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## Barriers to Implementing the International Integrated Reporting Framework: A Contemporary Academic Perspective

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**Barriers to Implementing the International Integrated Reporting Framework: A Contemporary Academic Perspective**

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# Barriers to Implementing the International Integrated Reporting Framework: A Contemporary Academic Perspective

## Abstract

**Purpose:** This paper is motivated by the International Integrated Reporting Council's (IIRC) call for feedback from all stakeholders with knowledge of the International Integrated Reporting Framework <IRF>, and specifically of the enablers, incentives and barriers to its implementation. The paper synthesises insights from contemporary accounting research into integrated reporting (IR) as a general concept, and integrated reporting <IR> as espoused by the IIRC in the <IRF> (IIRC, 2013). We specifically focus on possible barriers and emphasise the specific issues we feel could be rectified to advance the <IRF>, along with the areas that may potentially hinder wider adoption and implementation..

**Design/methodology/approach:** The paper draws upon and synthesises academic analysis and insights provided in the IR and <IR> academic literature as well as various directives, policy and framework pronouncements.

**Findings:** The flexibility and lack of prescription concerning actual disclosures and metrics in the <IRF> could allow it to be used for compliance, regardless of the other benefits lauded by the IIRC. Thus we see forces, both external and internal, driving <IR> adoption, with one prominent example being the European Union Directive on non-financial reporting. Because of the different ways in which IR is understood and enacted, there are numerous theoretical and empirical challenges for academics. Our paper highlights potential areas for further robust academic research, and the need to contribute to <IR> policy and practice.

**Research limitations/implications:** The paper provides the IIRC, academics, regulators and reporting organisations with insights into current practice and the <IR> framework. We highlight the need for further development and evidence to help inform improvements both from a policy and a practice perspective. A key limitation of our work is that we draw upon a synthesis of the existing literature which is still in an early stage of development.

**Originality/value:** The paper provides the IIRC with several insights into the current <IRF>, and specifically with the enablers, incentives and barriers to its implementation. Also, it provides academic researchers with a number of important observations and an agenda upon which they can build their future research.

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4 **Keywords:** Sustainability reporting, integrated reporting, <IR> Framework, International  
5 Integrated Reporting Council, barriers to reporting.  
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Meditari Accountancy Research

## 1 Introduction

This paper is motivated by the International Integrated Reporting Council's (IIRC) call for feedback from all stakeholders with knowledge of the International Integrated Reporting Framework, and specifically of the enablers, incentives and barriers to its implementation (IIRC, 2017). Feedback was particularly sought from those involved with the preparation of integrated reports, the providers of financial capital and other users of integrated reports (IIRC, 2017). As academics, the authors of this paper have been researching IR practices - and actively continue to do so - since 2009, well before the emergence of the IIRC and the <IRF>. Accordingly we make a distinction between IR as a concept and the IIRC's version of <IR> as espoused in the <IR> Framework (<IRF>) (IIRC, 2013), because the term IR was used in business parlance well before the formation of the IIRC and the publication of the <IRF> (see Beck *et al.*, 2017).

While a range of companies have started to adopt the <IRF>, regulated financial and voluntary environmental, social and governance reporting is still dominant (Dumay, 2016; Dumay *et al.*, 2016). The turning point and the current level of interest in the <IRF>, combined with the IIRC's call for feedback, represent an excellent opportunity to explore the potential barriers that may be preventing companies from implementing the <IRF> in practice, through our eyes as academics who research both IR as concept and the <IRF> (see Dumay *et al.*, 2015; Dumay *et al.*, 2016; Beck *et al.*, 2017; Dumay and Dai, forthcoming; Bernardi and Stark, In Press) and through the eyes of other scholars.

This paper is an extension of the IR and <IRF> literature and answers Adams (2015) "call to action" whereby she encourages "academics to engage with the process and to contribute to the development of new forms of accountings to help ensure [the <IRF>'s] potential is reached". We seek to explore the barriers hindering its adoption, so that they may be overcome (see Dumay, 2012). Additionally, as Dumay (2016, p. 175) points out, the call to action "provides evidence that <IR> has a long way to go before it can become the corporate reporting norm because even its supporters admit that they have not achieved the groundswell of support required to achieve this objective. If the case were opposite, the 'call to action' is not needed." Thus, we address the call to action by outlining specific reasons derived from the academic literature as to why the IIRC and the <IRF> have not yet achieved their "breakthrough" (IIRC, 2017).

To present our arguments next section of the paper explores a number of enablers, incentives and barriers to implementing the <IRF>, from insights from contemporary accounting research. Section 3 explores the internal dimension of <IR>, as represented by integrated thinking. Section 4 sets out our findings and agenda for future research into <IR>. Also, it provides a guide to the further development of policy and practice. The final section draws conclusions.

## 2 Barriers to <IR> implementation

The call for feedback from the IIRC is rather comprehensive, and addressing each issue would be impractical in one paper. However, we assume that the questions posed by the IIRC are directed to a wide audience to capture a spectrum of opinions and expertise. As academics, our position should be balanced and critical, highlighting both the enablers and barriers to implementing the <IRF> in practice. But, given the adoption of <IR> is somewhat limited, we see more merit in focusing on the barriers. It is worth keeping in mind that several aspects of the <IRF> can act as a double-edged sword – as both an enabler and a barrier. Thus, in our paper, we emphasise the specific issues we feel could be rectified to advance the cause of <IR>, along with the areas that may potentially hinder its wider adoption and implementation.

### 2.1 What is <IR>?

The first issue that needs addressing is providing a definition of <IR>. Our review finds that scholars and practitioners alike refer to three distinct models as “integrated reporting” (Tweedie and Martinov-Bennie, 2015; Dumay *et al.*, 2016; Feng *et al.*, 2017), but only one is the specific model proposed by the IIRC (2013). Therefore, we argue that one barrier to <IR> adoption is confusion about what it means. When different versions of integrated reporting exist, it is difficult for practitioners to know which they should use.

The first version of an IR model is that espoused in the King II and King III Reports, as issued by the Institute of Directors in Southern Africa (IoDSA) (2009). However, King III recommends IR on an “apply or explain” basis. While there is strong institutional pressure for listed South African companies to follow all the recommendations of King III, it is essentially a policy on corporate governance, not a specific reporting framework. In fact, “Integrated reporting and disclosure” is “Recommendation 9” of nine “Governance Elements” that fall under the “apply or explain” regime of King III, and its Recommendation 9 outlines what could be included in an integrated report (IoDSA, 2009, pp. 48-49). Notably, King III was implemented in 2009, well before the formation of the IIRC as we know it today.

