The Impact of Integrated Reporting on Business Practices

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ABSTRACT

The IIRC states as its long term vision a world in which integrated thinking is embedded within mainstream business practice and therefore sees integrated thinking as key in fostering integrated reporting. This study seeks to establish how embedded integrated thinking is in the integrated reporting processes of a sample of JSE Listed entities as they produce integrated reports. The objective of this research is therefore to assess whether integrated reporting is achieving integrated thinking and to what extent business processes has been impacted by producing integrated reports by these entities.

Assessing the nature of integrated thinking was based on a qualitative interpretative methodology using the research instrument of semi-structured interviews. Twelve non-executive, executive and senior management were interviewed and the interviews were analysed using a thematic approach.

The research found that there were different levels of maturity in the adoption of integrated reporting and integrated thinking. The focus was generally more on producing the integrated report than developing integrated thinking. Overall, the research found that integrated reporting has not achieved the level of integrated thinking that would result in changing or significant influence in the way in which business is conducted.

The research findings mean that further development needs to be done to ensure that integrated thinking is fully embedded in business practices. As the interviewees came from a spectrum of JSE Listed entities and from various levels of senior and non-executive management, the results provide an indication of the level of embeddedness of integrated thinking in the entities and how integrated reporting has impacted business practices.

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LIST OF INITIALISM AND ABBREVIATIONS

ESG:	Environmental, Social and Governance
EY:	EY
FR:	Financial reporting
GRI:	Global Reporting Initiative
IIRC:	International Integrated Reporting Council
INFOS:	Intellectual, natural, financial, organization and social
IR:	Integrated reporting
IRAS:	Integrated Reporting and Assurance Services
IRC:	Integrated Reporting Committee of South Africa
IREP:	Integrated report
Ith:	Integrated thinking
JSE:	Johannesburg Securities Exchange
KPI:	Key Performance Indicator
PWC:	PriceWaterhouseCoopers
SA:	South Africa
SR:	Sustainability reporting
TEEB:	The Economics of Ecosystems & Biodiversity
UK:	United Kingdom
USA:	United States of America
VAS:	Value Added Statements

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CHAPTER 1: INTRODUCTION

1.1 Introduction

The need for harmony between corporates' economic profitability, the social setup and the environments within which they operate might have developed far earlier than has been documented. Mitsubishi Group traces its affinity to social and environmental issues back to 1930 when its fourth president, Koyata Lwasaki, coined Three Principles (Sankroyo) namely; (1) Shoki Hoko (Corporate Social Responsibility), (2) Shoji Komei (Integrity and Fairness) and (3) Ritsukyo Boeki (International Understanding Through Trade) (Mitsubishi, n.d.). Since then, more significant progress towards such harmony could have been achieved had there been more interest shown by academics, corporates and governments.

In South Africa pressure groups such as Earth Life (2015), Green Peace (2015) etc. are strongly advocating for organizations not to harm the environment (especially through nuclear and other non-renewable energy sources) for the sake of financial gain without concern for the future of the environment and those who live in it. These pressure groups together with communities have been vocal against, for example, Eskom's coal power stations, fracking in the coastal Northern Cape and nuclear power stations. The point is not that these groups do not have an understanding and appreciation for the need for investments, especially in energy which has been running at a deficit in the country for a long time. The point is to protect the environment. Drexhage and Murphy (2010:2) state that "It is generally accepted that sustainable development calls for a convergence between the three pillars of economic development, social equity, and environmental protection". Due to these pressures, investors arguably also started to understand the need to take the environment into consideration when making investment decisions.

Recent reporting developments, prior to the introduction of Integrated Reporting (IR), have focused on Financial Reporting (FR) separately from environmental, social and governance (ESG) reporting. IR seeks to combine these Sustainability Reporting (SR) aspects with FR to achieve one report that gives a holistic picture of the entity.

IR is a requirement in South Africa. South Africa is one of the leading countries in the field due to advances brought by the King III linked Integrated Reporting Council of South Africa (IRC, 2011). Abeysekera (2013:229) states that elsewhere in the world several organizations are trailing in their preparations of an integrated report (IREP) with the concept, process and reporting still evolving, and with no unified application of the concept, process and reporting.

De Villiers, Rinaldi and Unerman (2014:1044) state that "the last 20 years have seen considerable development in academic literature on accounting and accountability systems for the combined management and reporting of financial and non-financial performance". Sustainability reporting (SR) tends to treat sustainability issues separately from the economic issues and there were no obvious interactions. This is another point that needs to be confronted and unpacked to ensure that IR moves towards treating financial and non-financial information with the same level of importance. Reporting should not be done to satisfy just the investor's traditional financial needs but should also look at how these financial requirements affect the non-financial aspects. It is well known that the systems of reporting were developed over the years to deal mainly, if not solely, with FR.

For a number of years, accountants and other experts battled to find ways to achieve IR. There has been advancement towards more interaction through IR and other initiatives prior to IR. IR attempts to take a leap towards getting more interaction through highlighting the connectedness of the capitals (IIRC: 2013a).

In line with South Africa being one of the leading countries in the field of IR, de Villiers, *et al.,* (2014:1047) state:

> *King III urged organizations to commit to the principles of integrated thinking; promoting the concept that strategy, governance and sustainability are intimately entwined. It also suggested that organizations should integrate their reporting approaches and practices on risks and opportunities through financial and sustainability considerations.*

The United Kingdom based IIRC is leading developments in this field with various papers having been concluded. The Integrated Reporting Framework (IIRC: 2013*b*), released in December 2013 and the Capitals Background paper released in March 2013 are amongst the latest developments. In line with these developments, de Villiers, *et al.,* (2014:1053) state the following:

> *Integrated reporting is also developing within other countries such as Germany (PWC, 2013b), France (Institut RSE Management, 2012; Re´publique Franc¸aise, 2012) and Brazil (IIRC, 2013c), whereas there are a number of important economies that have not embraced it to the same extent.*

The under-development in this field highlights the great need for further research, encouragement and indeed pressure on organizations to fully adopt IR as part of their business practices. It highlights that, despite the fact that its predecessor in the form of SR has been around for a while, there is a still need for getting used to and develop systems for IR and indeed Ith.

1.2 State of integrated thinking

The IIRC (IIRC, 2013b:2) states the following:

> *The IIRC's long term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by 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.*

Sustainability is an integral part of IR. EY (2013) states: "In fact, the survey showed that the majority of respondents (81%) believe that sustainability reporting is an intrinsic element of integrated reporting". This statement by the IIRC emphasises the weaving the IR into the day to day operations of the business, in line with EY's findings. Integrated Reporting and Assurance Services (IRAS) (2012:33) states that "sustainability is woven in the fabric of the business”. Ith therefor needs to be accepted by all levels of the business is such a way that even management reporting, for example, demonstrate the efforts.

To achieve this, we need to understand what Ith is. Without the understanding of what Ith is, it will not be possible to apply it. Even when the application thereof is attempted, its success cannot be measured optimally or reasonably. The IIRC defines Ith as follows (IIRC, 2013, 2):

> *Integrated thinking is 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.*

An important highlight is “integrated decision-making”. Integrated decision making will ensure that when management of a mining company for example decide to open up a new quarry operation to achieve manufactured capital, they will also be looking at the impact on other affected capitals, which could be (1) financial capital, as money will be required to spend on opening the quarry, (2) natural capital, as there will be a need to extract the natural resource from the ground, (3) human and intellectual capital, as there will be a need to utilize human resources in the process, who will apply the knowledge that they have acquired during training to do the work that they engage in, (4) social and relationship capital, as the land that the resource is to be extracted from may belong to the community or the actual extraction through blasting may affect properties of the community members and (5) manufactured capital, as the mineral extracted will end up being manufactured into a saleable product to take to market and potentially affect other capitals positively.

Abeysekera (2013:228) states the following in relation to where strategic thinking should be driven:

> *Strategic thinking of the board, organizational intent, and the operational activities undertaken by senior management, disclosing activities to faithfully represent the organization to stakeholders, are cornerstones in combining*

accountability and reporting transparency of activities which are of monetary and non-monetary nature.

Ith is intended to achieve these activities in a long run. These should become a way business is operated rather than a combination of disparate reports on various aspects of the business. Ith will go a long way in reducing the end of year rush by organizations to tick the compliance boxes.

1.3 Non-financial reporting and integrated thinking

The issue of non-financial reporting that should be included in IR is not new, as illustrated by Holder-Webb, Cohen, Nath and Wood (2009:66) noting that a PricewaterhouseCoopers study of 2002 stated that most multinational firms believe that non-financial performance measures are more valuable than traditional financial measures in assessing long-term value. Holder-Webb *et al.,* (2009:66) further state that this increase in focus on non-financial performance measures stimulated a substantial increase in the volume of non-financial information conveyed by firms to their stakeholders and market participants (34.1% as per IRAS (2012:22)). Based on the above references it is clear that for a long time, users of financial information also required non-financial information to be better able to make more informed decisions.

Once IR starts building momentum, the thinking will be enforced naturally through a recurrent cycle where IREPs information by entities enables users to ask for information, which will in turn improve or increase information reported. Ith could have a positive impact towards improving the non-financial information and improving the linkages between non-financial information and mainstream (financial) reporting.

1.4 The research problem

There are arguments (Abeysekera, 2012; Higgins, Stubbs & Love, 2014) that the IR, as a form of reporting, is still in its infancy and has not been standardized and legislated in a number of countries. South Africa is one of the leading countries in IR due to King III and requirements by the JSE. The impact of IR on corporate practices is not obvious at this stage. Research is required to provide evidence that will guide further development in this field.

