting the target of integrated reports to providers of financial capital and reducing the sustainability objective to business sustainability. Therefore, the purpose of <IR> changed and was different from what some individual members of the IIRC anticipated. Initially, the participants to trial the principles of <IR> were large listed companies. There is limited research on the use of <IR> by not for profit organisations and government agencies and the results from this research support the applicability of <IR> to a range of organisations beyond for profit and opportunities for <IR> despite the concerns of Cheng et al. (2014) that the providers of financial capital would limit the information to be included in an integrated report. The answer to research question one is that the purpose of <IR> to promulgators was to create a socially constructed framework for holistic corporate reporting and the purpose of <IR> to adopters was the opportunity to adopt a new reporting framework that was valid for business organisations beyond large listed companies.

The second research question in this thesis is “What is the value of <IR> to promulgators and adopters?” The concept of value is ill-defined and the promulgators of <IR> provided guidance on their understanding of <IR> by publishing an explanatory booklet about value (IIRC, 2013d). In this thesis value was socially constructed by the individuals being interviewed. McNally et al. (2017) identify barriers to adoption in South Africa and the internal structure problems that caused difficulties in identifying material information and the connection with value. For IRCO as an adopter of <IR> there was also uncertainty over the identification of the capitals and how they contributed towards value and value creation. As a complex model that by its name seeks to provide information regarding the integration of several parts of the business, the evidence of complexity supports previous research (Robertson & Samy, 2015, Higgins et al., 2014). Examining the dimensions of legitimacy theory for both internal and external stakeholders the information in interviews and integrated reports shows evidence of pragmatism (supporting previous research) but individual interviewees from the internal stakeholder groups perceived that there was a moral dimension to adopting <IR> and that it was the right thing to do and also recognised the potential for adopting <IR> to be inevitable or relate to the cognitive dimension. The external stakeholders were more sceptical but appreciated the practical or pragmatic dimension. Rensburg & Botha (2014) found that a higher level of education was required in order to understand the integrated reports and the results of this thesis support the value of <IR> to be higher for internal rather than external stakeholders. The potential for development of <IR> to develop further will depend on users of integrated reports understanding and making use of the information contained in the reports. The answer to research question two is that the value of <IR> to promulgators was the ability to articulate the value creation process to encourage investment and lead to a lower cost of capital. The value of <IR> to internal stakeholders of adopters was that it made business sense and was a pragmatic response to threats to organisational legitimacy although some individuals recognised that a more holistic reporting model was the right or moral thing to do. External stakeholders of adopters recognised the pragmatism of adoption but there was no evidence of moral or cognitive drivers.

The third research question in this thesis is “to what extent is there a shared understanding of the purpose and value of <IR> between promulgators and adopters?” The literature has not provided any answer and the results from this research shows that the IIRC have promoted <IR> as a holistic reporting model that can help business to make better decisions and reduce risk as well as restoring (where applicable) trust. IRCO as an adopter of

the Framework saw <IR> as a new reporting model that gave them the freedom to tell their strategy story and the opportunity to make better decisions was not a motivating factor. The answer to research question three is that there is little shared understanding of the purpose and value of <IR> between promulgators and adopters and, the adoption of <IR>, in this case, by IRCO was motivated as a response to a threat to organisational legitimacy and an opportunity to review their reporting “story” without changing their strategy or reporting metrics.

## **6.2. Summary of findings for preparers, users and regulators**

In this thesis the topic of <IR> has been explored to establish the purpose and value of <IR> to both promulgators (the IIRC) and adopters. The IIRC’s initial ideological approach was to create a framework for sustainability where sustainability was concerned with alleviating environmental concerns over planetary resources. This was adapted by the Council to produce the Framework that was primarily concerned with *business* sustainability only. This was as a result of normative measures represented in symbolic systems to ensure that the IIRC achieved results within the short deadlines it set for itself. The IIRC promoted itself as providing the solution to problems that were facing existing corporate reporting frameworks such as GRI and they were able to generate interest globally and encourage a number of large organisations to promote the principles of <IR> by preparing integrated reports.

<IR> was adopted by IRCO to create an integrated report. The internal stakeholders viewed the adoption of <IR> as a positive mechanism for presenting a holistic view of the organisation. IRCO was responding to a perceived threat to their legitimacy as a result of structural change within the organisation that was driven by significant changes to their business model. The integrated report presented an opportunity to present the strategy to defend and maintain legitimacy and to articulate their plan for the future. The traditional financial report is backward looking whereas with <IR> the focus can be on the outlook for the future. For IRCO, no other reporting format provided this opportunity to present their view in this way.

There were benefits to the members of the steering members of IRCO that formed the internal stakeholders of IRCO as it gave them the opportunity to feel connected to the business as one group rather than a series of disconnected business units. The external stakeholders felt that there was little extra information content from the integrated reports, however, the adoption of <IR> was seen as the right thing to do and conformed to moral legitimacy concerns.

However, there was a mismatch between the internal and external stakeholders of IRCO consulted as part of the interview process. The internal stakeholders understood that the principles of <IR> presented opportunities to consider IRCO in a more holistic and consistent way if integrated thinking could be embedded within the business, but for the external stakeholders, without assurance and consistent reporting measures it would not be possible to evaluate the performance of IRCO in a meaningful way.

## **6.3. Contribution**

### **6.3.1. What are the implications for practice?**

One of the initial objectives of this thesis was to consider why the notion of <IR> emerged and took off relatively quickly compared to other corporate reporting frameworks and then consider how the principles of the Framework introduced by the IIRC were applied by an organisation participating in the pilot programme (see p. 96). The results demonstrate that the IIRC engaged in a strategy to promote <IR> by involving organisations and individuals from a wide range of industries and locations. The intention of the IIRC was to promote a concept that had the potential to improve corporate reporting

The IIRC targeted the integrated report at the providers of financial capital but many of the benefits of an integrated report at IRCO were enjoyed by other stakeholders. IRCO represented a government owned entity that could understand the benefits of <IR> but they were not a targeted organisation for the IIRC. The experience at IRCO shows that public benefit entities and other not for profit organisations would be suitable to adopt <IR>. Often they have requirements beyond financial targets and the integrated report provides an ideal opportunity to report on other non-financial capitals. The IIRC could consider readdressing the targeted audience for the integrated reports. In fact, a review of the list of pilot organisations and other businesses that have adopted <IR> highlights the inclusion of a number of not for profit entities. For instance, the pilot companies included the NHS London which is a health authority and part of the National Health Service for the United Kingdom.