When King III refers to IR, it emphasises “financial and sustainability performance” (IoDSA, 2009, p. 48), whereas the <IRF> specifies “financial stability and sustainability” (IIRC, 2013, p. 2). Additionally, shortly after the publication of the <IRF>, the IoDSA issued a practice note to clarify the difference between it and Recommendation 9 of the King III Report to “provide guidance on reconciling the two documents” (IoDSA, 2014, p. 3). As the practice note highlights, the main difference is that “King III recommends a stakeholder inclusive approach to governance, which is also evidenced in the Companies Act”, while the <IR> Framework “is geared towards the primary purpose of the report being to explain to providers of financial capital how an organisation creates value over time”. Thus, while an <IRF> compliant integrated report could potentially include other stakeholders and still satisfy the

King III recommendations, they are essentially different reports, with different purposes. Additionally, a King III integrated report embraces corporate governance from an inclusive stakeholder perspective, while the <IRF> advocates an investor perspective.

The King IV Report on Corporate Governance for South Africa, 2016 released by the King Committee on 1 November 2016, replaces King III entirely, and is effective with respect to financial years starting on or after 1 April 2017. Unlike the previous version, the new Code adopts an “apply and explain” basis, which requires companies to apply all principles, and explain how the principles are applied. Also, rather than being rules-based, King IV is principle- and outcomes-based. The 75 principles in King III have been reduced to 17 basic principles in King IV, one of which applies to institutional investors only. Therefore, any organization can apply 16 of these principles, all of which being required to substantiate a claim that good governance is being practised.

A second IR model was proposed by Eccles and Krzus (2010) in their book *One Report*. This model of IR was developed before the International Integrated Reporting Committee (renamed as the International Integrated Reporting Council in 2012) was formed in 2009. Thus, the ideas the Council used to develop its draft framework were, in part, influenced by the ideas of Eccles and Krzus, along with the recommendations in the King III Report. Eccles and Krzus (2010, p. 10) outline that IR within their *One Report* framework is much more than just combining financial and non-financial information into an annual document, rather:

*It involves using the Internet to provide integrated reporting in ways that cannot be done on paper, such as through analytical tools that enable the user to do his or her own analysis of financial and non-financial information. It also involves providing information that is of particular interest to different stakeholders.*

By contrast, the current <IRF> advocates a “periodic integrated report by an organization about value creation over time” and does not mention how <IR> would benefit from using the internet and the power of the industrial revolution 4.0 to allow users to perform their own analysis (Burrirt and Christ, 2016).

While *One Report* and the <IRF> have similar aims, it is apparent that <IR> will find penetrating the reporting regimes of major US companies challenging. In fact, US corporations and scholars appear to like the concept of an integrated report, but not necessarily the Framework proposed by the IIRC. Recent research by Adams (Forthcoming), analysing ten publicly available integrated reports from large US companies, highlights that only three companies mention the <IRF> in their integrated reports, and just one uses six capitals from the <IRF> as inputs for its business model. Conversely, only one company uses the term *One Report* in its report’s title, and the remainder does not follow or mention any specific approach.

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4 The third model is the recent version of <IR> outlined in the <IRF> (IIRC, 2013). According  
5 to the IIRC (2016b), the <IRF> is now an integral part of the new King IV corporate  
6 governance guidelines (IoDSA, 2016). However, as with the King III and IV Report, using  
7 the current <IRF> is not a requirement. The Integrated Reporting Committee of South Africa,  
8 in fact, has only endorsed the <IRF> as “good practice on how to prepare an integrated  
9 report” but it is the substance of the report - referred to as an “outcomes-based approach”-  
10 that is important, not its form (IoDSA, 2016, p. 7). The outcomes-based approach determines  
11 that companies in South Africa may prepare an IR in any form they choose as long as they  
12 demonstrate compliance with all of the King IV governance principles on an “apply and  
13 explain” basis, and this does not explicitly demand or necessitate the <IRF>.  
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18 Similarly, there is a widely held misconception that an integrated report complying with the  
19 current <IRF> is a listing requirement of the Johannesburg Stock Exchange (JSE). The listing  
20 requirements refer to the concept of IR enclosed in the King III – the first model emphasising  
21 a stakeholder inclusive approach to governance. In fact, the JSE only issued a “Guidance  
22 Letter” about integrated reporting (27 June 2013) when the <IRF> Draft was in effect. The  
23 letter “applauds the work of the International Integrated Reporting Council” but states “In  
24 conclusion, the JSE wishes to advise Issuers that the production of an Integrated Report is not  
25 a mandatory principle from a Requirements perspective and neither is the application and  
26 compliance with the Draft Framework” (JSE, 2016, p. 445). Therefore, we argue that the  
27 misconceptions surrounding the meaning of IR present a barrier that is amplified in  
28 regulatory context where IR is mandatory. For example, South African companies, could  
29 produce reports that comply with the substance of either the King III, and now the King IV,  
30 corporate governance guidelines or the requirements of the Johannesburg Stock Exchange,  
31 without adopting and complying specifically with the <IRF>.  
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## 37 2.2 IIRC as a victim of regulatory capture