Stubbs and Higgins (2014) found that research in sustainability reporting has been extensive and focused on internal and external drivers. Similar in-depth research is required in the field of Ith. Stubbs and Higgins (2014) also found that research in IR focused mainly on the theoretical investigations and stand-alone studies without getting into the fabric of the implementation processes behind the IREP being produced. Research should therefore also focus on the approaches and internal mechanisms that the adopters have used to implement IR and whether the implementation has resulted in organizational changes in the businesses of early adopters of IR.

Jeyaretnam and Niblock-Siddle (2010:36) state that "a lot of the debate has focused on the format and logistics of IR. However, a more fundamental and immediate concern is the extent to which companies are linking sustainability strategy to business strategy". Steyn (2014) also found that the benefits envisaged by IR are not yet supported by any empirical evidence due to the infancy of IR. These concerns are going to be addressed through Ith. This research also assesses how much of this thinking has started to infiltrate the corporates' strategies.

This thinking should also not be limited to the boundaries of the business. It should also be coming from forces external to the business. So it should be Ith by all stakeholders including but not limited to (1) regulators, (2) investors, (3) shareholders, (4) communities and (5) the company itself including management and employees.

To improve IR status, the most powerful stakeholders and role players need to change their own thinking. These role players often have conflicting interest in that managers/executives have their incentives based on profitability and not so much on the sustainability of the business. On the other hand, shareholders and investors are also interested in the profitability and value appreciation of their investments. Communities within which the businesses operate, and to some extent governments, are interested in the sustainability of the environment and social wellbeing of the inhabitants. With this background in mind the following needs to be examined:

1. Is there sufficient push to integrate the sustainability issues in the way business is done?
2. Is it possible to eradicate the friction between profitability and sustainability?
3. Are corporates ready to introduce measurement metrics that will aid Ith?
4. Does IR need to be assured to the same level as FR to enforce it into the fibre of the businesses?
5. Do leading economies like the USA and China need to lead for the rest to follow to encourage quicker take-off?
6. Are corporates starting to be aware of the new way of thinking that is required which may even require businesses to modify their reporting systems in order to accommodate the new way of thinking?

This research attempts to highlight the significance of advocacy and encouragement work that is required in order to achieve IR, which will elevate Ith to influence strategies, performance management and transactional and reporting systems of the businesses.

1.5 Research objective

The objective of this research is to assess whether IR has achieved Ith and have therefore changed or influenced the way business is being conducted. The research considers whether the thinking within businesses at a strategic level is not focussed on profitability alone but also on the environmental and social impact of the businesses. The research therefore considers whether changes occurred in the business processes, both at operating, performance management and reporting level as a result of Ith. Embedding of Ith as a stated objective of IR will result in IR achieving greater impact on business practices.

The research focuses on interpreting the thinking of various leaders within businesses, for example board members, who are in charge of the overall strategy and the executive committee members, who are responsible for the execution of the strategy. It focuses, among other things, on how the Key Performance Indicators (KPIs), which are related to the environment and social issues, are identified and measured in conjunction with FR.

1.6 Research design

The research is qualitative and interpretative, aimed at assessing the level at which IR has been introduced and enforced a shift in strategic thinking within businesses. The research methodology is further explained in chapter three. The research tool used was in the form of interviews with a sample of senior individuals in businesses.

1.7. Contribution to the field of IR

IR is a maturing field of reporting. A number of quantitative research studies have been undertaken, but sufficient research work has not been done on the qualitative aspects. IIRC actively promotes Ith in the IR processes. Not much research has focused on this aspect. This research will contribute to the dimension of measuring the impact of IR on the strategic thinking of organizations.

1.8 Structure of the dissertation

This research is made up of five main chapters, set out as follows:

Chapter 1: Introduction: This chapter gives a brief background to the field, research problem and objective.

Chapter 2: Literature review: This chapter critically reviews some of the work previously done by both academics and professionals in the field of reporting. Previous research arguments are juxtaposed with recent developments in the field. The researcher's arguments are then supported by actual IREP of the selected reporting entity and interpretation of qualitative information that results from both interviews and reports reviewed. Some focus is placed on the IIRC's framework to support arguments.

Chapter 3: Research Methodology: This chapter details the methodology used to collect data and explains how it was analysed and interpreted.

Chapter 4: Research findings: This chapter analyses the results in line with the objective of the study.

Chapter 5: Conclusions and recommendations: This chapter draws some conclusions and provides some recommendations based on the literature and information gathered during interviews and the research process.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

Chapter 1 provided some background on the genesis and development of IR over the years. Scholarly articles that highlight the further need for development of IR were briefly reviewed. These articles highlight questions that need to be addressed in order to advance the course of IR through Ith. These articles also highlights that, for the IIRC's objective of advancing Ith to be achieved, there needs to be a mind-set change by various stakeholders including investors, shareholders and governments.

The literature review is conducted in order to assist the researcher in understanding the extent to which the subject has developed and enables the researcher to highlight questions that will be used in the interviews.

This chapter reviews various aspects of IR as follows:

1. What IR and IREPs are and the difference thereof
2. Difference between IR and SR
3. IR versus traditional FR processes
4. How some corporates mask the truth when reporting
5. Why IR was introduced
6. Philosophy of IR
7. Views of other researchers
8. Capitals permutations' and interactions
9. Materiality
10. Impact on accountability and stewardship and
11. Pressure on capital providers to fast track implementation of IR

Based on these, the research will conclude on whether there is any impact of IR on business practice and whether Ith is being achieved in the process.

2.2 Integrated report and integrated reporting

The IREP is the outcome of the IR process. The IIRC (2013g: 7) defines integrated reporting (IREP) as:

> *A concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.*

The IIRC (2013g: 7) further states that:

> *The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time.*

To achieve the concise communication requirements of IR, systems within the organization that capture the daily activities of IR as it is done in the case of FR, where each transaction is recorded within the reporting systems, is required. This would assist to achieve validity, accuracy and ensure the completeness of such reporting.

There is a fundamental difference between IREP and the process of IR. King III (2009:108 para. 1 defines IR as;

> *A holistic and integrated representation of the company's performance in terms of both its finance and its sustainability.*

IRC (2011:5) states that it is important to appreciate the distinction between the process of IR and the product of the IREP, which is only one part of the broader suite of the organization's communication activities with its stakeholders. For IR to move into influencing Ith, there needs to be an understanding of these differences. IRCSA (2011:6) states that IREP tells the overall story of the organization. IR on the other hand is the process of crafting the story and therefore IIRC (2013g: 33) defines IR as:

> *A process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation.*

Jeyaretnam and Niblock-Siddle (2010:33) provides a clearer perspective of what IREP is by stating:

> *An integrated report provides the readers with a complete picture of how an organization is performing by including non-financial information on environmental, social and governance along with financial information.*

IREP, according to Jeyaretnam and Niblock-Siddle (2010:33), focuses on the reader (all forms of stakeholder) and not just shareholders or providers of financial capital. It may be an employee or government etc. Jeyaretnam and Niblock-Siddle (2010:34) further indicate that IR can be in various formats. Allowing IREP to be in different formats makes it difficult to achieve comparability of IR results.

According to Abeysekera (2012:228), IREP attempts to combine the reporting of different facets of organizational activities on a common platform with identified objectives. Abeysekera's approach would simplify reporting if IR was about simply combining different reporting facets. Integration starts at a transactional level, where daily transactions are recorded, resulting in the completeness, accuracy and validity of reporting.

Proponents of IREP such as Gary, Fagerstrom and Hassel (2011), highlight that for IREP to be achieved, there would need to be substantial changes in the traditional financial accounting model. Gary *et al.,* (2011), highlight that some of the postulates of traditional financial accounting maybe more difficult to incorporate into IREP than others. Their analysis suggest that, some of the accounting postulates such as (1) going concern, (2) reporting entity, (3) monetary unit and (4) time periods, would need to be reassessed and thought through in order to be incorporated into IR. This chapter will, amongst other things, examine these postulates.

The literature mentioned above highlights that, while IR is clearly defined and a distinct difference has been illustrated between IR and IREP, there is still work to be done in obtaining practical understanding and buy-in from the various stakeholders and reporters to attain the full benefits of IR. The literature also highlights some progress that has been achieved in improving the reporting landscape and the role of pressure groups, governments and law makers in exerting influence in the development on IR.

2.3 Difference between IR and SR

One of the main objectives that the IIRC wants to achieve in IR is Ith. On the other hand the GRI (2011:2) only states the following:

> *The goal of sustainable development is to meet the needs of the present without compromising the ability of future generations to meet their own needs.*

The following clearly highlights the difference between the two; IR seeks to change the business fabric, i.e. how the business thinks and acts, while SR focuses on the end goal without attempting to influence how the reporting should translate into how business includes sustainability in their strategies and operational processes.

Stubbs and Higgins (2014) found that IR, whilst it is different from SR in terms of their strategic and operational focus, is an incremental and logical next step in the development of balanced, corporate reporting. Their understanding of how IR should be applied is from a strategic perspective and should be applied across the organization as opposed to being applied by a few individuals whilst putting together an IREP. They suggest that, if applied correctly, IR will produce IREPs that will be useful when considering the past, present and future of an entity. IR, unlike the current financial reports, provides detailed information about the risks and the future of the organization. For this to be achieved there needs to be a continuous cycle of Ith where IR influences Ith and vice versa.

There are stark differences between Ith in IR and SR, which is largely put together at the end of the financial year for reporting purposes. While there is an attempt by SR to achieve balanced reporting through the use of performance indicators on various aspects e.g. social performance indicators, environmental performance indicators etc. (GRI, 2011), it does not do enough to encourage thinking to move from strategic to reporting and to become the fabric of business practices.

Stubbs and Higgins (2014:1085) found that IIRC seems to be avoiding explicit association with existing SR initiatives and terminology by positioning IR as a new corporate reporting approach that reflects Ith and represents “how an organization creates value” (IIRC, 2013g:4). Stubbs and Higgins highlight that the dissociation by the IIRC from the SR is in the fact that they wanted to highlight the need for change from merely reporting on historic involvement of organizations in sustainability initiatives to an approach where Ith is a “fabric” that is weaved into the organization with the objective of creation of value.

