# Chapter x: Integrated Reporting

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## Introduction

Integrated Reporting (referred to in literature as <IR>) is the latest development in an evolution of reporting innovations designed to improve the decision usefulness of corporate reporting. In Appendix 1, the ICAEW (2009, 2010) identified ten such key initiatives, including the balanced scorecard and value reporting, spanning 20 years, each seeking to more comprehensively address the needs of a wider range of stakeholders through:

* Linking financial and non–financial measures to longer term strategic direction; and
* Incorporating forward–looking information, including non-financial information, which can underpin the creation of long-term value.

<IR> responds to a growing demand for a broader information set from markets, regulators and civil society, by providing a framework which can support the future development of reporting, reflecting its growing complexity (Eccles, Serafeim and Krzus, 2011; Abeysekera, 2013). As prior reporting initiatives have evolved in separate, disconnected strands, critical interdependencies between strategy, governance, operations, and financial and non-financial performance are not made clear (Druckman and Fries, 2010; Eccles and Krzus, 2010; IIRC, 2011). Therefore <IR> aims to address the limitations of current reporting practices by demonstrating in one report, the relationship between an organisation’s strategy, governance and business model, by providing an analysis of the impacts and interconnections of material financial and non-financial opportunities, risks and performance (Druckman and Fries, 2010).

Since the formation of the International Integrated Reporting Council (IIRC) in 2010, the concept of <IR> has increased in relevance and importance (Milne and Gray, 2013; de Villiers, Rinaldi and Unerman, 2014). Some academics consider that <IR> offers the potential to:

* shift corporate mind-sets towards alignment of proﬁt maximisation with societal and environment well-being;
* improve the quality of information provided to stakeholders;
* promote sustainable business practices; and
* provide the opportunity for organizations to respond to the Sustainable Development Goals (Adams, 2015, 2017).

However, others consider <IR> to be exclusively investor orientated with little to say about either accountability or sustainability (Milne and Gray, 2013; Flower, 2015).

In 2017, the IIRC, based on results from different market studies and their own market intelligence, estimated that over 1,600 companies across 64 countries are on the journey towards integrated reporting worldwide (IIRC, 2017a). This estimate is broadly confirmed by recent research based on the development of a worldwide database of the most recent integrated reports, where a total of 1,519 integrated reports were identified with financial years commencing in 2016 and ending in 2016 or 2017 (Gibassier, Rodrigue and Arjalies, 2018). This research identified <IR> adoption across 21 countries with highest adoption rates in South Africa and Japan (which together accounted for 43% of reports identified), followed by the UK, Netherlands and Spain (15% of reports identified). Industries with high intangibles, such as banking, are amongst the biggest reporters along with those with high environmental footprints, such as chemicals. Interestingly, the number of companies with more than 5,000 employees represents only 58% of those preparing integrated reports with 28% from medium-sized enterprises and 14% from small enterprises.

## What is an integrated report?

An integrated report is described as ‘a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term’ (IIRC, 2019c). To enable this, the IIRC’s <IR> Framework supports organizations to tell their value creation story across six dimensions known as ‘capitals’: which are both inputs and outputs to the organization and which, together with the business model and governance structure, are the unique sources of value for the organization (IIRC, 2019b). This process is outlined in figure 1:

Figure 1: The integrated reporting schema (Used with permission from the International Integrated Reporting Council ©)

Regarded as reserves of value, the financial, manufactured, intellectual, human, social and relationship and natural capitals of the organization combine as inputs within the business model of the enterprise and its interactions with its external environment to produce outputs, again across the six capitals. Table 1 outlines each capital.

Table 1: The six capitals of integrated reporting (adapted from EY (2016))

|  |  |
| --- | --- |
| Capital | Encompasses: |
| Natural | Natural resources, such as water, fossil fuels, solar energy, crops and carbon sinks. These cannot be readily replaced and are vital to the normal functioning of the planet. |
| Social and relationship | The relationships and resources between the organisation and its stakeholders, including shareholders, customers, suppliers, government and community. |
| Intellectual | Intangible assets linked to the brand and reputation of the organisation, and includes patents, copyright, organisational systems, policies and procedures. |
| Human  | The skills and knowledge of the staff of the organisation, including their motivation and commitment which affect their ability to leverage their skills. |
| Financial | Financial means to maintain and expand the organisation, such as funds through financing (equity or loans) or internally generated funds. |
| Manufactured | The physical infrastructure of the organisation, together with its associated technology, tools and equipment. |

The exact weighting of these capitals is specific to each business and their relevance may vary across industry settings. However, the underlying principle should be that the capitals may change and replace each other, but they should not be depleted as a result of the actions of the organization. This allows, for example, the transfer of one capital, such as money (financial capital), to be converted into another, such as a physical asset (manufactured capital), which may be later sold to create more financial capital.

The key to the <IR> philosophy is focus on value creation over the short, medium and long term. Hence an integrated report should have value creation at its core: by reporting on the six capitals and how an organisation uses and impacts on them in creating value for itself and its environment, it should become more focused on core value creation activities and hence make more informed decisions (IIRC, 2017b). The board and management should ensure that the organisation’s strategy, risk profile and appetite and overall performance should underpin and support this focus on value creation (IRCSA, 2009). By reporting on these capitals and outcomes coherently in one report, the activities of the organisation should be more focused on creating value and organisational performance should improve (Freeman, Wicks and Parmar, 2004).

## The evolution of <IR>

Prior to the 1970s, corporate reporting was largely financially-focused and designed to respond to the needs of shareholders and other capital providers. There was often very little corporate narrative to discuss the results and much of the information in the report was backward focused. During the 1970s, additional corporate reports evolved in response to society’s increased expectations around the broader social and environmental responsibilities of business. These included environmental reports, followed by social reporting in the 1980s, to address concerns about health and safety, human rights and corruption following various high profile scandals (Nylander, 2015). Over time and with increasing demands for accountability and transparency from a wider group of stakeholders than capital providers, these additional activities are often disclosed in Corporate Social Responsibility (CSR) or Environmental, Social and Governance (ESG) reports (Baron, 2014).

These additional reports may inform the reader about the organisation’s environmental and social policies however, they often do not explain the relevance of these issues to the organisation or their impact on its outcomes (such as risk levels or costs). Some of the activities lack any coherence with the overall business strategy. Equally, much of such reporting could be perceived as ‘box-ticking’ in response to legislative or stock market requirements or ‘window-dressing’ as an add-on to the business, rather than an integral part of its business strategy decisions (Eccles reported in Godelnik (2012)). This has resulted in many investors ignoring such reports, particularly since they are seldom audited (Baron, 2014).

In the wake of the global financial crisis of 2008, the credibility of corporate reporting was challenged by investors and the wider community for a lack of coherency, comparability and assessment of risk (ACCA, 2013; Baron, 2014). Whilst there was undoubtedly a lot of data and information in corporate reports, its focus was largely short term in nature, it failed to fully account for the increasing importance of intangibles, and there was no justification of the metrics used or their materiality to the long term sustainability of the organisation (ACCA, 2013). Furthermore, companies increasingly publish sustainability reports which are frequently drafted in isolation and disclosed in separate sections of the annual report and/or in stand-alone reports, resulting in a non-integrated “silo” approach to communicating sustainability information. This leads to a lack of coherence between reports, and hampers decision-making, by failing to provide clear links between financial and non-financial information that would allow stakeholders to effectively assess an organisation’s performance, strategy and future prospects (Robertson and Samy, 2015). In particular, factors such as climate change, the depletion of the world’s finite natural resources and human rights, which the current financial and Sustainability Reporting frameworks fail to address are of increasing strategic importance to an organisation’s long-term sustainability, and to the preservation of society (Druckman and Fries, 2010; Robertson and Samy, 2015).