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39 Another barrier to implementing the <IRF> is the appearance that it is largely controlled by  
40 the accounting profession and multinational enterprises in what Flower (2015, p. 1) refers to  
41 as “regulatory capture”. Flower’s argument is supported by Reuter and Messner (2015, p.  
42 375) who revealed that submission letters received by the IIRC during the consultation period  
43 for developing the current guidelines mainly came from report preparers (21.1%) and  
44 accounting and sustainability professionals (32.9%). Therefore, the evidence shows the  
45 substantial influence of large business and the professions.  
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49 Although the Flower (2015) article traces the early history of the IIRC, it seems little has  
50 changed in terms of the IIRC’s composition or the influence of the accounting professional  
51 associations and multinational enterprises. For example, the IIRC’s website lists its three  
52 main partners as the Association of Chartered Certified Accountants (ACCA), the Chartered  
53 Institute of Management Accountants (CIMA) and the International Federation of  
54 Accountants (IFAC), firmly reinforcing Flower’s (2015) argument. Similarly, the IIRC  
55 symbolises a veritable “who’s who” of the accounting profession, with more than a dozen  
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4 professional accounting organisations represented, including the Big Four accounting firms  
5 and mid-tier firms such as Grant Thornton. Hence, there is no doubt that the accounting  
6 profession continues to be a major financial supporter and influence in the development of  
7 the <IRF>.  
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10 One of Flower's (2015, p. 1) major criticisms of <IR> and the IIRC is that, despite its  
11 founding principle to promote sustainability in accounting, the release of the <IRF> in 2013  
12 abandoned sustainability accounting, and this has subsequently become another barrier to  
13 implementing the <IRF>. Flower's view is consistent with Milne and Gray (2013, p. 20),  
14 who argued "the IIRC's discussion paper, *Towards Integrated Reporting* is a masterpiece of  
15 obfuscation and avoidance of any recognition of the prior 40 years of research and  
16 experimentation" and "despite its claims for sustainable development and sustainability, it is  
17 exclusively investor focused and it has virtually nothing - and certainly nothing substantive -  
18 to say about either accountability or sustainability". This lack of engagement with  
19 sustainability accounting has distanced scholars and report preparers concerned with social  
20 and environmental sustainability. Thus, it is not surprising that the GRI and other corporate  
21 ESG reporting frameworks (e.g. United Nations Global Compact (UNGC), 2009) still  
22 dominate the global corporate reporting landscape (Dumay, 2016).  
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28 While the present <IR> framework has not changed, the formation of the "Corporate  
29 Reporting Dialogue" highlights that the IIRC is attempting to address the gap between  
30 reporting on economic sustainability for investors and accounting for ESG. The objective of  
31 the dialogue is to "respond to market calls for greater coherence, consistency and  
32 comparability between corporate reporting frameworks, standards and related requirements"  
33 and involves sustainability reporting-focused organisations such as the GRI, the Climate  
34 Disclosure Standards Board, and the Sustainability Accounting Standards Board. However,  
35 given that the <IRF> and IIRC is being driven by the accounting profession, aiming to  
36 become "the corporate reporting norm" (IIRC, 2013, p. 4), a radical rethink and a successful  
37 re-positioning strategy is needed to satisfy critics that the IIRC is truly concerned about social  
38 and environmental sustainability as much as it is concerned with "financial stability and  
39 sustainability" (IIRC, 2013, p. 2).  
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### 45 2.3 Vague definitions

46 One of the advantages and subsequent disadvantages of implementing the <IRF> is that two  
47 of its prime concepts, 'integrated thinking' and 'value creation', are vaguely defined. While  
48 definitions that require professional judgement and allow for interpretation are adaptable so  
49 that organisations can adjust them to suit their needs, they also present a barrier to  
50 implementing the <IRF> because how they can or should be applied is not clear.  
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### 2.3.1 Integrated thinking

The IIRC defines integrated thinking as “the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term” (IIRC, 2013, p. 33). However, if taken literally, it requires managers and employees to understand a matrix of considerations that combines each of the six capitals (i.e. financial, manufactured, intellectual, human, social and relationship, and natural) and each functional unit within an organisation. This may be useful for senior management with a deep understanding and knowledge of the organisation developed over a long term, but few employees are in a position to conceptualise integrated thinking using this definition.

Research by Feng *et al.* (2017) examines how key stakeholders interpret integrated thinking and how organisations apply integrated thinking in practice. Their study traces the precursors and precedents of integrated thinking as a concept but does not find any “clear precedents” of integrated thinking from a reporting context (Feng *et al.* (2017, p. 334). One explanation of integrated thinking is provided by the World Intellectual Capital Initiative (2013) background paper on <IR> connectivity, which outlines integrated thinking as a strategy that connects governance, past performance and future prospects with functional departments. In this conceptualisation, the temporal dimension of integrated thinking includes the past and the present, as opposed to the short, medium and long-term, and does not contain any relationship to the six capitals. Thus, integrated thinking, as it currently stands in the current <IR> Framework, is a newly invented abstract concept broadly open to interpretation. Accordingly, Feng *et al.* (2017) outline that “the IIRC has not fully defined and articulated the concept of integrated thinking, and there is no shared consensus among practitioners”.

One advantage of integrated thinking, as a general concept, is that there is an evolving acceptance of it within practice (Feng *et al.*, 2017). However, the issue then becomes translating the concept of integrated thinking into practice because it requires changes in behaviour, which is arguably a form of management control known as a cultural control (Merchant and Van der Stede, 2007). Dumay and Dai (forthcoming) identify that for integrated thinking to work as anticipated by the IIRC, it must replace some of the existing organisational culture, because not doing so allows the *status quo* to remain. However, strong organisational cultures are not readily or easily replaced, especially if associated with an organisation’s past success.

### 2.3.2 Value Creation

Another vague concept used in the <IRF> is value creation because it is “usually presented as a simple, strategically relevant and all-embracing concept” (Bourguignon, 2005, p. 353). However, the IIRC (2013, p. 33) defines value creation as “the process that results in increases, decreases or transformations of the capitals caused by the organization’s business

