



Perspective Paper

Integrated Reporting and Integrated Thinking: A Commentary on the Integrated Reporting Framework (2013)

Chandrasiri Abeysinghe^a✉

^a*Department of Accounting, University of Colombo, Sri Lanka*

Abstract

The International Integrated Reporting Council (IIRC) issued its Integrated Reporting (<IR>) framework in 2013 intending to promote integrated thinking in organisational contexts for corporate sustainability. However, arguments are mounted against limitations in these guidelines and their potential to create integrated thinking. Mainly, the maintenance of the financial prominence, neglecting sustainability needs is among the criticisms. Nevertheless, still, the framework contains some guidelines relevant to promote integrated thinking. An organisational change towards integrated thinking requires effective communication of the right message. This paper, benefitting from the Stakeholder Theory and the Stakeholder Agency Theory perspectives, sheds light on the potential of those guidelines to communicate the knowledge of integrated thinking to managers and concludes finding their failures. Utilising a content analysis of relevant guidelines contained in the <IR> framework, this paper contributes to the discussion of integrated reporting and integrated thinking for corporate sustainability.

Keywords: Integrated reporting, Integrated Thinking, Stakeholder Theory, Stakeholder Agency Theory, Stakeholder Value Creation, Sustainability Accounting

Received:
08 March 2020

Accepted revised version:
20 June 2020

Published:
31 December 2020

Suggested citation: Abeysinghe, C. (2020). Integrated reporting and integrated thinking: A commentary on the Integrated Reporting Framework (2013). *Colombo Business Journal*, 11(2), 142-170.

DOI: <http://doi.org/10.4038/cbj.v11i2.68>

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✉ c_abey@dac.cmb.ac.lk:  <https://orcid.org/0000-0001-8004-3526>

Introduction

The potential of Integrated Reporting <IR> framework introduced by International Integrated Reporting Council (IIRC) in 2013 to promote integrated thinking is being still questioned. The IIRC has called for feedback in 2017 (IIRC, 2013); however, no improved version has been issued yet. Dumay and Dai (2017) call for further research on the process of bringing integrated thinking into practice. Adams (2015), Flower (2015), Stacchezzini et al. (2016), Oliver et al. (2016), Feng et al. (2017), and La Torre et al. (2019), among others, illuminate improvements needed in <IR> framework (2013). The current paper joins this discussion, illuminating ‘communication’ as another aspect of improvement needed in the framework for its better implementation.

Accounting initiatives such as Global Reporting Initiative (GRI) (2000) and Accounting for Sustainability (A4S) (2004), emerged to support the sustainability concern in achieving economic development, after the emphasis by the United Nations in 1992. The IIRC, established in 2010, is the latest accounting initiative towards maintaining sustainability in economic development. The IIRC issued its first set of guidelines, <IR> in 2013 on integrated reporting recognising six capitals to be maintained and developed by business firms for corporate sustainability. This paper draws attention to the success of <IR> guidelines in the intended task.

Integrated reporting is not merely to improve the reporting per se but has the potential to create implications on changing the business culture towards sustainability via promoting integrated thinking. In a broader sense, integrated thinking is the framework of thinking towards achieving corporate sustainability (Vesty et al., 2013). In that sense, integrated thinking should precede integrated reporting developments and at the same time one can argue that integrated reporting is the change agent towards a culture of integrated thinking.

Little is known about integrated thinking because it is still a new concept (South African Institute of Chartered Accountants ([SAICA], 2015). Nevertheless, Lodhia (2015) stresses the need for adopting integrated thinking before integrated reporting. To Köhler and Hoffmann (2016), integrated thinking is the holistic view of the organisation to be adopted by managers that drives the reporting process. Al-Htaybat and von Alberti-alhtaybat (2018) illustrates through a case, how the development of integrated thinking within an organisation led to creating the practice of integrated reporting. They claim that none has studied why integrated thinking naturally occurs and is radically implemented in organisations.

Some others perceive that integrated reporting leads to the occurrence of integrated thinking in organisations. IIRC (2013) indicates this intention in the introduction to the <IR> framework:

The IIRC's long-term vision is a world in which integrated thinking is embedded within the mainstream business practice in the public and private sectors, facilitated by Integrated Reporting (<IR>) as the corporate reporting norm. The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability. (IIRC, 2013, p. 2)

Feng et al. (2017, p. 333) highlight the intention of IIRC: *“A key feature of the IIRC’s <IR> concept is that the reporting process is meant to create wider changes in business practice, rather than simply changing reporting mechanisms themselves”*. <IR>, by its design, intends to support the sustainable value creation for stakeholders via integrated thinking-based decision making and actions (Busco et al., 2013).

Accordingly, integrated thinking and integrated reporting are strongly linked and the former can lead to the practice of the latter, which in turn can act as a change agent to initiate the practice of former within organisations. Nevertheless, the outcome of <IR> to create integrated thinking seems unsuccessful. In an integrated reporting conference, organised by the Institute of Chartered Accountants of Sri Lanka in 2018, the Chief Financial Officer (CFO) of a leading Sri Lankan Public Limited Company (PLC), which pioneers in integrated reporting in Sri Lanka, expressed his experience of integrated reporting and integrated thinking. To him, the <IR> framework-based integrated reporting practice is in place having no change in the behaviour of people in his organisation to develop integrated thinking. This statement concurs with Gunarathna and Senaratne (2017), who observed a lack of knowledge and understanding of integrated reporting and integrated thinking among accounting practitioners despite the increasing use of integrated reporting in the Sri Lankan context.