In response to this demand for more accountability and coherence in non-financial corporate reporting, the International Integrated Reporting Council (IIRC) was established from two sustainability accounting organisations: the Prince of Wales’s Accounting for Sustainability Project (A4S) and the Global Reporting Initiative (GRI) (Flower, 2015). The aim of the IIRC is to ‘establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors’ (IIRC, 2017b). Integrated reporting should ‘demonstrate the linkages between an organisation’s strategy, governance and financial performance and the social, environmental and economic context within which it operates… it is also an integrator of sustainability into a company’s core business’ (Eccles reported in Godelnik (2012)).

The IIRC issued the first International Framework for Integrated Reporting in December 2013 (IIRC, 2013) presenting the fundamental concepts and principles by which organisations can incorporate both financial and non-financial performance into a cohesive, integrated report. The intention is that the integrated report should become the primary reporting mechanism from an organisation to its stakeholders, with a focus on the value it creates.

<IR> can also be described as telling the story of the organisation (Abeysekera, 2013; Higgins, Stubbs and Love, 2014; Monterio, 2015; Perego, Kennedy and Whiteman, 2016; Graham, 2017). It should explain the vision, values and strategy of the organisation, together with a coherent explanation of the ways in which it manages its various forms of capital in order to achieve its strategy, including an explanation of the governance structures to support it. <IR> is intended to provide a wider group of stakeholders, beyond the traditional capital providers with a broader range of information about how organisations create value over the short, medium and long term (IIRC 2011).

Intrinsic to this is ‘integrated thinking’ which examines the relationships which are key to the organisation and how they work together to achieve the long term objectives of the firm (Nylander, 2015). It shows the ‘interdependency of non-financial issues and financial performance’ so that investors have a greater understanding of how the firm creates value and hence they are more likely to adopt a longer-term view to their shareholding (Kwan in Nylander (2015)). This broadening of reporting is intended to reflect the changing nature of the company-stakeholder relationship, where previous information asymmetry reflected the balance of power in favour of the company management. This is now moving to a rebalancing of power and reduction in information asymmetry through increased disclosure (Abeysekera, 2013) and a weakening of the dominance of financial information over sustainable data (van Bommel, 2014).

The logic to <IR> is supported by stakeholder theory, which ‘asks managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. It also pushes managers to be clear about how they want to do business, speciﬁcally what kinds of relationships they want and need to create with their stakeholders to deliver on their purpose’ (Freeman, Wicks and Parmar, 2004, p. 364). Hence the engagement of stakeholders in providing resources, such as employees, suppliers and investment, is critical to the long term success of the firm (Post, Preston and Sachs, 2002). By developing stronger relationships with a wider range of stakeholders, management can inspire others to work towards the creation of value: irrespective of whether that value is expressed as profit or some non-financial ‘return’ (Freeman, Wicks and Parmar, 2004), or equally as transfers or enhancements within the organisation’s six capitals (IIRC, 2017b).

In explaining their strategy, business model and integrated thinking through the adoption of <IR>, organisations should be able to respond to the needs of a greater number of their stakeholders, effectively legitimising their activities (Atkins & Maroun, 2015; Frias-Aceituno, Rodriguez-Ariza, & Garcia-Sanchez, 2014; Higgins et al., 2014; Soyka, 2013; van Bommel, 2014). This increased transparency should encourage investors to maintain a longer term relationship with the organisation (Abeysekera, 2013; Cheney, 2013; Atkins and Maroun, 2015; Conway, 2019) and improve credibility and reputation with other stakeholders (Akash & Kamble, 2013; Atkins & Maroun, 2015; Burke & Clark, 2016; Eccles, 2012).

From a management perspective, <IR> can assist in better decision-making and internal resource allocation by an increased focus on what contributes to value creation and considering the broader and longer term effects of the organisation’s activities (Akash & Kamble, 2013; Burke & Clark, 2016; Eccles & Saltzman, 2011; Perego et al., 2016). This can enable clearer internal and external communication about the aims of the organisation and its value creation story. It can also seek to explain its impact on the wider environment and society, and just as crucially, how the organisation is governed (Akash & Kamble, 2013; Churet & Eccles, 2014; Eccles, 2012; Perego et al., 2016). This clarity of communication should permit stakeholders to assess the long-term viability of the business model of the organisation and should improve risk management, reduce costs of capital, enhance public image and facilitate better access to capital and more effective allocation of resources (Eccles and Saltzman, 2011; Akash and Kamble, 2013; Soyka, 2013; Frias-Aceituno, Rodriguez-Ariza and Garcia-Sanchez, 2014; Couldridge, 2015; Conway, 2019).

## Advantages of <IR>

### Enhanced accountability to and engagement with stakeholders

Current developments in corporate governance and accountability favour a more stakeholder-inclusive approach, particularly in the UK, with the introduction of the UK Stewardship Code. This code seeks to improve the quality of engagement between companies and investors, to enhance company performance and therefore returns to investors (FRC, 2015).

The IIRC Framework (2013) includes stakeholder relationships as one of its guiding principles to enable organisations to be responsive to matters which are important to stakeholders, including economic, environmental and social issues, which also affect the ability of the organisation to create value. Additionally, the Modern Company Law Review (MCLR) led to a UK Companies Act revision, requiring organisations to expand their accountability to broader stakeholders, including suppliers, customers, and others (Monks, 2000).

A recent study by ACCA (2018) reports that 95% of the 45 <IR> Business Network participants interviewed, suggest that they have a better understanding of how their organization creates value as a result of <IR>. The same report suggests that 65% of participants are of the opinion that <IR> results in a positive impact on stakeholder engagement.

Research by Steyn (2014b) indicated 68% of South African CEO/CFOs surveyed strongly agreed that <IR> led to greater engagement with the investor community. This research affirms that 70% strongly of stakeholders agreed that <IR> led to improved and/or more meaningful engagement with all stakeholders. This benefit was further evidenced by Black Sun (2014) who identified 56% of IIRC pilot scheme companies identified improved relationships with institutional investors, 52% identified improved relations with analysts, and 91% stated that they had experienced a change in relations with external stakeholders.

As a result of greater collaboration across functions, research has also highlighted that <IR> encourages greater internal engagement, including current and prospective employees, which improves attraction and retention of skills (IIRC, 2011).

### Clear framing and articulation of value creation model and sustainability strategy

A benefit of <IR> is that it provides a framework that enables companies to engage in telling their value creation story. The <IR> framework provides a principles-based mapping of the value integrators within a company. In clearly framing value creation in this way, the organisation has a better understanding of its value drivers and how and where value is created. Sustainability is not an end state that can be achieved, but a ‘moving target’ that is continuously changing and improving (Gaziulusoy, Boyle and McDowall, 2013).

Porter and Kramer (2011) suggest that putting sustainability at the core of what companies do and understanding the link between corporate productivity and meeting societal needs will create shared value, and drive innovation. They also believe that this approach could reshape capitalism and its relationship to society.