The difference between SR and IR is captured succinctly by de Villiers *et al.,* (2014) as they state that IR brings in risk evaluation and future value growth. They however highlight IR’s focus on capital providers and potential investors, which runs the risk of alienating other stakeholders. IIRC (2013g: 17) refers to reporting to “key stakeholders” without elevating any stakeholder above another. However, capital providers are specifically stated in the purpose of IREP. The difference between SR and IR is further elaborated on by Higgins, Stubbs and Love (2014). They compare SR and IR by stating, amongst others, that IR is futuristic and connects financial and non-financial performance drivers.

It is clear from the literature review that there are vast differences between IR and SR. It is also clear that these differences are understood at least at theoretical levels. It is the implementation that needs to be tested over time in order to realize the benefits of Ith that is embedded in and encouraged by IR.

2.4 IR versus financial reporting

Gary *et al.,* (2011:1276) state that the analysis of IR against traditional accounting theory concepts, which consist of the purpose of FR and the postulates of going concern, reporting entity, monetary unit and time period, indicates a need for substantial changes in the traditional financial accounting model if sustainability issues are to be integrated. Their argument suggests that IR is a new model that could impact on accounting theory and its postulates.

King III (2009:109 Para.13) also reports on the effect of the inclusion of sustainability reporting:

> *Companies should recognize that the principle of transparency in reporting sustainability (commonly but incorrectly referred to as 'non-financial') information is a critical element of effective reporting*.

While this is problematic, it is symptomatic of the fact that this form of reporting is not well defined and matured. To achieve Ith, some of the initial steps would then be to untangle the confusion of SR as non-financial reporting. There are elements of IR that are or can be financially expressed, for example penalties of $13.7 billion faced by BP in 2010 imposed under the Clean Water Act for the Gulf of Mexico oil spill (The Guardian, 2015). However, this does not mean that IR should be reported on in financial terms.

Gary *et al.,* (2011:1276) state that there is no common notion of sustainability, especially in an accounting context. Their notion of sustainability is that a sustainable entity is one that is as well off at the end of the period as at the beginning of the period with respect to the use of all resources: e.g. environmental, human, ecological, social, financial and technological. They state that their notion is in line with Sir John Hicks, who developed the concepts of sustainable consumption as being what would leave a person as well off at the end of the period as at the beginning of the period.

The literature above highlights the need for clarity in understanding that IR is not an accounting concept and it is not purely non-financial. IR does not have to be reported on in financial and accounting terms. It should be reported to give useful information to the stakeholder, whilst not being an alternative for traditional accounting.

2.5 Masking the truth

There is also a risk that, if reporting in different formats is encouraged, it may be abused by some corporates by turning IR into "integrated spin". As Lewis (2010:58) states in reference to the BP Oil Spill:

As such, the Deepwater Horizon experience provides essential lessons for thinking about how to ensure effective integrated reporting, rather than "integrated spin".

Lewis (2010:58) describes integrated spin as follows: "mere — integration of current financial and sustainability disclosure standards could yield little more than — integrated spin, neglecting substantial areas of risk". Integrated spin thus neglects substantial areas of risk. It may result in short to medium term favourable results to the reporting entity, but over time the truth comes out. This may result in lost trust by the stakeholders and detrimental to the business in a long run. Integrated spin, an unintended consequence of IREP, can be dealt with through introduction of defined reporting and audit methodologies. Integrated spin is obviously a sign of lack of Ith.

Brown and Dillard (2014) generally question whether the IIRC's IR achieves a critical reflection on business or not. They argue that it may actually reinforce "business as usual" tendencies. To achieve a balanced picture of the reporting entity with multiple drivers that are comparable to any other company in similar industries is a challenge that should be worked on as practice settle un-route to maturity of IR.

2.6 Why integrated reporting was introduced

Apart from being a compliance requirement in certain countries, there are various reasons why IREPs are important and are published. IREP has the effect of highlighting connections between financial and non-financial information. The business environment and landscape has changed to the extent that FR on its own will not provide the picture that users require to make informed decision (Eccles & Serafeim, 2014). IR is useful because it has become the one avenue where all required information can be found. Most users would probably not use the whole report and will use what is relevant for their own decision making. In the literature below, the research looks at other reasons why IR is important.

The Marikana incidents which took place recently in South Africa are not isolated and have raised questions on the current focus of shareholders. In line with this, Massie (2010) found that shareholder supremacy was questioned throughout the first decade of the 21st century. Massie (2010) highlights the fact that disruptions and destructions of capital are not isolated in some economies, but happens in most of them. The 2008 banking crisis resulted in the demise of Lehman Brothers and others like Freddie Mac, Fannie Mae, Royal Bank of Scotland etc. barely surviving. These crises call for changes in the way businesses think. IR is aimed at introducing these changes and King III (2009:9) states the following;

> *Current incremental changes towards sustainability are not sufficient – we need a fundamental shift in the way companies and directors act and organize themselves.*

This fundamental shift is not defined or measurable but gives a strong suggestion that reporting is not advanced or mature enough. Although King's observation was made some years ago and vast work has been done since the establishment of IIRC, there is still a need to engage in research and development to achieve these fundamental shifts.

It is stated that "today humanity uses the equivalent of 1.5 planets to provide the resources we use and absorb our waste" (Footprint Network, 2015). This statement means it takes the earth eighteen months to regenerate what we use in a year. This should motivate human kind to understand the need for IR in monitoring and managing rather than destroying the world's resources. If this is achieved, future generations' livelihood would be spared. Therefore, one of the goals for IR is to achieve responsible utilization of the world's resources. Business as a leader in consumption of resources needs to lead the protection of the world's resources. IR through Ith is the most advanced method of reporting on how this consumption takes place. Business as a leader in the consumption of resources needs to assume a leadership role in protecting the world's resources. IR through Ith is the most advanced method of reporting on how this consumption takes place.

Apart from saving the planet, the need for IR is also as a result of community interest in how global wealth is spread between the haves and have-nots, between the investors and workers and community members. De Villiers *et al.,* (2014:1047) provide background to the reasons why IR was required at a country level. They refer to the need for companies to account for the non-financial reporting that was necessary during the transition negotiations between 1990 and 1994 in South Africa.

The emergence of the King Report from South Africa's transitional negotiations is an example of politicians, as a stakeholder grouping, playing a significant role in IR. It is probably for this reason that South Africa is playing a leading role in good corporate citizenship and IR.

The researcher argues that some of the civil unrest in countries and discord between countries is as a result of how the wealth is spread within and amongst the countries. If the researcher's argument holds water, then the need for these disclosures is literally a matter of life and death. Equally, with the need for preservation of the world resources which is the enablement of human existence, there is no higher motivation than to preserve human life today. IR is aimed at achieving this. Therefore, according to the researcher, the second reason for IR is to preserve human life through creating sustainability.

The first two reasons highlighted above are both reactionary and preventative in that they seem to be reacting to the crises already experienced and seek to prevent similar issues from recurring in to the future.

Business needs a good political environment to succeed. Political stakeholders play a major role in IR according to Brown and Dillard (2014). They suggest that IR should be introduced by politicians to empower stakeholders. This notion further supports de Villiers *et al.,* (2014), in that politics have to play a role in advancing the course of IR.

This next reason highlighted by Higgins *et al.,* (2014:1095) is not any different, as they found that IR is aimed at changing the business environment as a result of the Global Financial Crisis. Higgins *et al.*'s findings show that, similar to the SA situation where political settlement (within the context of political crisis) was sought, there was a string of political interventions in the Global Financial Crisis through quantitative easing. Quantitative is defined in Radcliffe, 2009 as "an unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply". Although political intervention (global, continental and country level approach) is necessary, company based strategies are important in advancing IR. The need for these interventions highlights the fact that these crises may have been as a result of neglect of some stakeholders in the reporting of company performances.

With the emergence of stakeholder activism, businesses needed to move away from one dimensional reporting and move towards a multi-dimensional IR that incorporates other stakeholder requirements. It may have been that the focus was on shareholders and potential investors at the expense of all other stakeholders including employees and communities. IR seeks to introduce Ith that takes all these stakeholders into consideration in strategies and decision making processes. Thus, the third reason for IR is to prevent financial crisis through the use of balanced reporting.

IR seeks to interact more closely with various stakeholders by ensuring that the entity's strategy takes into account the expectations of various stakeholders to an extent that is practical. To highlight this expectation on IR with reference to the reporting gap left by historical reporting regimes, Steyn (2014:483) states:

> *IR is expected to fill this gap by providing a basis for companies to explain value creation more effectively to the capital markets (KPMG, 2012).*

The quote from Steyn supports the findings of Higgins *et al.,* (2014) and de Villiers *et al.,* (2014), that there exists a gap in reporting and IR seeks to fill this gap. Once these gaps are completely filled, which will potentially take long, we would have reached a "utopia" of corporate reporting

Steyn (2014:484) states that "stakeholders today require forward-looking information that will enable them to assess an organization's total value more effectively". This is certainly one of the aspects of reporting that was lacking and that IR provides. Assuming that users of corporate reports have reasonable knowledge of business, economic and accounting, once IR is able to provide information that fills the gap, there could be fewer employees and community strives against corporates.

Researchers seem to agree that IR brings reporting of various capitals together in one report (Abeysekera, 2012; Brown & Dillard, 2014). It is therefore not a matter of debate whether IR brings these capitals together. What is debatable though, is the effectiveness of IR in bringing these capitals together. It is good for IR to note that there seems to be agreement that it brings the capitals together. The issues that need to be dealt with are the effectiveness within which this reporting is achieved.