According to studies such as Flower (2015), Adams (2015) and Feng et al. (2017), the potential of <IR> guidelines (2013) in creating integrated thinking is still doubtful. Feng et al. (2017) reveal that integrated reporting is still an underdeveloped reporting mechanism, and it needs further refinement to enhance the understanding of the practitioner and the stakeholder. Adams (2015), Milne and Gray (2013) and Stacchezzini et al. (2016) argue that <IR> guidelines are sometimes dysfunctional in organisational contexts and are not effective in sustainability management. According

to Flower (2015) and Adams (2015), 'managerial focus' in <IR> guidelines, whereby managers focus on economic value creation for shareholders rather than maintaining sustainability, causes the guidelines to fail. This claim is visible in some <IR> guidelines. For example, the Guideline 2.4 of <IR> framework (IIRC, 2013, p. 10) defines "value creation" implying the priority to benefit shareholders and the Guideline 2.5 on page 10 furthers this emphasis, justifying the need for reporting value creation to the interest of providers of financial capital. However, evidencing inconsistencies of the framework, the Guideline 3.10 on page 17 implies the sustainability concern and value creation for stakeholders rather than creating value merely for shareholders. Hence, Flower's claim (2015) of managerial capitalism partly applies because of the existence of some sustainability supported guidelines (e.g. Guideline 3.10) in the <IR> framework (2013). Dumay et al., (2017) identify barriers to the success of the <IR> framework (2013) including what Flower (2015) pointed out as well. Hence, a need for further investigations to understand the potential of <IR> framework to create integrated thinking within organisations arises.

However, identifying the content of the <IR> framework (2013) as favourable and unfavourable for integrated thinking is insufficient because it would result in a mere assessment of the content not the potential. To understand the potential of <IR> framework, we need to inquire into the needed knowledge to create integrated thinking within organisations against what <IR> framework presents. Moving in that line of thinking, this paper aims at understanding further reasons for the failure of the <IR> framework (2013) in guiding practitioners towards integrated thinking.

Creating integrated thinking is a cultural change in organisations. Managers of the organisation need to initiate such changes (Isabella, 1990). Sensemaking (Jensen et al., 2009) of any new technology or event leads managers to initiate successful organisational changes. Making sense, by nature, is a matter of communication (Weick et al., 2005). Dumay et al. (2017) claim that the <IR> framework 'vaguely' defines the concepts of integrated thinking and integrated reporting, implying 'communication' as another issue of the framework. Hence, this paper sheds lights on the relevant contents of the <IR> framework (2013) to communicate the knowledge required for managers and integrated reporting practitioners to create integrated thinking within organisational contexts.

Thus, the <IR> framework needs to communicate the right message to create integrated thinking. Drawing on Stakeholder Theory (Freeman, 2001, 1984) and

Stakeholder Agency Theory (Hill & Jones, 1992), this paper makes an attempt to identify the 'right message'.

The rest of the paper is structured as follows. The next section illuminates that the <IR> guidelines emerged as an accounting initiative to support the sustainable development movement and locates the current paper within the existing knowledge. This section includes a discussion of the Stakeholder Theory and Stakeholder Agency Theory to construct the conceptual framework in order to derive the 'right messages' that should be communicated through the <IR> guidelines. This is followed by a content analysis of <IR> guidelines to understand their failures in communicating the right messages to create the practice of integrated thinking. Finally, the paper presents its conclusion and recommendations for future research.

Literature Review

Accounting for Sustainability

The United Nation's Conference on Environment and Development held in 1992 announced that 'sustainable development' is imperative as a policy consideration to preserve the planet for future generations while achieving current developmental goals. After this announcement, sustainability supportive accounting initiatives such as GRI and A4S began to emerge (Dumay et al., 2016); Rowbottom & Loke, 2016). The <IR> framework (2013) is such an initiative.

These accounting initiatives drew attention to the social and environmental impact of business operations beyond the economic impact. In 1994, South Africa's first "King 1" Code of Governance drew attention on non-financial performance (Stewart, 2010, cited in Dumay et al., 2016, p. 167). In 1997, the Global Reporting Initiative (GRI) emerged emphasising the need for disclosures on the economic, social and environmental impact of business operations (Beck et al., 2017). Accounting for Sustainability (A4S) project of HRH Prince of Wales emerged in 2004 drawing attention to bring sustainability into the business decision process. In August 2010, the GRI and the A4S together with some professional bodies formed the International Integrated Reporting Council (IIRC) to issue guidelines on producing a single report known as an integrated report. According to Eccles et al. (2015), further developments took place during 2011 and 2012. In 2011, the Sustainability Accounting Standard Board (SASB) was formed to formulate sustainability accounting standards. In 2012, the Climate Disclosure Standard Board (CDSB) released the updated climate change reporting framework, while the Global Reporting Initiative (GRI) issued its G4 guidelines to prepare sustainability reports.

Hence, integrated reporting is not a new concept, but rather another step in the journey of corporate reporting (Beck et al., 2017). To Dumay et al. (2017), <IR> framework is the third step in the journey, the first step being the King III recommendations in 2009 (Institute of Directors in Southern Africa, 2009), and the second, the suggestion of 'One Report' by Eccles and Krzus (2010).

The IIRC issued the first draft of the <IR> framework in 2011 and the final version in 2013. To Eccles and Krzus (2010), and Eccles et al. (2015), integrated reporting serves the need of companies for better understanding of the relationship between financial performance, and environmental, social and governance (ESG) performance via connectivity of information. ESG or non-financial performance affects the financial performance, and thereby, the value creation for shareholders in the long run. For this reason, the shareholders and other stakeholders of the company need to know what ESG issues the managers had to deal with and how they have managed them.

IIRC's <IR> concept aims to improve the reporting process creating more extensive changes in business practice towards 'integrative thinking', rather than merely changing reporting mechanisms per se (IIRC, 2013). While the IIRC does not directly refer to *sustainability* in its <IR> framework, a direct link between integrated thinking and sustainability is evident in the emerging literature (Oliver et al., 2016).