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4 activities and outputs”. Yet, when a business considers operationalizing the IIRC’s definition,  
5 it is vague and arguably makes little sense. For example, if a company takes cocoa beans  
6 (natural capital) produced with the help of poor farmers and their children (human and social  
7 capital) on the farms of the Ivory Coast (natural capital) that are fertilised with chemicals  
8 (manufactured capital) and then the beans are transformed with other ingredients into  
9 chocolate (natural and manufactured capital) that is then sold (business model) to create a  
10 profit (financial capital) (Food Empowerment Project, 2016), how does this equate to value  
11 creation? Moreover, is it acceptable that human, social and natural capitals are depleted to  
12 create manufactured and financial capitals? In the end, if natural, social and human capital  
13 resources are depleted, then even financial capital is no longer sustainable.  
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18 Reconciling what constitutes value is another barrier to implementing the <IRF>. Put simply,  
19 requiring all organisations that report on value creation to identify clearly all of their  
20 “increases, decreases or transformations of the capitals caused by the organization’s business  
21 activities and outputs” demands full disclosure of not just value creation, but also the value  
22 destruction that companies cause. This might well be one of the reasons why so few  
23 companies even bother to report on the six capitals. Therefore, the vague definition makes  
24 <IR> challenging. Also, the trade-off between capitals and its measurement is unclear. For  
25 example, the website corporateregister.com, as of April 2017, classifies integrated reports  
26 registered with them at one of the following two levels:  
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- 30 • Level 1: The IIRC and / or the <IR> are referenced in the report
- 31 • Level 2: The IIRC and / or the <IR> are referenced in the report, and the report  
32 includes information about at least two of the capitals as defined in the <IR>  
33 framework  
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37 If companies were using the <IRF> to report on value creation as intended by the IIRC, one  
38 would expect to see the majority of reports classified at Level 2. Disappointingly, as at April  
39 2017, 866 reports are classified as Level 1, whereas 560 reports are classified as Level 2.  
40 Thus we argue that this evidence shows how the majority of the reports that refer to the  
41 <IRF> lack both form and substance when it comes to reporting on value creation. One can  
42 surmise that disclosing the substance of how a firm transforms the six capitals into outputs  
43 creates a barrier because disclosing value creation also requires the firm to disclose value  
44 destruction. While the promise of extra financial capital is a desirable outcome, there is no  
45 guarantee that the other five capitals will be created, when in fact, it is more likely that the net  
46 balance of these capitals will be negative. Thus, as demonstrated in relation to the  
47 “sustainable development” discourse (Tregidga *et al.*, 2014), the abstract concept of value  
48 creation reflects a strategic and manipulative manoeuvre to place <IR> practice in a  
49 hegemonic business discourse obfuscating sustainability priorities.  
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## 2.4 <IR> for providers of financial capital

Given the IIRC primarily aims “to improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital” (IIRC, 2013, p. 2), it is worth considering the evidence as to whether an integrated report provides such information. Several studies have investigated the impact of implementing integrated reporting on an “apply or explain” basis in South Africa. Some of these studies concern capital market outcomes of integrated reporting in general, as opposed to the effectiveness of using the IIRC’s framework because the current <IRF> is not mandated, nor do all companies producing an integrated report fully have to comply with the <IRF>.

Zhou *et al.* (2017) study the effectiveness of the IIRC’s Framework and find that analysts’ forecast errors are reduced the more a company’s reports align with the <IRF>, and that, for some firms, this results in a reduction in the cost of equity capital. Additionally, in a value relevance framework, Lee and Yeo (2016) find evidence of a relationship between the degree of compliance of IR and market value, the relationship being stronger for firms with higher degrees of organisational complexity and with higher external financing need. Bernardi and Stark (In Press) “... provide some support for those who advocate the virtues of integrated reporting”. They study the impact of the adoption of mandatory IR in South Africa and find that the higher the disclosure levels of ESG activities, the more integrated reporting increases analyst forecast accuracy.

In examining the relevance of the value IR can create, Baboukardos and Rimmel (2016) find that an integrated reporting approach improves the usefulness of financial reporting for investors. Barth *et al.* (2016) also find that IR is associated with positive economic benefits – greater stock liquidity, higher firm value and higher future operating cash flows. Interestingly, the higher firm values and future cash flows are attributed to improved internal decision making, while the improved liquidity is credited to more comprehensive and holistic information disclosures. Finally, Maroun and Solomon (2014) provide evidence that, although the South African investment community identifies obstacles and concerns about IR, it still encourages its implementation and regards it as value-relevant to investment decisions.

Overall, the South African evidence suggests that IR in general, and the <IRF> Framework in particular, produce capital market outcomes consistent with improvements in the information environment. By way of contrast, however, Abhayawansa *et al.* (2016) examine whether the <IRF> is achieving its intended purpose by studying international sell-side analysts’ views on the decision-usefulness of the <IRF> using practice theory. The authors find that analysts are largely unaware of a company’s integrated report and are not interested in the information offered by <IR>. Their analysis reveals that integrated reports do not provide the information generally required by the sampled analysts in sufficient detail and format. Further, using an international sample of companies, Maniora (2017) casts doubt on whether the <IRF> is superior to other non-financial reporting frameworks for the sample of firms examined in

terms of whether the use of <IR> is associated with higher financial and ESG performance ratings. Obviously, if there is no real benefit for companies to switch to <IR>, this presents another barrier to implementing the <IRF> in practice.

The above outlines that there are two competing views on the usefulness of IR in general and the IIRC's framework. The South African evidence suggests the information provided is useful and, further, is perceived to be so by at least one group of users, being those relying on analyst forecasts to buy and sell shares. Research in other countries suggests otherwise. Given the different histories, cultures and legal environments in place in South Africa versus other nations, it is possible that these country differences also represent barriers or enablers to the implementation of the <IRF>.

Finally, even if studies can convincingly argue that improvements in the information environment arise from the adoption of IR in general, organisations are likely to take other factors into account in making the decision to adopt the <IRF> voluntarily. Other issues, such as maintaining, increasing or repairing organisational legitimacy through ESG disclosures, may well be taken into account (see Suchman, 1995; Deegan, 2002).

## 2.5 Lack of regulation

A further significant barrier to implementing the <IRF> in practice is that IR is a voluntary endeavour. Moreover, research indicates that the majority of companies are not actually using the <IRF> to produce their corporate reports (Dumay, 2016). Here, we must reiterate that while most scholars and practitioners are under the impression that the <IRF> as issued by the IIRC (IIRC, 2013) is required in South Africa, it is evident from the evidence presented in Section 2.1 that it is not, and there is a significant difference between IR as a concept and the specifics of the <IRF>. As Adams (Forthcoming) shows in her research, a company can issue what it calls an integrated report using any framework of its choosing. In South Africa, a firm can issue an integrated report that substantially aligns with the 16 corporate governance principles of the King IV Report and there is no need to explain why they did not use the <IRF>. Similarly, in a guideline letter to auditors (10 October 2014), the JSE answers the frequently asked question, "Is an Integrated Report required in terms of the Listings Requirements?", with the answer, "No, this is not a requirement." (JSE, 2016, p. 463). Therefore, despite the belief by many academics and practitioners that the <IRF> is the basis for mandatory reporting in South Africa, it is not.

