



THE UNIVERSITY OF
WAIKATO
Te Whare Wānanga o Waikato

Research Commons

<http://researchcommons.waikato.ac.nz/>

Research Commons at the University of Waikato

Copyright Statement:

The digital copy of this thesis is protected by the Copyright Act 1994 (New Zealand).

The thesis may be consulted by you, provided you comply with the provisions of the Act and the following conditions of use:

- Any use you make of these documents or images must be for research or private study purposes only, and you may not make them available to any other person.
- Authors control the copyright of their thesis. You will recognise the author's right to be identified as the author of the thesis, and due acknowledgement will be made to the author where appropriate.
- You will obtain the author's permission before publishing any material from the thesis.

Integrated Reporting in Sri Lankan PLCs

A thesis

submitted in fulfilment

of the requirements for the degree

of

Doctor of Philosophy in Accounting

at

The University of Waikato

by

Attanayake Mudiyansele Ishara Lakshan



THE UNIVERSITY OF
WAIKATO
Te Whare Wānanga o Waikato

2018

ABSTRACT

This thesis focuses on the Integrated Reporting (IR) adoption decision by Sri Lankan Public Listed Companies (PLCs) from different perspectives. The thesis adopts an institutional theory with special reference to institutional isomorphism and institutional entrepreneurs as a theoretical framework for describing and analysing how external and internal forces drive Sri Lankan PLCs towards the adoption of IR. The thesis also identifies the expected benefits of adopting IR through an institutional theoretical lens. Subsequently, the thesis recognises the challenges faced by Sri Lankan PLCs during IR implementation.

This thesis identifies the determination of materiality levels for non-financial information in the integrated reports of the sample companies including; interviewees' perception of materiality level, managers' awareness about the difficulty of determining materiality, techniques used by the sample companies to determine materiality levels, participants in the materiality determination decision and available guidance to determine materiality.

The International Integrated Reporting Council (IIRC) provides the challenging question to integrated report preparers: "Where does the organisation want to go and how does it get there?" This thesis provides empirical evidence for this question by identifying the extent of future-oriented predictions, the risk inherent in future-oriented predictions and the mechanisms used by the sample companies to manage the risk of predictions in integrated reports. Finally, the expected benefits as specified by the IIRC and the literature are used as a basis against which the perceptions of the interviewees and the individual company's integrated annual reports (IARs) are assessed.

A qualitative method approach was adopted to answer the research questions. Qualitative semi-structured interviews were conducted with 55 interviewees (who were involved in the IR process) from 12 sample companies (who were practicing IR at different levels). Fourteen annual reports (ARs) before IR adoption and 50 IARs after IR adoption from the sample companies were examined. Qualitative data were analysed thematically. NVivo software was used to organise and manage the qualitative data.

Findings revealed three types of isomorphic forces (coercive, mimetic and normative) that collectively act to influence the decision to adopt IR by the Sri Lankan PLCs. Of the 55 interviewees, one clear example of institutional entrepreneurship was identified. A path-creating/path-changing individual introduced IR into the company in 2010/11 before the IIRC introduced the consultation draft of the international IR framework.

As early adopters of IR, the sample companies have experienced several challenges during the IR implementation period. Due to newness, lack of experience, lack of research and a lack of clarity in IR guidance, the knowledge the first movers have of IR (including implementation and practical requirements) is limited. There were several challenges with the IIRC guidelines: inadequate guidelines, confusion, understanding the framework and its requirements, business model, connectivity and making a concise report. There were several challenges from employees' perspectives; lack of knowledge and expertise, changing employees' mindset in favour of IR, obtaining the support of top management and burden for employees. Lack of proper information systems, lack of communication and coordination among different business units, and a lack of support from other divisions were the internal challenges faced during IR implementation.

All the sample companies placed a high importance on the concept of materiality for non-financial information. While most of the companies used only the GRI guidelines, a few interviewees indicated the use of both IIRC and GRI guidelines to determine materiality levels. The companies used different methodologies to determine materiality levels for non-financial information. Methodologies were based on value creation, investor requirements/stakeholder analysis, relationship with KPIs/strategy, the usefulness of information for decisions, judgments, impact on stakeholders, and benchmarking. In some instances, companies used a combination of two or more techniques in the materiality level determination process. Most of these methods are consistent with IIRC criterion for materiality determination for non-financial information.

The interviewees used preventive and continuing measures to mitigate the risk of making predictions about the future. The interviewees were more prepared to understate future performance predictions than to disclose the growth potential

sought by management. They applied some measures to mitigate the risk of not achieving forecasts. These measures are listed under seven themes. However, most of the measures cause to deviate the IIRC objectives of disclosing future-oriented information in integrated reports and hinder the usefulness of information for informed decisions by stakeholders. The need to reduce risk and make predictions as accurately and realistically as possible is recognised. Another strategy to reduce the likelihood of a negative outcome is to be conservative in predictions, possibly rendering the disclosure less useful. The predictions are not likely to present the best reflection of the future direction of the companies. Another strategy is the incorporation of these predictions in the companies' strategic planning process. Integration of financial predictions with non-financial predictions is also applied. Integrated reporting impacted each organisation's risk management process. There was an increase in the frequency of monitoring, and special internal risk assessment procedures were introduced.

The interview findings and analysis of the IARs provide evidence that the sample companies achieved a substantial number of benefits, particularly from external reporting perspectives. The companies achieved benefits at varying degrees according to the IIRC (2011) categoriation: better alignment of reported information with investor needs, availability of more accurate non-financial information, enhanced risk management, greater engagement with investors and other stakeholders, and lower reputational risk. Engagement with stakeholders improved. However, no evidence was found in support of higher levels of trust with key stakeholders, except from one company. Only a few of the sample companies achieved the following benefits: better resource allocation decisions, better identification of opportunities, an integrated corporate culture, and greater collaboration across different functions within the company.

The thesis contributes to the emerging field of integrated reporting from multiple perspectives. It provides directions and insights for companies practicing IR, companies considering adopting IR, policymakers, accounting and non-accounting bodies. This thesis assists understanding of the IR phenomenon and provides an appreciation of the achieved benefits and implementation issues as well as the challenges IR implementers face during the adoption period.

ACKNOWLEDGEMENTS

I cannot adequately express my gratitude to my panel of supervisors. First and foremost, I am indebted to Dr. Mary Low, my chief supervisor for her guidance, encouragement and prompt critical comments on my work. Her excellent supervision, expertise and valuable advice have enabled me to progress until completion. I am grateful to Professor Charl de Villiers for his strategic guidance and timely, constructive feedback on my thesis. I am also thankful to Associate Professor Martin Kelly who was my chief supervisor for his guidance and support. I consider myself extremely fortunate to have had this team involved in my research with such a great deal of interest. I remain deeply indebted to them.

I am grateful to the School of Graduate Research and the Department of Accounting at the University of Waikato for organising various seminars and events which supported the successful accomplishment of my study. I acknowledge the support provided by academic and administrative staff of the Waikato Management School. I thank research and postgraduate manager Amanda Sircombe and the Department Administrator, Maxine Hayward, for providing me necessary institutional and infrastructural support. Also, I am thankful to Associate Professor Umesh Sharma for giving me the opportunity to be a tutor for the past three years. My gratitude also goes to all the University of Waikato's library staff, especially Clive Wilkinson for his support in formatting my thesis. I also wish to thank Dr Helen Samujh for her support, encouragement and advice throughout my time in New Zealand and my PhD journey.

I express my sincere thanks to the University of Kelaniya and National Centre for Advanced Studies (NCAS) in Sri Lanka for financial support. I also thank the University of Kelaniya, Sri Lanka, for granting me academic leave to study for my PhD at the University of Waikato. Special thanks are due to Professor Lal Tillakaratne, Dr Anura Karunaratne, and Dr, Wasanthi Madurapperuma for their moral support. My sincere thanks also goes to all the academics in the Department of Accountancy of Kelaniya University of Sri Lanka.

My data collection would not have been possible without the assistance of Mr. Dharma Deerasinghe, Mr. Nandika Buddhipala, Professor Ajantha Dharmasiri, Mrs. Priyanthi Silva, Mr. Darshana Karunaratne, Mr. Indrajith Boyagoda and Ms. Sherin Cader. I am also immensely thankful to the managers who participated in the interviews. They provided their time willingly to make this study possible. Also, I thank my colleagues and friends in Hamilton for their enormous support and making my time in New Zealand memorable and enjoyable. Special thanks goes to Kumudika Boyagoda, Sujani Trikawala and Junead Wasana, Imesha and Bakthi Mendis, Nalaka and Ruwani Fernando, Chaminda Dassanayake, Nirupika Liyanapathirana, Udith Ramanayake, Thilanga and Nayomi Ariyaratne and Ranjith Dickwella.

I wish to pay tribute to my parents for providing me with a strong educational background that enabled me to undertake PhD studies. I am grateful to them for always putting my education first before anything else in life. Also, my honour goes to my parents-in-law, brothers, sister and brother-in-law. I have been able to undertake this study because of their inspiration and continuous support. This thesis is dedicated to my parents A.M. Sudubanda and J.M. Bandaramanike, my wife Himali Nisansala Wijekoon (who was also with me in New Zealand pursuing her PhD) and my son Devmith Attanayake. Each of these beloved ones provided much love, patience and encouragement during this long journey. Finally, I believe I owe an apology to anybody who supported and helped me in completing my PhD but whom I have forgotten to acknowledge here.

TABLE OF CONTENTS

ABSTRACT	ii
ACKNOWLEDGEMENTS	v
TABLE OF CONTENTS	vii
LIST OF FIGURES	xii
LIST OF TABLES	xv
LIST OF ABBREVIATIONS	xvi
CHAPTER 01	1
INTRODUCTION	1
1.1 Introduction	1
1.2 Background to the study	2
1.3 Motivation for the study	5
1.4 Research questions	8
1.5 Research methodology and methods	8
1.6 Contributions of the research	10
1.7 Thesis structure.....	11
CHAPTER 02	14
BACKGROUND: THE SRI LANKAN BUSINESS ENVIRONMENT	14
2.1 Introduction	14
2.2 Sri Lankan Context.....	14
2.3 Governance of Public Listed Companies (PLCs).....	18
2.4 Regulatory bodies.....	20
2.4.1 The Registrar of Companies (RC).....	20
2.4.2 Capital Markets	21
2.4.2.1 Securities and Exchange Commission of Sri Lanka (SECSL)	21
2.4.2.2 The Colombo Stock Exchange (CSE)	21
2.4.3 The Central Bank of Sri Lanka (CBSL).....	22
2.4.4 Professional accounting bodies	24
2.5 Summary and conclusions	26
CHAPTER 03	27
LITERATURE REVIEW: THE DEVELOPMENT OF INTEGRATED REPORTING	27
3.1 Introduction	27
3.2 Historical development of Corporate Reporting	27
3.3 Modern development in Corporate Reporting.....	29
3.3.1 Environmental reporting	30
3.3.2 Triple Bottom Line reporting (TBL).....	32
3.3.3 Corporate Social Responsibilities	33
3.3.4 Sustainability Reporting.....	34
3.4 Weaknesses in Corporate Reporting	36
3.5 Contemporary development: Integrated Reporting (IR)	38
3.6 Integrated Reporting.....	43
3.6.1 Origins.....	43

3.6.2	Significant organisations involved in the development of IR	44
3.6.3	The International Integrated Reporting Committee (IIRC)	48
3.6.4	Defining IR	49
3.6.5	The preparation of an Integrated Report	51
3.6.6	Capital types and Value creation.....	54
3.7	Challenges and weaknesses of IR	57
3.8	Better results from IR	60
3.8.1	Global accountability	60
3.8.2	External Reporting	64
3.8.3	Internal Processes.....	66
3.8.4	Internal Culture	67
3.9	Future oriented predictions in IR and its risks	69
3.10	Materiality of the non-financial information in the Integrated Reports .	72
3.10.1	Materiality	73
3.10.2	Materiality and disclosure	76
3.10.3	Materiality level determination – practices.....	79
3.10.4	Materiality challenges	83
3.11	The IR Implementation challenges.....	86
3.11.1	The IIRC guidelines	86
3.11.2	The report preparers	88
3.11.3	The internal processes	89
3.12	Conclusion.....	90
CHAPTER 04	.....	92
THEORETICAL FRAMEWORK	.....	92
4.1	Introduction	92
4.2	Theoretical perspectives of IR practice	93
4.2.1	Institutional theory	93
4.2.2	Types of institutional theories.....	96
4.2.2.1	New Institutional Theory (NIT).....	96
4.3	Issues with NIT	100
4.4	Institutional work	101
4.4.1	Institutional entrepreneurs.....	102
4.5	Prior studies on use of institutional theory	106
4.5.1	Non-financial reporting.....	106
4.5.2	Integrated reporting.....	107
4.6	Theoretical framework for understanding the adoption of IR by Sri Lankan PLCs	109
4.7	Conclusion.....	112
CHAPTER 05	.....	114
RESEARCH METHODOLOGY AND METHODS	.....	114
5.1	Introduction	114
5.2	The Philosophical assumptions underpinning the research.....	114
5.2.1	Ontological and epistemological assumptions.....	115
5.3	The Interpretive research paradigm.....	117
5.4	Qualitative research methodology.....	119
5.5	Research methods.....	121
5.5.1	Interview	122
5.5.2	The interview guide.....	123