The literature above gives various broad reasons why IR is important and events that led to the conceptualization of IR. The reasons are broadly, 1) preserving the planet for future use, 2) saving people's lives, 3) preventing of financial crisis and 4) bringing reporting of all capitals in one report. This highlights the need to assess whether IR is achieving changed thinking through Ith.

2.7 Philosophy of integrated reporting

The IIRC's (2013g: 2) stated long term vision is that Ith be embedded within mainstream business practice in the public and private sectors, facilitated by IR as the corporate reporting norm. Refer to 1.2 for the definition of Ith.

The philosophy of IR is built in the promotion of holistic thinking that will bring change in the way businesses strategize and formulate internal processes as it states in the definition (refer to 2.2 of this document). If Ith does not in the long run become the fabric of IR by all stakeholders, then the IIRC would not have fully achieved its objective and IREPs would merely be done to 'tick the boxes'. Ultimately, the main objective is to provide a complete picture in one report that covers the strategy, business mode, governance processes, the information technology that links everything together and how the business has performed or is performing against all of these (IIRC: 2013a).

IR is also not just about past performance, but also about the performance envisaged for the future, which can be better analysed by the reader of the IREP as IR provides information about how the business is performing against all the capital including the relationships with stakeholders. IR is thus past and futuristic in nature.

Steyn (2014) also supports the view on the past and futuristic nature of IR. Steyn highlights that IR is also founded in the objective to move reporting from the historical backward looking perspective to one that is also forward-looking and focuses on risks that have the potential of impacting negatively on the strategy. This form of reporting provides stakeholders with sufficient information to use as a basis for decision making.

Researchers such as Massie (2010) highlight that it cannot be business as usual and the old assumptions under shareholder primacy should be reviewed to achieve IR. To build an economic reality, where all capitals are catered and accounted for and where all stakeholders are recognized, the old assumptions have to give way and the thinking would have to be integrated. This is the philosophy of IR. It is to produce a single report that caters for all stakeholders and provides them with the information they need in order to make decisions.

Willis (2010) supports Massie's view that the historic thinking and reporting that worked for businesses in the past will not work for the modern business with the modern challenges it faces. Ith thus has a big role to play. Willis (2010:22) states:

> *We must now re-invent the corporation that was conceived and defined in the 19th century minds if we are to create a corporation fit for the 21st century as we see and understand it today. And we must re-invent the principles of accountability and reporting accordingly.*

Some researchers, such as Stubbs and Higgins, have focused on this philosophy and have proved some of the benefits. Stubbs and Higgins (2014) highlight the major difference between the old ways of reporting and IR as forward-looking information. Forward-looking information thus promotes Ith with regards to users of IR information understanding how it is strategically planned to generate value and what the risks of stumbling blocks against reaching targeted milestones, are. The operational silos are broken through by the constant need to understand how each capital affects another, for example how the training of employees will affect the financial capital or intellectual capital. This will certainly influence Ith, but would certainly need reporting and a supporting IT system to be practically implemented.

This breakage of silos is also acknowledged by Stubbs and Higgins (2014). They found that IR acknowledges the interconnectedness of various capitals. This further highlights the potential of IR to break silos if fully applied. However, it is this practical application that might still be a challenge. De Villiers *et al.,* (2014:1047) highlight the benefits experience by one of the early adopters as they state:

> *Novo Nordisk acted as a pioneer of the notion of integrated thinking and embedding of sustainability within business strategy – known as the Novo Nordisk Way of Management (Dey & Burns, 2010 in de Villiers et al., 2014).*

This just illustrates that IR has the potential to bring about a revolution in the way in which businesses are run in this 21st century by keeping the balance between profitability and sustainability of both the business and environment in which it operates. However, de Villiers *et al.,* (2014) does not engage in the practical application of whether systems and other operational imperatives had to be changed to enable Novo Nordisk's progress and achievements in IR.

From the above literature, it is clear that the philosophy of IR embedded in Ith and the breaking of operational silos is understood. It is however not so clear whether the operational application and implementation has taken off. As simply put by Wood (2010:25):

> *Integrated reporting – in an ideal world – should reveal a company's contribution to wealth creation at the societal level.*

2.8 Views of researchers

IR is a fairly new field of research. Extensive research still needs to be done. Over the past four to five years, researchers have increasingly started to review various aspect of IR. The following paragraphs review some of their findings. Their findings form a good basis for this research.

Studies (Stubbs & Higgins, 2014) found amongst other things that there is an emphasis on SR steering committees. The intention and objectives of these reporting committees needs to be investigated. If they are set up to ensure that the actual report is properly put together at the back-end of the reporting period, then it would not enhance IR's philosophy of Ith. However, if the committees are set the objective of identifying how and what needs to be enhanced in the strategic thinking and planning processes of the organization, then they will impact positively on IR through Ith. This would then lead to decision making that takes into account all stakeholders and truly creates value for all of them.

Stubbs and Higgins (2014) found that there was much more progress in the financial services industry. In most countries, financial institutions are highly regulated. They are more positively affected by an external jolt to the extent that they are more likely to gear up and embrace IR than other industries. Stubbs and Higgins (2014:1075) explains "external jolt" as "responding to pressure from stakeholders to be more transparent". Financial institutions may not directly affect the environment through pollution for example, but they are largely the funders of the industries that directly affect the environment. It is good that they are responsive to the implementation of IR, because once they adopt the philosophy of Ith and make their funding decisions on the basis of how the funded organization implement IR, then they would exert the external jolt that is required. Value would thus be created proportionately for all stakeholders through awareness by financial institutions, as they are the main funders of development.

The finding of Stubbs and Higgins is important in highlighting the pull processes that is the highlight of the external jolt. Stubbs and Higgins (2014) found that there are benefits to the adopters of IR in that, through satisfaction of stakeholder's needs, the reporting entity's brand and reputation can be elevated and thus bring more value creation to such an entity.

Steyn (2014) found that a high percentage of respondents to his survey highlighted that IR improved corporate reputation. He states (2014:491):

> *From the above, it is clear that reputational aspects and the improvement of corporate reputation are regarded as the most significant benefit and outcome*

of IR, suggesting that IR is perceived by managers as an effective tool for legitimizing corporate activities.

He found that there were a high percentage of improved trust relationships with stakeholders and that a small percentage experienced better resource allocation when applying IR. Even though better resource allocation is not the main benefit, most businesses will welcome an improvement in reputation as it has a direct impact on the value of its brand. However, better resource allocation is not to be trivialized as, especially in the current low economic times, cost management is highly important.

Thinking in Ith is integral to the success of IR. Most of the successes achieved in business were through new ways of thinking. Knight (2010:38) highlights the impact of thinking as he examines the turnaround of Apple through the tag line “think different”, introduced by Steve Jobs. He campaigned throughout the company by using advertisements for employees and customers to think differently. This had a visibly positive impact to both his targeted stakeholders.

To highlight the magnitude of work that still needs to be done in IR, Knight (2010:38) states;

I think corporate reporting is the place Apple was in before Jobs returned. It has lost its way and we need to think differently. We don't just need to reinvent the personal computer as the iMac. We also need the iPod, iTunes, the iPhone and the iPad.

Knights' likening of the state of reporting to that of Apple in Jobs' time does not only highlight how much work still needs to be done to move to the next level, it also highlights how much can be achieved if our thinking can be changed.

Ith might however take much longer. As a number of researchers highlight (de Villiers *et al.,* 2014; Stubbs & Higgins, 2014), it is an incremental process as IR is currently only a regulated or legislated requirement in South Africa and France with other countries only reporting voluntarily. It is thus necessary for the IIRC to anticipate how long it might take and to do more advocacy work and form lobby pressure groups to create enough external jolt to ensure improved off take.

Other points identified by the PWC survey as cited by de Villiers *et al.,* (2014:1051), include that only a small percentage of companies include the dynamics of risk profiles and that the definition and measurement of their non-financial value creation represented serious concerns. This finding is problematic as risk profiles demonstrate the forward-looking capability of businesses. If risks profiles are still a concern, it would then mean that Ith is not fully realized. Reputational benefits will not be fully achieved by organizations that are lacking risk information.

Higgins *et al.*'s findings cast a somewhat negative picture. They state (2014:1103) that: "overwhelmingly, the managers consider IR to be about 'telling the company's story'. They do not see IR as a 'process founded in integrated thinking'". This approach will not help in advancement of IR. This approach to IR is exactly how IREP seems to be done currently. The research looks into how much of the IREPs are about just putting the story together at reporting time with a few reporting managers that are typically in the finance department.

Brown and Dillard found that IIRC proposals are not doing enough to encourage accountants and others to critically examine their current ways of reporting. Brown and Dillard (2014:1124) also state:

> *In this sense, integrated reporting appears to be designed to serve the interests of finance capital far more than wider public interests.*

They state this because they don't find that new thinking is encouraged. Brown and Dillard's finding seem to not be encouraging and in a way seem to have found that the shareholder primacy or favour of the capital holders is still or will still be upheld at the expense of other stakeholders. Therefore this minor dissertation is assessing whether Ith is achieved in practice.

It is not all doom and gloom as other researches e.g. Ioannou and Serafeim (2010) found that there is growing interest in corporate SR. As FR developed over a hundred years, perhaps patience need to be exercised to allow for IR philosophy to be embedded and developed further.

The preceding literature highlights that the targeted IR philosophy of Ith will not be easily achievable and that a mind-set shift is needed. Advocacy work will need to be prioritized to demonstrate how Ith influences decision making in achieving improved, all-encompassing value creation. Advocacy will achieve a mind-set shift. Achieving a mind-set shift will require multi-dimensional approaches. Among others, they will need an external jolt through regulation and legislation, but will also need advocacy by the IIRC to reporting entities (especially funders of development projects) and support the migration especially for accountants.