The IIRC promoted <IR> as providing benefits by improving the quality of information provided to providers of financial capital and enhancing accountability by reporting on the six capitals as well as demonstrating an understanding of connectivity between each of the capitals. While these benefits were understood by IRCO, the decision to adopt <IR> lay in the opportunity to report on the strategic initiatives they adopted and report on them by considering

the effect on the business as a whole using a strong narrative or story. That is, there were benefits to the business from adopting <IR> or evidence of pragmatic legitimacy. The integrated report had a strong focus on the outlook for IRCO rather than reflecting on past results. The report itself recognised that a wide range of stakeholders would disseminate the information in the report but for the external stakeholders of IRCO, they did not use the integrated report in the way envisaged by the IIRC. It was accepted by internal and external stakeholders that a holistic form of corporate reporting was better than traditional reporting where financial and non-financial reporting was siloed but understanding how to evaluate the information in the reports was problematic. Other reports confirm the benefit of an integrated report as important even if assessing it is incomplete (Association of International Certified Professional Accountants (The Association), IIRC, & Black Sun plc, 2018).

IRCO adopted <IR> to produce a report in 2013 and then, over time, worked towards considering integrated thinking within the organisation. This became easier over time as the businesses operations became combined and rationalised. For IRCO, there was no idea of introducing integrated thinking within the organisation as is evident from the interviews at the time of adoption. However, later integrated reports up to 2017 showed improved connectivity within the report and documented links between capitals as well as strategies suggesting improvements in the level of integrated thinking within IRCO.

The evidence in this thesis demonstrates that the IIRC was able to develop the Framework by utilising collaborative networks to reduce the level of conflict with competing frameworks and become the norm or framework of choice. The formation of the Corporate Reporting Dialogue (CRD) in 2014 and subsequent to the publication of the Framework aided in this work. In 2017 the IIRC sought feedback post implementation on the Framework and received 400 submissions (IIRC, 2017). But this did not result in the IIRC making any major changes to the Framework. This suggests that the principles within the Framework were broad enough to be applied and fit within other reporting frameworks.

### **6.3.2. What are the implications for preparers?**

The integrated report is prepared on the principles of the Framework and is, therefore, a mandate to reflect the uniqueness of the organisation. The report provides an opportunity for a different type of conversation with stakeholders to engage more fully with the value creation proposition and the creation of value over the short, medium and long term while aiming to be concise.



There is a need for preparers to be aware that users of the reports have to be convinced of any new style of reporting. Explanations that convey why information has been included and why it is important (material items only should be included) will enable users of the reports to disseminate and use the information more effectively so that it is seen as credible and not as a marketing document promoting only positive aspects of the organisation.

### **6.3.3. What are the implications for users?**

The evidence from this thesis has demonstrated that users of integrated reports have a limited view of the value of an integrated report. Users can understand the business case or pragmatic legitimacy reasons why an organisation would want to adopt <IR>, but, without a clear understanding of what has been included, the report will remain as interesting background information. The challenge for users of integrated reports is to remain less passive and more proactive by requesting the organisation to explain how the integrated report demonstrates interrelated activities and to explain how value is created over the short medium and long term.

## **6.4. Limitations**

The individuals interviewed on their views of the IIRC were selected using a snowball technique. However, the membership of the IIRC was large and to some extent fluid as individuals from organisations were co-opted to contribute towards the development of <IR> for a period of usually two years. The review of the Council and Working Group minutes addressed to some extent the potential weaknesses of the interview data and the minutes from the Board discussions would have strengthened the dataset further but this information was not available. The conclusions and analysis from the interviews would have been strengthened from additional interviewees as well as multiple interviews on a longitudinal basis. This was mitigated by using the discussion from the minutes to supplement the interview data.

This thesis adopted a case study method and case studies have limitations regarding the generalisability of the results. However, the method that has been used can be replicated in future studies using different organisations that have adopted <IR>.

In this thesis, the external stakeholders that formed part of the interview group of IRCO were selected by IRCO and not all stakeholders were included in the interviews. However, those interviewed represented major external stakeholders expected to have the greatest interest in IRCO's annual reports. There would be external stakeholder groups who were not interviewed,

but they would have had little or no experience of the integrated report and their contribution may not have added to the results in a meaningful way.

The interview data was collected with one interview for each interviewee and to understand the adoption of <IR> in IRCO the research would have been improved with a longitudinal study to understand how views on <IR> changed over time. However, such access was not available and conclusions on subsequent developments relies on the analysis of the later integrated reports. Subsequent to the completion of the interviews, IRCO developed a materiality matrix and the evidence of the consultations is included in subsequent integrated reports.

Finally, the selection of IRCO for this case study was unusual as it was not a listed company which had been a target for the IIRC. Not for profit and government organisations are also ideal organisations to adopt <IR> as they are accountable for more than maintaining fiscal responsibility and the concept of multiple capitals sits well with these types of organisations.

## **6.5. Suggestions for Future Research**

Future research leading on from this thesis could examine the application of <IR> in other organisations that have adopted <IR> to establish whether the motivations for adoption and perceptions of value are more closely aligned to the type of organisation (public or private) or strategic position (stable or changing) or some other factor or combinations thereof. In addition, a longitudinal study that reflects the learning journey involved in and embedding integrated thinking within the organisation would be of value.

The integrated reports data used for this thesis have been contained in one report although increasingly organisations disseminate information through multiple digital media channels the way in the information is delivered may change the way it is used and understood. It would be interesting to see how additional communication channels affect how <IR> information is prepared and then disseminated by users.

The views of external stakeholders are a suitable subject for an experiment to examine whether the addition of non-financial metrics and the narrative approach of <IR> would improve the assessment of transparency and accountability in the report. It would be expected

that where transparency is more evident, the integrated report would be more credible and a higher value would be attached to it by investors.

The future of the IIRC depends on institutionalising the concepts of <IR> and the growth in the number of integrated reports to the point where there is a critical mass similar to the use of GRI metrics in sustainability reports. The IIRC in 2018 are continuing to promote their “vision” for <IR> to be the pre-eminent reporting system. The evidence of the success of the IIRC can be measured in the way it has been adopted around the world and the number of integrated reports that have been published. However, without a more formalised system for assessment of integrated reports and comparability across organisations there is the potential for interest in <IR> to wane. Research that develops a suitable assessment framework for integrated reports would help the IIRC develop their work programme and maintain momentum.

Alongside the developments of <IR> for business, the New Zealand Government published an investment statement to evaluate the balance sheet for the country of New Zealand so that in future, public policy can consider the social and environmental goals that matter to New Zealanders beyond simply fiscal sustainability. It is among the first Governments to take a holistic approach to the consideration of future goals and provides a huge opportunity to consider what other frameworks would be helpful to measure and manage the four capitals included in the living standards framework (physical and financial, human, social and natural). There will be opportunities for this initiative to develop alongside the adoption of <IR> by New Zealand organisations.