5.5.3	Sample selection of Sri Lankan PLCs and purposive sampling of interviewees	124
5.5.4	Interview protocols.....	127
5.5.5	Document selection and analysis	128
5.6	Data analysis.....	130
5.6.1	Analysis of interviews.....	131
5.7	Reliability and validity	138
5.8	Conclusion.....	140
CHAPTER 06	.....	141
INSTITUTIONAL THEORETICAL LENS ON IR ADOPTION.....		141
6.1	Introduction	141
6.2	The decision to adopt IR – Institutional Isomorphism	141
6.2.1	Coercive isomorphism	141
6.2.2	Mimetic isomorphism	144
6.2.3	Normative isomorphism.....	146
6.3	Institutional entrepreneurs and IR adoption	151
6.4	Expected benefits seen through Isomorphism Perspectives.....	154
6.4.1	External Reporting	155
6.4.1.1	Provide a holistic picture	155
6.4.1.2	Produce user-friendly accounting reports and information ...	157
6.4.1.3	Produce a concise report.....	158
6.4.1.4	Improve recognition/image of the organisation.....	159
6.4.1.5	Improve the quality of information and reports.....	160
6.4.1.6	Show the real picture	161
6.4.1.7	Avoid duplication	162
6.4.1.8	Consider all elements of value creation.....	163
6.4.2	Internal Processes.....	164
6.4.2.1	Support strategic planning	164
6.4.2.2	Support Process Improvement.....	166
6.4.3	Internal Culture	167
6.4.3.1	Introduce a holistic approach towards all stakeholders	167
6.4.3.2	Create an integrated culture	169
6.5	Conclusion.....	171
CHAPTER 07	.....	173
IR IMPLEMENTATION CHALLENGES.....		173
7.1	Introduction	173
7.2	Challenges posed by the IIRC guidelines.....	173
7.2.1	Inadequate IIRC Framework Guidelines	174
7.2.2	Types of capital	176
7.2.3	Framework interpretation.....	177
7.2.4	Business Model	179
7.2.5	Making connectivity.....	180
7.2.6	Concise reporting	181
7.3	Challenges posed to interviewees as IAR preparers	183
7.3.1	Inadequate knowledge and expertise	183
7.3.2	Inadequate IR understanding and training	185
7.3.3	Mind-set and change reluctance.....	187
7.3.4	Perceived increased work burden for employees.....	189

7.3.5	Top management support.....	191
7.4	Company internal processes and mechanisms	193
7.4.1	Information Access	193
7.4.2	Inadequate information systems (IS)	194
7.4.3	Silo thinking.....	198
7.4.4	Divisional support.....	199
7.5	Conclusion.....	201
CHAPTER 08		203
MATERIALITY LEVELS DETERMINATION FOR NON-FINANCIAL INFORMATION.....		203
8.1	Introduction	203
8.2	Managers' views and employee involvement	203
8.2.1	Perceptions on materiality levels for disclosure	204
8.2.2	Issues in determining materiality	211
8.2.3	Responsibility for materiality level determination	213
8.3	Materiality level determination techniques	214
8.3.1	Stakeholder focus.....	215
8.3.1.1	Stakeholder analysis	215
8.3.1.2	Usefulness of information for decisions	224
8.3.1.3	Impact on stakeholders.....	229
8.3.2	Value creation and Key Performance Indicators (KPIs).....	234
8.3.2.1	Value creation	234
8.3.2.2	Key Performance Indicators (KPIs)/strategy	240
8.3.3	Judgement, benchmarking, and a combination of various methods.....	247
8.3.3.1	Judgement	247
8.3.3.2	Benchmarking.....	251
8.3.3.3	Combination of techniques	252
8.4	Conclusion.....	254
CHAPTER 09		257
RISK MANAGEMENT OF FUTURE-ORIENTED DISCLOSURES.....		257
9.1	Introduction	257
9.2	Interviewees' perception of risk in making predictions in integrated reports.....	257
9.3	Accuracy, conservatism, and integration with financial predictions....	260
9.3.1	Accuracy	260
9.3.2	Conservatism	261
9.3.3	Integration with financials	267
9.4	Strategic plans, risk management processes and non-achievement of plans	268
9.4.1	Incorporation in Strategic plans.....	268
9.4.2	Risk management processes	270
9.4.3	Reporting non-achievements	274
9.5	Performance Monitoring	278
9.6	Conclusion.....	285
CHAPTER 10		288
BENEFITS FOLLOWING IR ADOPTION		288

10.1	Introduction	288
10.2	External Reporting	288
10.2.1	A holistic picture	289
10.2.2	Improved recognition	292
10.2.3	Improved quality	297
10.3	Internal Processes	305
10.3.1	Strategic planning support.....	305
10.3.2	Business process improvement	314
10.3.3	Information process development	322
10.4	Internal Culture.....	329
10.4.1	Integrated corporate culture	329
10.4.2	Improved Communication	337
10.5	Conclusion	342
CHAPTER 11		344
CONCLUSIONS, RECOMMENDATIONS AND CRITICAL REFLECTIONS		
.....		344
11.1	Introduction	344
11.2	Research background, questions, and approach	344
11.3	Findings	346
11.4	Contribution of the study	350
11.4.1	Methodological contribution	351
11.4.2	Theoretical contribution	351
11.4.3	Practical contribution	354
11.4.3.1	Implementation challenges	355
11.4.3.2	Materiality levels determination	356
11.4.3.3	The risk inherent in predictions	358
11.4.3.4	Achievement of expected benefits of adopting IR.....	359
11.5	Implications and critical reflections for policy and practice	360
11.5.1	Implications for managers of IR practicing companies, and future IR managers of other companies	360
11.5.2	Implications for regulators	361
11.5.3	Implications for the IIRC, CASL, and other reporting authorities	362
11.6	Limitations of this thesis	363
11.7	Recommendations for future research	364
REFERENCES.....		365
Appendix A – Semi Structured Interview Questions		400
Appendix B: Covering Letter		403
Appendix C – Participant information sheet		405
Appendix D – Consent Form for Participants.....		408

LIST OF FIGURES

Figure 1: structure of the thesis	13
Figure 2: The complete picture of an organisation’s value creation process	56
Figure 3: Determining materiality – Developing report content.....	75
Figure 4: Institutional isomorphism, institutional entrepreneurs and adoption of IR at Sri Lankan PLCs – The theoretical framework.....	112
Figure 5: An example of interview transcripts imported to NVivo	134
Figure 6: An example of ‘coding’ in NVivo	135
Figure 7: Examples of parent and child nodes created in NVivo	137
Figure 8: An illustration of themes and sub-themes of the research.....	138
Figure 9: Year at a Glance	206
Figure 10: Deposit and Savings Products	207
Figure 11: Delivering Strategy through Our Business Lines	208
Figure 12: Prioritizing Stakeholders	212
Figure 13: Material Matters	216
Figure 14: Materiality Matrix.....	218
Figure 15: Materiality Matrix.....	219
Figure 16: Stakeholder Engagement Mechanism	221
Figure 17: Stakeholder Engagement Mechanism	223
Figure 18: Materiality and Stakeholder Relationships.....	225
Figure 19: Prioritizing Materiality Aspects.....	226
Figure 20: Materiality	227
Figure 21: Materiality and Stakeholder Relationships.....	228
Figure 22: Materiality Assessment.....	230
Figure 23: Materiality Assessment.....	231
Figure 24: Materiality Matrix.....	232

Figure 25: Rating of Material Aspects	233
Figure 26: Talent Acquisition Model.....	235
Figure 27: Relationship Capital – Business Partners	236
Figure 28: Material Matters	237
Figure 29: Materiality Matters	239
Figure 30: Social and Relationship Capital.....	241
Figure 31: Report Scope.....	242
Figure 32: Intellectual Capital.....	243
Figure 33: Material Stakeholder issues and their status.....	245
Figure 34: Materiality Assessment.....	246
Figure 35: Feedback Analysis	249
Figure 36: Chairman’s Message.....	259
Figure 37: Our Progress Towards Sustainable Value Creation	262
Figure 38: Chairman/Managing Director’s Message	264
Figure 39: Future Outlook.....	265
Figure 40: Strategy and Resource Allocation	269
Figure 41: Risk and opportunities Driving Competitive Strategy	271
Figure 42: Risk Report – Three Line Defence Model.....	272
Figure 43: Management Discussion and Analysis – KPI: Profitability Performance	276
Figure 44: Our Progress Towards Sustainable Value Creation	277
Figure 45: Future Outlook.....	279
Figure 46: Journey in Strategy Development and Execution.....	280
Figure 47: KPI Summary	281
Figure 48: Risk Management – Risk Monitoring	283
Figure 49: Customer Capital Building	289

Figure 50: Risks and Uncertainties vs Responses.....	291
Figure 51: Our Strategy.....	298
Figure 52: Value Creation Model	301
Figure 53: Risk Management	306
Figure 54: Core Business Divisions Operational Review – Key Strategic Imperative – Lending Business Strategy	308
Figure 55: The most recent top strategic risks	310
Figure 56: Waste Management	316
Figure 57: Our Stakeholders	318
Figure 58: Group Performance Governance – Monitoring Process as per the Corporate Plan.....	319
Figure 59: Independent Assurance Statement on Non-Financial Reporting.....	324
Figure 60: Strategy Review Committee Report	325
Figure 61: Ensuring Credibility Figure	326
Figure 62: Directors’ Statement on Internal Control Over Financial Reporting	327
Figure 63: Our Strategy Delivery 2016 and 2017 Plans	330
Figure 64: Stakeholder Engagement Mechanism – Employees.....	330
Figure 65: Our Fourth Integrated Report	331
Figure 66: Human Capital.....	332
Figure 67: Strategy and Resource Allocation - Overview and Update on Strategy Session	332
Figure 68: Stakeholder Engagement Mechanism – Customers	333

LIST OF TABLES

Table 1: Differences between traditional reporting and integrated reporting	5
Table 2: Economic indicators of Sri Lanka – 2016.....	15
Table 3: Key bodies governing PLCs in Sri Lanka.....	19
Table 4: Stages of Corporate Reporting.....	29
Table 5: IR guiding principles	52
Table 6: Key content elements of IR.....	53
Table 7: Six Types of Capital	55
Table 8: Profile of interviewees	126
Table 9: ARs and integrated annual reports of the sample companies	129
Table 10: Stages of thematic analysis	133
Table 11: Expected benefits and type of Isomorphism.....	154

LIST OF ABBREVIATIONS

ARs	Annual Reports
ASC	Accounting Standards Committee
AuSC	Auditing Standards Committee
CASL	Institute of Chartered Accountants of Sri Lanka
CBSL	Central Bank of Sri Lanka
CSE	Colombo Stock Exchange
CSR	Corporate Social Responsibility
GDP	Gross Domestic Product
IARs	Integrated Annual Reports
IASB	International Accounting Standards Board
IBSL	Insurance Board of Sri Lanka
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IR	Integrated Reporting
LKR	Sri Lankan rupee
PLCs	Public Listed Companies
RC	Registrar of Companies
SBE	Specified Business Enterprise
SEC	Securities and Exchange Commission
SECSL	Securities and Exchange Commission of Sri Lanka
SLAS	Sri Lanka Accounting Standard
SLAASMB	Sri Lanka Accounting and Auditing Standards Monitoring Board
SLAuS	Sri Lanka Auditing Standards
TBL	Triple Bottom Line reporting

CHAPTER 01

INTRODUCTION

1.1 Introduction

Global corporate reporting practices are undergoing radical changes as stakeholders make growing demands on companies and resources become increasingly limited. The concepts, elements and principles that characterise the way organisations report their annual performance are currently being questioned, debated and redesigned throughout the world (Busco, 2014; Busco, Frigo, Quattrone, & Riccaboni, 2013b). Companies are being forced to re-evaluate critically how they can communicate as transparently as possible to all their stakeholders (Potter, Singh, & York, 2013; Rensburg & Botha, 2014). Companies release ever-increasing amounts of information, making it difficult for investors to maintain an accurate valuation of a company's stock (Hutton, 2004), and make it nearly impossible for other stakeholders to understand company affairs (Rensburg & Botha, 2014). There are growing concerns that current corporate reporting practices are insufficient as new forms of accountability and increased transparency are being sought (King, 2011, p. 1). Integrated Reporting (IR) is seen as a possible solution.