<IR> can also drive organisational change toward more sustainable outcomes (Eccles and Krzus, 2010), and transform corporate processes (Phillips, Watson and Willis, 2011), resulting in the realisation of significant cost savings from issues ranging from systems design to energy expenditure. However, Steyn (2014b), in a survey of South African CEOs found that cost savings had the lowest ranking in expected benefits of <IR>. The study also identified that enhancement of the risk management process was the highest-ranking internal benefit, followed by encouragement of sustainable product development; reconsideration of the business model and sustainable value creation; and lastly, and perhaps surprisingly, better resource allocation decisions.

### Development of systems thinking and collaboration

System components are interconnected due to feedback loops (Kunz, Moran and Kastelle, 2013). Understanding the interconnected components of a system allows the dynamics of the system as a whole to be understood (Merali and Allen, 2011). From a systems perspective, sustainability is the ability of systems to persist, adapt, transform or transition in the face of constantly changing conditions (Williams *et al.*, 2017). By incorporating a wider set of metrics in <IR> and understanding the value creation process, it supports this systems perspective.

The challenges of sustainability require leaders to predict complex systems dynamics, quickly adapt and implement organizational change (Metcalf and Benn, 2012, 2013). Within the context of <IR>, the interaction between business and society and management of environment, social and governance risks, can lead to the development of social-ecological solutions. A social-ecological system is an “integrated system of ecosystems and human society with reciprocal feedbacks and interdependence” (Folke *et al.*, 2010, p. 3). New partnership models and collaborative solutions are seen to drive systemic solutions for complex sustainability problems (Mahoney, McGahan and Pitelis, 2009; Hodge, 2014; Nidumolu *et al.*, 2014). By focusing on value creation, <IR> can help to support new ways of working, both internally to the company, but also externally.

### Embedding sustainability into decision making

Business leaders recognise the need to broaden thinking and reporting on wider business issues. A recent PWC survey, based on interviews with 1,322 CEOS globally, identified that 74% of them felt that measuring and reporting the total impact of their company’s activities across social, environmental, ﬁscal and economic dimensions contributes to long term organisational success (PWC, 2015). The IIRC (2013, p. 33) believes it is the process of integrated thinking which ‘leads to integrated decision-making and actions which consider the creation of value over the short, medium and long term’ which will be of greatest benefit to organisations.

Porter and Kramer (2011) share this view, stating that putting sustainability at the core of what companies do, and understanding the link between corporate productivity and meeting societal needs, will create shared value, and drive innovation. They also believe that this approach could reshape capitalism and its relationship to society.

### Aligning strategy with value integrators and value creation - a long term perspective

Eccles and Krzus (2010) reinforce the benefits of better decision-making, identifying that <IR> provides greater clarity about cause-and-effect relationships. Research has also identified that <IR> has enhanced risk management processes and provided better identification of opportunities (Eccles and Krzus, 2010; Hopwood, Unerman and Fries, 2010; IIRC, 2011; ACCA, 2013; Hoffman, 2015).

A common focus on long-term value creation, with consideration of environmental and social issues, eliminates thinking in silos, and results in a more effective and efficient execution of long-term strategies. A survey into early adopters in the IIRC pilot scheme identified that 71% found a greater focus on measuring the longer-term success of the business was an <IR> benefit (BlackSun, 2014). This enables organisations to better understand the impact on society of their strategic choices, and thus to improve allocation of resources across all stakeholder groups to optimize collective value, and ensure strategy is aligned to society‘s needs as a whole.

## Disadvantages of <IR>

### Assurance issues

There are numerous debates rooted in information asymmetry, i.e. that one party in reporting a transaction will have enhanced information about materiality than the other. Materiality is well-established for the more quantitative elements of ﬁnancial reporting, but less developed for the qualitative characteristics more commonly found in environmental and social contexts (Adams and Simnett, 2011). As such, one of the challenges of <IR> are concerns about whether the assurance of information contained in the integrated report can be conducted without assurance of the underlying processes as well. Additionally, there are liability concerns of the major accounting ﬁrms (Eccles, Krzus and Watson, 2012) and whether the framework provides suitable criteria and appropriate subject matter to enable assurance of integrated reports to determine what a “true and fair” integrated report is (Eccles, Krzus and Watson, 2012).

### Confidentiality of information

Another challenge of <IR> may be the reluctance of organisations to disclose commercially sensitive information, particularly in relation to key strategies and value drivers not currently subject to mandatory disclosure requirements, and which may affect their competitive advantage (IIRC, 2011). In addition, considerations of director liability for disclosure may be an issue, given the requirement for more forward focussed, and therefore, less certain information.

Indeed, research by Steyn (2014b) found that many executives concluded that achieving a balance between transparency of disclosure of forward-looking strategic information and business conﬁdentiality was a challenging aspect of <IR>, when considering risks to competitive advantage. However, the <IR> framework (IIRC, 2013, p. 22) recognises this, and allows organisations to ‘describe the essence of the matter without identifying specific information that might cause a significant loss of competitive advantage’.

### Increased costs - Re-design of reporting structures

<IR> may require companies to redesign their reporting structures and invest in new information technology to account for the non-ﬁnancial aspect of <IR>, particularly the provision of material information on the company’s impact on its environment and social capitals (Hampton, 2012). The Philips company, an organisation on the IIRC pilot scheme, found that aligning the sustainability reporting process with its financial processes required significant process redesign, due to the maturity of the financial processes compared with the sustainability processes (Braaksma, 2010). While systems are well developed for financial reporting, they are generally less developed for non-financial information (Eccles and Armbrester, 2011). Therefore, systematic development of integrated measurement and reporting of information may involve significant time and costs for many organisations (Adams and Simnett, 2011).

### Senior Executive Support

Birkinshaw et al. (2008) identify that senior executives act to reduce uncertainty and complexity associated with its pursuit of new innovations, by communicating a shared vision, supporting change, and developing organisational culture. In particular, Maon et al. (2010) note that to generate the innovation and creativity required to develop a sustainable business over the long term, sustainability values must become deeply integrated into the management philosophy and organisational culture.

Top management support was perceived as a critical factor for successful <IR> implementation in research conducted by Lodhia (2015). Moreover, a survey of 500 industry leaders by the Chartered Institute of Management Accountants (CIMA), the American Institute of CPAs (AICPA), and Black Sun found that 50 percent of CEOs, CFOs, and chief operating officers are moving toward <IR>, with 35 percent saying they will adopt it in the next two to three years (Chambers, 2015).

## Integrated Reporting Adoption

Since the formation of the IIRC in 2010, the concept of <IR> has increased in relevance and importance (Jensen and Berg, 2012; Milne and Gray, 2013; de Villiers, Rouse and Kerr, 2014; Rinaldi, Unerman and de Villiers, 2018).

An emerging body of empirical research provides evidence that <IR>, and the effective sustainability practices it promotes, have positive impacts on earnings (Eccles, Ioannou and Serafeim, 2014; Baboukardos and Rimmel, 2016). However, the IIRC’s vision of it becoming the corporate reporting norm (IIRC, 2017a) has been hampered by lack of clarity surrounding definitions of <IR> and its key concepts of value creation and integrated thinking (Dumay *et al.*, 2017). Further, Flower (2015) argues that <IR> will not become the reporting norm because it lacks regulatory enforcement. Despite these obstacles, <IR> is currently adopted by over 1,600 organisations worldwide (IIRC, 2019c).