*The scope of new issues raised by applying a Living Standards Framework approach to government balance sheet management is wide ranging and challenging. This work pushes into areas of analysis that are not well settled in international practice. However, understanding the link between the government’s investments and wellbeing is fundamental for effective public policy.*  
<https://treasury.govt.nz/sites/default/files/2018-03/is18-hphp-wellbeing.pdf> p.1

## **6.6. Final note**

The IIRC through their actions have been able to create a principles based framework that has been promoted globally by use of global communication networks in an attempt to make <IR> sticky within the minds of organisations. Adopters of the Framework have found

that it can create an opportunity to revise their communication channels which can be part of a change management scheme or to identify strategy implementation or changes that was not part of the motivation for adoption given by the IIRC.

The future of reporting for organisations both for profit, not for profit and government will be paved with requirements to consider information beyond the numbers and <IR> provides an opportunity to develop this capability. The future of <IR> relies on the ability to adapt the communication channels to new forms and the need for further development and guidance to aid preparers to produce better reports and external stakeholders and users to have information that is useful for the decision making and maintain a licence to operate or restore trust where the licence to operate has been lost.



## **Appendix 1 List of interview questions**

**Open ended questions for interviews were based on the following:**

### **Questions for IIRC members**

1. When did you first become involved with the IIRC and Integrated Reporting (IR)?
2. Why did you become involved with the IIRC?
3. Explain your role in the IIRC.
4. How has your role changed over time?
5. What does <IR> mean to you?
6. In your opinion, is <IR> a replacement for sustainability reporting?
7. IR aspires to be accepted on a global level. Do you think that this is likely to be the case? If so, how do you think this will be achieved?
8. Comment on the application of IR, is it suitable for large public companies only? Is there a role for <IR> in small and medium sized entities and not for profit organisations?
9. What do you think is the role, if any, of accountants in IR?
10. Who do you think is going to be able to provide assurance to the information provided in an integrated report?
11. Comment on the necessity for an integrated report to be assured.
12. Comment on whether you think the adoption of <IR> in full may give rise to an increase in fiduciary risk by Directors. Do you agree or disagree? If so, how can their increased liability be addressed?
13. Do you think changes to directors' liabilities may affect the way <IR> is adopted in different countries. Is this a problem?
14. Who do you think are the main beneficiaries of Integrated Reporting?
15. What do you see as the biggest challenges to its adoption?
16. Do you think Integrated Reporting should be regulated?

## Questions for pilot programme organizations and internal stakeholders

1. Explain your role in the organisation.
2. Describe how did you and your organisation become involved with Integrated Reporting?
3. How has your role changed over time?
4. What does <IR> mean to you?
5. In your opinion, is <IR> a replacement for sustainability reporting?
6. The IIRC emphasises “integrated thinking” and <IR> as the output. What is your view?
7. What aspect of <IR> do you find most useful?
8. What do you see as the biggest barrier to its development?
9. What is the role of the Board of the organization? Discuss the importance of Board for IR?
10. Are you aware of the GRI and UNPRI?
11. Do you think knowledge of the above is useful in the preparation of an IR?
12. Will <IR> encourage long termism? Why?
13. Do you think there will be any issues with <IR> related to the disclosure of information due to potential competitor advantage or proprietary information?
14. There are accusations that an <IR> can be used as “green washing” or disinformation to present environmentally responsible information. Is this a risk?
15. Do you think that <IR> is more appropriate for some industries than others?
16. What role do you think accountants should have in the development of IR?
17. Who do you think is going to be able to provide assurance to the information provided in an integrated report?
18. Do you think Integrated Reporting should be regulated? Why?
19. Comment on the necessity for an integrated report to be assured?
20. The key stakeholders of <IR> as identified by the IIRC are shareholders. Are there other stakeholders that should be targeted?
21. Adoption of <IR> in full may give rise to an increase in fiduciary risk by Directors. How can their liability be addressed?
22. Any changes to directors’ liabilities may change the way <IR> is adopted in different countries. Is this a problem?
23. Why did you decide to become part of the pilot programme?
24. Have you hired extra staff as a result of joining the pilot programme?
25. If you have hired extra staff what are their skills?
26. What do you estimate the cost of being part of the pilot programme?
27. Who do you think are the main beneficiaries of IR?

### **Questions for pilot programme external stakeholders**

1. Explain your role in the organisation.
2. Describe how did you and your organisation become involved with the pilot programme organization?
3. What does <IR> mean to you?
4. In your opinion, is <IR> a replacement for sustainability reporting?
5. The IIRC emphasises “integrated thinking” and <IR> as the output. What is your view?
6. What aspect of <IR> do you find most useful?
7. What do you see as the biggest barrier to its development?
8. What is the role of the Board of the organization? Discuss the importance of Board for IR?
9. Are you aware of the GRI and UNPRI?
10. Do you think knowledge of the above is useful in the preparation of an IR?
11. Will <IR> encourage long termism? Why?
12. Do you think there will be any issues with <IR> related to the disclosure of information due to potential competitor advantage or proprietary information?
13. There are accusations that an <IR> can be used as “green washing” or disinformation to present environmentally responsible information. Is this a risk?
14. Do you think that <IR> is more appropriate for some industries than others?
15. What role do you think accountants should have in the development of IR?
16. Who do you think is going to be able to provide assurance to the information provided in an integrated report?
17. Do you think Integrated Reporting should be regulated? Why?
18. Comment on the necessity for an integrated report to be assured?
19. The key stakeholders of <IR> as identified by the IIRC are shareholders. Are there other stakeholders that should be targeted?
20. Adoption of <IR> in full may give rise to an increase in fiduciary risk by Directors. How can their liability be addressed?
21. Any changes to directors’ liabilities may change the way <IR> is adopted. Is this a problem?





## Appendix 2 Ethics Approval and participation information letters

Office of the Vice-Chancellor  
Finance, Ethics and Compliance



The University of Auckland  
Private Bag 92019  
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Level 10, 49 Symonds Street  
Telephone: 64 9 373 7599  
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### UNIVERSITY OF AUCKLAND HUMAN PARTICIPANTS ETHICS COMMITTEE (UAHPEC)

14-Jan-2014

#### MEMORANDUM TO:

Prof David Hay  
Accounting & Finance

#### Re: Application for Ethics Approval (Our Ref. 011018): Approved

The Committee considered your application for ethics approval for your project entitled **What is the purpose and value of Integrated Reporting?**.

We are pleased to inform you that ethics approval is granted for a period of three years.

The expiry date for this approval is 14-Jan-2017.

If the project changes significantly, you are required to submit a new application to UAHPEC for further consideration.

If you have obtained funding other than from UniServices, send a copy of this approval letter to the Research Office, at [ro-awards@auckland.ac.nz](mailto:ro-awards@auckland.ac.nz). For UniServices contracts, send a copy of the approval letter to the Contract Manager, UniServices.

In order that an up-to-date record can be maintained, you are requested to notify UAHPEC once your project is completed.

The Chair and the members of UAHPEC would be happy to discuss general matters relating to ethics approvals. If you wish to do so, please contact the UAHPEC Ethics Administrators at [ethics@auckland.ac.nz](mailto:ethics@auckland.ac.nz) in the first instance.