IR aims to produce “a concise communication about how a company's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term” (IIRC, 2013b, p. 8). There are concerns that the assets reported in financial statements reflect a steadily diminishing component of shareholder value. From 1975 when physical and financial assets represented 83% of market value, to 2009 when they represented a mere 19%, there has clearly been a change in business models, but this change has not been reflected in traditional financial statements (Deloitte, 2012). IR introduces the concept of six ‘capitals’ representing the resources of an entity to be reported in an Integrated Annual Report. These six capitals are: financial, manufactured, intellectual, human, social and relationships, and natural (IIRC, 2013b). Traditional financial reporting focuses almost exclusively on financial capital.

Thus, IR is a new and developing concept (Steyn, 2014; Stubbs & Higgins, 2014). Consequently, there is a paucity of research in IR (Simnett & Huggins, 2015). Extant research is limited to theoretical investigations and stand-alone case studies (Jensen & Berg, 2012; Stubbs & Higgins, 2014). The difficulty of interpreting and applying a principles-based reporting framework in a relatively short period of time also adds to the challenge of preparing a high quality integrated report (King, 2016). Hence, this thesis takes up the challenge to examine how the ‘daunting task’ of implementation of IR, by Public Listed Companies (PLCs) in Sri Lanka, has progressed.

The emergence of Integrated Reporting (IR) is a significant step forward and a daunting task, but it is a task that cannot be shirked if the information needed so urgently to meet the challenges of the 21st century is to be provided. Put briefly, integrated reporting is a vital building block to enable the world’s economy to evolve and maintain standards of living for people who already enjoy a good quality of life, and create them for the hundreds of millions who do not, without the present unsustainable over-consumption of the world’s finite natural resources – Sir Michael Peat (ACCA, 2011b, p. 9).

This thesis focuses on the influences of IR adoption, the expectations of benefits from adoption, the extent of realisation of expected benefits, the implementation challenges, and how the concepts of IR (for example, liability and risks of making predictions about the future, and materiality levels for non-financial information disclosure) are applied in practice in the field.

This chapter introduces the research topic. Section 1.2 provides the background to the study. Section 1.3 explains the motivation for the research. Section 1.4 sets out the research questions and section 1.5 briefly introduces the methodology and research methods. Section 1.6 discusses contributions of the research and Section 1.7 concludes by outlining the structure of the thesis.

1.2 Background to the study

Corporate annual reports are typically no more than a set of financial statements. These provide limited communication with shareholders and other stakeholders. They are static documents that often discourage the reader from further exploration or analysis (Tapscott, 2010). The string of corporate collapses over the past decade has led many stakeholders to question the relevance and reliability of corporate

annual reports as a basis for making decisions about organisations. Backward-looking financial information does not meet the information needs of shareholders and other stakeholders who are concerned with the future goals, expectations and strategies of organisations (Eurosif, 2009). Further, reports based largely on financial information do not provide sufficient insight to enable stakeholders to form a comprehensive picture of an organisation's performance and its ability to create and sustain value, especially in the context of growing environmental, social and economic challenges. Stakeholders want forward-looking information that will enable them to assess the total economic value of an organisation more effectively (Integrated Reporting Council of South Africa, 2011). The lack of integration of financial performance with non-financial environmental, social and governance aspects presents a significant challenge to stakeholders, as they need to reconcile several sets of information to arrive at a meaningful understanding of the past performance and future prospects of the organisation (Potter et al., 2013).

In the context of an increasingly globalised and complex business environment, stakeholders require more information about environmental, social and governance aspects of organisations' activities (Cooper & Owen, 2007; Eccles & Serafeim, 2011a). Further, increasing awareness among the stakeholders on the usefulness of non-financial information for decision making encourages them to request more such information in areas such as business risk, use of natural resources, impact of organisational activities on climate change, and human rights (Adams & Simnett, 2011; Eccles & Krzus, 2010a, 2010b).

Traditional reporting has been placed under strain by the length, complexity and regulatory burden of existing reporting requirements, and a lack of responsiveness to new value drivers in a changing business environment. These issues challenge the appropriateness and efficacy of traditional financial accounting mechanisms and foster a need for IR (Adams & Simnett, 2011).

The overconsumption of finite natural resources, the risk of catastrophic 'accidents,' and the implications of climate change are among the greatest challenges facing the world. Stakeholders cannot easily assess such risks as most traditional financial reports provide no information, or insufficient information, about the challenges faced by the businesses. Conversely, sometimes the quantity of information

released can cause information overload for readers of annual reports (Clements-Hunt & Lehrman, 2012).

Though there has been a growing demand for social, environmental and sustainability reporting world-wide, growth in the quantity of non-financial reporting has not resulted in higher-quality information being provided to stakeholders (Potter et al., 2013). Additionally, the failure of current financial statements to capture the value of inputs from, or reliance on, natural capital and other forms of capital, points towards corporate reporting practices being 'ripe for change' (Deloitte, 2012). A substantial literature has developed emphasizing the shortfalls of existing non-financial reporting, particularly about the failure to provide useful information to stakeholders for their decision making (Barone, Ranamagar, & Solomon, 2013; Cooper & Owen, 2007; Milne, Tregidga, & Walton, 2009).

Firms are accountable to society to minimize negative externalities, maximize positive externalities and optimize the use of natural capital. IR provides a way for firms to be accountable to society (Dande, 2013). IR provides a clear and concise representation of how an organisation demonstrates stewardship and how it creates value, now and in the future (IIRC, 2011). IR may be a good management practice that will increase efficiency and improve resource allocation (Dumitru, Glăvan, Gorgan, & Florentin Dumitru, 2013). In the absence of a generally accepted framework for IR, companies that wish to implement IR encounter several dilemmas such as relevance, scope, and assurance (Deloitte, 2011; Potter et al., 2013). Achieving IR is more than a technical exercise (White, 2010); it is an organisational change (KPMG, 2011a).

IR is seen as the new reporting mechanism needed to foster the social responsibility of corporations. IR advocates voluntary disclosure of financial and non-financial information, including environmental, social and governance issues (Lai, Melloni, & Stacchezzini, 2013). IR moves beyond compliance-based disclosures; it supports a commitment to transparency to address a wide variety of issues and to provide an honest representation of performance, both good and bad (Adams & Simnett, 2011).

In order to help users and preparers understand how IR differs from traditional corporate reporting, the IIRC identifies eight differences between the current ‘traditional’ reporting and IR (see Table 1).

Table 1: Differences between traditional reporting and integrated reporting

	Feature	Traditional Reporting	Integrated Reporting
1	Trust	Narrow disclosures	Greater transparency
2	Stewardship	Financial	All forms of capital
3	Thinking	Isolated	Integrated
4	Focus	Past, financial	Past and future; Connected; strategic
5	Time frame	Short term	Short, medium and long term
6	Adaptive	Rule bound	Responsive to individual circumstances
7	Concise	Long and complex	Concise and material
8	Technology enabled	Paper based	Technology enabled

Source: IIRC (2011)

Overall, IR requires changes in perspectives towards increased disclosure relating to the various forms of capital and the future, whilst being concise. To some extent it is a product of the times, reflecting global concerns about the use of all resources and enabled by technological advances.

1.3 Motivation for the study

The motivation for this study is based on the potential of IR to become the new corporate reporting model. IR is expected to address the current issues of financial reporting and help alleviate issues relating to environmental and governance problems. IR is a new approach to reporting that may represent the next evolutionary step in accounting (Adams & Simnett, 2011).

IR is said to be poised to dominate mainstream reporting, as it provides an opportunity for improving transparency, governance and decision making for organisations of all types (Adams, Fries, & Simnett, 2011; Eccles & Krzus, 2010b). Most importantly, it may result in increased and improved decision making, both internally and externally, on the basis of a more complete and integrated

understanding of value drivers and their linkages (World Business Council for Sustainable Development, 2014). For example, a research report produced by London-based specialist corporate communications agency Black Sun, in association with the IIRC, finds that 93 per cent of businesses that participated in the IIRC pilot programme believe that moving towards an integrated reporting framework helps to breakdown silos¹ between teams and leads to better connected departments. Eighty-eight per cent said that IR leads to improvements in business decision making (IIRC, 2012a). Sri Lanka was one of the countries that participated in this pilot programme in 2011.

This participation in the Integrated Reporting Pilot Programme offered the selected group of companies the opportunity to demonstrate global leadership in this emerging field of corporate reporting: IR. The Sri Lankan company who participated in the IIRC IR pilot programme won awards several times for the best integrated annual report organised by the CASL.

Subsequently, Sri Lanka has a unique setting to its IR adoption for a developing country. The institutional arrangements made by the CASL - national accounting and auditing standard setting body of the country motivates Sri Lankan companies to adopt IR. CASL has taken several steps to encourage companies in the country to adopt IR. These include: issuing an implementation guide for IR; forming a committee titled the Integrated Reporting Council, with a view of promoting IR in Sri Lanka and enabling corporates and others interested to share knowledge on matters relating to the content, context and implementation; organising an annual reports awards competition including special awards for best-integrated reports in the country; conducting seminars and round table discussions about IR. These factors have created significant motivations for Sri Lankan companies to start producing integrated reports ahead of other developing countries but not as

¹ The silo effect is a phrase that is popular in the business and organisational communities to describe a lack of communication and common goals between departments in an organisation (Chopra & Meindl, 2007).

The silo is also a mind-set present in some companies when certain departments or sectors do not wish to share information with others in the same company. This type of mentality will reduce the efficiency of the overall operation, reduce morale, and may contribute to the demise of a productive company culture Business Directory. (n.d.).

extensively as South Africa. One of the motivations for this study is to explore how extensive IR adoption has become in an Asian developing country.

However, IR research is at a nascent stage (Lee & Yeo, 2016). The rapid development of IR policy, and early developments of practice, present theoretical and empirical challenges because of the different ways in which IR is understood and enacted within institutions (de Villiers, Rinaldi, & Unerman, 2014). As IR is an emerging practice, there are a limited number of empirical studies (Stubbs & Higgins, 2014). Available empirical research focuses mainly on market and investor reactions to IR (Velte & Stawinoga, 2016) and “the vast majority of IR research do not research practice ... or engage practitioners” (Dumay, Bernardi, Guthrie, & Demartini, 2016, p. 11). It appears that the academic literature has not yet covered all stages of the IR idea journey. There is relatively little research into the impact phase of the IR concept. Furthermore, the locus of research covered by the current IR literature is situated at macro- and meso-levels (Rinaldi, Unerman, & de Villiers, 2018, p. 1294).

Additionally, a search of literature indicates only a few studies have investigated the benefits achieved of adopting IR (Steyn, 2014; van Bommel & Rinaldi, 2014; Velte & Stawinoga, 2016). There is limited empirical evidence to confirm that these benefits eventuate. The few existing studies indicate that most of the organisations do not achieve the benefits; they achieve only a minimal level of benefits (Dumay, Bernardi, Guthrie, & La Torre, 2017; McNally, Cerbone, & Maroun, 2017; Rensburg & Botha, 2014; Silvestri, Veltri, Venturelli, & Petruzzelli, 2017). Flower (2014) claims that it is difficult, or even impossible, to achieve the expected benefits from implementing IR. Further, organisations that have adopted IR are grappling with how best to implement it within their organisations (Stubbs & Higgins, 2014). The lack of ‘rules’ and standards (Stubbs & Higgins, 2014) itself may be a challenge for IR early adopters.