There is evidence that even in South Africa, where IR has its philosophical and epistemological origins, <IRF> has not yet penetrated to a stage where all companies are following the <IRF>. For example, searching the corporateregister.com database for "South Africa" and <IR> returns 23 Level 1 reports issued by 10 companies and only 11 Level 2 reports published by six companies. Additionally, our analysis of the <IR> Examples Database in Table I shows only 494 organisations have issued integrated reports since 2013, and of these only 160 are from Africa. There are over 350 companies listed on the JSE, and

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4 several reports in the database are from organisations, not companies, adding further weight  
5 to this argument. Additionally, while some reports are classified at Level 2, most of those fail  
6 to use the <IRF> comprehensively. Recent research by the ACCA finds that, from a sample  
7 of reports by 41 companies participating in the IIRC's <IR> Business Network, only "21 of  
8 the 41 reports reviewed were clearly identified as integrated reports, while only three stated  
9 that they follow the principles of the Framework, and seventeen organisations had not  
10 explicitly implemented Integrated Reporting (<IRF>)" (Chen and Perrin, 2017, p. 7).

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16 Source: <IR> Examples Database as at 29 April 2017<sup>1</sup>

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18 Lack of regulation is an early academic criticism of the IIRC's ambitions. Flower (2015, p. 1)  
19 summarises these sentiments, arguing that "the IIRC's proposals will have little impact on  
20 corporate reporting practice, because of their lack of force". Thomson (2015, p. 21),  
21 responding to Flower, adds "It is difficult to understand how these unregulated integrated  
22 reports could enable system level sustainability reforms." Thus, without regulation, the  
23 ambitions of the IIRC seem doomed (Flower, 2015; Thomson, 2015). Research from  
24 Australia also supports Flower's initial criticisms with Stubbs and Higgins (In press, p. 1)  
25 concluding from their study of voluntary versus regulatory approaches to <IR> that, while  
26 report preparers support voluntary approaches to <IR>, most "investors support mandatory  
27 [<IR>] because, in their experience, voluntary sustainability reporting has not led to more  
28 substantive disclosures or increased the quality of reporting".

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30 Lack of regulation is also linked to weak voluntary assurance practices for integrated reports  
31 (Simnett and Huggins, 2015; Tweedie and Martinov-Bennie, 2015), thus undermining  
32 improvements in the reliability and credibility of <IR>. As Tweedie and Martinov-Bennie  
33 (2015, p. 56) outline, while recent documents issued by the IIRC "stress that assurance can  
34 improve the credibility of an integrated report, the IIRC stops short of recommending or  
35 requiring such assurance". Instead, the King III "provides the strongest guidance stating that,  
36 'sustainability reporting and disclosure should be independently assured". Additionally, King  
37 IV does not prescribe an assurance model, but allows organisations to "exercise judgement in  
38 this regard" (IoSDA, 2016, p. 31). Thus, lack of regulation may lead a weak credibility of  
39 <IR> and users trust, which can obstruct <IR> adoption.

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41 Adams (Forthcoming) identifies further barriers to entry from a US context. The current  
42 regulatory regime in the US requires companies to issue a 10-K report that includes an  
43 analysis of business operations, risks and financial performance, which broadly mirrors the  
44 <IRF>. Thus, the <IR> framework does not significantly depart from current regulated  
45 corporate reporting practice "already subject to an extensive and well-established reporting  
46 environment". As shown in Table 1, the current take up of <IR> is minuscule when  
47 considered in terms of the US, the world's largest capital market, with over 40,000 listed  
48 companies.

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4 [Insert Table 1 here]  
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6 Australia already has well-established corporate governance reporting frameworks (ASX  
7 Corporate Governance Council (ASX CGC), 2014) that require extensive disclosures on an  
8 “if not, why not” approach. While the ASX CGC does not prescribe IR, a company in  
9 Australia, as in South Africa, can produce a report complying with the <IRF> to satisfy some  
10 elements of the corporate governance framework. However, the challenge is in aligning  
11 specific corporate governance principles to an integrated report because the content elements  
12 of the <IRF> do not neatly correlate to the ASX CGC guidelines.  
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16 Arguably, one of the greatest opportunities for regulatory promotion of the <IRF> is offered  
17 by the European Union (EU). The European Directive on the disclosure of non-financial and  
18 diversity information (2014/95/EU) will come into effect for about 6,000 companies in the  
19 2017 financial year with the first reports expected in early 2018.  
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22 *The objective of the Directive is to lay the foundation for a new model of*  
23 *corporate reporting that complements financial transparency with*  
24 *environmental and social information necessary to understand a*  
25 *company’s development, performance and position, as well as the impacts*  
26 *of its activities on society.*  
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29  
30 Frank Bold (2017).  
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32 However, the <IRF> needs to become more relevant and provide specific metrics, types of  
33 disclosure in line with the expectations of the EU Directive if it to be used to comply. As  
34 outlined in Table II, the recommended disclosures relate to a host of issues that do not align  
35 with the <IR> framework’s capitals and business model. Arguably, issues such as diversity  
36 policy could be included in human capital, while links to the business model and value  
37 creation are not emphasised.  
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40 [Insert Table II here]  
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42 As with the Australian ASX CGC guidelines, the EU Directive does not prescribe using a  
43 particular framework, but we argue that because of human ties between the EU Directive and  
44 the IIRC that the <IR> is a prime framework for complying the EU Directive. The human tie  
45 is evident because the main architect of the EU Directive is Richard Howitt, who, as a  
46 member of the European Parliament, championed the Directive on non-financial information,  
47 while at the same time was an Ambassador for the IIRC. In September 2016, the IIRC  
48 announced that Richard Howitt would take over as CEO from Paul Druckman, who had  
49 launched the <IR> initiative in 2011 (IIRC, 2016c). As a member of the European Parliament  
50 for 22 years, Howitt knows EU law and policy-making processes like few others and has all  
51 the connections and influence to push for a more explicit recognition of the <IRF> in the EU.  
52 His political and activist profile differs from his predecessor, Paul Druckman, a former  
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4 software entrepreneur and past president of ICAEW. In essence, Howitt can use his influence  
5 to have the <IRF> recommended as one of the reporting frameworks that can be used to  
6 comply with the EU Directive (Monciardini et al., 2016).  
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9 The key advisory company, Frank Bold, which has been involved in the legislative process  
10 and the European Commission Expert Group on Non-financial Reporting, already lists the  
11 <IRF> as one of seven reporting frameworks that companies can consult when preparing  
12 reports to comply with the EU Directive (Frank Bold, 2017). They indicate that some of the  
13 other most relevant international reporting frameworks include: Global Reporting  
14 Initiative (GRI) G4; UN Guiding Principles on Business and Human Rights Reporting  
15 Framework; Sustainability Accounting Standards Board (SASB) reporting standards; Climate  
16 Disclosure Standards Board (CDSB) Framework for reporting environmental information;  
17 Future Fit Benchmark; and the Recommendations of the FSB Task Force on Climate-related  
18 Financial Disclosures. Hence, there is already some acceptance of the <IRF>, however these  
19 is a number of other competing frameworks. The challenge will be how to correlate the  
20 content required by the EU with the content elements of the <IRF> because, again, they are  
21 not currently aligned.  
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27 However, it is worth noting that regulation has potential disadvantages because regulation  
28 can result in a compliance-based approach, whereby firms are more concerned with the form  
29 of the report rather than the substance of the disclosures in the report. (de Villiers *et al.*, In  
30 Press-a). Thus, there is a danger of regulation causing a tick the box exercise to complying  
31 with the <IRF> rather than reporting in the spirit of integrated reporting. Additionally, if the  
32 <IRF> was legislated to comply with, for example, the EU Directive, then the framework  
33 would need to change and specifically outline how it can be used to comply with legislation.  
34 At this point in time, the <IRF> is already behind the GRI from a compliance perspective as  
35 the GRI has already published guidelines as to how it can be used to comply with the EU  
36 Directive (GRI and Global Sustainability Standards Board, 2017). Therefore, if the IIRC  
37 wants to position the <IRF> as a primary reporting framework to comply with the EU  
38 Directive, it appears that it needs to act soon to revise the framework so it is clear how the  
39 <IRF> can be used.  
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## 45 2.6 Rhetorical diffusion