Please quote reference number: **011018** on all communication with the UAHPEC regarding this application.

*(This is a computer generated letter. No signature required.)*

UAHPEC Administrators  
University of Auckland Human Participants Ethics Committee

c.c. Head of Department / School, Accounting & Finance  
Assoc Prof Norman Wong  
Dr Julie Harrison

## **PARTICIPANT INFORMATION SHEET – EMPLOYER**

**Project Title: What is the purpose and value of Integrated Reporting to key stakeholders?**

**Name of Researcher: Caroline Bridges and Dr. Julie Harrison**

We are researchers in the Department of Accounting and Finance at the University of Auckland Business School. We are conducting research into Integrated Reporting for a PhD by Caroline Bridges.

The primary objective of the research is to examine attitudes towards and understanding of Integrated Reporting. We would appreciate the opportunity to talk to employees that are able to provide an insight into the understanding of Integrated Reporting.

The research includes face to face interviews. The interviews will be recorded using an electronic device and a transcript of the interview will be prepared by the student or a professional transcriber. In the case of an external transcriber they will be required to sign a confidentiality agreement beforehand. The interviews will be no more than 60 - 90 minutes long. We would like to stress that permission for the recording of the interview with your staff is voluntary and permission can be withdrawn at any time up to 31 March 2016. In addition the interviewee can stop the interview or withdraw at any time, request the recording be stopped at any time, and request any electronic file is deleted.

From interviews with a series of participants we will analyse the information to establish common perceptions of the understanding of and challenges to Integrated Reporting. The summation of the research will be used as part of a PhD thesis and may be included in future research publications.

All information from the interviews including the digital file of the interview will be held in a secure location and separate from the Consent forms for up to 6 years, after which time they will be destroyed.

If you are willing for your employees to be interviewed please sign the consent form. The interviews will only go ahead with the additional consent of your employees.

The name of the organisation will only be mentioned in any written reports including the relationship between the organisation and the International Integrated Reporting Council (IIRC) with consent. The designation of the employee with regards the IIRC will only be disclosed with your permission. The name of the employee will not be disclosed. If you are happy to give permission for the recording of our interview please let us know by filling in the consent form and returning it to us.

Thank you very much for your time and help in making this study possible. If you have any queries please email us at:

Primary Researcher: Professor David Hay  
Department of Accounting and Finance  
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Telephone: +64 9 373 7599 ext. 84878  
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Email: [n.wong@auckland.ac.nz](mailto:n.wong@auckland.ac.nz)

For any queries regarding ethical concerns you may contact:  
The Chair  
The University of Auckland Human Participants Ethics Committee  
Office of the Vice Chancellor  
The University of Auckland  
Private Bag 92019, Auckland 1142, New Zealand  
Telephone: +64 9 373 7599 ext. 83711

CONSENT FORM – EMPLOYER  
THIS DOCUMENT WILL BE KEPT FOR 6 YEARS

**Project Title: What is the purpose and value of Integrated Reporting to key stakeholders?**

**Name of Researcher: Caroline Bridges and Dr. Julie Harrison**

On behalf of \_\_\_\_\_ I give permission to the researchers to interview employees of the organisation.

I have read the Participant Information Sheet I have been given and have understood the nature of the research project. I have had the opportunity to ask questions and have them answered.

- I understand that I am giving my permission on behalf of the organisation and the participation of the employee(s) is voluntary.
- I confirm that a potential participants' decision to participate or not will not affect their employment status.
- I confirm that I understand that I am free to withdraw permission on behalf of the organisation at any time up to 31 March 2016 without giving a reason.
- I understand the interview may be recorded with the employee's permission. The interviewee can stop the interview or withdraw at any time, request the recording be stopped at any time, and request any electronic file is deleted. Any recording will be on digital files and a transcript prepared at a later time. The transcripts and data recordings will be stored in a secure location for up to 6 years, after which time they will be destroyed.
- I give/do not give permission for the name of the organisation to be disclosed. I can request the specific reference to this organisation that can be made in any research output.
- I understand the results from the study will be used in a PhD thesis and may be used for research publication basis.

Name

*Please print clearly*

Signature \_\_\_\_\_ Date \_\_\_\_\_

APPROVED BY THE UNIVERSITY OF AUCKLAND HUMAN PARTICIPANTS ETHICS COMMITTEE  
ON  
14/01/2014 FOR 3 YEARS REFERENCE NUMBER 011018

## **PARTICIPANT INFORMATION SHEET - EMPLOYEE**

**Project Title: What is the purpose and value of Integrated Reporting to key stakeholders?**

**Name of Researcher: Caroline Bridges and Dr. Julie Harrison**

I am a researcher in the Department of Accounting and Finance at the University of Auckland Business School. We are conducting research into Integrated Reporting as background for the PhD research proposal of one of our students.

The primary objective of the research is to examine views on the demand for and general understanding of integrated reporting and the barriers to adoption. We would appreciate any information you can provide.

The research involves interviews. The interviews could be face-to-face or using Skype. The interviews will be recorded (with permission) and a transcript of the interview prepared by the student or a professional transcriber. In the case of an external transcriber they will be required to sign a confidentiality agreement beforehand. The interviews will be no more than 60 – 90 minutes long. A copy of the transcript of the recording is available on request by email or by telephone within three months of the interview. You will have a further three months to request modifications to the transcript from the date of receipt.. We would like to stress that your permission for the recording of the interview is voluntary and permission can be withdrawn at any time up to 31 March 2016. You can stop the interview or withdraw at any time, request the recording be stopped at any time, and request any electronic file is deleted.

From a series of interviews with a series of participants we will analyse the information to establish common perceptions of the understanding of and challenges to the adoption of integrated reporting and the creation of a conceptual framework. The summation of the research will be used as part of a PhD thesis and may be included in future research publications.

All information from the interviews including the digital file of the interview will be held in a secure location and separate from the Consent forms for up to 6 years, after which time they will be destroyed.

The name of the organisation will be mentioned in any written reports if permission has been granted including the relationship between the organisation and the International Integrated Reporting Council (IIRC). Otherwise a general reference demonstrating the link to the IIRC will be disclosed.

If you wish to give permission for the recording of our interview and reference to the International Integrated Reporting Council please let us know by filling in the consent form and returning it to us.

Thank you very much for your time and help in making this study possible. If you have any queries please email us at:

Primary Researcher: Professor David Hay  
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The Chair  
The University of Auckland Human Participants Ethics Committee  
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APPROVED BY THE UNIVERSITY OF AUCKLAND HUMAN PARTICIPANTS ETHICS COMMITTEE  
ON  
14/01/2014 FOR 3 YEARS REFERENCE NUMBER 011018

CONSENT FORM – EMPLOYEE  
THIS DOCUMENT WILL BE KEPT FOR 6 YEARS

**Project Title: What is the purpose and value of Integrated Reporting to key stakeholders?**

**Name of Researcher: Caroline Bridges and Dr. Julie Harrison**

I agree to take part in the research.