Integrated Thinking and Integrated Reporting

Integrated thinking draws the attention of managers to environmental, social and governance aspects in business decisions seeing beyond the mere economic criteria. Martin and Austen (1999) first introduced the concept of 'integrative thinking' as an integral part of a decision-making model seeking to enable managers to deal with the tension between two (conflicting) choices, viz. profit maximisation and social and environmental sustainability. Accordingly, via integrated thinking, organisational teams may better appreciate and understand the impact of their decisions, behaviour and processes on stakeholders, other internal units and the firm as a whole (Krzus, 2011). When integrated thinking is in place, it makes conducive conditions and processes prevailing within the organisations to prepare a credible integrated report (SAICA, 2015). It provides a framework for business practices towards sustainability. According to A4S (2015), integrated thinking means integrating sustainability into business processes and decisions. The IIRC's first draft (2011) explains how an organisation sustains with the foundation of multi-stakeholder resources and relationships known as capitals. As a mode of control, integrated thinking provides

guidance from managers to employees so that integrated decisions and actions lead to creating value over the short, medium and long term for its stakeholders (IIRC, 2013).

Undoubtedly, integrated thinking creates the conditions needed to prepare integrated reports, revealing sustainability-related outcomes of business operations. “An integrated report is a concise communication about how an organisation'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, 2013, p. 7). Integrated thinking can change the culture and attitudes of an organisation (Black Sun, 2012). Dumay and Dai (2017) go beyond to argue that integrated thinking is a cultural control. Organisational thinking triggered by sustainability concern results in the preparation of an integrated report (Eccles & Krzus, 2010). Integrated thinking becomes the logic that guides integrated reporting (Giovannoni & Fabietti, 2013) and the prerequisite for integrated reporting (Blacksun, 2012).

On the other hand, it is also argued that integrated reporting leads to the creation of integrated thinking in organisations. Integrated reporting is not an isolated event in a firm because it leaves its mark on behaviour, attitudes and culture, which are part of the organisation's social structure (Dumay & Dai, 2017). Integrated reporting can influence the internal decision-making process of business firms:

When putting into practice by companies and used by the audience of investors as well as other important corporate stakeholders, it has the potential to transform the way resource allocation decisions are made inside companies and markets across the globe (Eccles & Krzus, 2010, p.10).

Although integrated reporting is an external reporting practice, it also connects the internal mechanisms of a business organisation (Stubbs & Higgins, 2014). Guthrie et al. (2017) posit theoretical reasons for integrated reporting to create integrated thinking within organisations. Accordingly, to Laughlin (1991), organisational change can take the forms such as rebuttal, reorientation, colonial and evolution, and integrated reporting can help in all and can modify both interpretive schema and design archetypes, resulting not only in the production of a report but also integrated thinking. They also refer to the findings of Wickramasinghe and Alawattage (2007) on management accounting change, pointing out that the adoption of accounting tools such as integrated reporting can shape the internal processes of an organisation. Guthrie et al. (2017) find that the public sector organisations under their observation

had adopted integrated reporting, which had triggered these organisations to seek new management accounting tools, decision-making processes or integrated thinking.

Issues of <IR> Framework (2013)

Criticisms are mounting against drawbacks of <IR> framework (2013) on its potential to trigger organisational changes towards integrated thinking and sustainability. Some of these criticisms capture inherent problems of the <IR> framework (2013) and others the interruptions from the organisational context.

Flower's (2015) claim evidences the former and accordingly, the <IR> framework carries a managerial focus, which elucidates managers' attachment to investors hindering the sustainability concern. Dumay et al. (2017)'s explanations crystallise the Flower's (2015) claim. Accordingly, King III recommendations (Institute of Directors in Southern Africa, 2009) considered integrated reporting before <IR> framework (2013) and identified governance from the perspective of stakeholders, while <IR> (2013) takes the perspective of an investor. They elucidate the claim:

Flower's view is consistent with Milne and Gray (2013:20), who argued that "the IIRC's discussion paper, Towards Integrated Reporting is a masterpiece of obfuscation and avoidance of any recognition of the prior 40 years of research and experimentation" and "[...] despite its claims for sustainable development and sustainability, it is exclusively investor focused and it has virtually nothing – and certainly nothing substantive – to say about either accountability or sustainability. (Dumay et al., 2017, p. 465)

According to the theory of the firm, capitalists invest in a firm to produce goods and services for profit and appoint managers for better serving their intention. Thus, a firm's profit is an increase in the value of goods and services of the society and thereby a contribution to the national economic stability and growth. Thus, accounting information on the profit of firms can help investors making better allocations of capital. Therefore, profit becomes the primary focus of a firm. Organisation theories support this argument. Managers as agents of capitalists are to personify the capital (Braverman, 1974; Cooper & Taylor, 2002; Willmott, 1995) and are stimulated to exploit other factors of production to maximise return on capital, probably hindering sustainability of the firm. Stacchezzini et al. (2016) reveal that disclosures by Integrated Reports appear inadequate to report on actual commitment for managing sustainability. Dumay et al. (2017) argue that lack of regulatory support and vague definitions of integrated thinking and value creation are further barriers to the implementation of integrated reporting.

To Dumay et al. (2016), although integrated thinking aims at breaking down ‘silo’ thinking in organisations, to some practitioners, ‘silos have a role to play’ in managing organisations. Dumay and Dai (2017) find how a dominant organisational culture hinders the potential of <IR> to make organisational changes towards integrated thinking. In their study on ‘integrated thinking as a management control’, they find that in the bank they studied, the <IR> has not been able to radically change the business practices due to the existence of a more robust ‘responsible banking culture’. Still, the prominence of the ‘providers of financial capital’ constrains the degree of integrated thinking (Oliver et al., 2016). Thus, the prevailing organisational conditions hindering the success of integrated reporting to prompt organisations towards integrated thinking, challenge accounting initiators. With these observations and experiences, Dumay and Dai (2017) call for more research on studying the process of implementing <IR> to create integrated thinking in organisations. The current paper sheds light on the communication aspect of <IR> framework in creating integrated thinking.