Organisations who fail to fully embrace <IR> may not reap its intended benefits discussed earlier, and which are significant, given the potential of <IR> to shift corporate mind-sets towards alignment of proﬁt maximisation with societal/ environment wellbeing and sustainable development goals (Adams, 2015, 2017).

Empirical research is starting to emerge which investigates external determinants of <IR> and internal motivations for <IR> adoption (Rinaldi, Unerman and de Villiers, 2018).

### External Determinants of <IR> Adoption

At a national level, research has demonstrated that companies adopting <IR> are more likely to originate from countries with: higher investor protection, higher private expenditure on tertiary education and higher economic development (Jensen and Berg, 2012); civil law countries, regions where indices of law and order are high (Frías-Aceituno, Rodríguez-Ariza and García-Sánchez, 2013); and countries with stronger collectivist and feminist values (García-Sánchez, Rodríguez-Ariza and Frías-Aceituno, 2013).

At an industry level, Wild and van Staden (2013) identified that early <IR> adopters are dominated by the financial services industry, rather than high social and environmental impact industries. However, both Frias-Aceituno et al. (2014) and Lai et al. (2016) found that industry was not a significant driver of <IR> adoption.

Company characteristics found to be determinants of <IR> adoption at an organisational level include growth opportunities, company size, board size and board gender diversity (Frías-Aceituno, Rodríguez-Ariza and García-Sánchez, 2013). Frias-Aceituno et al. (2014), also found that company size, as well as profitability had a positive impact on potential <IR> adoption, while Sierra-Garcia et al. (2015), in addition to firm size, also found a positive association with having the CSR report assured. Additionally, Frias-Aceituno et al. (2014) concluded that monopolistic companies were less likely to adopt <IR> to preserve their abnormal profits, and they therefore warn against the opportunistic use of information. However, Lai et al. (2016) found that organisational size, leverage and proﬁtability did not play a role in explaining <IR> adoption.

These contradictory results may be a result of the nature of these quantitative studies which give no direct consideration to the role of human agency in shaping the <IR> adoption process. Particularly, an organisation’s internal systems and board motivations can significantly influence decisions to adopt and retain new practices (Schein, 1999; Rogers, 2003).

### Internal Determinants of <IR> Adoption

Several qualitative internal organisational level studies identified that the decision to adopt <IR> was motivated by a need to meet stakeholder expectations (Parrot and Tierney, 2012; Contrafatto and Burns, 2013; Steyn, 2014a; Lueg *et al.*, 2016) and enhance stakeholder engagement (Parrot and Tierney, 2012; Steyn, 2014b; Al-Htaybat and von Alberti-Alhtaybat, 2018; Vesty, Ren and Ji, 2018). However, McNally et al. (2018), based on interviews with 26 preparers in nine South African-based organisations, find that while stakeholder pressure should be a key determinant for effective integrated reporting, interviewees in these organisations did not identify speciﬁc changes to their accounting/performance management systems which resulted from stakeholder interactions. Further, they suggest that the usefulness of the integrated report is limited because the investor community does not value the integrated report, placing more emphasis on the ﬁnancial statements.

Others were motivated to adopt <IR> to attract new investors (Parrot and Tierney, 2012; Atkins and Maroun, 2015; Macias and Farfan-Lievano, 2017). In particular, <IR> was seen by some as a means to gain credibility in international financial markets (Atkins and Maroun, 2015; Macias and Farfan-Lievano, 2017) and/or to attract the growing number of socially responsible investors (Robertson and Samy, 2015).

Beck et al. (2017), found that an Australian <IR> pilot scheme member organisation which had suffered a crisis in public conﬁdence that threatened the organisation’s legitimacy, moved to pursuing strategic legitimacy through <IR> by deﬁning material issues and framing the integrated report around the business story rather than the guidelines. Telling a business story was a theme identified by other studies which found that <IR> allowed them to communicate their value creation story to stakeholders more effectively than under previous reporting practices (Higgins, Stubbs and Love, 2014; Stubbs and Higgins, 2014; Lodhia, 2015). It also allowed them to address accountability tensions linked to the renewed strategy and changes in the corporate governance and management structures (Lai, Melloni and Stacchezzini, 2018).

Key internal motivations for <IR> adoption identified by several studies included the ability to demonstrate ethical commitment (Lodhia, 2015), to improve alignment of broader performance reporting against strategic aims (Stubbs and Higgins, 2014; Lodhia, 2015; Macias and Farfan-Lievano, 2017) and to have the ability to naturally extend integrated thinking approaches (Al-Htaybat and von Alberti-Alhtaybat, 2018) as internal motivational factors. Further, the competitive advantage of being an early adopter (Lodhia, 2015) and maintaining and enhancing reputation (Steyn, 2014b), particularly as “trend setters” in their industry (Dumay and Dai, 2017), were identified as other internal motivations for <IR>.

In a UK setting, Robertson and Samy (2020), based on in-depth semi-structured interviews with 36 senior executives actively involved in <IR> in ﬁnance, sustainability, communications and legal functions within seventeen organisations, found that organisations drew on a wide range of rationales for adoption, with a predominance of sociological over economic rationales, both of which offered organisations a relative advantage over existing practices. Economically, <IR> emerged as an incremental process, which ﬁlled a performance gap in predominantly manufacturing and utility industries with signiﬁcant impacts on the environment/society. Predominant sociological rationales were: external pressures, primarily due to perceptions of shifts in societal expectations; and internal aspirations relating to enhancing reputation. Findings also revealed that the <IR> framework was not fully adopted by the majority of organisations, primarily due to incompatibility with organisational requirements and/or perceived complexity of the framework.

The regulatory environment was also found to motivate <IR> adoption in South Africa, a mandated <IR> regulatory regime, where Steyn (2014a) identified compliance as a primary motive for <IR> adoption. Further, Silvestri et al. (2017) identified that the transition towards <IR> of an Italian family ﬁrm was driven to an extent by the implementation in 2008 of the EU Directive 2003/51/EC, while Lueg et al. (2016) identified that <IR> adoption was motivated by the Danish government, who signalled preferences for <IR> by soft-law. In particular, the European Union Directive on non-financial reporting (2014/95/EU), is considered by Dumay et al. (2017) as a predominant external force driving European <IR> adoption, particularly after 2017 when it came into effect.

In conclusion, external and internal determinants which empirical studies have identified have motivated firms to adopt <IR>, are summarised in table 2 below.