2.9 Capitals permutations' and interactions

The IIRC states (IIRC, 2013g: 4) that an integrated report aims to provide insight about the resources and relationships used and affected by an organization – these are collectively referred to as "the capitals" in this framework. It is through these capitals that Ith could be fostered. The IIRC's Capitals Background Paper (IIRC: 2013a) for IR, identifies six identified capitals that organizations should be focusing and reporting on. It highlights the two commonly reported capitals, namely the financial and manufactured capitals. The capitals linked to the activities of humans namely, intellectual capital, social and relationship capital and the human capital, and the natural capital do not enjoy the same focus as the financial and manufactured.

The IIRC discusses interactions between capitals and encourages more awareness and gain more understanding of the impact of these interactions and permutations. The IIRC (2011) states:

> *Integrated Reporting results in a broader explanation of performance than traditional reporting. It makes visible an organization's use of and dependence on different resources and relationships or 'capitals' (financial, manufactured, human, intellectual, natural and social), and the organization's access to and impact on them.*

IR is therefore aimed at highlighting these capitals so that there is fair and balanced reporting on how each of them is impacted. Kanzer (2010) highlights that IR could help in moving financial markets from “efficient” capital formation to “sustainable” capital formation. He advocates that the capital markets should keep in “check” their impact on climate change and on child labour amongst other things. He highlights that it is not the threat to shareholder value that is brought about by the climate change but the threat to the climate brought about by irresponsible investing decisions. He (2010:45) states:

> *The markets have been dramatically misallocating capital, and we must redirect them.*

Kanzer (2010:45) further states:

> *The problem is not the risk that human rights violations may impact portfolio performance. The problem is the persistence of slavery and child labour, and the capital markets’ continued tolerance of these violations.*

This statement suggests that the problem is the impact on the environment and the social circumstances we live under and the consequences of not taking the right decisions with regards to the environment and the social circumstances. The other highlight is that the markets have been dramatically misallocating capital. The markets have in a way been creating false wealth. IR’s focus on permutations and interactions of capitals question the completeness of reporting on mainly manufactured capital when other capitals that are crucial for sustainability of the business and environment are ignored.

The IIRC (2013a:4) demonstrates the interaction between these capitals and how one affects the other. The IIRC highlights that it is useful to use Key Performance Indicators (KPIs) and other monetized metrics to measure the interactions of capital, but highlights that it is not always practical to expect the organizations to quantify these interactions. The IIRC states (2013a:4):

> *It is not, therefore, an objective of <IR> to measure all the capitals or movements in them. Many uses of and effects on the capitals are best (and*

in some cases can only be) reported on in the form of narrative rather than through metrics.

Furthermore, in the discussion of intellectual capital the IIRC highlights that the interaction of the capitals are not simple (IIRC, 2013a:7-8). Some of the capitals, especially intellectual, social and relationships and human aspects of capital do overlap. Therefore it is not so straight forward to categorize these capitals.

The fact that interactions between these capitals cannot always be monetized and as stated by the IIRC are "not simple", requires that the IIRC provide more guidelines and provide more advocacy and support to reporting organizations in order to achieve ease of reporting and the comparability of reports from one reporting organization to another, especially in the same or similar industries.

Studies have however shown that progress is being made in achieving disclosure of non-financial information (De Villiers *et al.,* 2014) Haller and van Staden (2014) for example posit that the value added statements (VAS) that have already been disclosed by a number of companies is a good measure of interconnectedness of various capitals.

According to Haller and van Staden, companies that have been using VAS have found it easier to work with different stakeholder disclosures. This may create some level of Ith in these companies. They (2014:1198) further argue that:

Confronting the distribution conflicts between the stakeholders, attempting to reach a balanced consensus between the stakeholders and reporting on this issue in a structured manner in a VAS can be perceived as one of the outcomes of Ith.

The literature reviewed highlight that it is not an easy task to report on multiple capitals as, 1) there are overlaps between various capitals, 2) financial capital holders might still have an upper hand amongst stakeholders and 3) there are no sufficient guidelines. There are some positives in that companies that have been reporting on Value Added Services (VAS) may have been implementing some Ith to some extent.

2.10 Materiality

Materiality has traditionally been calculated based on the requirements of the investors and shareholders under traditional FR. In IR, with a myriad of stakeholders, there would potentially be the need to apply quantitative materiality differently. Materiality, for instance, could be based at the level were the stakeholders require information that would affect how they make decisions. Kanzer (2010:50) states the following:

> *Materiality is not, as many believe, "what affects stock price". The reasonable investor wants information to help her evaluate her investment. If "materiality" is defined as "what affect stock price", then the moment a material factor is revealed, the stock price will move. A reasonable investor would certainly like a bit of advanced notice.*

White (2010) also highlights the complexity and difficulty of dealing with issues such as materiality when dealing with multiple or diverse beneficiaries. White supports a future where a new business and related reporting architecture is built that will work towards achieving balanced reporting for multiple and diverse interests. This is an acknowledgement that to achieve IR where multiple capitals are reported on, the systems that support the reporting will need to be reviewed or indeed reconfigured.

One of the problems with IR is that materiality will differ vastly based on which stakeholder one has in mind. Ability to find a blended way of defining materiality may have to be found. Materiality in the eyes of a community member that may be forced to relocate to allow for mining activity to be undertaken would be different to the investor whose funding is used to relocate the community member. Kanzer (2010:57) further argues that "investors are an important stakeholder, but not the only one, and not even the most important one". The question to be dealt with is whether the entities that are currently issuing IREPs have revised the way they calculate materiality or have varying materiality levels.

Once the philosophy of IR is implemented, a way of calculating materiality that properly represents all stakeholders or various materiality figures for different stakeholders might be achieved. JSE rules may need to be reviewed to be able to enable the warning of various stakeholders of information that is likely to affect their decision making as it currently is done for financial capitals.

2.11 Accountability and stewardship

Stewardship has only been limited to financial and manufactured capitals (Willis, 2010). A different form of stewardship that includes all other capitals will emerge with the advent of IR. Willis (2010) refers to this as capital stewardship. As IR attempts to bring together the two worlds of FR and SR, the difficulty arises around how to operationalize these two different forms of reporting. White (2010:30) refers to a framework of operationalizing this as "INFOS" – intellectual, natural, financial, organization and social capital stewardship. This, according to White, is the best way of operationalizing the meshing of the two worlds of FR and SR. This is necessary as these two forms of reporting have mutual stakeholders. The problem in dealing with multiple stakeholders is finding a single set of items that will satisfy all stakeholders.

Efficiency and effectiveness of management's stewardship of the business is practiced during the daily activities of the business, but it usually only experienced by and highlighted to the external world of stakeholders during reporting. Annual financial statements that have carried mainly historical information focused mainly on financial capital have up to now been the most effective way of reporting.

Questions that need to be addressed are 1) whether stewardship is still relevant in an IR era? 2) Who is stewardship to? 3) Does the advent of IR take away shareholder primacy? These questions are dealt with by Massie (2010:3). He argues that under shareholder primacy the managers and analysts will go through a plethora of environmental, social and governance (ESG) information to extract additional value for the shareholders. He states that "under this assumption, the task of designing an integrated framework will be to sift through the utility of measurements and indicators, keeping or tossing those on the basis of their perceived value to financial returns and to shareholders". These highlights that shareholder primacy might still be the focus if entities implement IR.

It is human nature for managers to always focus on what they are measured on. As agents of the business, their accountability is towards the KPIs designed and communicated to them by the business owners i.e. the shareholders and investors. IR presents a dynamic where more than just the business owners are interested in the business and perhaps, in some instances, these are the important stakeholders.

Because of the IR reporting framework's futuristic reporting, the accountability and the stewardship will potentially be more widespread than the current situation. Higgins *et al.,* (2014:1095) states that "according to Eccles and Armbrester (2011), IR can deliver external market benefits by satisfying stakeholders' expectations, enhancing the company's reputation and brand, and helping to manage regulatory risks". This means that the stewardship responsibility on managers is set to increase. This might in turn make managing business more demanding and costly.

The stakeholder landscape changes dramatically through IR and some stakeholders may start enjoying more influence. Steyn (2014:487) states that in terms of the stakeholder theory, a stakeholder's power to influence corporate management is viewed as a function of the stakeholder's degree of control over resources required by the organization. This might then mean that, due to pressure from communities and governments, the IR's course through external jolt might be advanced as the businesses are pressurized to remain relevant and keep their business and other licenses, e.g. mining licenses may be lost if some of the government determined targets are not met by the organizations.

The above literature shows that for IR philosophy to become actionable there needs to be a mind-set shift by the business stewardship to include and focus more on the needs of stakeholders other than the need of the investors and shareholders usually focussed on. The communities and governments are taking more and more of the centre stage under IR. This should also impact on Ith and the way in which business is done.

2.12 Pressure on capital providers to fast track implementation of IR

Based on the above literature it is clear that for IR and Ith to gain momentum, providers of capital do need to participate through ensuring that Ith is met to achieve the requirements for capital to continue to be made available to organizations. This is because the principles of legitimacy will slowly kick in as more and more peer companies are improving their IR. It will become a norm and an expectation by capital providers that all organizations should meet a certain level and quality of IR.

However, the challenges of implementation cannot be overemphasized. Stubbs and Higgins (2014) look at a push versus a pull strategy. A push strategy is when organizations use IR to explicitly drive change in organization, while a pull strategy sees IR as a result of an integrated business. The researcher prefers a pull strategy but recognizes that a double pronged approach, where both a push and pull are in operation may be needed to fast track the implementation. A push strategy is useful in that an external jolt (responding to pressure from stakeholders to be more transparent) (Laughlin, 1991) puts the business under more pressure to implement IR. However, an external jolt put on the capital providers, who in turn will put pressure on reporting company, will assist in getting the reporting entities to effectively implement IR more rapidly.