Communication for Organisational Change

Developing the practice of integrated thinking in organisations is an organisational change. For achieving organisational changes, managers’ understanding, and interpretation are imperative. “Managers serve a significant cognitive function in organisations by interpreting events and ultimately using those interpretations to frame meaning for other organisational participants” (Isabella, 1990, p. 10). People change their emotional expression by altering internal feelings, which is a ‘deep action’ required for their emotional performance (Tracy & Tracy, 1998). Hence, communication becomes imperative for people to create useful meanings. Carey (1989) delineates this in his ritual view of communication, in which all meaning is a social process that individuals produce, maintain, and transform (Murphy, 2001). Accordingly, “Managers’ interpretations are social architecture, from which organisations draw meaning and significance” (Isabella, 1990, p. 10). To Jensen et al. (2009), when new technology or any other unexpected event occurs, people involve in ‘sensemaking’, which connects cogitation and organisational actions. According to Weick et al. (2005),

although sensemaking is an ongoing process, the need to make sense is intensified in circumstances where organisational members face new or unexpected situations, where there is no predetermined way to act, and where a high degree of ambiguity or uncertainty is experienced (cited in Jensen et al., 2009, p. 345).

Evidencing this theoretical finding, the introduction of <IR> in the Sri Lankan context has created ambiguity among accounting practitioners as Gunarathne and Senaratne (2017) observed.

In the sensemaking process, people develop particular assumptions, expectations and knowledge of the technology, which then serves to shape the resulting actions (Jensen et al., 2009). Sensemaking, in nature, is a matter of communication (Weick et al., 2005). For a successful change, the role of communication is crucial, and the importance of communication on change has been reiterated by repeated calls to study communication during an organisational change in detail (van Vuuren & Elvin, 2008).

Thus, clear communication of knowledge is fundamental for a change of thinking or ideology. Theories of knowledge communication for managerial action emphasise that communication of expert knowledge, experience and insights is essential for high-quality decision making and coordinated, organisational action (Eppler, 2006; Rosenthal & Hart, 1991; Straub & Karahanna, 1998). This emphasis, when applied to integrated reporting, suggests the importance of the communication aspect of <IR> guidelines to create integrated thinking as a managerial action within organisations. Accordingly, this paper sheds light on how the <IR> framework guides managers in integrated thinking. None of the studies on integrated reporting and integrated thinking was found to have drawn attention on this aspect before.

The Conceptual Framework

This paper aims to understand the potential of <IR> guidelines to communicate and change managerial behaviour towards integrated thinking. For this, alternative theoretical frameworks having the potential to explain the formation of organisational practices were considered. These alternative theoretical frameworks include the Actor Network Theory (Latour, 2005), Theory of Practice (Bourdieu, 1977), Stakeholder Theory (Freeman, 2001) and Stakeholder Agency Theory (Hill & Jones, 1992). Formation of integrated thinking practice is about responding to <IR> guidelines, and therefore, both Actor Network Theory and the Theory of Practice are not useful. However, Stakeholder Theory and Stakeholder Agency Theory are found to be useful. Stakeholder Theory explains how relationships among stakeholders of a business firm assure its existence, which is its sustainability. Stakeholder Agency Theory is an extension to Stakeholder Theory, focusing on how managers, as agents of other stakeholders of a business firm, maintain the agency relationship for the continuity of the business firm. These two theories are useful to understand the role of <IR> guidelines to make the continuity or sustainability of a business firm. For these

reasons, this paper uses Stakeholder Theory (Freeman, 2001) and Stakeholder Agency Theory (Hill & Jones, 1992) as the analytical lenses to assess the potential of <IR> guidelines for 'communicating the knowledge' as a change agent in creating integrated thinking in organisations.

The Stakeholder Theory challenges space for managerial capitalism in the contemporary context because of the managers' obligations to a broader array of stakeholders. According to Freeman (2001), today, managers' intentions to maximise shareholder interests, internalising all benefits and externalising all unfavourable outcomes such as air pollution, and moral hazards, do not find free space due to the active involvement of external social forces in protecting the rights of different stakeholder categories. For these reasons, instead of merely focusing on shareholder satisfaction, managers are compelled to have a stakeholder perspective in their business decisions. Integrated thinking appears for this change of thinking.

To Freeman (2001), a business firm cannot exist without the support of its stakeholders because a firm is a nexus of interactions with diverse stakeholder groups. Each stakeholder group has their expectations of a return from the firm for their investments. Accordingly, shareholders are interested in sufficient financial returns for the financial investment; managers are interested in economic and social benefits for the skills and engagement; employees are interested in receiving reasonable wages and job security and better working conditions for the investment of their labour; customers are interested in having quality goods and services for their purchases; suppliers are interested in receiving reasonable prices and timely payments for their material supplies; the local community and the general public are interested in maintaining corporate citizenship behaviour and providing higher standards of living for the use of location and local infrastructure, national infrastructure and perhaps favourable tax treatments (such as tax incentives) provided.

To Hill and Jones (1992), a firm is a nexus of contracts among the resource holders of a business firm. Legal personality of a company makes its managers, being agents of owners, entering into contracts with other stakeholders. Hence, managers of a firm become agents of all stakeholder groups. Expectations from the firm by its stakeholders can create the general agency issue of 'divergence of interest' (Jensen & Meckling, 1976; Ross, 1973) between managers and the stakeholders. Managers are to maintain convergence of interests and thereby favourable interconnections of all other stakeholders for sustainability and to reduce agency cost. In the case where these broader relationships are ignored and become imbalanced, the survival of the

firm is in jeopardy (Freeman, 2001). The effort in <IR> guidelines to guide managers to create integrated thinking has the potential of promoting these relationships.