Table 2: External and internal determinants to <IR> adoption

|  |  |  |  |
| --- | --- | --- | --- |
| **<IR> Adoption Determinant Type** | **Research Level** | **<IR> Adoption Determinant (positive (+)/ negative (-)** | **Empirical Research**  |
| External | National  | Countries with:higher investor protection (+)higher private expenditure for tertiary education (+)higher economic development (+) | Jensen and Berg, 2012 |
| Civil law countries (+)Regions where indices of law and order are high (+) | Frías-Aceituno et al., 2013a |
| Countries with stronger collectivist and feminist values (+) | Garcia-Sanchez et al., 2013 |
| Industry Level | Financial services industry (+) | Wild and van Staden (2013) |
| Industry (-) | Frias-Aceituno et al. (2014) Lai et al. (2016) |
| Organisational Level (Company Characteristics)  | Growth opportunities (+)Board size (+)Board gender diversity (+) | Frias-Aceituno et al. 2013b |
| Company Size (+) | Frias-Aceituno et al. 2013b; Frias-Aceituno et al. 2014; Sierra-Garcia et al. (2015) |
| Company Size (-) | Lai et al. (2016) |
| Profitability (+) | Frias-Aceituno et al. 2014 |
| Profitability (-) | Lai et al. (2016) |
| CSR report assured (+) | Sierra-Garcia et al. (2015) |
| Monopolistic companies (-) | Frias-Aceituno et al. (2014) |
| Leverage (-) | Lai et al. (2016) |
| Internal | Organisational Level (Motivations) | To meet stakeholder expectations/enhance stakeholder engagement (+) | Contrafatto and Burns, 2013;Parrot and Tierney, 2012; Lueg et al. 2016; Steyn 2014; Al-Htaybat and von Alberti-Alhtaybat 2018; Parrot and Tierney, 2012; Vesty et al.,2018; Robertson and Samy (2020) |
| To attract new investors including the growing number of socially responsible investors (+) | Atkins and Maroun, 2015; Parrot and Tierney, 2012; Macias and Farfan-Lievano, 2017 Robertson and Samy, 2015 |
| To gain credibility in international financial markets (+) | Atkins and Maroun, 2015; Macias and Farfan-Lievano, 2017 |
| To pursuing strategic legitimacy (+) | Beck et al. (2015), |
| To communicate the business story, including value creation (+) | Beck et al. (2015), Stubbs and Higgins, 2014; Higgins et al. 2014; Lodhia, 2015 |
| To enhance accountability (+) | Lai et al. 2017 |
| To improve alignment of broader performance reporting against strategic aims (+) | Lodhia, 2015; Macias and Farfan-Lievano, 2017; Stubbs and Higgins, 2014 |
| To naturally extend integrated thinking approaches (+) | Al-Htaybat and von Alberti-Alhtaybat 2018 |
| To have competitive advantage (+) | Lodhia, 2015;  |
| To enhance reputation (+) | Dumay and Dai, 2017; Steyn, 2014; Robertson and Samy (2020)  |
| To conform to regulatory environment (+) | Steyn (2014); Silvestri et al. (2017); Lueg et al. (2016) |
|  |  | To fill performance gap (+) | Robertson and Samy (2020) |

### Integrated Reporting in Higher Education

According to Adams (2018), universities have the potential to make one of the biggest impacts of any sector on integrated reporting and thinking. In contrast to the rise in the development of integrated reporting and thinking in the corporate world, university annual reports have hardly progressed and ‘university structures and strategies continue to reflect functional and discipline silos (notwithstanding some admirable attempts to develop interdisciplinary research) and a separation of the academic from the operational activities’ (Adams, 2018, p. 332).

Universities are major economic actors and all organisations who receive public money, either directly or indirectly, are under pressure to demonstrate how they use that money effectively and efficiently in a more transparent way (BUFDG, 2017). Integrated reporting would allow universities to highlight their activities, how they use this income, and demonstrate how this leads to outputs and outcomes across the <IR> Framework’s six capitals – be it financial, manufactured, intellectual, human, social and relationship or natural. The sector also offers significant global influence as universities work internationally through teaching, research and other partnerships. It is therefore vital for stakeholders to recognise just how much they contribute to sustainable development and its three dimensions of sustainable development, the economy, society, and the environment (BUFDG, 2017).

Further, universities can significantly influence and develop global leaders of the future through education on reporting, managing, engaging and developing strategies on sustainable development issues and the sustainable development goals (SDGs) which will deliver considerable impact (Adams, 2018). Globally, governments have committed to these 17 SDGs and, as universities are a driving force towards the achievement of these goals, they may be held accountable for demonstrating their contribution.

Adams (2017) provides practical guidance on how contribution to the SDGs can be aligned with integrated reporting and thinking to develop strategies which reflect dependence on multiple capitals and a systematic approach to identifying broader risks and opportunities for value creation that contribute to sustainable development. Adams (2018) asserts that by adopting this approach universities ‘might stave off government intervention in their affairs and reduce reliance on flawed approaches to ranking’ (p. 333).

The results of a recent survey of UK University Finance Directors suggest a mixed attitude towards <IR> and although 80% of institutions were working to adopt at least some of the principles, just 16% are convinced enough by the benefits to be working towards a full adoption. For the majority, inaction on fully adopting <IR> was the result of other priorities or other time or resource restrictions (BUFDG, 2017). As a result of an Integrated Thinking and Report project facilitated by Advance HE, a UK organisation with its objective to support strategic change and continuous improvement through the development of individuals and organisations of higher education, early UK movers in the field have emerged (University of Edinburgh, Abertay University, Newcastle University). Further afield, in South Africa, the Free State University published its first integrated report in 2012 (Veltri and Silvestri, 2015) and the [University of Stellenbosch](https://www.sun.ac.za/english) published their first one in 2015.

These early movers have seen both internal and external benefits of adopting <IR> (Adams, 2018) which include:

* highlighting what is important to value creation as opposed to what is covered in university rankings
* attracting talented staff and students
* identifying, engaging and meeting the needs of key stakeholders
* focussing attention on material risks and opportunities that can create or destroy value
* integrated thinking which underscores the importance of cross disciplinary work, engagement between academics and operational functions and stakeholder relationships
* making access to finance easier and cheaper
* building confidence in the sector and reducing the need for government intervention.

Despite these significant benefits, adopting <IR> can be challenging. It will require a change in how universities think and talk about value.  It may also require a reappraisal and realignment of institutions’ visions, strategies, and structures and the time and resources to do this. Support from top leadership will also be crucial to drive action in universities as well as transforming values, attitudes and behaviours at all levels of the university structure.  Additionally, some of the <IR> framework terminology may need to be translated or better understood, for and by the higher education audience. However, what is clear is that we now live in a world where pressing societal issues, such as gender balance, an aging population, and lifestyle-related diseases, and increasing global environmental changes, including power shortages, climate change, increasing waste, and long-term depletion of natural resources, create risks that universities must take into account to demonstrate their value to society if they wish to remain relevant to their key stakeholders and sustainable in the future.

## <IR> Current Thoughts and Future Directions

### Integrated Thinking

<IR> is defined as ‘a process founded on integrated thinking which results in a periodic integrated report by an organisation about value creation over time, and related communications regarding aspects of value creation’ (IIRC, 2013, p. 33). <IR>, through the process of integrated thinking, offers the potential to shift corporate mind-sets towards alignment of proﬁt maximisation with societal and environment wellbeing. It also provides an opportunity for organizations to respond to the United Nations’ Sustainable Development Goals (Adams, 2015, 2017), which were adopted in 2015 as the sustainable development agenda for the world to 2030 (UN, 2015).

Sustainable development, and its three dimensions of economy, society, and the environment, are indivisible and integrated, and are critical to the future of society and our planet. Globally, businesses have significant impacts on sustainable development issues including: the environment, climate change; global wealth distribution; natural resource consumption and; and gender inequality (Xiao *et al.*, 2017).

In particular, Dumay and Dai (2017) argue that vague definitions of the key concepts of <IR>, such as ‘integrated thinking’ are barriers to <IR> implementation. This led them to conclude that ‘a fundamental problem with <IR> is that the IIRC argues ‘why’ companies need <IR>, not ‘how’ to implement <IR>, and especially not ‘how’ to operationalise integrated thinking’ (Dumay and Dai, 2017, p. 574).