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47 Another possible barrier to implementing the <IRF> offered in this paper is based on Green's  
48 (2004) theory of rhetorical diffusion. Green (2004, p. 661) proposes that "a managerial  
49 practice for which the diffusion process follows a rhetorical sequence that starts with pathos,  
50 moves to logos, and ends with ethos will have a rapid rate of initial adoption, a broad  
51 diffusion and a slow abandonment". To understand <IR> and its claimed benefits, emerging  
52 research by two authors of this paper examines the rhetoric used by the IIRC to promote  
53 <IRF>. Although rhetoric carries some negative connotations, we argue for and support its  
54 use because new ideas need rhetoric to promote and establish them as important practices to  
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4 explore. The findings of this research show that the IIRC's rhetorical strategy to promote  
5 <IR> started with ethos, then moved to pathos, then logos, and finally returned to ethos.  
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8 Initially, ethos-based rhetoric attempted to convince the audience that the IIRC's work is  
9 necessary, good and desirable, and, as such, the IIRC should be perceived as legitimate. In  
10 this regard, Humphrey *et al.* (2017, p. 56) observe that "the signing up of so many supportive  
11 and powerful actors (through the various Memoranda of Understanding) may have given  
12 <IR> a sense of institutional commitment that could help significantly in riding the wave of  
13 teething troubles of unmatched expectations that early <IR> practice may encounter".  
14 Additionally, Young (1995, p. 174) outlines that gaining legitimacy and convincing users of  
15 the propriety and need for their work allowed the IIRC, as a self-proclaimed standard setter,  
16 to shape and define <IR> as a new accounting practice – a strategy typical of standard setters  
17 and accounting regulators attempting to introduce change into accounting practice (Young,  
18 1995; Durocher *et al.*, 2007).  
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23 Then, rhetorical appeals to pathos were used in an attempt to engender change and promote  
24 the idea that changing corporate reporting is the right thing to do. Pathos appeals to emotions,  
25 and this rhetoric urged managers to adopt <IR>, emphasising the social value of <IR>  
26 through dramatic messages. <IR> was presented as the solution to concerns that financial  
27 accounting, as it is currently constructed, is failing to meet the needs of financial capital  
28 providers and "should be the next step in the evolution of corporate reporting" (IIRC, 2013,  
29 p. 2). Analogies and metaphors liken <IR> to the life-cycle of butterflies in two reports  
30 prepared by Black Sun, a PR company engaged by the IIRC to promote research into <IR>'s  
31 benefits (Black Sun, 2012; Blesner, 2014). Thus, positive emotional rhetoric portrays the  
32 change process associated with <IR> as a metamorphosis and underpins the idea that <IR> is  
33 an important and worthwhile journey to undertake.  
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38 Logos was used as the next rhetorical appeal to address technical issues concerning IR and  
39 lend rationality to <IR>. However, the analysis found several unsound and questionable  
40 arguments in Black Sun's research (Black Sun, 2012; Blesner, 2014). In particular, their  
41 claims were based on a biased sample of current <IR> supporters and report preparers, rather  
42 than an unbiased sampling of corporate report preparers. Thus, using a biased sample may  
43 potentially harm the argument put forward by the IIRC to report preparers, rather than  
44 support it.  
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48 The final stage of promotion relies again on ethos. The assumed authority the IIRC has  
49 gained in the initial stages of <IR> is reinforced through deterministic, imperative and self-  
50 referential rhetoric and leveraged to affirm the <IRF> as the corporate reporting norm.  
51 Further, the opinions and viewpoints of prominent international organisations and regulators  
52 are extensively used to and referred to demonstrate support for the IIRC and the <IRF>. For  
53 example, as disclosed on the IIRC website<sup>2</sup>:  
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*<IR> is helping businesses to think holistically about their strategy and plans, make informed decisions and manage key risks to build investor and stakeholder confidence and improve future performance. It is shaped by a diverse coalition including business leaders and investors to drive a global evolution in corporate reporting.*

Such use of third-party authorities enhances the IIRC's legitimacy and authority, further demonstrating its work as desirable and proper. Through support from external institutions, the IIRC aims to demonstrate and increase its legitimacy to maintain authority, a typical goal of standard setters (Young, 1995, p. 173). In contrast to Green (2004), in the case of <IR>, the IIRC attempts arguments based on ethos, before turning to those based on logos, and then returns to ethos.

Arguably, the IIRC's rhetoric is persuasive, but not convincing. It is grounded on few sound and rational arguments. As outlined above, there is some support for arguing that IR in general and the <IR> framework in particular can improve information for capital market participants. Nevertheless, there is also evidence that such improvements are not necessarily universal and that <IR> may not be superior when compared to current ESG reporting practices. The use of questionable logos also causes us concern.