Better relationships enhance stakeholder investments in a firm. Each stakeholder has critical resources invested in the firm as capital, and in exchange, they expect satisfaction to their interests (March & Simson, 1958). The investment by any stakeholder is an engagement because, to Byrne (2015), this engagement is a motivational state associated with some positive and desirable consequences for organisations, making a person investing oneself.

According to Hill and Jones (1992), different stakeholder groups have various sizes of stakes in firms, and the value of the investment is assessable referring to the costs when they deploy such an investment for an alternative purpose. Following Williamson (1984, 1985), Hill and Jones (1992) explain the value of an investment quoting an example. If a high skilled worker leaves the firm, its agency cost is higher, causing a loss to the firm, indicating a higher value of the investment by such a worker. In contrast, when any less trained and less skilled employee leaves, the associated cost to the firm is less, and therefore the investment value appears to be less. Thus, the value of the investment by stakeholder groups corresponds to the degree of their engagement. Accordingly, the higher the stakeholder-engagement, the higher the value of the investment.

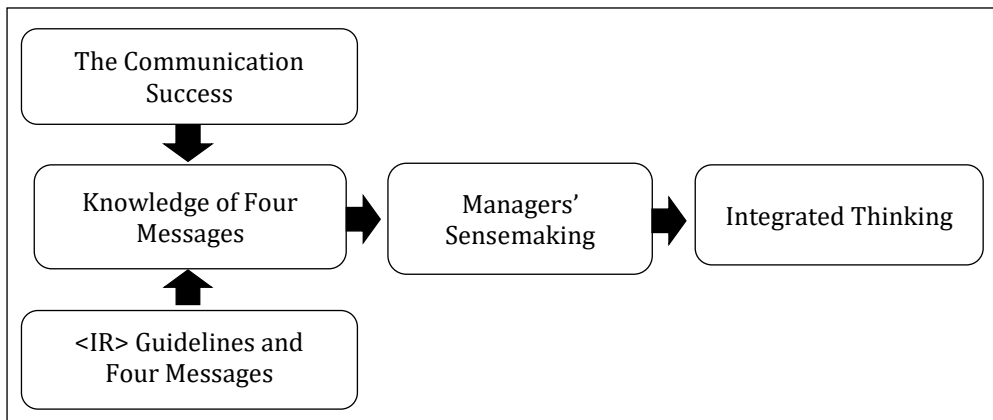
What do Managers Need to Know?

From the Stakeholder Theory perspective, to make a firm sustainable, its managers need to deviate from traditional silo thinking towards sustainability-focused integrated thinking. To create integrated thinking among themselves, managers need to know that the firm can continue to exist only with better stakeholder relations. For the sensemaking, managers need to understand how a business firm can maintain its sustainability with its stakeholders. For this need, first, the manager should know that the business firm operates with capitals from multiple stakeholders, including shareholders (Freeman, 2001). Secondly, they must understand that better relationship with the stakeholders, can enhance the stakeholder investment in the firm (Hill & Jones, 1992). Thirdly, they must know that they (managers) have a fiduciary obligation towards shareholders, and as a means to do that, they need to create value for the interest of all stakeholders (Hill & Jones, 1992; Jensen & Mecling, 1976; Ross, 1973). Finally, they must know that the relationships, the firm maintains with these stakeholder groups, influence the value of the stakeholder investment (Hill & Jones,

1992). Managers' sensemaking results from the effective communication of these four messages (Weick et al., 2005).

Without this knowledge, managers would not make sense of integrated thinking. Hence, <IR> framework (2013), being the currently active guidelines towards integrated thinking and integrated reporting, should be able to communicate these four messages as per the conceptual framework shown in Figure 1. Accordingly, the <IR> framework needs to effectively communicate the correct messages to convey the required knowledge to the managers for their sensemaking, to make others of the firm using the integrated thinking in their operations. The absence of the knowledge or its ineffective communication hampers the creation of integrated thinking in a firm. Hence a need arises to assess the <IR> framework (2013) for its potential to communicate the four messages identified.

Figure 1: Conceptual Framework



The <IR> Framework (2013) in Brief

The <IR> framework (2013) presents its content in two parts. The part I presents the introduction to the framework and part II the guidelines to the integrated report. Since the aim of this paper is investigating the potential of the <IR> framework to communicate the knowledge to the managers for their sensemaking on integrated thinking, only the part I is relevant. Part I consists of two sections: Section 1 introduction to using the framework and Section 2 fundamental concepts. In explaining the use of this framework, Section 1 presents the following guidelines:

- A – Integrated report defined
- B – Objective of the framework

- C – Purpose and users of an integrated report
- D – A principles-based approach
- E – Form of report and relationship with other information
- F – Application of the framework
- G – Responsibility for an integrated report

Accordingly, all points from A to G of Section 1 explains the rationale, purpose and contents of the integrated report and use of the framework.

Section 2 presents the fundamental concepts as follows:

- A – Introduction
- B – Value creation for the organisation and others
- C – The capitals
- D – The value creation process

Thus, Section 2 presents knowledge for managers to understand the process of value creation for stakeholders by way of developing ‘capitals’. This explanation straightaway is connected with integrated thinking. Thus, only the four guidelines of Section 2 need a detailed analysis to understand their potential to communicate 'the four messages', to the managers. Hence, this paper uses content analysis to study each guideline from A to D of Section 2 (pp. 10-14).

Section 2 presents Guidelines No. 2.1 to 2.29 in pages 10-14. Out of them, Guidelines 2.15 to 2.29 except 2.24 give definitions to stakeholder capitals and their roles in the framework, which are out of this paper's scope. Guideline 2.24 explains the business model showing how the maintenance of multiple stakeholder capitals contributes to sustainability. Guideline No. 2.1 is an introduction to the section. Therefore, only the Guidelines No. 2.2 to 2.14 and 2.24 are straightaway within the scope of this paper.