There are a significant number of issues that could be investigated. Further, there exists an opportunity to undertake research to guide developments in IR policy and practice. (Cheng, Green, Conradie, Konishi, & Romi, 2014; de Villiers, Rinaldi, Unerman, et al., 2014; Morros, 2016). This thesis addresses a gap in research literature regarding the influences and expectations of IR adoption, challenges

encountered during IR implementation, achievements, and practising levels of the important concepts of risks and materiality. Motivation for this research is further enhanced by the opportunity to gain understandings about the implementation of IR and how the behaviours of the implementers are influenced as they build their experience in producing Integrated Annual Reports (IARs) in Sri Lanka.

1.4 Research questions

This research investigates the practical application of the new IR regime in Sri Lankan PLCs. The decision by companies to adopt IR may be due to pressures from stakeholders. The adoption decision may also be based on the potential advantages IR provides. As it is a new development in reporting, challenges in the implementation processes are inevitable. There is a risk for management when predicting the future and disclosing their forecasts to stakeholders. Determination of the materiality level for non-financial information is another significant challenge faced by companies.

The overall aim of this research is to examine the motives for adopting IR, and the challenges arising during the implementation of IR by Sri Lankan PLCs. Based on the overall aim, five specific research questions were developed:

1. Why did the sample of Sri Lankan PLCs adopt IR?
2. What challenges are faced by Sri Lankan PLCs during the implementation of IR in their companies?
3. How are the materiality levels determined for the non-financial information disclosed in the Integrated Reports of Sri Lankan PLCs?
4. How does the management of Sri Lankan PLCs deal with the risks inherent in future-oriented predictions?
5. Has the management of Sri Lankan PLCs achieved the expected benefits of adopting IR?

1.5 Research methodology and methods

The interpretive paradigm is adopted as it allows the researcher to study a phenomenon (IR) within its social context and incorporates the wider social and political influences in explaining the construction of knowledge (Humphrey & Scapens, 1996). A qualitative methodology is selected because this research focuses

on the practice of IR in depth and detail. The semi-structured interview data collection method allows the study of IR at Sri Lankan PLCs from multiple dimensions, such as: factors influencing the IR adoption decision, challenges faced in adopting IR, benefits of implementing IR, managerial practices of Sri Lankan PLCs in dealing with the risk of predictions about the future, and the determination of materiality levels for non-financial information. “The qualitative methodology facilitates the study of issues in depth and detail” (Patton, 2015, p. 22). This methodology provides an understanding of the context within which IR systems operate, and how internal stakeholders have used IR to produce IARs.

The concepts of institutional isomorphism and institutional entrepreneurship in Institutional Theory have been used as the theoretical lens to understand why Sri Lankan PLCs adopted IR.

Two types of data were used to ascertain the perspectives of the PLCs: semi structured interviews as well as company Annual Reports (ARs) and Integrated Annual Reports (IARs). Semi-structured interviews were used as the main data source, with ARs and IARs as secondary data to provide evidence in support (or otherwise) of interviewees’ responses to questions.

Face-to-face interviews were conducted with 55 representatives from 12 PLCs in Sri Lanka. Purposive sampling techniques were used to select suitable managers and employees representing various departments of the PLCs. They were selected in consultation with the Head of Finance of each PLC to ensure that the interviewees were directly engaged with and had knowledge of IR. An interview guide with a list of questions to be explored during the interview was developed. Thematic analysis was used to analyse the interview transcripts.

ARs (before IR implementation) and IARs (after IR implementation) of the 12 PLCs were used to analyse the nature and extent of non-financial disclosures. Extracts of ARs and Integrated Annual Reports published by the sample companies were used to reveal the developments and the nature and extent of non-financial disclosures of information in those reports.

1.6 Contributions of the research

IR is an emerging area where research literature is limited, and more research is needed for the development of IR. Of the published literature on IR, only a few studies are based on the practical application of IR in business organisations and empirical analysis of IR report content in publicly available IR reports. This study addresses a gap in the literature on the views of internal stakeholders engaged with the implementation and preparation of integrated reports in their companies.

This research makes significant contributions at both theoretical and empirical levels. It extends the current literature by providing evidence on the challenges of IR adoption and nature of IR practices in the Sri Lankan context. The findings of this research provide fresh insights on the implementation of IR. For example, that PLCs:

- respond to external pressures, for example, accounting bodies.
- desire to adopt what they perceive as ‘best practice’.
- are persuaded to adopt IR by anticipating benefits as propagated by the IIRC and the local accounting bodies.

This research provides empirical evidence concerning the practical implementation, execution and operating issues associated with IR in the Sri Lankan context. Before implementing IR, the respondents had expectations of the benefits to their companies. These anticipated benefits largely arose from the material they had been exposed to prior to implementing IR. Following implementation, it was found that not all companies achieved the benefits as expected, and those that achieved benefits did not do so at a high level. It appears that it takes time and considerable effort (including changing employees behaviours and changing internal technical processes) to achieve a desirable level of benefits as propagated by the IIRC.

How to manage the risk of providing future orientated information and how to determine what is material and should be reported whilst attempting to present a concise, readable IAR are identified as prominent issues for the sampled PLCs. The strategies discussed by the respondents could assist other companies considering the implementation of IR, in emerging economies in general and Sri Lanka in particular.

This thesis offers policymakers useful insights into the way IR could be introduced, speed up the diffusion, implementation and practice in business organisations. Findings may also influence regulators (such as accounting standard setters and stock exchanges) as they set reporting standards. It is suggested that the IIRC should use this thesis in revising its framework and implementation recommendations, particularly in providing guidance and practical examples of 'best practice'. The levels of integrated reporting are low in Asia at large (ACCA, 2011c). Therefore, these research findings can provide practical guidance for other companies in emerging economies considering the implementation of IR.

1.7 Thesis structure

The thesis encompasses eleven chapters.

Chapter 1, the introductory chapter, provides an overview of the research. It consists of a brief outline of the background, motivation for the research, research design and the structure of the thesis.

Chapter 2 provides contextual understanding about the research country, Sri Lanka, including the economic setting, laws and regulations and regulatory bodies which influence PLCs in Sri Lanka.

Chapter 3 outlines the historical development of corporate reporting and weaknesses in the current systems. This is followed by a discussion on the origin and growth of IR, its development, the need for IR, making predictions and the associated risks, materiality of non-financial information, and IR implementation challenges.

Chapter 4 explains New Institutional Theory and institutional entrepreneurship, i.e. the institutional theoretical framework used to identify how IR at Sri Lankan PLCs is shaped by its institutional context.

Chapter 5 describes the research methodology and methods including data collection strategies and the approaches used in analysis.

Chapter 6 presents evidence of influence of three types of isomorphic pressure on the sample companies, as well as a case study of an institutional entrepreneur within

a single sample company. Expected benefits are reviewed as perceived by the respondents.

Chapter 7 records the findings and discusses the challenges encountered by the sample companies during the IR implementation period.

Chapter 8 examines and discusses the views shared on the materiality level determination for non-financial information, the techniques applied by the sample companies, and types of guidance available with regard to materiality level determination of non-financial information in IR.

Chapter 9 reveals the findings and discusses the management of the risk inherent in future-oriented predictions.

Chapter 10 shares the findings and discusses the achieved benefits of adopting IR by Sri Lankan PLCs.

Chapter 11 summarises the thesis, its findings, recommendations and implications of the research. The final section of the document contains the references and the appendices. The following chart sets out the structure of the thesis:

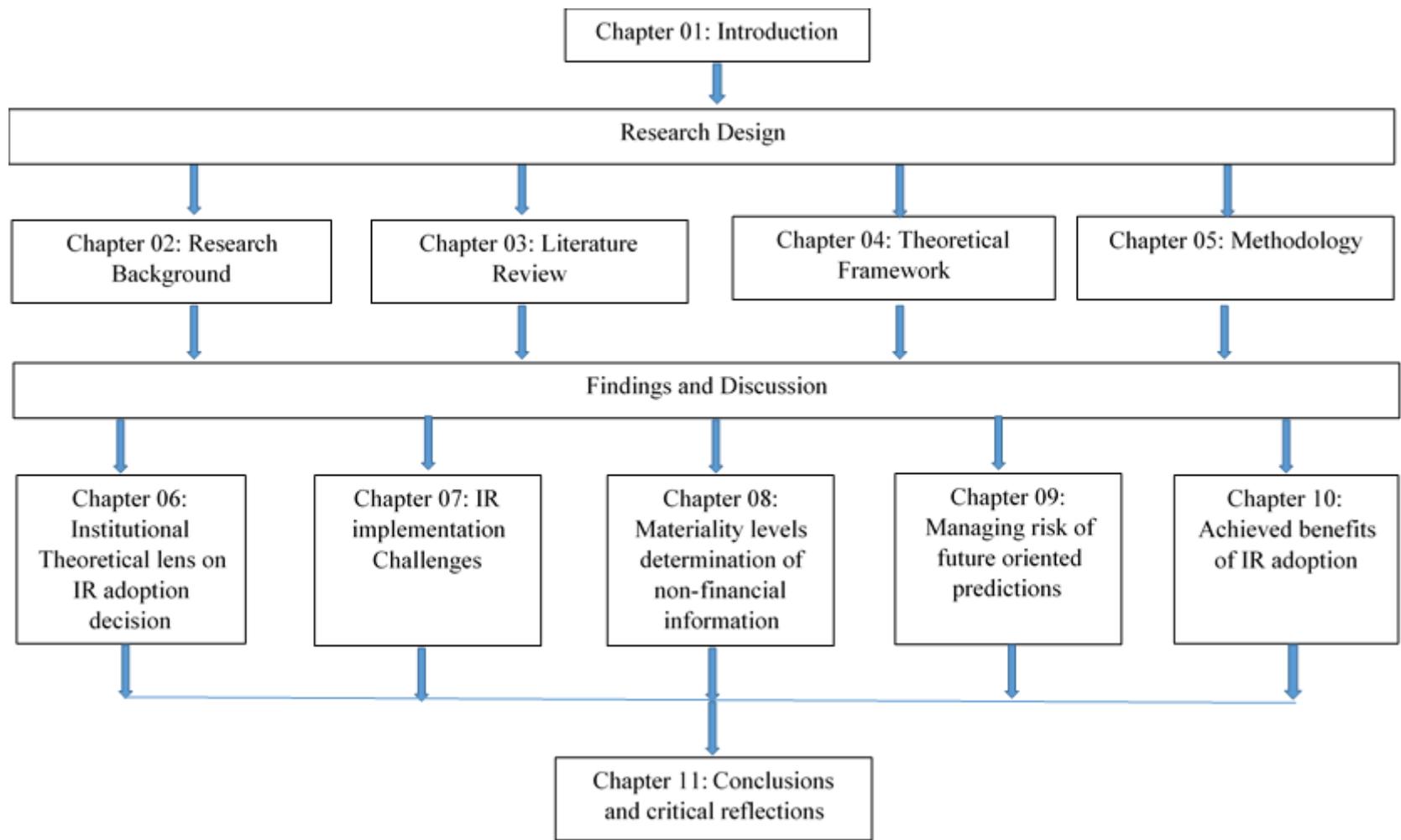


Figure 1: structure of the thesis

CHAPTER 02

BACKGROUND: THE SRI LANKAN BUSINESS ENVIRONMENT

2.1 Introduction

This chapter provides an overview of the wider political, social, legislative, and regulatory framework within which Sri Lankan Public Listed Companies (PLCs) operate. Society, politics, and economics are inseparable. Therefore, economic events cannot be meaningfully investigated or understood outside the context of the broader socio-political environment within which economic activities take place (Baxter & Chua, 2003; Deegan, 2002). For this reason, this chapter provides an in-depth discussion about the economy, culture, legal environment and judiciary system and regulatory bodies, which are relevant to the PLCs of Sri Lanka. It is important to provide detailed information about the different systems of the country, which has a direct impact on the IR adoption decision of the PLCs of the country.

This chapter has five sections. Section 2.2 describes the culture, legal environment and background to the judiciary system and economy of Sri Lanka. Section 2.3 explains the legal framework for the governance of PLCs in the country. Section 2.4 examines the role of the regulatory bodies applicable to PLCs. Section 2.5 concludes the chapter.

2.2 Sri Lankan Context

Sri Lanka is an island nation in the northern Indian Ocean off the southern coast of the Indian subcontinent in South Asia. It is a relatively small country with a land area of 65,610 sq. km. The climate of the country is tropical and warm. Average yearly temperature ranges from 28 °C to 31 °C. In the 19th and 20th centuries, Sri Lanka became a plantation economy, famous for its production and export of cinnamon, rubber and tea. While the production and export of tea, rubber, coffee, sugar and other commodities remains important, industrialization has increased the importance of food processing, textiles, telecommunications and finance.