Rinaldi et al. (2018), based on academic analysis and insights published in 65 <IR> articles across 83 accounting journals listed in the Scopus database, identify that research has not yet covered the entire <IR> journey, with relatively little research into the final phase of the impact of the <IR> concept. In particular, Dumay and Dai (2017) call for more research investigating how organisations utilise <IR> to resolve actual, not perceived, strategic, governance and management control problems to test whether the process of implementing <IR> has the ability to create integrated thinking.

From a review of <IR> literature, the authors find only three articles focusing on concept of integrated thinking. Oliver et al. (2016), developed a theoretical framework from the accounting and systems thinking literature, linking integrated thinking to sustainability, while Venter et al. (2017) used regression analysis to test the association between the transparency of tax disclosures in corporate reports and integrated thinking and found them to be positively associated. However, Dumay et al. (2016) identify that the majority of <IR> research does not investigate practice and individual organisations, leading to a disconnect between <IR> academics and <IR> practice. Only Dumay and Dai (2017) have investigated integrated thinking in practice, using semi-structured interviews to examine whether integrated thinking develops as espoused by the IIRC in a case study of a small Australian bank, ResBank. Dumay and Dai (2017) identified, in the case of the bank, that the effectiveness of integrated thinking was limited to incremental rather than radical transformational changes as its advantages did not prevail throughout the organisation. This suggests that an integrated mind-set must be supported by the entire organisational workforce for it to be effective. They suggest that successful organisations like ResBank already have established and entrenched organisational cultures which are not easy to penetrate, especially at the lower levels of the organisation.

They further suggest that certain specialised functions are so vital, such as managing fraud risk in ResBank’s case, that concepts such as integrated thinking take second place to the task of protecting the organisation from operational risk and potential losses (and possible reputation loss). They therefore suggest that in specialised functions such as risk, it makes better sense for employees to think independently thereby allowing them to focus on protecting the organisation from material risks.

There exists the need for further research into how organisational actors within other early adopter companies in different countries and industries perceive and enact the concept of ‘integrated thinking’ to achieve performance outcomes that lead to longer term sustainable value creation.

### Multitude of Standard Setters

The challenge of exactly how to report and which standards to follow is a significant challenge for organisations. In particular, the absence of regulations for non-financial information has seen a growth in guidance and standards from non-state bodies (e.g. GRI, SASB, Carbon Disclosure Standards Board, International Integrated Reporting Council) (Rowbottom and Locke, 2016). This creates a confusing landscape which is growing with concerns over environmental and climate change issues. The emergence of the seventeen Sustainable Development goals which companies will be expected to report progress on and The Task Force on Climate-Related Financial Disclosures (TCFD) will add increasing pressures on organisations to demonstrate accountability in these areas.

Although some attempts have been made to consolidate these global frameworks, significant overlaps remain, resulting in a multitude of competing standards (Rowbottom and Locke, 2016). Both Main and Hespenheide (2012) and Levy (2010) highlight that competing standards leave organisations unclear about which direction to take. In particular, Lodhia (2015) found that the complexity of Sustainability Reporting, with its multitude of guidelines and initiatives, was a concern for adopters, and they hoped that <IR> would not follow the same path.

Although the IIRC have been involved in an initiative called the Corporate Reporting Dialogue, in conjunction with other major standard setting bodies (IIRC, 2019a) to facilitate greater coherence, consistency and comparability between corporate reporting frameworks and standards, it is not expected that this will lead to a quick resolution to the problem. They have however recently issued a report showing high levels of alignment between their reporting frameworks on the basis of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Paul Druckman, former CEO of the IIRC, suggests that the landscape can be simplified through coalescence and suggests that an overarching body should take control of the situation (Wilkins, 2019). His view is that the IFRS Foundation is the most obvious and quick solution to the problem as it is the oversight body for the IASB and has global credibility. He suggests that the Foundation take on sustainability reporting and create a sustainability reporting standards board which is not attached to the IASB, but to exist under its supervision. Druckman believes that having an authoritative organisation setting the standards would help in achieve consistency and direction in corporate reporting but he does acknowledge that this is not the only solution (Wilkins, 2019).

### Future directions of <IR>

A recent interview between Jonathan Labrey, Chief Strategy Officer of the IIRC and Tom Lemmon of Accountancy Age, highlighted the changing risks facing business currently and how <IR> can help to support these risks (Lemmon, 2019). These have changed from purely financial risks following the global financial crisis, to more non-financial risks, such as climate change, sustainable development and inequality. Labrey regarded climate change as an existential risk for businesses which needs to be addressed at system wide level. Although the full impacts of these changes may not manifest themselves for another ten years, he claimed that traditional financial reporting is too currently focused on a short term (one to two year) disclosure pattern, with no consideration of longer-term sustainability. He highlighted <IR> as a way to incorporate these non-financial risks into corporate reporting, through the six capitals, so that businesses can focus on the ways in which they can create value with full consideration of these risks. In particular, he believes that <IR> can enable firms to raise awareness of the longer-term impacts of climate change through the capitals and the longer-term focus that <IR> promotes.

Additionally, the traditional financial book values of many modern businesses belie their market worth, with increasing value being perceived by the market in a firm’s intangible assets, such as patents, trademarks and reputation (Schmidt, 2018). In many cases, the gulf between market and book values is vast and ever-increasing (Schmidt, 2018; Deloitte UK, 2019). Hence explicit consideration of these intangibles, as intellectual and human capital in <IR>, can help to explain the differences more coherently than traditional financial reports (Deloitte UK, 2019) and add a greater level of credibility to firm values in the future (Labrey as reported in Lemmon (2019)).

Labrey was also keen to point out the future impact of technology, such as artificial intelligence, on the accounting profession (Lemmon, 2019). There will undoubtedly be some aspects of accountancy that will become automated through technology, but he felt that as a profession, accountants should concentrate on future-proofing themselves by broadening their focus from not just the financial aspects, but also the non-financial aspects of value creation.<IR> is an important tool in this regard, enabling an examination of the relationships between the six capitals as the foundation for value creation.

However, Labrey did acknowledge there is a lack of regulatory support to <IR> in most countries and a compliance mentality where firms comply with statutory requirements, but no more (Lemmon, 2019). He felt that firms should be encouraged to tell their value creation story, which is what investors want. He perceived this as a way to increased transparency, for firms to differentiate themselves and be in control of their own story by reflecting the full range of capitals in their board level decision making and take back control for managing these non-financial risks. Nonetheless, he conceded that there would need to be additional work around assurance to ensure the credibility of the information firms disclosed through <IR>.

ACCA echoed the need for assurance in their annual insight report into <IR>, although conceded that many firms have managed to incorporate some aspects of assurance in their reports (Fisher, 2019). However, their concern was around the balance in reporting and the level of transparency or authenticity in reporting. They stressed that future <IR> must encompass the ‘bad’ news, the missed targets and challenges the organisation has faced, as well as the ‘good’ news, in order to increase credibility in reporting.

Despite this, there is clear commitment to <IR> across many businesses, with 77% of reports reviewed by ACCA being regarded as integrated, in comparison with 58% in the previous year (Fisher, 2019). There is evidence that audit firms are starting to increase their scope of audit beyond the traditional financial areas and there is a belief that these trends will continue. Hence whilst <IR> is not as widely adopted to date as the IIRC would have hoped, it is nonetheless perceived as an important method by which business can establish and maintain trust with stakeholders, and in particular with shareholders.