### 3 Implications for <IR>'s internal processes

Although <IR> commonly relates to external reporting practices, its rise in practice is mainly driven by internal needs of organisations. As discovered in early research on the IR concept undertaken by Todd (2005, p. 2), "there does not appear to be a significant external demand for integrated reporting" and "the main drivers are likely to be internal", since integrated reporting "can be helpful in building internal understanding of and support for sustainability". Such an internal dimension is represented by integrated thinking (IIRC, 2013). The focus of most recent academic research analyses early evidence of integrated reports in practice, by assessing the quality of the information they provide, as well as the impacts of IR on corporate reporting needs and external users (e.g. Eccles *et al.*, 2015; Melloni, 2015; Setia *et al.*, 2015; Stent and Dowler, 2015; Veltri and Silvestri, 2015). Nevertheless, although <IR> is also meant to connect to the internal activities of organisations, such an aspect has not been widely explored in <IR> research (e.g. Stubbs and Higgins, 2014; Guthrie *et al.*, 2017b; Stubbs and Higgins, In press).

One main challenge for <IR>, in fact, is to change firms' internal processes in relation both to disclosure activities aimed at producing an integrated report and internal decision making. In this respect, de Villiers *et al.* (2014, pp. 1059-1061) highlight the need for further exploration of the internal aspects of <IR> and point out issues and research questions about the internal processes underpinning <IR> in practice. The authors call for research concerning the integration of <IR> processes in management control systems, the effects of <IR> on the

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4 engagement of senior executives, CEOs and CFOs in internal processes, implications for  
5 internal risk assessment, and the influence on management orientation and decision making.  
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8 Also, de Villiers *et al.* (In Press-b, pp. 6-17) call for a need to examine the impacts of <IR>  
9 on top management thinking and what internal transformations take place when firms embark  
10 on the journey towards <IR>. They argue that given the potential of integrated thinking:  
11 “managers and boards of directors could change their views and start to see the business and  
12 its long-term prospects in a different light” (p. 16). However, even though Atkins *et al.*  
13 (2015) found, in a UK study, that adopting IR led to the emergence of private meetings on  
14 environmental, social and governance issues between managers and investors, demonstrating  
15 the actual internal changes and benefits of its implementation, as well as understanding IR  
16 practices remains a challenge for both researchers and the IIRC alike. Integrated thinking is  
17 currently under the spotlight of practitioners and scholars (Feng *et al.*, 2017; de Villiers *et al.*,  
18 In Press-b) and the IIRC continues to emphasise its role as a component of the <IRF> (IIRC,  
19 2016a). Atkins and Maroun (2015, p. 197) find that the South African institutional investment  
20 community sees current integrated reports as an improvement of the traditional annual  
21 financial reports, because of the emphasis on non-financial measures and their integration  
22 with financial metrics for showing a better understanding of organisational sustainability.  
23 However, other characteristics, like “the length of reports, repetition and a check box  
24 approach to reporting”, undermine usefulness and the development of a credible integrated  
25 thinking. Thus, producing an integrated report by combining financial and non-financial  
26 information requires structural and cultural changes to the decision-making process (Dumay  
27 and Dai, forthcoming).  
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34 As claimed by the IIRC, one main aim of <IR> is to lead changes to the internal processes of  
35 an organisation in relation to internal reporting processes to produce integrated reports as  
36 well as its internal use to support decision making. However, despite the claimed internal  
37 effects of <IR> (see for example Black Sun, 2012), accounting academic research outlines  
38 several challenges in practice. Steyn (2014, p. 476) finds that while IR adoption necessarily  
39 implies “substantial changes to management information systems”, no “better resource  
40 allocation decisions” and “cost reductions” are observed as an internal outcome of adopting  
41 IR. Additionally, South African companies do not perceive any additional outcome by  
42 “reconsidering its business model and encouraging sustainable product development”, and  
43 assessing value creation and strategy. Similarly, Stubbs and Higgins (2014, p. 1068)  
44 investigate the internal mechanisms underlying the <IR> early adoption in Australia and find  
45 that even though it implies some changes in internal processes and structures, its adoption  
46 does not stimulate “new innovations in disclosure mechanisms” and radical changes, but  
47 rather “incremental changes to processes and structures that previously supported  
48 sustainability reporting”.  
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54 Another claimed internal benefit of integrated thinking is its ability to encourage connections  
55 and collaborations in “teams from across an organization, breaking down silos and leading to  
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4 more integrated thinking” (Black Sun, 2012, p. 4). Ballou *et al.* (2012, p. 265) survey 178  
5 corporate responsibility officers to understand “how accountants can add value to  
6 sustainability initiatives” and their results demonstrate that “accounting professionals are  
7 rarely involved in sustainability initiatives, but their involvement is highly associated with  
8 strategic integration”. Additionally, Velte and Stawinoga (2016, p. 40) conclude that “the  
9 integrated thinking process is very costly and not yet well implemented”, and, little is known  
10 about its costs and benefits.  
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14 As Lodhia (2015, p. 597) observes, “integrated reporting is a complex process involving a  
15 sequence of activities rather than merely an outcome in the form of an integrated report” and  
16 for an effective integrated report “organizations need to consider the entirety of business  
17 operations”, by being “clear about their teleoaffective structures”, which implies the  
18 acknowledgement of economic, social and environmental issues, “their ethical values,  
19 principles and associated structures and processes”. These important internal mechanisms  
20 signal significant challenges for implementing the <IRF>.  
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24 Hence, we advocate two types of internal processes can be examined. First, those concerning  
25 operating activities for adopting the <IRF> and producing an integrated report. Second, those  
26 related to the claimed benefits of integrated thinking as a result of implementing the <IRF>.  
27 Theoretically, these are linked in a supportive dynamic, and both are affected by factors that  
28 influence the implementation of <IR>. To examine these internal processes, the first step is to  
29 identify and explore possible barriers to implementing the <IRF>, which in turn informs the  
30 examination of how organisations can realise internal changes to processes and modifications  
31 to human behaviour. Therefore, moving from just a minimum compliance with norms,  
32 regulations, directives or guidelines to actually changing employees understanding and  
33 behaviour towards sustainable development.  
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#### 40 4 Conclusion