The next section will present a content analysis of the <IR> framework (2013) to examine how well it communicates the four messages identified above. This is done in two stages. First, it analyses the content of Guidelines 2.2 to 2.14 and 2.4 to see their relevance to the four messages. When any guideline carries a similar core idea of any of the four theoretical messages, such a guideline is recognised as ‘relevant’. Then, the paper further analyses the relevant guidelines as well as others as applicable, in detail, to understand the degree to which they communicate the four messages.

Content Analysis of <IR> Guidelines for Relevance

In this paper, content analysis performed in two stages. Only the Guidelines 2.2 to 2.14 and 2.24 of Section 2 of <IR> framework (2013) are identified to be connected with integrated thinking. First, relevance of each of these guidelines to the core idea of each of the four messages is identified. Then, the guidelines, which are supportive of the communication of the four messages and those guidelines, which affect the communication of the messages are identified.

Identification of the Relevance of Guidelines to Four Messages

If any guideline appears relevant to any of the four messages, it is marked as relevant and otherwise the grid position is left blank. Table 1 shows the relevance of these guidelines to each of the four messages.

Table 1: Relevance of Guidelines to Four Messages

Core idea of the guideline	Message 1 Co-existence with multiple stakeholders	Message 2 Better relationships enhance stakeholder investments	Message 3 Value creation for stakeholders will create value for shareholders	Message 4 Value of stakeholder investment is their engagement in the firm
2.2 Value is created through relationships with stakeholders	Relevant			
2.3 An integrated report reveals how the firm has interacted with capitals to create value.	Relevant			
2.4 Value created by an organisation over time manifests itself in increases, decreases or transformations of the capitals caused by the organisation's business activities and outputs. That value has two interrelated aspects – value created for: <ul style="list-style-type: none"> • The organisation itself, which enables financial returns to the providers of financial capital • Others (i.e., stakeholders and society at large). 	Relevant			

Core idea of the guideline	Message 1 Co-existence with multiple stakeholders	Message 2 Better relationships enhance stakeholder investments	Message 3 Value creation for stakeholders will create value for shareholders	Message 4 Value of stakeholder investment is their engagement in the firm
2.5 Providers of financial capital are interested in the value an organisation creates for itself. They are also interested in the value an organisation creates for others when it affects the ability of the organisation to create value for itself.	Relevant			
2.6 The ability of an organisation to create value for itself is linked to the value it creates for others.	Relevant		Relevant	
2.7 When these interactions, activities, and relationships are material to the organisation's ability to create value for itself, they are included in the integrated report.	Relevant			
2.8 Externalities may be positive or negative (i.e., they may result in a net increase or decrease to the value embodied in the capitals). Externalities may ultimately increase or decrease value created for the organisation.				
2.9 Because value is created over different time horizons and for different stakeholders through different capitals, it is unlikely to be created through the maximisation of one capital while disregarding the others.	Relevant		Relevant	
2.10 All organisations depend on various forms of capital for their success. In this framework, the capitals comprise financial, manufactured, intellectual, human, social and relationship, and natural, although as discussed in paragraphs 2.17–2.19, organisations preparing an integrated report are not required to adopt this categorisation.				
2.11 The capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organisation.				

Core idea of the guideline	Message 1 Co-existence with multiple stakeholders Message 2 Better relationships enhance stakeholder investments Message 3 Value creation for stakeholders will create value for shareholders Message 4 Value of stakeholder investment is their engagement in the firm
<p>2.12 The overall stock of capitals is not fixed over time. There is a constant flow between and within the capitals as they are increased, decreased or transformed.</p>	
<p>2.13 Many activities cause increases, decreases or transformations that are far more complex than the above example and involve a broader mix of capitals or of components within a capital (e.g. the use of water to grow crops that are fed to farm animals, all of which are components of natural capital).</p>	
<p>2.14 Although organisations aim to create value overall, this can involve the diminution of value stored in some capitals, resulting in a net decrease to the overall stock of capitals. ...In this Framework, the term value creation includes instances when the overall stock of capitals is unchanged or decreased (i.e., when value is preserved or diminished).</p>	
<p>2.24 At the core of the organisation is its business model, which draws on various capitals as inputs and, through its business activities, converts them to outputs (products, services, by-products and waste). The organisation's activities and its outputs lead to outcomes in terms of effects on the capitals.</p>	Relevant

Thus, out of 28 guidelines under the concept of integrated reporting, only 8 appear to be relevant to Message 1, which is about the coexistence with multiple stakeholders in a business organisation. Only two guidelines are relevant to Message 3, which is about the idea that value creation for other capitals is the means of creating value for financial capital. Accordingly, the framework does not carry Messages 2 and 4, which are about the importance of maintaining better relationships with

stakeholders as a means of enhancing their capital and stakeholder engagement is the value of their capital respectively.

Detailed Analysis of the Relevant Content

Before assessing the potential of <IR> guidelines to communicate the four messages, it is worth to note the miscommunication in defining the notion of integrated thinking. Page 2 of the <IR> framework identifies integrated thinking as '*the relationship between a firm's various operating and functional units and the capitals*', whereas the theoretical discussion rationally derived for sustainability that integrated thinking is about the relationship between managers and stakeholders, internal and external to the business firm. Thus, the <IR> guidelines in defining integrated thinking ignore the ties among people but focusing on the firm's internal operating and functional units. When this perception underlies, the <IR> guidelines may not produce a sense of integrated thinking among managers for sustainability because it does not explain the dependability of the business firm's continuity on stakeholder relationships. Rest of this section of the paper explains, in detail, how the <IR> framework (2013) communicates each message.