I have read the Participant Information Sheet I have been given and have understood the nature of the research project. I have had the opportunity to ask questions and have them answered.

- I can decline to answer the any or all of the interview questions without giving a reason.
- I am free to withdraw my interview responses at any time up to 31 March 2016 without giving a reason. I can stop the interview or withdraw at any time, request the recording be stopped at any time, and request any electronic file is deleted.
- I **agree/do not agree** to be recorded. The recording will be on digital files and a transcript prepared at a later time. A transcriber may be employed after signing a confidentiality agreement. Ownership of the recording will be with the researcher. The transcripts and recording will not be made available to others. The transcripts and data recordings will be stored in a secure location for up to 6 years, after which time they will be destroyed.
- I understand I can request access to the transcript by email or by telephone within three months of the date of the interview and will have a further three months from receipt to request modifications to this transcript.
- I **give/do not give** permission for my designation within my organisation and relationship to the International Integrated Reporting Council be used in any research published using the information provided in my interview. I understand my name will not be disclosed. If I do not give permission for my designation to be disclosed, in any subsequent publication I will be referred to as ‘member of IIRC’, ‘part of pilot programme’ or ‘familiar with the IIRC processes and procedures’. I can also decide on a reference.
- I understand the results from the research will be used in a PhD thesis and future research publications.

Name \_\_\_\_\_

Signature \_\_\_\_\_ Date \_\_\_\_\_

*Please print clearly*

APPROVED BY THE UNIVERSITY OF AUCKLAND HUMAN PARTICIPANTS ETHICS COMMITTEE  
ON

14/01/2014 FOR 3 YEARS REFERENCE NUMBER 011018





### Appendix 3 Table of Pilot programme participants

The Pilot programme ran from 2011 to 2014. The objectives were to provide the IIRC with feedback on the application of the principles of integrated reporting and to contribute towards increasing the visibility of the IIRC.

<b>Continent</b>	<b>Industry</b>	<b>Total by continent</b>
<b>Africa</b>		<b>7</b>
	Chemicals	1
	Construction & materials	1
	Electricity	1
	Financial services	1
	Mining	2
	Transportation services	1
<b>Asia</b>		<b>12</b>
	Accounting	1
	Banks	1
	Construction & materials	1
	Electricity	1
	Government Statutory Body	1
	Household goods & home construction	1
	Industrial engineering	1
	Machinery	1
	Manufacturing	1
	Pharmaceuticals & biotechnology	1
	Steel producers	1
	Telecommunications	1
<b>Australasia</b>		<b>5</b>
	Banks	2
	Legal Services	1
	Postal services	1
	Real estate investment & services	1

<b>Continent</b>	<b>Industry</b>	<b>Total by continent</b>
<b>Europe</b>		<b>58</b>
	Accounting	10
	Airport	1
	Automobiles	1
	Banks	4
	Chemicals	3
	Construction & materials	1
	Development Bank	1
	Electricity	3
	Financial provider	1
	Financial services	3
	Food producers	1
	Food retail	1
	Gas, water & multiutilities	1
	General retailers	2
	Health care	1
	Hospitality	1
	Industrial transportation	1
	Insurance	2
	Media	1
	Nuclear industry	2
	Oil & Gas	2
	Oil & gas producers	2
	Pharmaceuticals & biotechnology	2
	Real Estate Management	1
	Retail Goods	1
	Software & computer services	2
	Support services	3
	Technology hardware & equipment	1
	Telecommunications	1
	Transportation services	2
<b>North America</b>		<b>11</b>
	Banks	1
	Beverages	1
	Chemicals	1
	Financial services	1
	Food & Beverage	1
	Industrial mining & metals	2
	Media	1
	Port	1
	Real Estate	1
	Software & computer services	1

<b>Continent/Industry</b>		<b>Total by continent</b>
<b>South America</b>		<b>13</b>
Banks	2	
Energy	1	
Food	1	
Forestry and pulp	1	
Forestry, wood and boards	1	
Industrials	1	
Insurance	1	
Oil & gas producers	1	
Personal goods	1	
Support services	1	
Transportation	1	
Utilities	1	
<b>Grand Total</b>		<b>106</b>



## Appendix 4 Summary of content of IRCO integrated reports 2013-2017

Description	2013	2014	2015	2016	2017
	<b>42 pages</b>	<b>48 pages</b>	<b>28 pages</b>	<b>53 pages</b>	<b>44 pages</b>
<b>Foreword by Chairman and Chief Executive</b>	4	3	2	3	<i>Replaced by “Our Outlook” starting on p.16 – 3pp</i>
<b>Integrated Reporting</b>	21	25	20	29	24
<b>Performance Against Objectives</b>	2	2	2		<i>Relevant KPIs discussed within each strategy</i>
<b>Governance - details of Board and Executive Team</b>	6	4	<i>Names of Board and Group Leadership team listed in Directory. Governance details in volume 2</i>	7	8
<b>Directory registered address, solicitor, auditor etc.</b>	1	1	1	<i>Directory at the end of Annual Report</i>	<i>Directory at the end of Annual Report</i>
<b>Number of full page photos</b>	3	3	2	9	3
<b>Incidental pages e.g. contents, end pages</b>	5	10 <i>Includes 6pp on future implementation of strategy</i>	1	5	6
<b>Number of smaller photos</b>	21	25	13	25	19
<b>Number of diagrams/graphs</b>	7	7	5	12	17
	The first Annual Review (Integrated Report). Volume 1 was the integrated report and Volume 2(118pp), the financial information.	The second Annual Review (Integrated Report). Volume 1 was the integrated report and Volume 2(118pp), the financial information.	The third Annual Review (Integrated Report). Volume 1 was the integrated report and Volume 2 (118pp), the financial information.	The fourth Integrated Report. for one business unit ONLY and Annual Report (114pp), the financial information for IRCO as a whole.	The fifth Integrated Report. and Annual Report (110pp), the financial information.

**Table 24 Composition of IRCO reports 2013 to 2017**

### 2013

The first report in 2013 mentioned <IR> in the foreword to the Annual Review as a “new approach” and noted, “this provides a deeper and more comprehensive assessment of our activities, beyond traditional financial and narrative reporting” (IRCO Annual Review, 2013,

p.6). Further, the report also promoted IRCO as being the only New Zealand organisation to have adopted <IR,> “IRCO is the first (and currently only) business in this country to participate in the worldwide pilot programme” (Annual Review, 2013, p.8) thereby promoting IRCO as a leader in innovative corporate reporting. The report was structured by the strategy objectives of IRCO and then each business unit was discussed separately within each strategic objective.