The country has a population of over 21 million in the year 2016 of whom the majority are Sinhalese (Central Bank of Sri Lanka, 2016). Other ethnic groups include Sri Lankan Tamils (11.2 per cent), Indian Tamils (4.2 per cent), Sri Lankan Moor (9.2 per cent), and Malays, Burghers and others (0.5 per cent). Sri Lanka is a multi-religious country; Buddhists constitute 70.2 per cent, Hindus 12.6 per cent, Islam 9.7 per cent and Christians 7.4 per cent (Central Bank of Sri Lanka, 2014). Sri Lanka is thus rich in diversity of culture, race, language, and religion.

Sri Lanka is one of the few countries in the world that provide universal free education from primary to tertiary stage (including university education). In terms of key health indicators, Sri Lanka ranks above many developing countries and is on par with many developed countries, mainly due to the free healthcare services and other welfare programs implemented by the government since independence. Sri Lanka's Human Development Index of 0.766 (see Table 2) ranks Sri Lanka at 73 among 188 countries (Central Bank of Sri Lanka, 2016).

Table 2: Economic indicators of Sri Lanka – 2016

Indicator	Value/ Percentage
GDP at market prices	LKR 11,839 billion = US \$ 81.3 billion
GDP growth rate	4.4 %
GDP per capita	\$ 3,835
GDP by sector	Agriculture 7.1 % Industry 26.8 % Services 56.5 % Taxes less subsidies on products 9.6%
Human Development Index	0.766
Life Expectancy, Years	75.0
Literacy Rate (Average)	93.2 %

Source: Central Bank of Sri Lanka (2016)²

The country's main economic sectors are tourism, tea export, clothing, rice and other agricultural products. The industrial sector of the national economy has been booming compared with the declining relative share of agricultural sector activities. During 2016, the relative share of the service sector reduced marginally, recording

² The latest economic indicators available from the Central Bank of Sri Lanka.

56.5 per cent of GDP (Central Bank of Sri Lanka, 2016). In addition, overseas employment contributes greatly to foreign exchange earnings. The overseas employment contribution is calculated by considering the money remitted to the country by Sri Lankans those who work in other countries of the world.

In 1977, Sri Lanka was the first country in South Asia to adopt an open-market economy. Sometimes it was known as "the Gateway to South Asia" by investors (Chandrakumara & Budhwar, 2005). The unit of currency is the Sri Lankan rupee (LKR). Sri Lanka is a developing economy with a per capita GDP of US\$3,835 (at market prices in 2016). Since 1977, the economy has transformed from a traditional export-import economy to a more outward looking export-oriented economy. Sri Lanka has made considerable economic progress maintaining an average growth rate of 5 per cent during the last three decades, despite a series of domestic and international shocks including civil war³ in the North and the East of Sri Lanka since 1983. The economy grew at a slower rate of 4.4 per cent in 2016 in real terms, in comparison to 4.8 per cent for the previous year. Inflation record an annual average of 4.0 per cent in 2016 (Central Bank of Sri Lanka, 2016).

Sri Lanka has a rich historical and cultural heritage going back 2500 years, recorded in ancient legends and chronicles. For example, the Mahavamsa (the great chronicle of genealogy, legends and historical heritage of Sri Lanka) describes the country's Buddhist-Sinhalese kingdom starting with 'Vijaya' (generally considered as the legendary colonizer and primogenitor of the Sinhalese group), who arrived from Northern India in 500 BC (Coomaraswamy, 1956).

The decision-making system in the typical Sri Lankan family is hierarchical. Major decisions are made by the father, mother, or both. The individual develops a tendency to look for approval from the hierarchy (Chandrakumara & Budhwar, 2005). Sri Lankans tend to mix both Asian and Western management philosophies

³ The Sri Lankan Civil War was a conflict fought on the island of Sri Lanka. Beginning on July 1983, there was an intermittent insurgency against the government by the Liberation Tigers of Tamil Eelam (the LTTE, also known as the Tamil Tigers), an independent militant organisation which fought to create an independent Tamil state in the north and the east of the island. For over 25 years, the war caused significant hardships for the population, environment and the economy of the country, with an estimated 80,000–100,000 people killed during its course. The tactics employed by the LTTE against people and government forces resulted in their listing as a terrorist organisation in 32 countries, including the United States, India, Canada and the member nations of the European Union. After a 26-year military campaign, the Sri Lankan military defeated the Tamil Tigers in May 2009, bringing the civil war to an end (Ministry of Defence Sri Lanka, 2009).

and practices in business management. For example, many Sri Lankan managers maintain a distance from their subordinates, but there is a reward system based on individual performance, reflecting an individualistic cultural trait (Nanayakkara, 1984, 1993).

The Portuguese, who conquered the western coastal plains in the 16th century, were the first Europeans to invade the country, followed by the Dutch in the 17th century, and lastly the British in 1796. The British took control over the whole island in 1815 (Yapa & Perera, 2005) and 'reigned' for the following 133 years. The Ceylon Independence Act (1947) was enacted by the parliament of the United Kingdom to grant Sri Lanka the powers of dominion under the Statute of Westminster. Sri Lanka gained political independence on February 4, 1948. With the introduction of Ceylon's Republican Constitution in 1972, Ceylon⁴ became the Sri Lanka, a free, sovereign, and independent state, and thus ceased to be a dominion (Chandrakumara & Budhwar, 2005).

Sri Lanka is a democratic socialist republic with a parliamentary system of government headed by an executive president. The Head of State of the Republic of Sri Lanka is the President, who is elected by the people and holds office for a period of six years. The President is the head of the government, and the commander in chief of the armed forces. The Constitution confers upon an elected President the power, inter alia, to appoint the Prime Minister and the cabinet of ministers, the chief justice and other Judges of the Supreme Court (Government of Sri Lanka, 1978).

Sri Lanka's legal system is a mixture of English common law, Roman-Dutch, Kandyan, and customary law. The customary Tasawalamai (inheritance property) laws apply to persons living in the Jaffna peninsula or who intend to live in the Jaffna peninsula (International Monetary Fund, 2008).

Subject to the provisions of the Constitution, the institutions for the administration of justice which protect, vindicate and enforce the rights of the People shall be; (a) the Supreme Court, (b) the Court of Appeal (c) the High Court and such other Courts of first instance, tribunals or such institutions as Parliament may from time

⁴ As Ceylon, it became independent in 1948, its name was changed to Sri Lanka in 1972.

to time ordain and establish (Government of Sri Lanka, 1978). The Supreme Court consists of a chief justice and not less than six and not more than ten judges who are appointed by the President. It is the highest and final superior court of record (Chandrakumara & Budhwar, 2005).

Archambault & Archambault (2003) find the patterns and the development stages of the economy play a major role in adopting better reporting practices by the companies in a country. Further, they assert that cultural variables strongly influence disclosure by listed companies in Sri Lanka. Keeping in mind the diverse cultural heritage of Sri Lanka, the next sections (2.3 and 2.4) examine the governance and regulatory bodies charged with dealing with Public Listed Companies in Sri Lanka.

2.3 Governance of Public Listed Companies (PLCs)

The Registrar of Companies (RC), the Securities and Exchange Commission (SEC) and the Institute of Chartered Accountants of Sri Lanka (CASL) are the principal bodies which govern the activities of PLCs in Sri Lanka. In addition, the Colombo Stock Exchange (CSE) provides regulatory frameworks for listed companies in Sri Lanka. These bodies are complemented by the Central Bank of Sri Lanka (CBSL), as the main regulatory and supervisory body for financial services, and the Insurance Board of Sri Lanka (IBSL) as the main regulatory and supervisory body of Insurance companies. Table 3 (see page 19) sets out these governing bodies, (regulatory, professional accounting, and capital market), their primary functions, and key governing laws and regulations.

Table 3: Key bodies governing PLCs in Sri Lanka

Governing Body	Governing Laws and regulations	Primary Functions
1. Regulatory Bodies 1.1 Registrar of Companies	<ul style="list-style-type: none"> Companies Act, No. 7 of 2007 	<u>General</u> <ul style="list-style-type: none"> Administers the Companies Act <u>Reporting</u> <ul style="list-style-type: none"> Rules on maintenance of accounting records Rules preparation of financial statements Rules on appointment of auditors Rules on sending annual returns to share holders Guidelines on registration of financial statements
1.2 The Central Bank of Sri Lanka	<ul style="list-style-type: none"> Banking Act, No. 30 of 1988 Amended by; Act, No. 39 of 1990 Act, No. 33 of 1995 Act, No. 2 of 2005 Act, No. 15 of 2006 Act, No. 46 of 2006 Directions, circulars, guidelines and operating instructions issued by the CBSL Code of Corporate Governance for Licensed Banks in Sri Lanka, 2007 	<u>General</u> <ul style="list-style-type: none"> Administers the Banking Act <u>Reporting</u> <ul style="list-style-type: none"> Determines formats for financial statements Determines disclosure requirements Approves bank auditors
1.3 Insurance Board of Sri Lanka	<ul style="list-style-type: none"> Regulation of Insurance Industry Act, No.43 of 2000 Amended by: Act, No. 3 of 2011 Act, No. 23 of 2017 Rules Regulations Orders made by the Minister Determinations Directions Circulars 	<u>General</u> <ul style="list-style-type: none"> Register as insurers persons carrying on insurance business in Sri Lanka. Register persons as insurance brokers. Advise the Government on the development and regulation of the insurance industry. Implement the policies and programmes of the Government with respect to the insurance industry. <u>Reporting</u> <ul style="list-style-type: none"> Determines formats for regulatory reporting Determines compliance with regulatory reporting and other disclosure requirements
2. Professional Accounting Bodies 2.1 The Institute of Chartered Accountants of Sri Lanka	<ul style="list-style-type: none"> Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 Code of Best Practice on Corporate Governance, 2008 Code of Best Practice on Corporate Governance, 2013 	<ul style="list-style-type: none"> Approves accounting and auditing standards Supports the activities of the Accounting Standards Committee (ASC) and Auditing Standards Committee (AuSC)
2.1.1 Accounting Standards Committee	<ul style="list-style-type: none"> Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 	<ul style="list-style-type: none"> Develops accounting standards (Develops SLAS based on the respective IFRS)
2.1.2 Auditing Standards Committee	<ul style="list-style-type: none"> Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995. 	<ul style="list-style-type: none"> Develops auditing standards (Develops SLAuS based on the respective SLAPS; develops SLAPS based on IAPS)
2.1.3 Sri Lanka Accounting and Auditing Standards Monitoring Board	<ul style="list-style-type: none"> Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 	<ul style="list-style-type: none"> Monitors the application of accounting and auditing standards by specific business enterprises (SBEs) to ascertain their conformity with accounting and auditing standards
3. Capital Markets 3.1 Securities and Exchange Commission of Sri Lanka	<ul style="list-style-type: none"> Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987 Amended by; Act, No. 26 of 1991 Act, No. 18 of 2003 Act, No. 47 of 2009 Code of Best Practice on Corporate Governance, 2008 Code of Best Practice on Corporate Governance, 2013 Securities and Exchange Commission of Sri Lanka rules, No. 1215/2 of 2001 Securities and Exchange Commission of Sri Lanka Regulations, 1990 	<u>General</u> <ul style="list-style-type: none"> Administers the Securities and Exchange Commission of Sri Lanka Act Oversees the Colombo Stock Exchange
3.2 Colombo Stock Exchange	<ul style="list-style-type: none"> Colombo Stock Exchange Listing Rules 	<u>General</u> <ul style="list-style-type: none"> Monitors listing rules <u>Reporting</u> <ul style="list-style-type: none"> Determines rules on interim financial statements Determines rules on financial statement preparation and sending annual reports to shareholders

2.4 Regulatory bodies

Reporting practices and activities in Sri Lanka are influenced by the various regulatory bodies listed in the previous section. The following sections describe these influencing regulatory bodies and their roles, rules, guidelines and implications on reporting by PLCs in Sri Lanka.

2.4.1 The Registrar of Companies (RC)

The RC administers the Companies Act, No. 7 of 2007⁵ ensuring the efficient and effective implementation, administration and enforcement of several legislative enactments assigned to it. The Companies Act, among other legal requirements, specifies requirements for accounting and auditing practices to be adopted by companies incorporated in Sri Lanka.