Accordingly Stubbs and Higgins (2014), question whether a push strategy is effective in driving change. They highlight that change is mostly achievable when the driver of change is an uncontrollable jolt (push not under control of the entity) often out of control of the organization. It therefore means that the stakeholders, be it the investors/shareholder, the community or law makers, have more power to drive change effectively than if change is driven by the organizations themselves. Uncontrollable jolt is thus significant in driving change.

This uncontrollable jolt, however, seems weak as highlighted by de Villiers *et al.,* (2014:1052) as they state:

> *The research also identified that interest in non-financial matters among investors (except climate change risk) was low in Australia and that broader considerations of impacts and time frames would be required.*

Unfortunately this is true for most countries. Its take-off is in countries that have regulated IR (regarded as an uncontrollable jolt or external jolt), which are few and considering that those countries are not necessarily leading economies making the level of uncontrollable jolt low.

The impact of external jolt is also noted by Stubbs and Higgins, (2014:1092) as they state: "Regulators are also playing a part – most particularly in South Africa and France where legislation around IR has been enacted". As highlighted before, the countries that are enforcing IR through regulation are few and are not leading economies. This therefore results in slow-take off as opposed to a case where the major economies with subsidiaries throughout the world where adopting IR. If holding companies from major economies adopted IR, they would enforce this on their subsidiaries across the world. This would assist in fast tracking the adoption of IR.

Stubbs and Higgins, (2014:1094) also highlight the need for external jolt as they state that "thus institutional pressures can be regulatory (there is risk of punishment for non-compliance), normative (it is the "right thing to do") or cognitive (alternatives are not considered because something is seen as "normal")". To achieve faster adoption of IR and Ith, the most ideal situation will be where all these pressures, perhaps spearheaded by regulatory pressure, conspire to enforce faster adoption.

Ioannou and Serafeim (2010) link the success of IR to the political position of the leading party in government. He found that leftist/centre political parties in governments generally result in entities being both socially and environmentally less responsible. Thus with those types of government there is less or no external jolt generated by governments from a regulatory perspective.

Ioannou and Serafeim (2010:16) state that "when considering labour market institutions, we find that in countries with high levels of labour union intensity, firms are more likely to be both socially and environmentally responsible at the expense of significantly poorer corporate governance performance". This suggests that external jolt is directly linked to the legislative, political, and regulatory environment of the country.

These literatures highlight that, for the quality of IR to improve and impact more stringently, there needs to be more than a pull within organization. There needs to be regulation and enforcement by regulators and law makers including expectation by investor public amongst other stakeholders. This will assist in getting more response for investors and entities to adapt to the philosophy of IR. Ith will therefore be taken up quicker with a bit of pressure from outside of the company, be it by the government or any other pressure groups.

2.13 Conclusion

In this literature review the research found definitions of IREP and IR. IR involves inclusion of sustainability and social issues in the business strategy and operations, while IREP is the actual report that captures the results of these activities. Some organizations generally put together an IREP during the reporting period without the actual implementation of IR in an Ith manner. The differences between IR and IREP are understood at a theoretical level, however research needs to be done to assess practical application of Ith.

IR is also compared against traditional accounting theory. Some reporters understand IR as a non-financial reporting concept. However, IR is not an accounting concept and it is not purely non-financial. IR is a much more holistic approach of providing information.

It has been established through research that some reporting entities used IR to mask the real status of the impact on capitals. Some of them experienced disasters that led to highlighting the flaws in their reporting. Various reasons for the importance of IR, other than compliance, were also examined. These reasons show that through Ith and not paying 'lip service' or masking the truth as some corporates have done, benefits can be yielded. The issue is whether Ith is really achieved in practice and whether change in behaviour is experienced. The philosophy of Ith, which is the breakage of silos between various capitals, was also examined and understood. The literature highlight that interactions between various capitals is not easy to monitor and report on. There are overlaps between various capitals. Financial capital providers still have the upper hand over other capital providers.

The philosophy of IR needs to be properly implemented to be able to effectively find a materiality determination that could serve multiple capital providers. Various materiality levels might have to be determined.

Coupled with the need for a framework for IR is the quality of information provided. For quality to be improved there needs to be more than a pull within the organization. Researchers find that regulation will be pivotal in improving quality.

Researchers have found that, while there are changes in the thinking of both the businesses and users of IREP, work still need to be done to fully achieve Ith and its benefits. Researchers find that there is still external influence by external parties such as governments to help fast track the uptake of IR

This minor dissertation seeks to advance this cause through interviewing the senior individuals within the company who are involved with the compilation of the IREPs. These interviews are designed to test whether the selected entity involved Ith in strategy formulation, daily business activities and compilation of IREP. The outcome of these interviews are interpreted to assess whether IR has achieved its stated objective of achieving Ith.

CHAPTER 3: METHODOLOGY

3.1 Introduction

The purpose of this minor dissertation is to review whether IR has impacted the way the business world operates through Ith. The minor dissertation reviews whether Ith is included in the development or update of strategies of the entities interviewed.

Based on chapters one and two it is clear that IR and IREP are fairly new developments, which have seen increasing interest by scholarly researchers in the past few years. Most of the research has been based on positivistic framework (Stubbs & Higgins, 2014; de Villiers *et al.*, 2014; Higgins *et al.,* 2014). Very few were based on a critical framework approach (Brown & Dillard, 2014), while not much has been based on an interpretative approach.

Some researchers (Abeysekera, 2012; Brown & Dillard, 2014) however acknowledge that there is need for a change in the reporting and focus on capitals and stakeholders. Most of the questions are around the extent of reporting, the purpose of reporting and to what extent the reporting is reflective of internal business processes. Is the report truly reflecting the reality on the ground, or is it a 'tick the box' exercise or even an "integrated spin" (Lewis, 2010:58).

This minor dissertation is aimed at deducting whether IR is achieving its aim of Ith, which requires that the integration of activities should start at a strategic level and developed through integrated systems into everyday an activity to produce an IREP. This research is designed to also assess how thinking is influenced by the social and political realities that the entities operate in.

The purpose of this chapter is to outline the research methodology. This chapter details how the sample is selected, how the interviews are conducted and how they are analysed. The chapter also describes the instrument used to collect data and how the validity and reliability of the instrument is maintained.

3.2 Research methodology

The minor dissertation adopts a qualitative interpretative approach that assists in objectively understanding whether the IR and IREP processes are supported by Ith. Kumar (2005:12) describes qualitative research as “the semi-structured approach”. Kumar (2005:12) states:

> *The study is classified as qualitative if the purpose of the study is primarily to describe a situation, phenomenon, problem or event, the information is gathered through the use of variables measured on nominal or ordinal scales (qualitative measurement scales); and if the analysis is done to establish the variation in a satiation, phenomenon or problem without quantifying it.*

This research is based on a qualitative interpretative approach. Elharidy, Nicholson and Scapens (2008:142) state that “the primary aim of the interpretation is to explore individual and collective experiences in order to develop a holistic understanding of people’s actions and interactions in the field”.

The insights were gathered through interviews with senior officials of reporting entities and their subsidiaries. The interviews were semi-structured. The interviews followed a set of pre-prepared questions. These questions were adjusted based on how the interviewees responded. Qu and Dumay (2011:246) state that “The semi-structured interview involves prepared questioning guided by identified themes in a consistent and systematic manner interposed with probes designed to elicit more elaborate responses”. The difference with this study is that the themes were not predetermined. The themes were developed from the responses to the questions

Interpretation is imperative in getting to the context behind the IREP, which quantitative approaches are not developed for. To understand whether Ith is applied required an in-depth understanding of processes, from the business strategy to reporting to stakeholders. Interviews based on pre-prepared questions with follow up, clarifying, questions are the best way to get the actual context behind reporting. The fact that IREP is mainly word based data lends itself to this type of research.

The researcher sought to find out how Ith manifests itself throughout the operations of the business from external forces (legislation and regulations, standards, communities etc.) strategic direction and systems (manual or technological). The research was thus based on determining the actual daily realities of IR and how it is impacted by thinking at various levels.

3.3 Sample size and selection process

Marshall (1996:522) states that "choosing a study sample is an important step in any research project since it is rarely practical, efficient or ethical to study whole populations". The research population is South African JSE listed companies. This gave the research access to some of the most advanced companies with regard to reporting in the country, as these companies are required to produce IREPs by King III.

A sample of twelve companies was selected to meet set criteria. All interviewees were expected to be involved in IR in fulfilling their responsibilities. The criteria are as follows:

- the interviewee must be employed at a senior level or be an executive or non-executive of a company, or
- an executive of a reporting company's subsidiary, and
- the company must be listed on JSE and be producing an IREP.

The rationale behind this sample is that these participants are expected to implement Ith and to some extent be involved in IREP. If at their level Ith is practiced, IR stands a better chance of achieving its objectives.

3.4 Data collection

A list of interview questions was designed for the purpose of ensuring a conclusion on whether the IR has an impact on business practices. The method used by the research was semi-structured interviews. Fossey, Harvey, Dermott and Davidson (2002:727) state that "semi-structured interviews are used to facilitate more focused exploration of a specific topic, using an interview guide".

The questions were designed to establish knowledge and business behaviour in applying IR and how that resulted in changes in the business practices. The interviewer allowed the interviewees to answer the questions in detail. The interviewer asked clarifying questions to ensure that there is a clear understanding of what the interviewee was explaining.

3.5 Validity and reliability

Kumar (2005:6) states the following about validity: "It ensures that in a research study, correct procedures have been applied to find answers to a question". Kumar (2005:6) further states that "reliability refers to quality of measurement procedure that provides repeatability and accuracy".

This research recorded and transcribed all interviews to ensure both validity and reliability. These questions were based on information gathered during the literature review. The first interview was used largely as a test to see if there are any adjustments needed.