Each of the capitals were renamed to be more relevant to the business of IRCO. In Table 25 the capitals as identified by the <IR> Framework are listed against the titles created by IRCO. As one internal stakeholder reported, “we’ve made up our own headings for the capitals to make it relevant to our own business”. Other internal stakeholders commented that they were unsure of the exact number of capitals but did consider that debate between the members of the steering group on a more appropriate name provided an opportunity for discussion on each of the capitals. These revised names for capitals was retained for each subsequent report.

<b>Capital from &lt;IR&gt; Framework</b>	<b>Capital as renamed by IRCO</b>
Financial	Finances
Manufactured	Networks
Intellectual	Expertise
Human	People
Social and Relationship	Relationships
Natural	Environment

**Table 25 Capitals as renamed by IRCO**

The first integrated report in 2013 was 42 pages long. The report was named Annual Review and was part one of the Annual Report. Part two contained the financial information and was 52 pages long. The total Annual Report was a total of 94 pages which was considerably shorter than 2012. The first part was deliberately a “more readable non-numbers focused body of work” (Charlie)(I). In 2013, the foreword outlined the challenges for IRCO as a result of a decline in their traditional income stream. Words such as “decline”, “accelerated decline”, “downgraded”, “rationalisation”, and “significant challenges” were used to explain IRCO’s economic position. The use of these words reinforced the information provided in 2012 that the business was facing significant challenges and that change was required. This represents phases 1 and 2 of the change management process to articulate the problem and outline the strategies to be adopted to remain relevant.

The foreword was followed by a description of <IR> and an introduction to the six capitals. The strategy targets to deal with the economic position of IRCO were described and the effect on the different business units as well as the appropriate capitals affected by each strategy. Each of the capitals was described and how the activities of IRCO changed in the 2013 financial year. Each capital was renamed from headings in the <IR> framework to make them more relevant to IRCO. Thus, in 2013 the focus of the report was to stress the operating and financing challenges confronting IRCO and then outline strategies to see IRCO continue as a legitimate business into the future using the capitals. The business was reported as a whole rather than in silos and this reinforced IRCO as one business with multiple operating segments.

## **2014**

The second integrated report for 2014 was 48 pages long and the financial statements were 48 pages long and a total of 96 pages for the whole Annual Report which was similar to 2013. The capitals became the focus of the report with a shortened attention to IRCO's strategy for the next five years. Pictures and graphics were used to describe the business and a journalist was used to ensure the narrative reflected the same tone to describe all of the business units with graphics used to a minor extent. The report was described as an "iteration" (Annual Review, 2014, p.13) of <IR> and the same capitals were used as the primary method to organise the Annual Review, that is, it was capital centric and each business unit was included at several points throughout the document without having a dedicated section.

The IIRC does not prescribe how an integrated report should be written or in what order the information should be written but represents story writing from the organisation's point of view (IIRC, 2015b). PwC (pwc, 2015) published a guide to producing an integrated report and within that they suggest a table of contents based around the content elements<sup>67</sup>. Ordering the report using either the capitals or the suggestion above from PwC will result in two completely different reports that will produce quite different stories (narrative) and may include different information and emphasis. PwC suggests that while information should be individual to each business, this can impede comparability and make it more difficult for analysts to make effective valuation assessments. By contrast, the IIRC suggests that there is a positive correlation between <IR> disclosure and the market value of equity (IIRC, 2015b). Therefore,

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<sup>67</sup>The content elements are; organizational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, outlook, basis of preparation and presentation, general reporting guidance. They are further discussed in 0.



while the story of the organisation should be specific to the organisation which may limit comparability, if the narrative is transparent and believable, it has the potential to improve the value of the organisation. Writing the integrated report as a story of the organisation gave IRCO the opportunity to portray the organisation as relevant and legitimate.

*It may take some time to reinvent ourselves, but we must stay in the game if we're to continue to be relevant in our markets and ultimately have a financially viable future (Annual Review, 2014, p.5)*

## **2015**

In 2015, the annual review was considerably shorter (28 pages) with an increased use of graphics both photographs and diagrams and tables. The financial statements in Volume 2 was 118 pages which extended the total number of pages to 146, which was still less than in 2012. The foreword was more optimistic and highlighted successes despite an acknowledgement that “we remain in a period of substantial and ongoing change” (annual review 2015, p. 2). Information on the Board and Executive team was listed in the directory at the end of Volume 1 and detailed corporate governance information was reported at the end of Volume 2 without photographs or curriculum vitae of the Directors. Interestingly, additional information regarding greenhouse gas emissions was given at the end of Volume 2 in 2015 as well as forming part of Volume 1. Diagrams that explained a materiality matrix, the business model and summarised the strategy of IRCO were introduced.

## **2016**

In 2016 (and 2017), the annual review or integrated report was 53 pages long and the Annual Report was 114 pages. The publications were no longer Volume 1 and 2 and this is likely because the detailed information in the annual review related to one business unit only although the foreword includes information on all business units. The Annual Report includes financial information for the group as a whole. There were more colour photographs throughout. This report began with strategic objectives and then discussed the how IRCO's strategy was being operationalised. The narrative was less story based and more bullet point reducing the continuity approach previously used. It was more business-like and positive in nature than previous reports and represented phase three of the change management programme where the success of the strategy implementation resulted in a more relevant and changed organisation legitimised within New Zealand. The report celebrated the success of

initiatives to improve the overall profitability of the business across all business divisions while maintaining positive stakeholder relationships. There was no discussion of job losses – which is significant given the actions that had been taken in previous years and that one of the largest stakeholder groups reading the <IR> were its employees according to IRCO. In the annual review they explain why they have only included one business unit;

*This year we have made a significant change in focusing our integrated report on the XX part of the business...by not including YY in this report, we aim to remove some of the complexity and provide greater clarity regarding the XX business model. To meet our statutory obligations, we have produced a separate annual report covering all parts of the ... group (Annual Review 2016, p. 11).<sup>68</sup>*

## **2017**

In 2017, the integrated report was 44 pages long and the Annual Report was 110 pages long. During the year a 47% interest in one subsidiary was sold and there was also a change in the Chair and Chief Executive of IRCO. The report shows evidence of a development in the way the report is constructed as sustainability is mentioned in the report as one of the strategies unlike previous reports. The strategies for IRCO are discussed together with the relevant capitals affected in a similar way to 2016. There is more discussion on growth and as a result of the changes in the previous four years IRCO is positioned to begin the focus on growth (rather than rationalisation).

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<sup>68</sup> Details of business units has been removed to ensure anonymization.



## **Appendix 5 Comparison of IRCO integrated reports to <IR> Framework**

The IRCO integrated reports between 2013 and 2017 each represented steps along the journey to develop <IR>. After the publication of the 2016 report there were significant changes in the ownership of one of the operating units.