The Companies Act specifies certain accounting obligations for limited liability companies. Such requirements include: maintenance of proper accounting records in a way that enable the determination of financial position, preparation and auditing of financial statements (Section 148); the financial statements of a company to give a true and fair view of the state of affairs of the company as at the balance sheet date and the profit or loss of the company for the accounting period ending on that balance sheet date (Section 151); certification of financial statements by the person responsible for their preparation stating that the statements are in compliance with the requirements of the Companies Act and placing the signatures by two directors on behalf of the Board of Directors; and making them available within 6 months after the balance sheet date (Section 150). Additionally, in the case of a public limited company, the financial statements should be open to inspection by the general public at its registered office at all times (Sections 116 and 148). Thus, through the introduction of several measures connected with reporting of activities undertaken by PLCs, the RC has made a substantial attempt to make the reporting practices of Sri Lankan PLCs transparent.

⁵ The Companies Act (2007), which superseded the 25 years old Companies Act, No. 17 of 1982, is based on the New Zealand Companies Act of 1993 and introduced far-reaching changes to the company law in Sri Lanka.

2.4.2 Capital Markets

Governance and regulation of the securities market in Sri Lanka is conducted by the Securities and Exchange Commission (SEC) and the Colombo Stock Exchange (CSE) of Sri Lanka.

2.4.2.1 Securities and Exchange Commission of Sri Lanka (SECSL)

The Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987, established the SEC to regulate the securities market of Sri Lanka; to grant licences to stock exchanges, managing companies in respect of each unit trust, stock brokers and stock dealers who engage in the business of trading in securities; to register market intermediaries; and to set up a compensation fund (Parliament of Sri Lanka). The protection of interests of investors is one of the main objectives of the SEC. The SEC has given powers by the above act to issue general or specific directions to stock exchanges, stockbrokers, managing companies, and trustees of unit trusts or a market intermediary from time to time. Also, it has issued a number of regulations and guidelines for listed companies in Sri Lanka. Although these regulations and guidelines influence the role of accounting of listed companies, only some are mandatory.

SEC rules require the board of directors of every listed company to ensure that all the listing requirements of the Colombo stock exchange are met on a continuing basis (Securities and Exchange Commission of Sri Lanka, 2001). For a listed bank the rules are even more specific, for example, the Chief executive officer (CEO) and the chief financial officer (CFO) should forward a declaration specifying that all reasonable steps have been taken to ensure a true and fair view of the financial statements and ensure that declaration is included in the annual report (Securities and Exchange Commission of Sri Lanka, 2008).

2.4.2.2 The Colombo Stock Exchange (CSE)

The CSE is the main stock exchange in Sri Lanka. As of 31st March 2014, the CSE had 293 listed companies with a combined market capitalization over 2,498 billion Sri Lankan Rupees (LKR) which equates to (approximately) NZ\$22.6 billion⁶. The

⁶As of 9th June 2014 NZ \$ 1 = 110.6484 LKR.

CSE was established in 1985. It functions under the license issued by the Securities and Exchange Commission of Sri Lanka. The CSE is a company limited by guarantee and established under the Companies Act No. 17 of 1982. The CSE is a mutual exchange and has 15 full members and 13 Trading Members licensed to trade both equity and debt securities. All members are licensed by the SEC to operate as stockbrokers. All members are corporate entities while some members are subsidiaries of large financial institutions.

The CSE is one of the most modern exchanges in South Asia, providing a fully automated trading platform. The CSE has issued a number of listing rules, including those related to accounting and reporting, to establish an orderly and fair market. Companies listed on the CSE must abide by these rules. In the course of its operations, the CSE interacts with many customers and stakeholders which include issuers (such as companies, corporations and unit trusts), commercial banks, investment banks, fund managers, stockbrokers, financial advisers, market data vendors, and investors.

The listing rules of the CSE specify the preparation and submission of interim financial reports and the circulation of annual reports (CSE Listing Rules, 2010). Adhering to these listing rules, a listed entity must prepare its interim financial statements (in compliance with SLAS 35, Interim Financial Reporting) on a quarterly basis and file at the stock exchange for public release, not later than forty five (45) days from the end of the first, second and third quarters and two (2) months from the end of the fourth quarter (Section 7.4) (Colombo Stock Exchange, 2014).

Further, a listed entity shall issue an annual report to the shareholders and to the stock exchange within a period not exceeding five (5) months from the close of the financial year of the entity. The Audited Financial Statements must be published in accordance with the Sri Lanka Accounting Standards (Colombo Stock Exchange, 2014).

2.4.3 The Central Bank of Sri Lanka (CBSL)

Banks registered in Sri Lanka are monitored by the CBSL, which is engaged in the continuous regulation and supervision of all banking institutions in Sri Lanka, with a view to ensuring the safety and soundness of banks and banking system and

safeguarding the interests of depositors. Part V of the Banking Act, No. 30 of 1988, amended by Act, No.46 of 2006, specifies accounting, auditing and other information that must be provided by banks. By the power vested through the Banking Act, the CBSL stipulates the guidelines for the preparation of financial statements, form and disclosure requirements and the publication of financial statements. Every licensed commercial bank must publish its audited financial statements within five months after the close of its financial year in Sinhala, Tamil and English (the three main languages of the country) daily newspapers circulating in Sri Lanka. The banks must also transmit those records to the director of the bank supervision department of CBSL within that period (Section 38(1)). Other than annual financial statements, the CBSL requires the publication of quarterly financial statements in newspapers (in Sinhala, Tamil and English) within two months of the end of each quarter. These requirements support good reporting practices for the banks while providing on-time information to the shareholders (Banking Act, No. 30 of 1988, Sri Lanka).

Every licensed commercial bank must prepare its financial statements including disclosures in accordance with the formats specified by the Monetary Board of CBSL (Section 38(3)). CBSL requires every licensed commercial bank to exhibit its consolidated financial statements (including subsidiary companies and associate companies) in each of its places of business until the consolidated financial statements for the succeeding financial year is prepared and exhibited (Section 38(4)). The purpose of providing specified formats for financial statements is to ensure uniformity of presentation and is intended to improve comparability of performance and stability among banks (Banking Act, No. 30 of 1988, Sri Lanka).

The rules and regulations of the Banking Act 1988, as well as directions, circulars and guidelines of the CBSL require commercial banks to submit various periodic reports. Specifically, daily (e.g. foreign exchange position and liquidity data), weekly (e.g. interest rates), monthly (e.g. assets and liabilities, liquid assets, and income and expenditure), quarterly (e.g. non-performing assets exceeding LKR 500,000 and risk-based capital calculations), and annually (e.g. assets and liabilities, income and expenditure, and calculations of capital adequacy ratios). This periodic

reporting requirement facilitates regulatory oversight by the regulatory bodies as well as information requirements of stakeholders.

Based on the powers of the Banking Act 1988, the Monetary Board of CBSL recommends a list of qualified auditors to audit the accounts of licensed commercial banks. Accordingly, all licensed commercial banks select their auditors from the list supplied by the CBSL (Section 38A). The purpose of nominating a list of auditors for commercial banks is to ensure high quality audits.

In the recent years, the regulatory and supervisory regime of CBSL has been further strengthened and disclosure requirements tightened to be in line with international standards and best practices. These moves intended to ensure that listed banks apply good reporting practices and that potential risks to financial system stability are addressed in a timely manner. With a view to assessing the capital adequacy of banks and determining whether banks hold adequate capital to cover all risks, directions in respect of the Supervisory Review Process under Pillar 2 of Basel II, were issued.

Following the adoption of the International Financial Reporting Standards from 2012, financial reporting and disclosure standards (which promote market confidence and transparency) have been further strengthened through the introduction of new formats for the preparation and presentation of Annual Accounts. Banks were also mandated to publish annual audited financial statements and qualitative disclosures on their websites (Central Bank of Sri Lanka, 2013).

Finance companies also come under the jurisdiction of the CBSL. They are licensed by the Monetary Board of the CBSL under the Finance Companies Act, No. 78 of 1988, and are supervised by the Department of Supervision of Non-Bank Financial Institutions of CBSL.

2.4.4 Professional accounting bodies

The Institute of Chartered Accountants of Sri Lanka (CASL), the Association of Chartered Certified Accountants (ACCA) and the Sri Lanka Division of the United Kingdom Chartered Institute of Management Accountants are three self-regulatory organisations for accountants in Sri Lanka. In addition, the Association of

Accounting Technicians was established with the objective of creating middle-level accounting professionals. CASL is the strongest local professional association as is the sole authority in the country for setting and adopting accounting and auditing standards under Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995. The application of these standards is mandatory for Specified Business Enterprises (SBE). Specified Business Enterprises (SBEs) include listed companies, banks, insurance companies, factoring companies, finance companies, leasing companies, unit trusts, fund management companies, stock brokers and stock dealers, and stock exchanges (Institute of Chartered Accountants of Sri Lanka, 2014).

The Accounting and Auditing Standards Act established the Accounting Standards Committee (ASC), the Auditing Standards Committee (AuSC), and the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB). ASC and AuSC make recommendations and assist CASL in the adoption of accounting and auditing standards (Sections 8 and 9). SLAASMB is an independent corporate body, established to monitor SBEs to ensure their compliance with the Sri Lanka Accounting Standards (SLAS) and Sri Lanka Auditing Standards (SLAuS) in the preparation and audit of financial statements (Section 11) (Parliament of Sri Lanka). Only members of CASL are qualified to conduct an audit of an SBE.

To develop the corporate reporting in the country, CASL made efforts to align Sri Lanka accounting and auditing standards with the International Financial Reporting Standards (IFRS). CASL adopts all IFRS issued by International Accounting Standards Board (IASB). The Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 authorises CASL to issue Sri Lanka Accounting Standards and requires SBEs to prepare and present their financial statements in compliance with Sri Lanka Accounting Standards⁷. In addition, CASL has adopted all IFRIC (interpretations of International Financial Reporting Interpretations Committee) and SIC (interpretations given by Standard Interpretations Committee) pronouncements, issued by IASB. CASL has sole authority to addendum any requirement stipulated under IFRIC and SIC. Sri Lanka Accounting Standards also comprises Statements of Recommended Practices (SoRPs), Statement of Alternate

⁷ Sri Lanka Accounting Standards comprise Accounting Standards prefixed both SLFRS and LKAS. SLFRS refers to Sri Lanka Accounting Standards corresponding to IFRS and LKAS are Sri Lanka Accounting Standards corresponding to IAS. Sri Lanka Accounting Standards are commonly referred by the term of SLFRSs.

Treatment (SoATs) and Financial Reporting Guidelines issued by the Institute (Institute of Chartered Accountants of Sri Lanka, 2014).

CASL began issuing codes on corporate governance in 1997. It issued its first code of corporate governance (the Code of Best Practice on Matters Relating to Financial Aspects of Corporate Governance) in 1997, followed by the Code of Best Practice on Audit Committees in 2002, the Code of Best Practice on Corporate Governance in 2003, the Code of Best Practice on Corporate Governance in 2008 and Code of Best Practice on Corporate Governance in 2013. CASL encourages non-financial reporting including sustainability reporting among the corporations in the country. In ensuring Sri Lanka's PLCs are in line with these relevant trends, CASL, in association with the International Integrated Reporting Council (IIRC), has taken leadership in providing knowledge of and insights into this initiative in Sri Lanka. Although Integrated Reporting (IR) is not mandatory in Sri Lanka, CASL has taken steps to encourage companies to practice IR. These steps will be discussed further in Chapter 6, section 6.2.3: Normative isomorphism.

2.5 Summary and conclusions

This chapter provided background information and considered the extent to which the reporting practices of Sri Lankan PLCs is influenced by the legislative and regulatory framework set by the monitoring organisations. There are several regulatory and institutional arrangements designed to improve the accounting and disclosure requirements of PLCs in the country. The strengthened disclosure requirements, including qualitative disclosures, imposed by regulatory institutions are significant steps taken towards the improvement of the reporting and disclosures of the PLCs in Sri Lanka. CASL has been at the forefront of encouraging PLCs to adopt IR. To date, no studies have focused on how the early adopters of IR are managing and implementing this new approach to reporting. As yet, there are no requirements for mandatory IR reporting in Sri Lanka. The next chapter discusses the development of integrated reporting and literature relating to the most important aspects of IR.