Iselin (1999:44) stated the following, "external validity is concerned with the ability to generalize from the research". Their willingness to participate in the interview, and the fact that none of the individuals approached to participate declined, gives an indication that the generalization can be applied. Since the selection is from JSE listed entities, the findings of this research can be generalized to be representative of how IR and IREPs are done and the impact on the business thereof.

3.6 Data analysis

Qu and Dumay (2011:238), when discussing the purpose of the qualitative research interview, argue that "we cannot lift the results of interviewing out of the context within which they were gathered and claim them as objective data with no strings attached". To aid in the analysis of data, the researcher used a voice recorder with permission from the interviewees to ensure that the data is stored and can be revisited for further analysis. This enabled the interviewer to re-live the interviews and be able to preserve the context of the response.

Based on the questions asked and the information and insights received from the interviewees, the researcher was able to extract themes of whether there are any behavioural changes by reporting entities as a result of IR. To achieve this, the researcher reviewed the recordings of various interviewees on each question including the follow up questions where applicable and then concluded on whether there were themes that developed.

According to Braun and Clarke (2006:82), “a theme captures something important about the data in relation to the research question, and represents some level of patterned response or meaning within the data set”. Braun and Clarke (2006:80) further state that “if themes ‘reside’ anywhere, they reside in our heads from our thinking about our data and creating links as we understand them”.

During the semi-structured interview process, interviewees were allowed to respond using their experience and no two experiences are the same. The transcribed interviews were then analysed to identify themes that address the research topic. Identifying of themes was done through a coding process described in more detail in paragraph 4.2. The themes were narrowed down to fewer broader items that assisted in answering or addressing the research topic.

3.7 Limitations of the study

Qualitative research is an expensive method of information gathering. There are also not a lot of readily available top business leaders to participate in this sort of study. The study is time consuming and lends itself to only a few interviews on which to base and conclude the findings. Furthermore, there were areas that could have been clarified more had the researcher gone back to the interviewees after analysis to verify that the analysis represented their experience and beliefs about the topic or questions.

CHAPTER 4: RESEARCH FINDINGS

4.1 Introduction

This chapter presents the results of the semi-structured interviews conducted. The researched questions were designed with the aim of assessing the impact of IR on businesses.

A sample of twelve companies listed on the JSE was selected. These were companies that implement IR and produce IREPs in compliance with the JSE regulations and requirements. The sample consisted of companies from various industries. The individuals selected hold senior positions and have active roles in the IR process. The interviews were transcribed and analysed following a thematic analysis approach. The research draws a conclusion based on the interpretation of interviewees' responses to questions posed.

4.2 Themes identified

All interviews were recorded with the recording device and transcribed using a professional transcription company. The answers of each interviewee for each question were then coded in a table identifying (1) the main answer(s) of each participant and (2) the supporting reasoning for the answer. From the coding table for each question the (1) main theme for each question was derived, (2) the main reasoning supporting the theme identified and (3) other aspects addressed identified. If a participant provided information related to another question under a specific question, the data was transferred for coding under the correct question. The research identified six main themes. Each theme is detailed below.

Theme 1: IR and Ith are no completely understood.

It is logical that the correct implementation of IR and the producing of an IREP that is reliable, depend on the understanding of IR and IREP. Understanding of Ith is key to ensure that IR is appropriately supported by sound principles. When the respondents were asked RQ1 and RQ3, a theme around the importance of understanding what IR and Ith developed. The following question was asked:

RQ1 – What is your understanding of IR and do you think it improves information to stakeholders?

RQ3 – What is your understanding of Ith?

All twelve interviewees are aware of IREP. It was not always clear that they all understood IR and/or Ith. The answers of five of the twelve interviewees focused on the actual IREP and not on IR. This gave some indication of where the focus of their businesses seems to be, namely IREP. The same five interviewees whose response to RQ1 focused on IREP instead of IR didn't have a clear understanding of Ith. Interviewees did however demonstrate a basic understanding and awareness of IR at the very least, through their interaction with IREP. Seven interviewees that showed deep understanding of IR started mentioning at least one of the aspects of Ith when we asked RQ1 namely, some reference to breaking of silos, long-, medium- and short-term strategy and Ith itself.

To be able to meaningfully implement IR, there needs to be full understanding of all aspects of it. There needs to be more than just awareness of the existence of IR. Awareness also needs to be more than just of the need to produce IREPs. While interviewees were aware of IR, some of the answers on IR questions focused on IREP. The results above highlight that there still needs to be a better understanding of the difference between the two. Ith is not a concept that was understood by most interviewees.

Theme 2: IR was introduced as a compliance requirement, however there is general buy-in by preparers of IREP.

For IR to have a positive impact on the business there needs to be buy-in by everyone and more importantly executive and senior management. To get a sense of the buy-in into the IR process, the research looked into how IR was introduced into the business. The research asked the following questions;

RQ2 – How was IR introduced in your organization and how do you make sure that every employee subscribes to IR?

RQ4 – Does your business subscribe to integrated thinking?

Seven of the twelve interviewees mentioned that IR was introduced as a King Committee requirement. Two interviewees said it was a progression from GRI or from their previous reporting as required by the industry needs. Three respondents didn't know how it was introduced in their companies as it was introduced before they joined. Three interviewees mentioned that the board was playing an active role. In all interviewees except for one, there was involvement of key individuals and departments in the IR process.

Three interviewees mentioned inclusion of IR KPIs in departmental and individual scorecards as a way of ensuring that there is involvement of all staff in the process. Four interviewees mentioned steering committees or workshops to be a way of ensuring that there is wider involvement. Three interviewees mentioned that continuous communication to staff and buy-in of staff of the business values helps the employees to subscribe to IR. Three of the interviewees said it would be impossible to get all employees to subscribe to IR. One interviewee argued that successful companies have always had IR as their practice. The King Committee requirements just formalized it.

IR was mainly introduced in most of the companies as a compliance requirement. Even though that is the case, companies are using various methods to make sure that there is wider buy-in by employees. Some of the requirements of IR have been made part of KPI and scorecard processes.

Theme 3: Business processes have to some extend been impacted by Ith.

To establish whether Ith was entrenched in the businesses, the research sought to assess how the processes were affected by Ith. The following question was asked in this regard:

RQ5 – Have your business processes changed as a result of Ith?

All of the interviewees responded that their processes have, to some extent, been impacted on by Ith. The research also cross-references to theme 1 where there was evidence of lack of full understanding of Ith. However, eight of the twelve noted that there was a substantive change while four noted subtle changes. Changes ranged from high level strategic changes to operational adjustments. The general theme is that there are changes that include an increased awareness of the tapestry of the business environment and how business cannot be done in isolation from its stakeholders. Interviewees found that there is more structure in the way things are done and recognizable maturity was evident. There was a realization and improvement with regards to how to report on non-financial information. There was recognition that more still needed to be done to achieve IR. Six of the interviewees recognized that achieving IR is a journey and that it will take time to get to the ideal that they envisage. Two interviewees highlighted that the reporting process is tricky because IR is not fully embedded but also because some aspects of reporting are hard to quantify. Additionally, the reporting of forward-looking information is tricky and companies are weary of oversharing.

There was a strong highlight by nine of the interviewees that the stakeholder engagement process has improved and has its own benefits including the ability to identify opportunities and risks. Only three interviewees highlighted the use of the capitals framework in their processes and attempts to quantify the impacts of various capitals on others. Six of the interviewees mentioned that there seems to be incremental breakage of silos in the business as a result of IR. This could also be attributed to the capitals framework.

A number of interviewees (6) recognize that there is some engagement around the leadership table i.e. boards, EXCOs and even by finance people but recognize that more still needs to be done to reduce the dominance by finance people. There is some recognition that while reporting still focuses on annual financial statements, there is an evident move towards IR.

The improvements in the processes have been attributed mainly to inputs from audit processes and IR competitions ran by audit firms and the academia. Some, however, argue that the change in processes is a business imperative. They state that business processes have to be improved due to economic requirements. IR is just consequential to those improved processes. External forces are said to be forcing Ith.

There are a few that still find that very little has changed as a result of IR. Some find that one of the big negatives of IREP is that it is used to paint a positive story and not a balanced story of the company by overstating the positives and underplaying the negatives.

For those companies that have experienced positive change, one of the sighted reasons for success is ensuring that there is sufficient awareness of IR at all levels. They do this through explicit highlighting of IR in the strategy and ensuring that there are KPIs included in the scorecards relevant to IR.

In general, companies experienced some form of impact on their business as a result of IR. Some sight an improvement in engagement with stakeholders and analysis of their needs. They mention that there are an increase in discussions of IR and stakeholders at executive meetings which translate to sufficient awareness of IR.

Theme 4: IR has impacted on determination of materiality. However, calculation of reporting materiality is complicated.

It is strategically crucial for businesses to understand the materiality of things in order to include them in their strategic planning. Materiality is always considered during reporting periods but it would be advisable for materiality to be considered more during the planning stages of the business. The research asked the following question with regards to materiality at the reporting stage:

RQ7 – Has integrated thinking impacted on how you arrive at reporting materiality?

Most interviewees asked for clarity on this question. They generally wanted to know whether the question related to financial materiality or not. Four of the interviewees acknowledged that arriving at a materiality metric is still a difficult process and there is still a heavy dominance towards financial materiality. This, they mentioned, is because of the dominance of accountants in the IREP process.

Ten of the twelve interviewees acknowledged some (4) to definite (6) impact. One of the two that did not acknowledge any impact, mentioned that business imperatives determine materiality and is then reported in IREP. Four interviewees highlighted that there was more focus on the strategic risk matrix which links to the materiality determination. The higher the risk, the lower the determined materiality. Two interviewees mentioned that there are workshops dedicated to discuss materiality due to Ith. Four of the interviewees stated that an understanding of the stakeholders is crucial. An analysis of stakeholder needs is important in order to arrive at the materiality. They mention that what is material to stakeholders, is material to the business.