Table 17 (Chapter 5) provides a summary comparison on the reports of IRCO from 2013 to 2017 to highlight some of the differences between them. This Table is necessarily abbreviated and it can be seen that each report was different in terms of the structure even if the terminology for the capitals remained the same. The reports used the <IR> principles and it is therefore appropriate to assess how the reports of IRCO compare to the seven guiding principles and nine content elements guidance from the <IR> Framework (see 4.5.5). The guiding principles relate to the way the report is constructed and the content principles relate to the content that should be included with the report. There is necessarily some conflicting challenges within the guiding principles, for example a report should be both concise and complete. In the following sections the content elements and guiding principles from the <IR> Framework are compared to the integrated reports produced by IRCO. This comparison looks at the composition of the integrated reports in light of the IIRC's view that, "the primary purpose of an integrated report is to explain to the providers of financial capital how an organization creates value over time. It therefore contains relevant information, both financial and other" (IIRC, 2013, p.7).

## Guiding Principles

Table 26 lists the guiding principles listed in the <IR> framework. Each of the principles will be considered in turn with the reports produced by IRCO between 2013 and 2017.

<IR> Guiding Principles	
1.	Strategic Focus and future Orientation
2.	Connectivity of Information
3.	Stakeholder Relationships
4.	Materiality
5.	Conciseness
6.	Reliability and completeness
7.	Consistency and Comparability

**Table 26 <IR> Guiding principles**

**Strategic focus and future orientation.** IRCO used strategy as the main way to articulate the story of how they responded to changes to the businesses and how this was expected to result in an organisation that will be able to be sustainable and relevant into the future. The way the strategic objectives have been used to connect the report changed each year. In 2012, in the last traditional Annual Report, strategy was placed on page 2 of the Annual Report. The strategic objectives were articulated through a description of the results of each business unit. In 2013, in the first integrated report, each strategic objective was linked to the capitals most affected. In 2014 and 2015 the capitals provided the way to articulate the strategy, that is, the strategy was embedded within each capital. In 2016 the format of the <IR> again places the strategic objectives at the centre of the report and the effect on each capital is then explained within each strategy. However, in 2016 the integrated report did not include all of the business units and is therefore not an integrated report of IRCO as a whole. In 2017 the report included the same operating segments as 2016 as a result of the restructuring of IRCO. The strategy of IRCO was either articulated within each capital (2014 and 2015) or the capitals were described within each strategic objective (2013 and 2016). Each business unit was included within the discussion of strategy or capital (2013, 2014 and 2015).

**Connectivity:** For IRCO, connectivity is difficult to assess as changes in one strategy or one capital are interrelated and demonstrating the level of trade-off between capitals and strategies as well as demonstrating a holistic view of an organisation is part of the learning

development of the organisation. In the report for 2017 the report links together different elements of the business to improve connectivity. The IIRC Framework suggests that the information in an integrated report should demonstrate connectivity between the elements that “affect the organisation’s ability to create value” (IIRC, 2013c, p.16). The Framework goes on to suggest that this is easier when integrated thinking is embedded within the organisation and the use of plain English and navigation tools also aids a demonstration of connection. Connectivity can be a challenge to demonstrate successfully (ACCA, 2017) and can continually be refined. IRCO show evidence of a growing awareness of the interdependency between capitals and strategies.

**Stakeholder relationships:** The nature of relationships with stakeholders is an essential part of the IIRC’s guiding principles. This dimension of <IR> recognises that value is not created in a vacuum but as a result of relationships with stakeholders and the relationship between the organisation and stakeholders requires clear and succinct explanation. IRCO have listed their stakeholders each year from 2013 (their first integrated report) and stated that engagement with stakeholders was ongoing without providing specific details. In 2016 (and 2017) the discussion regarding stakeholders was more specific and provided details of meetings with different stakeholders and a stakeholder’s survey that provided some evidence of material matters to both internal and external stakeholders. However, the survey and materiality matrix relate to only one business unit and not to the business as a whole. In this way the overall stakeholder relationship matrix is not fully explained. This is discussed more in section 5.3.

**Materiality:** The materiality matrix produced in 2016 demonstrates a clear development in the level of integrated thinking and confidence in the preparation of the integrated report. Materiality is an important concept as it frames the information that should be included within an integrated report by considering information that is important for decision making. However, this information may be different between different stakeholders (ACCA, 2017). The primary target for an integrated report are the providers of financial capital and therefore refining the materiality matrix by stakeholder would improve the explanation of the information to be included. In 2014 there was a discussion of the material impacts and how these had been considered in part of the strategic assessment progress, without providing specific details on how this had been achieved. The determination of the reporting boundary is important to help assess the level of materiality that may be affected by “risks, opportunities and outcomes” (IIRC, 2013b, p.20). IRCO improved their explanation of materiality in 2016 that was significantly better than previous discussions by listing material items as each strategy

was described and explained. The matrix was repeated in 2017 and with a more homogenous business structure in 2017 it may be easier to construct a materiality matrix.

**Conciseness:** Integrated reports should be concise to avoid overburdening the reader with irrelevant information and avoid jargon and unclear language. A concise report also encourages a focus on the most material items without discussing less material items in depth. The Annual Report for IRCO for 2012 was 183 pages long but this included the complete financial statements. In 2016, the integrated report was 58 pages long and the financial statements were 88 pages or a total of 146 pages and therefore a reduction from the 2012 report. The IIRC website provided exemplars of integrated reports or parts of integrated reports. For instance, Novo Nordisk, a Danish pharmaceuticals company have prepared integrated reports for many years and won numerous awards for their reporting. Representatives from Novo Nordisk were represented on the IIRC working groups and contributed to several publications on <IR> and even YouTube videos. Their 2016 Annual Report is a total of 121 pages including extracts from the financial statements. A statement signed by the Board of Directors and Executive Management states that the report complies with the <IR> Framework. A full statutory Annual Report is also available online. It is not called an integrated report although a note appears in their report (Figure 6 Novo Nordisk Annual Report 2016 p.57) which confirms their commitment to <IR> and their approach to preparing the report. IRCO acknowledges the *use* of the <IR> framework in their 2016 report and “our adoption of <IR> has been a work in progress” (IRCO Annual Review, 2016, p.40). The report also refers to the Annual Report which covered all of the IRCO operations. The reports of Novo Nordisk may not appear to be concise at 121 pages so therefore the concept of conciseness is relative and the reports of IRCO appear to conform to the requirements of conciseness. In 2017, the integrated report was 44 pages long and this was comparable to 2016 as there were fewer full-page and smaller photographs but more tables of information.

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Novo Nordisk remains committed to reporting its performance through its integrated reporting. In line with the Novo Nordisk Triple Bottom Line principle, the Consolidated financial, social and environmental statements are presented along with the related notes.