However, there are still opponents to <IR> that state that it will fail to gain further traction in companies without increased regulation (Grueninger posted in Dumay (2019)), or improved explanations of how to measure value, in particular the human capitals, and of how to prepare an integrated report (Mastura posted in Dumay (2019)). There is also an issue about revealing competitive secrets like a firm’s business model and whether <IR> really matters to investors if they are able to obtain the same or better information through private investor meetings with the firms themselves (Mastura and Esterhuyse in Dumay (2019)). Hence it is clear that there exist enduring barriers, including those discussed earlier, which may well inhibit wider adoption of <IR> in the future.

## Conclusion

In conclusion, integrated reporting has both advantages and disadvantages in its ability to deliver its intended outcomes to corporate reporters. Hence whilst there are benefits to <IR>, the challenges in implementation, assurance, mindset and systems changes which are required to fully realise those benefits remain. Whilst overall, formal adoption of <IR> is still relatively low, many companies are gradually transitioning to clearer, more value-focused reporting, with sustainability as a core element, even without formally ‘badging’ their report as an integrated report.

Undoubtedly, increased stakeholder pressures for more accountability, environmental and social responsibility on the part of businesses will continue the development of corporate reporting and the quality of disclosure. Whilst that might not result in a fully integrated report as defined by the IIRC, these pressures have raised the expectation that businesses need to engage and ‘tell their story’ to their stakeholders, whilst considering their reliance and impact on their external environment in the short, medium and long term. Firms are fully reliant on their relationships with their stakeholders and environment and will find it increasingly challenging to ignore this in the future.

## Reading resources

There are many resources available on integrated reporting, including from the IIRC and professional accounting bodies and organisations. Below is an indicative list of introductory articles.

International Integrated Reporting Council website: <https://integratedreporting.org/the-iirc-2/>

ACCA: Insights into Integrated Reporting: <https://www.accaglobal.com/us/en/technical-activities/technical-resources-search/2019/may/integrated-reporting.html>

CIMA: Introduction to integrated reporting: <https://www.cimaglobal.com/Research--Insight/Introduction-to-integrated-reporting/>

Deloitte: Integrated Reporting: <https://www2.deloitte.com/uk/en/pages/audit/articles/integrated-reporting.html>

EY: Nonfinancial and integrated reporting: <https://www.ey.com/en_gl/nonfinancial-integrated-reporting>

PWC: Implementing integrated reporting: PwC’s practical guide to a new business language: <https://www.pwc.com/gx/en/services/audit-assurance/publications/implementing-integrated-reporting.html>

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Appendix 1

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| --- | --- | --- | --- | --- | --- |
|  | **Source** | **Description/ Focus** | **Justification** | **Difficulties** | **Progress** |
| **Balanced scorecard** | The Balanced Scorecard: Translating Strategy into Action (1996; based on a 1992 article) – Professor Robert S. Kaplan and David P. Norton | The Balanced Scorecard reports performance on 4 perspectives:* ﬁnancial
* customer
* business process
* a learning-and-growth