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43 In this paper we ask “What is integrated reporting?” is and identify at least three different  
44 versions of the concept based on The King III Report Recommendation 9 (IoDSA, 2009),  
45 Eccles and Krzus’ (2010) One Report, and the <IRF> (IIRC, 2013). In fact, any organisation  
46 can issue a report combining financial and non-financial information and call it an integrated  
47 report without following any of the above three forms. Thus, researchers need to clarify what  
48 version of IR is being used when presenting research results based on an IR overall concept  
49 or specifically on the current <IR> framework.  
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53 Academic literature on <IR> has developed considerably (Dumay *et al.*, 2016) since the  
54 IIRC’s published the <IRF> (IIRC, 2013). Several empirical studies are increasingly  
55 examining the overall impact of the <IR> model, but most studies include data from prior to  
56 when the <IRF> came into effect. Also, very few studies examine companies fully complying  
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4 with the <IRF>. Thus, the evidence from the field highlights that currently few companies  
5 fully apply the complete <IRF> (Stent and Dowler, 2015).  
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8 The challenge for the IIRC is to convince report preparers that the current <IRF> is good  
9 corporate reporting. We commend the IIRC on revisiting the framework and the issues, by  
10 examining both the enablers and barriers to implementing the <IRF>. As academics, we  
11 answered the call to engage in the process to help <IR> achieve its potential (Guthrie *et al.*,  
12 2017a).  
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15 In this paper, we have taken a critical approach to understanding the barriers to implementing  
16 the <IRF>, which can also be seen as enablers. We see that the biggest opportunity for  
17 applying the <IRF> lies with companies complying with the next evolution in regulated  
18 reporting, being the European Directive on non-financial disclosure (2014/95/EU), where the  
19 <IRF> could be adapted to comply with the Directive. What happens next with the  
20 impending changes to the <IRF> as a result of the current feedback initiative (IIRC, 2017)  
21 combined with the influence of Richard Howitt as the IIRC's CEO who has close links with  
22 policy makers and politicians involved with legislating the Directive, remains to be seen.  
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26 Considering the consulting company Frank Bold (2017) has already identified the <IRF> as  
27 one of a number of international frameworks which has the potential to comply with the EU  
28 Directive, we can comfortably predict that the <IRF> will play a role for companies  
29 complying with the Directive which will affect over 6,000 European businesses. In this case,  
30 the flexibility and lack of prescription concerning actual disclosures and metrics of the <IRF>  
31 could allow it to be used for compliance, regardless of the other benefits lauded by the IIRC.  
32 Thus, we see forces, both external and internal, driving <IR> adoption.  
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36 However, as in the case of South Africa, there will still be no legal requirement for  
37 companies to use the <IRF>, and thus we also expect only partial adoption to suit the needs  
38 of businesses, rather than the IIRC's ideology as espoused in their rhetorical arguments  
39 supporting the <IRF>. Thus, from a rhetorical perspective, the IIRC may not need to supply  
40 further evidence (sound logos) of the espoused benefits of <IR>, but rather its success may  
41 depend on how it provides changes to the current <IRF> to make it clear how the <IRF> is  
42 the correct framework (pathos) that companies can apply to comply with the EU Directive.  
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46 While we are optimistic about the future of the <IRF> in the EU, we are not so optimistic  
47 about the potential in other jurisdictions such as the US and Asia. In the case of the US, there  
48 already appears to be a mature model of disclosing important information relevant to  
49 investors, and thus the need for the <IRF> is limited, and the low level of take-up to date is  
50 ample evidence of the current regulatory environment as an overarching barrier to  
51 implementing the <IRF>. While we recognise that many companies may implement the IR  
52 concept, there does not appear to be any regulatory changes on the corporate reporting  
53 horizon that would cause companies to take up the <IRF>. Additionally, there is some  
54 empirical evidence to argue that integrated reporting, and <IR> specifically produce capital  
55 market outcomes such as improving the accuracy of analysts' forecasts, increasing liquidity  
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4 and market value, the latter outcome consistent with improved internal decision-making.  
5 Perhaps because this evidence is only recently available, it does not appear yet to have  
6 noticeably affected the take-up of the <IRF>.  
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9 In closing, we argue that for the IIRC to take down the barriers identified in this review of  
10 contemporary integrated reporting academic literature it needs to adjust its rhetoric for the  
11 <IRF> towards the view that it supports all manner of corporate ESG disclosures in many  
12 different jurisdictions, rather than trying to oversell the benefits of <IR>. Supporting <IR>  
13 with more unsound logos may actually do the IIRC and the <IRF> more harm than good.  
14 Otherwise, the <IR > framework may be yet another corporate reporting fad, similar to  
15 intellectual capital reporting (Guthrie *et al.*, Forthcoming), that briefly enjoys a moment in  
16 the spotlight but ultimately fails to live up to its promises and potential (see O'Donnell *et al.*,  
17 2006).  
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<sup>2</sup> See <https://integratedreporting.org/>, accessed 25 may 2017.

Meditari Accountancy Research

**Table 1: Companies listed on the <IR> Examples Database**

Africa	160
Asia	115
Australasia	21
Europe	167
North America	16
South America	15
Grand Total	494

Source: <IR> Examples Database as at 29 April 2017  
 (<http://examples.integratedreporting.org/reporters?start=A&page=1>)

**Table 2: The European Directive recommended disclosures.**

*Environment matters:* The actual and potential impacts on the environment, and health and safety, land use, water use, use of materials, greenhouse gas emissions and energy use, air pollution, protection of biodiversity, and waste management.

*Social & employee related matters :* The implementation of fundamental conventions of the International Labor Organization, working conditions, health and safety, respect for the right of workers to be informed and consulted, human capital management and dialogue with local communities. *Human rights matters:* Mechanisms and actions in place to prevent, mitigate, and remedy human rights abuses and their application, in the company's own activities and through its business relationships, including its supply and subcontracting chains, the occurrence of severe impacts, and specific disclosure on handling complaints and providing a remedy.

*Anti-corruption & bribery matters* Policies, organisation, decisions, and management instruments concerning fighting corruption. Disclosure of the abovementioned matters should cover supply chain matters insofar as it is necessary to understand the company's development, performance, position or impact (the latter to be understood in line with the international standards).

*Supply Chains:* Specifically for supply chains of tin, tantalum, tungsten and gold from conflict-affected and high-risk areas, companies are expected to disclose information on their due diligence and concrete risks identified and their management.

*Diversity:* Policies for diversity in relation to the reporting entities' administrative, management, and supervisory bodies on topics such as age, gender, or educational and professional background.

Source: Adapted from Frank Bold (2017)