Interviewees note that interactions with stakeholders have, amongst other things, helped gain an understanding of issues that are material to the stakeholders. These issues should therefore be considered material to the businesses. They, however, find that financial materiality still dominates and that it is difficult to express materiality for non-financial issues.

Theme 5: IR brought improved engagement and value to stakeholders.

To assess the value to stakeholders, responses to the following questions were relevant:

RQ1 – What is your view about IR and do you think it improves information to stakeholders?

RQ6 – How has IR impacted on value creation in your business and industry?

Interviewees found that there is improved information, interaction and feedback to stakeholders. Only two of the twelve interviewees stated that interaction with stakeholders has not improved. Four of the interviewees found that IR forces their business to work with the stakeholders. Some stated that the report does not create value but that the Ith creates value. They find that there is correlation between Ith and value creation.

There is acknowledgement of improved engagement and value to stakeholders but the general feel is that this value is not measurable. Also, improved information is reported to stakeholders but the reports are not easy to read. The reports tend to be long and are not necessarily one report, i.e. they are different stories for different stakeholders with no or limited linkages to other stakeholder groups. Others mention that stakeholders don't read the reports. Companies track the number of hits on the internet and requests for the printed copies of the report. It is mentioned that reading the report would help stakeholders identify opportunities for themselves. This would add value to the stakeholders.

There was emphasis placed on internal stakeholders being some of the most important stakeholders. The aspirations of internal stakeholders, such as employees, should be taken seriously. There were inferences that these stakeholders are, at times, not taken seriously. The reliability of information was also questioned. There was mention that although there are assurance processes that make the information reliable, the assurance processes are not well matured and assurance of forward-looking information is tricky.

It is difficult to measure economic value as a result of IR. However there is improved interaction with stakeholders and therefore the ability to understand and analyse stakeholder needs and respond to them.

Theme 6: People's attitudes and lack of training are the biggest obstacles to successful rollout of IR.

To assist in highlighting areas that need to be dealt with to improve implementation of Ith, the following question was asked,

RQ8 – Are there any obstacles for your business to better implement Ith?

Some of the issues with the reports have been highlighted in previous paragraphs, including that the reports are not easy to read. The most highlighted issue is people. Eleven of the interviewees mentioned that people and change management are the main obstacles. Some mentioned that more still needs to be done at board level. There still needs to be improved buy-in by employees, even within the businesses. One of the issues is that there is still a financial focus and some companies still struggle with whether to continue with sustainability reporting as well as IREP.

Four interviewees mentioned that one of the issues with IREP is that it is used as a marketing tool. This may not be a big number out of twelve interviewees, but it is one that should not be ignored. They mention that companies tend to overstate the positives and underplay the negatives. Some interviewees saw the use of the report in marketing in a positive light and were proud that it is used in marketing as it contains valuable information

The biggest obstacle to IR is people buy-in. Other obstacles include bias towards overstating of positives in the report and underplaying of negatives.

4.3 Conclusion

The research found that there is a general understanding of IR. However, there is still more focus on IREP instead of IR. Even though, in most companies, IR was taken up as a compliance requirement, companies are actively ensuring that they obtain its full benefit by engaging their stakeholders and building the IR requirements into their KPIs and scorecard processes.

Companies have experienced an impact on their business in one form or another as a result of IR. Stakeholder engagement and analysis of their needs are some of the measurable impacts of IR. General awareness and discussions of IR by executives are also increasing. Materiality is found to have been impacted by increased engagement with stakeholders. The measurement of materiality for non-financial items is complex.

The research found that it is difficult to measure stakeholder value, however there is perceived value as a result of improved interaction with stakeholders and understanding of their needs. IREPs tend to be used as marketing tool and thus overstate the positives. That is not the biggest obstacle. The biggest obstacle is the people and their ability to adopt IR.

Based on the above, the research concludes that IR has not completely achieved Ith. The biggest gap is the fact that some interviewees did not show a clear understanding of what Ith is. For some interviewees, who seemed to be proponents of IR, it was clear from the interviews that they fully understand the need for Ith. There are generally changes in the way business is conducted. These changes cannot always be linked to IR and Ith.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

To answer the research question of whether IR has achieved Ith and therefore changed or influenced the way business is being conducted, the research sought to establish whether business processes, from strategic thinking through to reporting including stakeholder engagement, have been impacted. Literature has been reviewed and interviews have been conducted with senior, executive and non-executive members of businesses to establish their experience.

A number of recommendations are discussed in this chapter aimed at allowing the businesses, the JSE and IIRC to get better traction in advancing the course of Ith. Some areas of concern are highlighted with regards to how some of the entities seem to approach IR or more specifically their focus on IREP instead of IR.

5.2 Ith as a catalyst to IR success

The research found that, while the value to the business and stakeholders is difficult to quantify, there is a long term benefit with regards to reputation amongst stakeholders. Ith is not always evident in the strategies of the businesses and in the IREPs. There was acknowledgement from interviewees that more needs to be done to develop an understanding of IR through implementation of Ith. The research recommends the following with regards to improving the use of Ith as a catalyst towards accelerated implementation of IR:

- Change management. A number of interviewees highlighted people as the biggest stumbling block towards the implementation of IR. Part of change management should revolve around the guidance to reduce lack of understanding for Ith.
- Inclusion of IR and demonstration of Ith as a requirement in the KPIs for performance appraisals.

5.3 Domination by financial reporting

The change management recommended above will also deal with the perceived or real domination of the IREP process by the financial reporting fraternity as has been mentioned by interviewees. There is limited use of the capitals framework by business and where it is applied it is largely centred on financial and manufactured capitals (Willis, 2010). This, according to the interviewees, is due to shareholder primacy that still exists. The interviewees also mention the dominance by traditional financial reporting professionals.

The ability to find a blend of both financial and non-financial calculations of materiality or categories of materiality will alleviate some of the problems. To achieve these materiality solutions, much more focus will need to be placed on other capitals, including the measurements thereof. The following will need to be considered to achieve a holistic solution:

- An active role by the board is necessary. Although, according to the interviewees, some boards are considered active with regard to IREP, there was recognition that more can still be done in particular with regards to IR and Ith.
- Active involvement of boards will lead to increased balance in reporting on all capitals
- To achieve this balance, more and more stakeholder community engagement will naturally need to be done.
- Interviewees mentioned that there are set IREP committees. There should be IR committees and not committees based on the production of IREP. These committees should focus on entrenching Ith into the strategies of businesses.
- The funding community should also increase the external jolt by setting covenants that are based on achieving balance with other capitals outside just the financial and manufactured capitals.
- Stewardship should move towards capital stewardship as referred to by Willis (2010).

5.4 Focus on the stakeholders

Apart from shareholders, tax authorities and regulators etc., stakeholders of businesses are many and it requires some effort to identify and respond to their needs. Interviewees recognized that IR has introduced some improvements in the way in which business interacts with and cater for their stakeholders in their business activities. Some of the businesses have been engaging directly with the stakeholders as a result of the type of businesses they are, for example mines and infrastructure construction businesses. These businesses recognize that more still needs to be done.

Reporting to stakeholders has not been seen as entirely achieving its objective of delivering one message to all stakeholders. Some interviewees found that reports are too long and tend to have separate messages for separate stakeholders. It is concerning that IREPs tend to largely misrepresent facts through overstating the positives and underplaying the negatives. Workshops need to be held together with other solutions to reduce the length of the report by making the messages more concise. The IREP should cease being a collection of short stories aimed at segmented stakeholders but become one concise report for all stakeholders. When the traditional investor and employee road shows are held, time should be allocated for other stakeholders, including communities in which businesses operate.

5.5 Recommendation for further research

This research was mainly about assessing whether IR through Ith has impacted the way business is done. There is still more to be done to understand some of the peripheral yet important aspects of the business world.

Materiality is still one of the more difficult issues to deal with when reporting to multiple stakeholders. Some interviewees mentioned that what is material to the stakeholders is material to the business. This is obviously an oversimplification of materiality. There are qualitative and quantitative materiality considerations and they should both be carefully thought through and explained to the users of IREP. More research needs to be done to provide better guidelines around this.

One of the disadvantages of the information found in IREPs is that it is not assured to the same extent as the FR information. Hence the criticism that positives are overstated and negatives are underplayed. More research needs to be done to assist in achieving auditing standards that would be comparable to the advance external audit standards on FR.

The JSE regulates what material information should be provided to shareholders about the company. Research also needs to be done to give more significant information about the company similar to trading statements which gives warning of extreme movement in the operating results. The outcome of such research will then highlight what other information is significant to non-traditional stakeholders. This recommendation should focus on what the non-traditional stakeholders would like to be notified about. This would typically focus on capitals other than financial and manufactured capitals.

5.6 Conclusion

This research confirmed that there is varying levels of application of IR on businesses. They vary greatly depending on the business' understanding of IR and Ith. The research also revealed that there is some confusion between IREP and IR.

The research also highlighted that in some businesses there is recognition that more still needs to be done to achieve the benefits of IR. Companies should focus more on the implementation of Ith and should avoid using IREP as 'integrated spin' instead of using it as a platform for balanced reporting to all stakeholders.

The research also confirmed that most of the organizations are involved in IREP because it is a requirement by the JSE. This confirmed that external pressure is required to get the business to consider and report to all stakeholders. Since IR is a compliance requirement in only a handful of countries, there still a need for advocacy and convincing work that needs to be done in order to achieve a global impact of IR.

Overall, the research found that IR has not quite achieved the level of Ith to foster change or significant influence the way in which business is conducted. Further work therefore needs to be done to improve Ith which will ensure that there is IR improves its impact on business practices.

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