CHAPTER 03

LITERATURE REVIEW: THE DEVELOPMENT OF INTEGRATED REPORTING

3.1 Introduction

This chapter provides a review of the corporate reporting literature. The discussion of the development of corporate reporting literature covers three key sections: historical development of Financial Reporting (Section 3.2), modern development in Corporate Reporting (Section 3.3), which includes environmental reporting (section 3.3.1), Triple Bottom Line reporting (section 3.3.2), Corporate Social Responsibility (section 3.3.3), and Sustainability Reporting (section 3.3.4). Section 3.4 considers the weaknesses in Corporate Reporting that set in motion the contemporary development of Integrated Reporting (Section 3.5). Section 3.6 discusses the origins and significant organisations relating to IR. Section 3.7 presents some challenges and weaknesses of IR.

As the focus of this study is Integrated Reporting (IR), special attention is given to why corporations need IR (section 3.8), future oriented predictions in IR (section 3.9), the issues of establishing materiality levels for the non-financial information in the Integrated Annual Reports (section 3.10), and the challenges of implementing IR (section 3.11). Section 3.12 concludes the chapter.

3.2 Historical development of Corporate Reporting

Throughout its history, financial reporting has continuously evolved. As a service activity, the practice of accounting must respond to changes in the context in which it operates (Beattie, 2000). The corporate annual report is the main communication vehicle that managers use to communicate the effectiveness of their accomplishments in meeting their fiduciary duties and carrying out their stewardship functions (Anderson, 1998). Traditionally 'Business Accounting' has focussed on the financial accounts of businesses. Accountants have been required to provide a 'true and fair' view of the financial state of a business on the date of its accounts.

Littleton (1933, p. 361) states “accounting is relative and progressive”. The phenomena which form its subject matter are constantly changing. Older methods become less effective under altered conditions and earlier ideas become irrelevant in the face of new phenomena. Accounting has developed with the surrounding conditions during different time frames to provide satisfactory information to the shareholders. Financial accounting is based on accounting information which is gathered within organisations and then prepared for presentation to external parties through disclosure in external reports (Schaltegger, Bennett, & Burritt, 2006a). Changes brought about by the Industrial Revolution were responsible for much of the early development of financial accounting (Beattie, 2000). The development of the limited company as a form of enterprise necessitated the development of corporate reporting as a means of communication between the managers of the company and its owners. This need became increasingly apparent with the growing size of such enterprises and the concomitant divorcing of ownership from management in such organisations (Crowther, 2002). Related significant influences include the development of active markets for shares, the formation of professional accounting associations, and the regulation of accounting and auditing practices. In recent times, the professional bodies have sought to monitor the environment, identify key changes, and develop strategies to accommodate these changes. Changes in accounting practice are highly pragmatic (Beattie, 2000). Crowther (2000) identifies four stages in the evolution of corporate reporting as reproduced in Table 4.

During the past few years the reporting context of global corporations has been affected by several demands. These include the worldwide demand for transparency and accountability, expansion of corporate governance, expectations and renewed commitments to ethics, demands for a more complete picture of the health and stability of companies, consideration of risk management practices and value creation in the environmental and social arena, as well as significant discussions around regulation and mandatory transparency on governance, ethics, and other non-financial issues (KPMG, 2008, 2011b). These demands have led to the modern developments of Environmental reporting, Triple Bottom Line reporting (TBL), Corporate Social Responsibility (CSR), and Sustainability Reporting.

Table 4: Stages of Corporate Reporting

Stage	Description
Stage 1: Pre-1940	Corporate reporting is simply an internal transaction of an organisation as a means of communicating between the managers and owners of the business. At this time the managers of the organisation recognised their agency relationship with shareholders and were fulfilling their duty to shareholders by reporting upon their actions and the results of those actions.
Stage 2: 1940–75	Organisations and managers choose to recognise the importance of attracting inward investment. The focus of reports moves to retain current investors and attract potential investors. This change necessitates an increasing focus upon future prospects for the firm rather than merely a reporting of past performance.
Stage 3: 1975–95	The focus of reporting extends from current and potential investors to external environment. Thus, the report now becomes predominantly forward-looking and acknowledges the rest of the stakeholder community and seeks to demonstrate corporate citizenship by commenting upon relationship with, and benefits accruing to them. Indeed, the report has tended to become a mechanism for self-promotion.
Stage 4: post-1995	This stage considered to be the stage of electronic communication and reporting. Paper based annual reports extends to electronic communication of the performance of the firm, which incorporates its annual report into a wider range of information concerning the company.

Source: Crowther (2000, pp. 1843-1845)

3.3 Modern development in Corporate Reporting

During the 1970s, 1980s, and 1990s, different approaches to financial reporting were proposed and supported. These include CSR, ‘sustainability’ reporting, (Unerman, Bebbington, & O’Dwyer, 2007), carbon or environmental reporting or ‘green accounting’ (Owen, Gray, & Bebbington, 1997), and TBL reporting (Elkington, 2004). Green accounting has been declared responsible for giving rise to ‘sustainability reporting’ (Choudhuri & Chakraborty, 2009, p. 46).

Different terminologies exist to refer to the same reporting approaches. The term ‘sustainability accounting’ has often been used interchangeably with CSR and the TBL headings of economic viability, social responsibility and environmental responsibility (Owen, 2013). CSR is used interchangeably with corporate social disclosure, corporate social responsibility reporting/disclosure, triple bottom line reporting, and of late, corporate sustainability reporting (Douglas, Doris, & Johnson, 2004).

Over time, various non-financial types of corporate reporting have grown to fill gaps in information (Clements-Hunt & Lehrman, 2012). The four main non-financial information disclosure practices (environmental reporting, TBL, CSR and sustainability reporting), that were developed to fill the information needs of the various stakeholders of corporations, are introduced in the following sub-sections.

3.3.1 Environmental reporting

Since the early 1970s, there has been an increasing concern about environmental issues. Corporations have been identified as the major actors responsible for environmental contamination. Therefore, there has been an increasing pressure on corporations to lessen the negative impact on the environment from their operations and to report the impact of their activities on the environment. To meet the increasing demands of stakeholders regarding environmental protection and pollution prevention, corporations started disclosing their impact on the natural environment (da Silva Monteiro & Aibar - Guzmán, 2010). Often the results of these impacts are not reflected in the figures shown in the reported financial accounts (European Commission, 2000).

Corporations have tended to voluntarily disclose information about environmental influences from their activities. However, environmental impacts have been included in the companies’ annual reports in order to improve their image and to avoid the negative consequences caused by conflicts with stakeholders (da Silva Monteiro & Aibar-Guzmán, 2010). Environmental reporting may be viewed as a means of legitimizing a company to its stakeholders, as companies seek to persuade society that they have stakeholders’ interests at heart and that they share common objectives (Deegan, 2002; Deegan, Rankin, & Voght, 2000; Mathews, 2004).

Traditional annual reports and environmental reporting are retrospective and do not present future targets or crucial risks that may become relevant in the future (Jensen & Berg, 2012).

Although corporate annual reports are financial in nature, until the latter part of the twentieth century much environmental reporting took place via the medium of annual reports. Some organisations used their annual reports to disclose information about their environmental impacts on the society in which they operated (Unerman, 2000). As social and environmental reporting expanded, increasingly organisations began to separate out social and environmental disclosures, using media other than the annual report to disclose much of social and environmental information. For many of these organisations, the annual report remained primarily focused on communicating information of core relevance to their financial stakeholders. Information considered to be primarily of relevance to other stakeholders was published in stand-alone social and environmental reports and/or other interactive media such as sustainability web sites (de Villiers & van Staden, 2011).

With the growth in stand-alone social and environmental reporting practices, initiatives and guides developed to direct those organisations that implement social and environmental reporting practices (de Villiers, Rinaldi, & Unerman, 2014). The Institute of Social and Ethical Accountability and the Global Reporting Initiative (GRI) are among the organisations that developed the most widely used reporting and assurance standards for social and environmental reporting (Buhr, Gray, & Milne, 2014). The Global Reporting Initiative Guideline is the most commonly applied and are generally accepted as being the most comprehensive and credible environmental, social, and governance disclosure framework (KPMG, 2012a). One of the aims of standardisation of social and environmental reporting is to enhance the credibility and comparability of those reports (de Villiers, Rinaldi, & Unerman, 2014). During the 1980s, social reporting lost momentum as it was not institutionalised, and interest faded away.

3.3.2 Triple Bottom Line reporting (TBL)

TBL reporting became popular during the late 1990s (Elkington, 2004). The Sustainability Institute introduced the concept of TBL reporting in 1994 (Azam, Warraich, & Awan, 2011). TBL focuses on economic, social and environmental aspects (Oates, 2009). Specifically, TBL suggests that companies should prepare three different (and quite separate) bottom lines, based on the three Ps: a traditional 'profit account' (Economic); a 'people account' (Social), of how socially responsible an organisation is; and the company's 'planet account' (Environmental) or how environmentally responsible it has been (Owen, 2013).

TBL reporting is an accounting concept directly aligned with sustainable development, i.e. it suggests that financial, social and environmental components are an integral part of business and should be considered hand in hand with business decisions (Lawrence, Davey, & Low, 2012, p. 140). TBL stresses that a company should be responsible in considering the concerns of all stakeholders instead of only shareholders (Azam et al., 2011, p. 56). It seeks to present environmental and social performance information along with financial performance information (Potter et al., 2013).

In general, humankind strives to ensure that future generations enjoy a healthy, equitable and prosperous life on earth. To achieve this, it is argued that organisations should adopt the TBL concept, because it offers a multi-purpose approach for the collection, systemisation, quantification and evaluation of all the relevant issues that are found in a corporate environment (Kleine & Von Hauff, 2009). TBL reporting recognises that there will be a trade-off between social and environmental activities of benefit to the community and the maintenance of business profitability (Lawrence et al., 2012).

Critics argue that without standardized environmental and social reporting criteria linked to bottom line performance, the TBL concept cannot adequately serve its intended purpose. Thus, TBL reporting needs further standardization and enforcement by the accepted accounting standards organisations and corporate boards of directors to fully serve its purpose (Christofi, Christofi, & Sisaye, 2012). This has not been achieved.

3.3.3 Corporate Social Responsibilities

The discussion on corporate social responsibilities and accountability started at the beginning of the 20th century (Bandeira & Pinto, 2013). “The idea about the ‘socially responsible corporation’ which emerged in the 1930s and rose to prominence in the decades after the Second World War was markedly more radical than contemporary ideas about CSR.” (Ireland and Pillay, as cited in Monciardini, 2011, p.77). During that era CSR was associated with issues such as corporate governance, shareholder primacy, and corporate duties to employees, consumers, creditors and society. In recent decades that association has changed and CSR realigned its scope to become more shareholder centred (Bandeira & Pinto, 2013). CSR is the process of communicating the social and environmental effects of organisations’ economic action to particular interest groups within society and to society at large (Gray, Owen, & Maunders, 1988). By 2008 CSR became a mainstream expectation of companies (KPMG, 2008).

More recently, many commentators have realised that large corporations make operating decisions which have huge impacts on our natural and social environments (Colceag, Caraiani, Dascalu, Lungu, & Guse, 2010, June; Dascălu, Caraiani, Gușe, Lungu, & Colceag, 2012). It has therefore been argued that businesses should recognise their social responsibilities to the societies that host them and should publish Corporate Social Reports (European Commission, 2000). There has been a growing trend for CSR reporting among leading companies in the world. In 1999 about 39 per cent of the Global Fortune 250 companies (G250) reported on their social, ecological and economic activities, this number increased to 80 per cent by 2008 (KPMG, 2008). In 2013, CSR reporting of G250 companies increased to 93 per cent (KPMG, 2013).

Visser, Matten, Pohl, and Tolhurst (2007) argue that CSR is all about business performance in a variety of social and environmental aspects that usually embrace issues of diversity, philanthropy, socially responsible investing (SRI), environment, human rights, workplace issues, business ethics, sustainability, community development, and corporate governance. CSR has become a process of communicating the social and environmental effects of organisations’ economic

actions to particular interest groups within society and to society at large (Gray et al., 1988). Thus, CSR gained the support that TBL needed to succeed.

3.3.4 Sustainability Reporting

The concept of sustainability accounting has emerged over a period of years from both philosophical accounting discussions (Bebbington, 2001; Bebbington & Gray, 2001), and developments in accounting (Schaltegger & Burritt, 2006). It evolved as a means for business organisations to manage and balance their productive efforts with those of the environment and their surrounding communities (Christofi et al., 2012). The concept rose to prominence following the Brundtland report in 1987. It rapidly became the core concept in discussion of humankind's interaction with the physical environment. Further, it appears as a concept that is universally accepted as a desirable, even essential, yardstick by which to assess humankind's actions (Gray, 1994).