Kaplan and Norton envisage that the scorecard, although primarily a management tool, should also become a basis for external reporting. | The current accounting model is historical, promotes short-termism and fails to capture intangibles.  | Ernst & Young (1997) identify several reasons why scorecard projects sometimes fail: • Managers mistakenly think that because they already use non-ﬁnancial performance measures, they already have a balanced scorecard. • Senior executives misguidedly delegate scorecard implementation to middle managers. • Businesses try to use the best measures used by the best companies, rather than developing their own. • Businesses try too hard for perfection. • Senior executives wrongly think that the scorecard is just about reporting; in fact, it is a new way of managing the business.While these difﬁculties refer to the internal use of the scorecard, unless it is used internally successfully, it won’t be used as a basis for external reporting. | Since the original publication of Kaplan and Norton’s ideas, balanced scorecard approaches have been adopted for management purposes by many companies. While few firms refer to the balanced scorecard in their external reporting, firms are now disclosing far more non-financial information than they used to, and it is possible that this derives from data used in a balanced scorecard approach to management.The authors do not appear to have monitored the use of the scorecard as a basis for external reporting. Recently, however, they have launched a subscription newsletter, Balanced Scorecard Report, giving information on balanced scorecard implementation by businesses. |
| **Jenkins report** | Improving Business Reporting – A Customer Focus (1994) – American Institute of Certiﬁed Public Accountants | The report recommends (a) More information with a forward-looking perspective, including management’s plans, opportunities, risks, and measurement uncertainties. (b) Focus on the factors that create longer-term value, including non-ﬁnancial measures indicating how key business processes are performing. (c) Better align information reported externally with the information reported to senior management to manage the business. | Concern that if business reporting does keep up with the changing needs of users, it will lose its relevance. Therefore, the recommendations of the Jenkins Report aim to address the problem of insufﬁcient focus on user needs. | Where the competitive costs or litigation costs of providing information are potentially signiﬁcant, it is not required. Also, ‘other than for ﬁnancial statements, management need only report the information it knows, therefore management is under no obligation to gather information it does not have, or need, to manage the business.’ | The Jenkins Report led to a number of follow-up reports by FASB, but the last of these appeared in 2001. As with other reporting proposals that we, it could be said that its calls for more forward-looking and non-financial disclosure have now to a degree been met. However, actual disclosures have not precisely matched the report’s recommendations or followed the model that it recommended.  |
| **Tomorrow’s company** | Tomorrow’s Company: The Role of Business in a Changing World (1995) – Royal Society of Arts and Sooner, Sharper, Simpler: A Lean Vision of an Inclusive Annual Report (1998) – Centre for Tomorrow’s Company | Tomorrow’s Company’s main emphasis is on how inclusiveness can improve business performance and recommend ;• ﬁnancial report• value chain report (information on customer satisfaction, etc.)•a people document (information on skill level and knowledge bank)• sustainability document (community and environmental impacts) | Argue that ﬁnancial performance does not gauge the overall company health as it is not forward looking and fails to deﬁnes competitive performance and fails to recognise growing importance of intangibles.  | Does not deal with any practical difﬁculties that may be encountered in implementing its proposals. | Tomorrow’s Company’s work was influential in the subsequent UK Company Law Review, which led to major reforms embodied in the Companies Act 2006, and particularly in proposals, subsequently overturned, for a mandatory operating and financial review. The organisation remains active in ‘creating a future for business which makes equal sense to staff, shareholders and society’. It also retains an interest in business reporting issues. As with other proposals for reform, business reporting could be said to have followed the general direction indicated, without adopting the specific model suggested.  |
| **21st century annual report** | The 21st Century Annual Report/Prototype plc (1998) and Digital Reporting: A Progress Report (2004) – both ICAEW | They propose that businesses publish a wider range of leading indicators of financial performance, take a more inclusive view of stakeholders, and harness advances in information technology in their reporting being;• framework based• forward-looking ﬁnancial information and better information on risks | Identiﬁes the following principle factors challenging the present accounting system: • the exponential growth in ﬁnancial instruments and other derivatives, which it is impossible to reﬂect properly using historical cost accounting • increased importance of intangible assets in the generation of corporate wealth and the very tenuous link between the cost and value of these assets • ‘advances in information technology, making possible radical changes not just in how we communicate information but also in what information is published, to whom and when • the strong inﬂuence of international institutional investors, e.g., from the USA, pressing for more transparency in corporate reporting. | Striking the balance between transparency and not giving away too much competitively sensitive information as well as determining how frequently information should be updated.Achieving environmental benchmarking across industries and the possible impossibility of developing objective indicators for measuring a company’s social performance.Auditing and veriﬁcation will demand signiﬁcant resources, skills, management time and capabilities which may simply be lacking in smaller organisations. | It could be said that the world has indeed moved in the direction called for in these reports, though not yet to the extent predicted. The technology issues have been followed up in the Making Information Systems Work thought leadership programme of ICAEW’s Information Technology Faculty, including Digital Reporting: A Progress Report (2004).  |
| **The Inevitable Change** | Business Reporting: The Inevitable Change? –ICAS (1999) | To meet users’ needs, the report proposes that businesses should use advances in information technology to make available a wider range of information faster than at present, rather more frequently, and recognising different stakeholders’ differing requirements. In particular, it recommends -‘electronic library-type resource’ for external users, with information layered, linked and pre-packaged for each stakeholder group. .In particular: - at three to ﬁve yearly intervals, selected prospectus type information be provided; - certain non-ﬁnancial information currently captured by management information systems be provided e.g., performance indicators; - certain information not currently captured by management information systems be provided e.g., intellectual capital, biographical information on directors…  | Business reporting at the moment is producer driven, rather than meeting users’ needs. | The report’s voluntary and incremental approach is intended to avoid potential difﬁculties. | As with the other report models, it could be said that things have moved in the desired direction, with an increasingly wide range of corporate disclosures and ever-growing use of the internet. But the particular proposals in the report have not been adopted. Subsequent research reports from ICAS have explored various aspects of internet-based communication and the measurement, management and reporting of intangibles.  |
| **Inside out** | Inside Out: Reporting on Shareholder Value ICAEW (1996) | • company ambitions• strategic direction • description of strategic decision-making process• preferred measures• key drivers of value• measures of performance appropriate to the business | Annual reports give a historical perspective and are not forward looking. Users today want information about a company’s potential for creating shareholder value.  | Inside Out, like the Jenkins Report, avoids some of the major obstacles by ﬁtting its recommendations around them. It proposes ‘the disclosure only of information already available to management.’ It also addresses the issue of commercial sensitivity. | Once again, there has subsequently been rather more disclosure of strategies and other non- financial information, including some KPIs, but not of the particular information proposed in the report. The questions explored in Inside Out have been pursued in later ICAEW reports, including Prospective Financial Information: Guidance for UK Directors (2003), New Reporting Models for Business (2003), and Developments in New Reporting Models (2009). |
| **Value dynamics** | Cracking the Value Code: How Successful Businesses are Creating Wealth in the New Economy (2000) – Boulton et al. (2000) | The authors argue that old methods of managing and measuring are simply not up to the task and that companies should be more transparent and user-driven in their disclosures; in particular, they should disclose the current values of all their assets, including intangibles not currently recognised in financial reporting. They therefore recommend• better disclosure of intangible assets • 54 boxes showing different kinds of asset-related information | Leading-edge companies are ﬁnding that their management and measurement systems are no longer aligned with the assets that they are using to create value therefore businesses must recognize that the old models of information for decision-making – including measurement and reporting – are becoming obsolete | Recognise that required changes in information management, measurement, and reporting cannot be achieved overnight, given the challenges of replacing legacy systems, complying with today’s regulatory requirements, and developing the tools required for hard-to-measure intangible assets. | Judging from the increased volume of disclosures, there has indeed been greater openness since this book was published, but – as ever – it has not followed these authors’ particular prescription. Arthur Andersen ceased trading in 2002 and there has therefore been no follow-up to Value Dynamics. |
| **Brookings Institute** | Unseen Wealth: Report of the Brookings Task Force on Understanding Intangible Sources of Value (Blair and Wallman (2001) and Professor Baruch Lev’s Intangibles: Management, Measurement, and Reporting (2001) – both Brookings Institution | Focused on the problem of reporting intangibles and put forward proposals to allow companies to move towards systematic reporting of relevant information on these assets being • value of intangibles, e.g. Lev’s value chain scoreboard• quantitative standardized and relevant measures | Focused on the problem of reporting intangibles that allows companies to move towards reporting the values of all relevant intangibles. Identify that the paucity of good robust models and consistent vocabulary for intangibles stands in the way of development of performance or measurement data that would be comparable across ﬁrms. | A large number of practical issues are anticipated and are intended to be tackled through government or regulatory action. For example, conceptual, technical and measurement problems are to be dealt with through continuation of the research begun by the Task Force and Professor Lev. Concerns about commercially sensitive disclosures will be resolved through FASB and SEC requirements. Liability fears will be addressed through enhanced safe harbour protections. | Both publications call for action by the authorities – the US government, the SEC, FASB – to help develop standardised frameworks for disclosure. Compliance with these would initially be voluntary, but it is envisaged that as practice evolves some mandatory requirements would also be developed. However, there has not been any follow-up by the relevant authorities to these calls to action.  |
| **Value reporting** | The ValueReporting™ Revolution: Moving Beyond the Earnings Game (Eccles et al., 2001) and Building Public Trust: The Future of Corporate Reporting (DiPiazza et al., 2002) – both PricewaterhouseCoopers | Businesses should ‘report information to the market on all the measures they use internally to manage including:* Market Overview
* Strategy
* Value Creating Activities
* Financial Performance
 | The ValueReporting™ Revolution argues that ‘the corporate reporting model has failed those whom it intends and ought to serve best and has not even begun to keep pace with the extraordinary changes in how executives manage their companies. Building Public Trust comments that ‘Every aircraft in the world would be grounded if air traffic control relied on the same type of system that companies use today to report their information.Argues that the lack of a broad set of performance information has contributed to inaccurate stock prices and extreme volatility. Stated there is an emphasis on short-termism and is therefore not meeting user needs. | Certain disclosures might put the company at a competitive disadvantage. They might be easily misleading. Some information might be unreliable, too detailed to be clarifying, or too costly to assemble. A need for safe-harbour legislation and concludes that companies should weigh the risks and costs of disclosure against the beneﬁts. | As with the other reporting models proposed, it could be said that there has been a substantial move in the direction of non- financial reporting, but that the particular prescription in ValueReporting™ has not been adopted. However, PWC continues to develop and actively pursue the ideas in ValueReporting™: • through its publications, services and research, including the website www.corporatereporting.com; • through Recasting the Reporting Model • through its Building Public Trust awards; and • through its participation in a number of collective endeavours to reform business reporting, such as the Enhanced Business Reporting Consortium, the CEOs of the International Audit Networks, the Report Leadership group, and the World Intellectual Capital Initiative. |
| **Hermes principles** | The Hermes Principles: What Shareholders Expect of Public Companies – and What Companies Should Expect of Their Investors (Watson and Pitt-Watson, 2002) – Hermes Pensions Management Limited | General requirement about disclosure of WACC and ability to deliver returns ahead of WACC and cash-based reporting | Short -termism is criticised in existing models. Encouraging the maximisation of returns on capital can detract from the creation of shareholder value.Therefore, according to the Hermes Principles, investment decisions should be made, and their success judged, using ‘the present value of the cash ﬂows from investment, discounted at an appropriate cost of capital.’ Indeed, Hermes expects every company to have a view about what its weighted average cost of capital (WACC) is and to disclose it. | No practical difﬁculties are identiﬁed. | Judging from the increase in the volume of reported information, companies are indeed displaying greater openness. But as with other reformers’ proposals, it is doubtful whether the progress to date meets the demands of The Hermes Principles |
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