Message 1: A Firm Operates with Investments Made by Multiple Stakeholder Groups

As per Table 1, Guidelines No 2.2 to 2.7 are relevant to the idea that a firm co-exists with its stakeholders. Out of them, Guidelines 2.2 to 2.4 are consistent with the core idea of the message. However, although relevant, the Guideline 2.5 creates inconsistency. Accordingly, providers of financial capital are interested to know the value created for other stakeholders only when it affects the ability of the organisation to create value for itself. This guideline can be interpreted to communicate the financial prominence over other capitals hindering the idea of co-existence. Again, the Guidelines 2.6 and 2.7 are relevant but do not communicate the need of co-existence and instead reinforce the idea of 2.5. Guideline 2.9 positively communicates the idea of co-existence but is insufficient to change the idea communicated by 2.5 to 2.7.

A detailed analysis of the guidelines relating to Message 1 helps understanding the potential of the <IR> framework to communicate Message 1.

Guideline 1.8 of the framework identifies the stakeholder groups associated with a business organisation:

An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers." (p.7)

However, the framework is inconsistent in communicating the capital invested by each stakeholder group. Page 4 identifies the meaning of capital as,

[...] resources and relationships used and affected by an organization, creating a sense of a firm's coexistence with stakeholders.

However, Guideline 2.11 in page 11, explains the capitals as

[...] stocks of value that are increased, decreased or transformed through the activities and outputs of the organization.

The inconsistency in introducing capitals between page 4 and page 11 interrupts the communication.

Guideline 2.16 on page 12 states that all capitals are not equally important.

Not all capitals are equally relevant or applicable to all organizations. While most organizations interact with all capitals to some extent, these interactions might be relatively minor or so indirect that they are not sufficiently important to include in the integrated report.

However, from the theoretical perspectives used in this paper, no business firm can exist without stakeholder relationships and no stakeholder group becomes unimportant in any particular occasion. For this reason, this guideline hinders the idea of co-existence of a business firm with its stakeholders.

Further, <IR> guidelines carry 'prominence of financial capital', which hinders sustainability (Oliver et al., 2016; Flower, 2015). The <IR> framework indicates that integrated reporting aims to

[...] improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital. (p. 2)

Again, it explains the purpose of an integrated report:

[...] the primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time (p. 4).

Both these statements emphasise the managers' intention of maximising shareholder capital and thereby prominence of financial capital over other capitals, which ignores the prominence of integrated thinking.

Thus, <IR> guidelines (2013) fail in communicating the first message that a firm operates with capitals of multiple stakeholders, and a firm, therefore, is required to maintain coexistence with its stakeholders.

Message 2: Better Relationships Enhance the Stakeholder Investments in the Firm

As per the theoretical explanations of the paper, convergence of interest between principal and agent is fundamental for the continuity of the agency with less cost. Hence, when managers maintain better relationships with stakeholders, it results in convergence of interest, and thereby, enhances the value of stakeholder investment. For this understanding, managers must know that the value of investment by each group of stakeholders is an outcome of better relationships resulting from the knowledge of co-existence with stakeholders.

Page 4 of the framework summarizes the meaning of capitals as

[...] the resources and relationships used and affected by an organization – these are collectively referred to as “the capitals” in this Framework. (p. 4)

However, the next paragraph of the framework, defining capitals as

[...] stocks of value that are increased, decreased or transformed through the activities and outputs of the organization (p. 4)

deviates from the prominence given to relationships with stakeholders.

Guideline 2.12 gives an example, that when a firm provides training to the staff, it transfers the value from financial capital to human capital. This explanation does not communicate the need for developing relationships or the engagement but a financial transformation of one capital to another. Hence, the <IR> framework fails in communicating Message 2.

Message 3: Value Creation for Stakeholders is the Means of Creating Value for Shareholders

According to the theory of organisations (Braverman, 1974), managers have the fiduciary obligation to shareholders of a firm for personifying their capital. As per the Stakeholder Theory, value creation to shareholders becomes sustainable only when the firm creates the value for all stakeholders, including shareholders. Hence, for integrated thinking, the meaning of value creation needs to change from shareholder value creation to stakeholder value creation. The communication of this knowledge would make managers understand the co-existence with stakeholders and thereby creating the sense of integrated thinking. However, according to Guideline 2.5,

Providers of financial capital are interested in the value an organisation creates for itself. They are also interested in the value an organisation creates for others when it affects the ability of the organisation to create value for itself or relates to a stated objective of the organisation (e.g., an explicit social purpose) that affects their assessments. (p. 10)

The idea that ‘value creation for other stakeholders can affect the value creation for shareholders’ is contrary to Message 3, which is ‘value creation for stakeholders is the means of creating value for shareholders’. This idea is aggravated when Guideline 2.7 explains,

[...] identification of activities and relationships with other stakeholders depends on the materiality of their effects on the value creation for shareholders. (p. 10)

Inconsistently, Guideline 3.11 describes the value creation as a collective process:

[...] value is not created by or within an organisation alone but is created through relationships with others. (p. 17)

Hence, on the one hand, by defining value creation as a process of creating value for shareholders and, on the other, inconsistently explaining the meaning of value creation, the <IR> framework (2013) fails to communicate Message 3.

Message 4: Stakeholders’ Increased Engagement Enhances the Value of the Stakeholder Investment

Theoretically, the stakeholder engagement is resulting from better relationships the managers develop with stakeholders. However, the <IR> framework (2013) defines it as a formally organised process rather than the enhancement of relations.

Engagement with stakeholders occurs regularly in the ordinary course of business (e.g., day-to-day liaison with customers and suppliers or broader ongoing engagement as part of strategic planning and risk assessment). It might also be undertaken for a particular purpose: "(e.g., engagement with a local community when planning a factory extension) [...]" (p. 18).

This idea of engagement communicated in the <IR> framework has no relevance to integrated thinking and sustainability because it is merely a supportive action in conducting business operations. Thus, the <IR> framework does not communicate the identified Message 4.