Within each of the financial, social and environmental statements, the notes are grouped into sections based on how Novo Nordisk views its business. Each of the sections has an introduction explaining the link between long-term targets and business priorities, and how this is reflected in Novo Nordisk's financial, social and environmental statements. To provide transparency in the disclosed amounts, each note includes the relevant accounting policy, key accounting estimates and numerical disclosure.

NOVO NORDISK ANNUAL REPORT 2016

### Figure 6 Novo Nordisk Annual Report 2016 p.57

**Reliability and completeness.** Reliability or faithful representation can only be accepted where the reports are balanced and free from material error (IIRC, 2013, p.21). The integrated reports from 2013 to 2015 were complete as they reported on all business units, however, in 2016 IRCO only included one business unit in the integrated report so there was no attempt to provide completeness within the integrated report. The concept of reliability is enhanced where the report has been audited or a clear audit trail has been provided. Reliability of information is enhanced by good governance where governance acts as a leadership structure to ensure effective control over information (IIRC, 2013b, paragraph 3.41). IRCO cannot demonstrate reliability as the reports have not been audited and evidence of reliability is not available.

**Consistency and comparability:** IRCO changed the format of the integrated report each year and therefore they have not been able to maintain consistency or comparability. The process of learning and developing integrated reports is evident in the way they are presented, however, this is a limitation to the ability of <IR> to aid users of the reports to assess progress against previous years.

The commitment to <IR> at the Board level of IRCO resulted in a development in the reports and the learning process reflects that. It cannot be concluded whether development of the reports changed their strategic objectives but it provided a different and more unified way to describe the operating and financing activities of the business.

Comparability was also limited by the absence of future targets. In 2013 to 2016 a page of performance against objectives was provided which listed KPIs without a reference to why it was selected but grouped by people, planet and profitability groupings. In 2017 some of these targets were included in a discussion of the most appropriate strategy and capital which improved the logical flow of the report.



## Content Elements

There are also eight content elements that should be included in an integrated report. The <IR> Framework (IIRC, 2013c) emphasises that the information in an integrated report should demonstrate the connection between the content elements and the order in which these items appear should be adapted to each business. Table 27 lists the content elements in the order in which they appear in the Framework. Each one will be considered in turn with relation to the integrated reports of IRCO between 2013 and 2016.

<IR> Content Elements
1. Organizational Overview and External Environment
2. Governance
3. Business Model
4. Risks and Opportunities
5. Strategy and Resource Allocation
6. Performance
7. Outlook
8. Basis of Preparation and Presentation

**Table 27 <IR> Content Elements**

The content elements provide a checklist for IRCO to ensure that the integrated report considers the major areas to be included within a report whereas the guiding principles shape the information to be included for each element. IRCO is required to apply judgement to assess the extent to which the reports provide a holistic view of the organisation.

**Organisational overview:** The value creation model, within the integrated report, provides an overview of what the business does to transform capitals and create outputs and how it does it. IRCO has each year provided a one page summary towards the beginning of the report to describe either “who we are” or “IRCO today”. Each year from 2012, there is information that describes the challenges and opportunities facing IRCO. The information is narrative without consistent measures of the changes taking place within IRCO. However, a description of the changing business landscape that the organisation is having to adapt to, including key performance indicators, are included.

**Governance** disclosures for IRCO are compulsory and therefore not voluntary. For IRCO these disclosures do not form part of the integrated report for 2015 although included in

other years examined. The disclosures on governance are limited to details of the Board and Executive Team and do not provide details of compensation or monitoring structures such as audit and remuneration committees which are now available on their website.

The integrated report should provide information on the **business model** for an organisation according to the <IR> framework. IRCO have produced details of who they are either through description of each business or through history of the group. However, creating a business model and demonstrating connectivity is challenging especially where companies have several different businesses and each business uses different platforms or reporting structures (ACCA, 2017). IRCO, along with other companies adopting <IR> develop the business model through both a linear narrative and in diagrams.

Identifying **risks and opportunities** for IRCO was clearly articulated through the reports that were reviewed. The narrative contained within the reports repeated the intention of IRCO to remain relevant in their market by adapting their business model to changing customer demands. Each report explained the challenges for the business and in 2016 the language became more optimistic and the narrative provided examples of positive results within the business. In 2016 and 2017 the introduction of materiality matrix provided the opportunity to discuss business risks without quantifying their effect but specifying their relative importance.

**Strategy and resource allocation:** The strategic aims of IRCO were clearly articulated in the reports it produced for its stakeholders each year. The significant challenges facing IRCO were well documented. The strategies were outlined to both respond to the challenges and establish the legitimacy of IRCO to continue to operate. The Framework also emphasised that an integrated report should describe the links between strategies and the business or value creation model to explain how each strategy may affect different capitals. IRCO demonstrated through each report that there was a clear link between strategy and the operations of the business. The effect on the business operations including staff was also well documented. IRCO demonstrated a clear understanding of the importance of articulating each of their strategic objectives and how this would affect the future of the business.

**Performance:** The content of an integrated report should explain how the business has affected each capital with explanations of how this affected key measures both financial and non-financial. The performance of IRCO and change in business direction affected staff

numbers and this was explained within the report. IRCO were also able to explain the performance of IRCO and demonstrated an understanding of the effect on the capitals.

Within an integrated report the content should consider the future **outlook** for the organisation and how potential challenges and opportunities may affect their business model and future performance. Within the Framework, it is noted that any discussion of future results and targets are subject to regulatory requirements and any changes that might be made to them. The discussion of future outlook can therefore be problematic. Within the reports prepared by IRCO, the future outlook was framed within the context of the strategic direction of the business and there was limited quantification of how the future of the business would affect key performance indicators.

Integrated reports are intended to include a complete range of factors that affect the business and therefore a consideration of materiality and reporting boundaries is important. Materiality is already include as one of the guiding principles of the <IR> Framework and as previously discussed, the development of the disclosure of materiality in the integrated reports of IRCO demonstrated a more complete understanding to the reader of the content of the way materiality has guided the information to be included within the reports.

The IIRC has called <IR> and integrated reports, “umbrella reports” (IIRC, 2014b, p.2) where links are provided within the integrated report to other, separate reports that provide more detail to interested stakeholders. From the interviews that were undertaken with the internal stakeholders, it was clear that IRCO used the principles of the GRI to prepare a Sustainability Report prior to <IR> and after the adoption of <IR>, the GRI framework was no longer used in published reports as noted in section 5.2.1 . In 2016, IRCO acknowledged, for the first time in integrated reports, the use of guidance from the GRI standards among others to help in the determination of the materiality matrix.

The content elements as outlined in the <IR> Framework, provided a way for an organisation to ensure that the integrated reports considered all aspects of the impacts of the business and the value creation process. The guiding principles supported the report content and guided how the information was presented. IRCO appeared to have carefully considered the guidance within the <IR> Framework in the preparation of all of the integrated reports it produced. The construction of the reports changed over time demonstrated progress in preparing an integrated report as well as reflecting the changes within the business.

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