Table 2: Communication of Four Messages

Theoretical Message	Identified Reflection in the Guidelines	Communicative Result
A firm operates with investments made by multiple stakeholder groups	Recognised	Communicated by not effective due to being inconsistent
Stakeholder relationships enhance the capitals invested by stakeholders in the firm	Capitals are financial values resulting from activities and outputs of the organisation	Relationships are ignored and therefore not communicated

Theoretical Message	Identified Reflection in the Guidelines	Communicative Result
Value creation for all stakeholders is the means of creating value for shareholders	Collective value creation is recognised but perceives that value creation for other stakeholders may affect the value creation for shareholders	Miscommunicated
Stakeholders' engagement reflects the value of the stakeholder investment	Stakeholders' engagement needs to be formally organised	Misperceived and therefore not communicated

The content analysis of the <IR> guidelines accordingly reveals that they communicate none of the theoretically identified messages. The common reasons are the underlying managerial capitalism (Flower, 2015) and prominence on financial capital (Oliver et al., 2016). Table 2 shows how each message is reflected in the guidelines of <IR> framework and how it is communicated.

Discussion and Conclusion

Integrated reporting emerged as an accounting initiative to support the need for sustainable management convention by the United Nations in 1992. The IIRC, established in 2010, produced its first set of integrated reporting framework in 2013. The purpose of this <IR> framework is to make firms be engaged in integrated thinking in their planning, governance and reporting so that corporate sustainability is maintained. However, according to the opinions of some practitioners as well as criticisms in literature, the <IR> guidelines have not been successful in achieving the intended mission.

Theoretically, implanting integrated thinking in an organisation comes under the responsibility of its managers, depending on how they make sense of such a change (Isabella, 1990). Sensemaking is a matter of communication of knowledge (Weick et al., 2005). No previous integrated reporting studies have drawn attention on the potential of <IR> framework (2013) to communicate knowledge of integrated thinking and which is the focus of this paper.

Drawing on Stakeholder Theory (Freeman, 2001) and Stakeholder Agency Theory (Hill & Jones, 1992), this paper identified four messages to be communicated

to make managers knowledgeable of integrated thinking. Taking these four messages as the criteria, this paper analysed the potential of <IR> guidelines to communicate the knowledge of integrated thinking to managers.

Looking at the core idea of the relevant guidelines, the paper found that they address only Messages 1 and 3 leaving Messages 2 and 4 unaddressed. Still, the explanations given on Messages 1 and 3 are insufficient and sometimes inconsistent at different places of the framework. For example, on page 10 of the framework, value creation for providers of finance is given prominence while page 17 explains value creation as a collective process. In a detailed analysis on relevant guidelines, the paper identified that, in most cases, the message is either not communicated, or miscommunicated. Hence, this paper identifies the lack of communication as another issue in the <IR> framework for its inability to make the required changes in the business practices to promote integrated thinking towards corporate sustainability practices. These insights further the explanations of Feng et al. (2017), Flower (2015) and Adams (2015).

The Message 1 refers to the understanding of the co-existence of a business firm with its stakeholders. However, these guidelines do not give prominence to the idea of co-existence with stakeholders. The ignorance of the idea of 'co-existence' with stakeholders, makes Message 2, which indicates that better relationships with stakeholders enhance the value of capital they have invested in the firm, irrelevant to the guidelines. When the guidelines do not capture the need for co-existence and maintaining better relationships with stakeholders, they do not recognise that stakeholder value creation is the means of creating financial value creation, making Message 3 not communicated. Finally, Message 4 refers to the stakeholder engagement with the firm referring to the degree of relationship the stakeholders maintain with the firm. However, the guidelines perceive the stakeholders' engagement as a formal event to be organised.

Flower (2015) and Oliver et al. (2016) identify the managerial capitalism underlying the <IR> guidelines (2013) creating shareholder prominence. This commentary concurs with these findings and furthers the idea illuminating how managerial capitalism interrupts communication and thereby interrupting the formation of integrated thinking in business firms. The paper also concurs with Feng et al. (2017) that <IR> framework is still immature to create organisational changes towards integrated thinking. Thus, the current paper concurs with findings of existing studies, adding the lack of communication as another reason for the failure of the

<IR> framework in creating integrated thinking in organisational contexts. This paper also concurs with Dumay et al. (2017)'s findings that the aim of benefiting financial providers, lack of regulatory support and vague definitions of primary terms such as integrated thinking and value creation are barriers to the implementation of <IR>. However, the current paper goes further in the justification of the vagueness of definitions. Dumay et al (2017) question the clarity of the way these terms are defined without being based on a theoretical framework:

For example, if a company takes cocoa beans (natural capital) produced with the help of poor farmers and their children (human and social capital) on the farms of the Ivory Coast (natural capital) that are fertilised with chemicals (manufactured capital) and then the beans are transformed with other ingredients into chocolate (natural and manufactured capital) that is then sold (business model) to create a profit (financial capital) (Food Empowerment Project, 2016), how does this equate to value creation? Moreover, is it acceptable that human, social and natural capitals are depleted to create manufactured and financial capitals? (p. 466).

The current paper makes a contribution to this argument of 'vague definitions', constructing a rationale based on Stakeholder Theory and Stakeholder Agency Theory and taking it as a broader issue of 'lack of communication'.

Apart from the <IR> guidelines, the organisational culture and practices may contribute differently to the creation of integrated thinking. To make integrated reporting and integrated thinking happen, the 'receiving culture' among managers of the firm also matters. The actual practice of integrated thinking is an outcome of an interplay among such internal conditions as well as the prevailing macro contexts. Hence, this paper recommends further research in finding empirical realities forming the practice of integrated thinking and producing integrated reporting, which would contribute to the call of Dumay and Dai (2017) for further research in the process of bringing integrated thinking into organisational contexts.

Declaration of Conflicting Interests

The author declared no potential conflicts of interest with respect to the research, authorship, and publication of this article.

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