The sustainability reporting concept originated during the 1980s through an awareness campaign that urged nations to find alternative means of economic expansion without destroying the environmental resources or sacrificing the well-being of future generations (Choudhuri & Chakraborty, 2009, p. 48). Sustainability reporting describes a new formalised means of communication which provides information about corporate sustainability (Schaltegger et al., 2006a). Sustainability reporting originated with the publishing of first wave of social reports, mainly USA and Western Europe (Fifka, 2013; Kolk, 2010). Sustainability reporting also has its roots in the CSR tradition (Perez & Sanchez, 2009).

Environmental considerations are often the focus of attention in sustainability reports. In addition to preservation of the physical environment and stewardship of natural resources, sustainability considers the economic and social context of doing business and encompasses the business systems, models and behaviours necessary for long-term value creation, while preserving or maintaining capital as defined from economic, social and environmental perspectives (Owen, 2013).

In 1997, the Global Reporting Initiative (GRI) was created under the guidance and support of the United Nations Environmental Programme (UNEP) in cooperation with the Coalition for Environmentally Responsible Economies (CERES) and the

Tellus Institute to provide the international community with a reporting framework to guide their sustainability efforts and initiatives (Christofi et al., 2012).

In 2000, the GRI issued its first Sustainability Reporting Guidelines. In June 2000 the European Commission published “*EU Financial Reporting Strategy: The Way Forward*”, which suggests that annual reports should not be limited only to the financial facet of a business, but also where appropriate, an analysis of environmental and social aspects necessary for an understanding of the company’s development, performance or position should be disclosed (European Commission, 2000).

The GRI provides guidelines as initiatives to measure organisation’s sustainable performance regardless of the organisation’s size, sector, or location. Its focus is both stakeholders within and outside the organisation. “It captures sustainable performance in six dimensions: economic, environmental, labour practices and decent work, human rights, society, and product responsibility” (Abeysekera, 2013, p. 231). The objective of the GRI is to build a reporting structure for providing stakeholders with applicable information regarding a company’s economic and environmental performance along with its social performance (Azam et al., 2011).

Sustainability reports prepared in accordance with GRI guidelines become more complex and lengthy (de Villiers, Rinaldi, & Unerman, 2014). Because of the high level of detail in the sustainability reports, it is difficult for readers to systematically link information across different perspectives and areas of an organisation. Such linking is important because of the impact of one area on other areas (Hopwood, Unerman, & Fries, 2010). Most importantly, information in the sustainability reports is rarely presented in connection with the business model and strategy of an organisation. This makes it difficult for investors to understand how environmental, social, and governance performance link to financial performance and how sustainability issues affect the value creation process of an organisation (Eccles & Serafeim, 2014).

Some authors interpret sustainability reporting as a corporate attempt to legitimize business activities. Sustainability reporting may be perceived as the outcome of ‘social constructivism’ where the discourse within the accounts is constructed for

rhetorical and political purposes (Everett & Neu, 2000; Livesey & Kearins, 2002). Though sustainability reporting was expected to overcome the weaknesses and fill the vacuum of financial accounting, it does so incompletely because the information provided lacks credibility, timeliness, and relevance (Eccles & Serafeim, 2014). More thought should be devoted to the internal processes of developing and generating sustainability reports (Frostenson, Helin, & Sandström, 2012; Schaltegger, 2012).

Regardless of perceived weaknesses, during the last decade the zenith of accounting and reporting was sustainability accounting and reporting with its conceptual emphasis on accounting for eco-systems and for communities, and consideration of eco-justice, as well as more conventional issues of effectiveness and efficiency (Gray & Milne, 2002).

3.4 Weaknesses in Corporate Reporting

Stakeholders have increased their information requirements to aid their decision making, including the disclosure of additional non-financial information to complement financial indicators (Eccles & Serafeim, 2011b). Unfortunately, current reporting practices are unable to meet the increasing information requirements. Critics and practitioners have identified several weaknesses in the current reporting practices. These drawbacks limit the usefulness of accounting information in the decision-making process of stakeholders.

One of the important drawbacks of financial reporting is that “it does not provide information on a firm's use of external capital, which are not owned or controlled by them” (Dande, 2013, p. 106). Currently, corporations prioritise short term financial gains over long term value generation, and risk-taking approaches lead to market instability. These factors have the potential to harm the individual businesses and the entire economy. Current corporate reporting practices do not discourage these because they ignore factors such as risk, strategy, governance and sustainability of businesses (ACCA, 2011b).

Though environmental, ‘green’, sustainability and TBL accounting focuses on the external accountability mechanism (financial reporting) and on providing an assessment and managing the social and environmental costs and impacts of the

company's operations (management accounting), other aspects, such as strategic outlook, governance issues and key risk analysis, are much less prominent in such reporting models (Owen, 2013). These models are then found wanting.

CSR has also been criticised. Although freestanding CSR reports have been published along with mandatory financial reports in numerous forms since the 1970s, stakeholders struggle to identify material information which has an impact on an organisation's success. This is due to the large volume and variety of non-financial information (Potter et al., 2013). Yet, current reporting lacks completeness. Further, "if reports are to be completed covering all material aspects from a stakeholder perspective, then key stakeholders must be consulted" (Adams, 2004, p. 732). This consultation is not always undertaken.

Over the past 20 years, the information function of financial reporting has been frequently criticised because many of the assets that corporations use are not represented in the balance sheet. This lack is especially noted when the economy becomes more knowledgeable and information-based (Eccles & Serafeim, 2014). The growing number and size of intangible assets not recorded in the balance sheet indicates the failure of the financial reporting information function (Amir & Lev, 1996; Eccles, Herz, Keegan, & Phillips, 2002). Investors' interest in sustainability information about environmental, social and governance matters has been increasing (Ioannou & Serafeim, 2015), but, sustainability reporting has not proven to be a silver bullet in mitigating the limitations of financial reporting. It is criticised as incomplete and limited in scope (Adams, 2004). At the same time, information in sustainability reports becomes less valuable due to these reports being published several months after the financial reports.

Voluntary disclosure of non-financial information surveys show that corporations may use voluntarily disclosures to show their superior commitment to sustainability and to pose as "good" corporations, even when they do not strongly engage with social and environmental issues (Gray, Kouhy, & Lavers, 1995; Guthrie & Parker, 1990). There is an increasing sense among stakeholders that existing corporate reporting, which is characterized by a strong focus on financial performance and a lack of information about corporate strategy and nonfinancial performance, is becoming increasingly less useful for their decision making (Busco, Frigo,

Quattrone, & Riccaboni, 2013a, p. 34). The financial crisis that plunged the world into a deep recession in 2008 clearly showing that traditional annual reports, despite their length and complexity, no longer adequately address risks (World Business Council for Sustainable Development, 2014). The inadequacy and lack of usefulness of financial reporting is clearly indicated.

The weaknesses in the current reporting system fuel the need for a new reporting regime. Corporations need a reporting system which brings together material information about an organisation's strategy, governance, performance and prospects. As a result of the inability of current reporting practices to fulfil the information needs of stakeholders, and other weaknesses of reporting, the emergence of IR is timely and may provide relief for most of the weaknesses.

3.5 Contemporary development: Integrated Reporting (IR)

Climate change, biodiversity loss, resource depletion and globalisation are among the daunting challenges faced by current societies (Brown & Dillard, 2014). The climate crisis is seen by the United Nations as a bigger crisis than the economic crisis (Dascălu et al., 2012). Many people believe that fundamental changes in socio-technical systems, including accounting, are needed to address such issues. Accounting and business professionals' willingness to report on social and environmental impacts, which they paid little attention to previously, is increasing (Brown & Dillard, 2014). Corporate reporting's answer to this issue is represented by Integrated Reporting (IR) (Dumitru et al., 2013).

The world has changed due to globalisation, advances in technology, rapid population growth and increasing global consumption of resources. This has had a significant impact on the quality, availability and price of resources. It also puts increasing pressure on ecosystems that are essential to the economy and society. As business has become more complex, gaps in traditional reporting have become apparent. An improved reporting system is expected to reflect the commercial, social and environmental context within which a corporation operates, consider strategic rather than operational aspects, a longer- rather than short-term outlook, prospective rather than retrospective analysis and provide a clear and concise representation of how an organisation demonstrates stewardship and how it creates

value, now and in the future. The latest reporting innovation, IR, promises to be holistic, strategic, responsive, material and relevant across multiple time frames (Adams & Simnett, 2011). Further, it is claimed that IR can help drive organisational change towards more sustainable outcomes (Eccles & Krzus, 2010a).

The concepts, elements and principles that characterise the way organisations report their annual performances are being questioned, debated and redesigned throughout the world (Busco, 2014). A growing awareness of significant social, political and environmental pressures facing modern organisations has provided an international impetus for more holistic reporting (Carels, Maroun, & Padia; de Villiers & van Staden, 2010; Mathews, 2004; Solomon, Solomon, Joseph, & Norton, 2013). The early development of IR policies and practices appears to have largely been informed and driven by considerations linked to social and environmental reporting (de Villiers, Rinaldi, & Unerman, 2014).

The World Business Council for Sustainable Development (2014) comments on features of IR. It views IR as a journey for the entire organisation. Integrated thinking is the key to successful IR, but not a prerequisite, assembling an integrated report promotes integrated thinking by breaking down silos of business activities and introducing a new way of assessing value. A study based on South African companies identified three reasons why companies develop integrated reports: adopting and demonstrating best practices among peers; leverage on IR, as a tool to meet both business and development mandates, focused on sustainability; and raising capital by communicating the integrated annual reports (IARs) to investors (World Business Council for Sustainable Development, 2014).

Transformation from traditional corporate reporting to IR will be unique for each organisation (Adams & Simnett, 2011). IR presents a series of challenges for the management and the auditors of an organisation, including the determination of materiality levels for qualitative elements that are common in social and environmental contexts (Adams & Simnett, 2011). Companies need to make sure that they have appropriate forms of stakeholder engagement (Eccles & Serafeim, 2014). Companies need commitment to create sustainable strategies for a sustainable society when applying IR. Further, IR is impossible without the integration of internal management (Thiagarajan & Baul, 2014).

Accountability is at the core of IR. The role of organisational governance is to demonstrate accountability for the organisation's actions enacted through senior management decisions, and to enhance organisational performance (Short, Keasey, Wright, & Hull, 1999). Integrated reporting unifies these two aspects by viewing them through organisational vision and organisational values (Thiagarajan & Baul, 2014). Companies are expected by society to discharge accountability to a broad range of stakeholders both for ethical and governance reasons. Stakeholder accountability and a socially responsible approach nurtures long term value and reduces reputation and operational risk (Barone et al., 2013). Integrated reporting attempts to “combine the reporting of different facets of organisational activities on a common platform with a unified objective” (Abeysekera, 2013, p. 228). Through Integrated Reports organisations demonstrate their responsibility towards the global economy, society, and the environment (Integrated Reporting Council of South Africa, 2011).

IR is intended to demonstrate the integration of financial performance with other aspects of organisational performance towards reaching an organisation's vision. Financial capital in an Integrated Report is intended to outline how it enables reaching the organisational vision (Abeysekera, 2013). An Integrated Report is not simply an amalgamation of the financial statements and the sustainability report (Mervyn King's Foreword, Integrated Reporting Council of South Africa, 2011, p. 1). It should incorporate, in clear language, material information to enable stakeholders to evaluate the organisation's performance and to make an informed assessment about its ability to create and sustain value (Mervyn King's Foreword, Integrated Reporting Council of South Africa, 2011, p. 1).

An essential feature of IR is that it provides stakeholders additional information to help them make more informed decisions about corporations and their long-term prospects (Ernst & Young, 2013b). IR accurately traverses financial and sustainability worlds or communities with their relevant traditions, and also merges short term and long term thinking, strategy and governance and numbers and figures (van Bommel & Rinaldi, 2014).

Integrated reports should be concise and inclusive of all stakeholders. Stakeholders are equally important to organisations although each have a different level of

influence. “There should be three broad stakeholders: economic (customers, suppliers, investors, and shareholders), social (staff and community), and political (regulators and government)” (Abeysekera, 2013, p. 235). The types of questions that corporate reporting is expected to answer has changed. What are the types of capital that an organisation uses and affect? To whom are organisations accountable? Can organisations currently measure, manage and communicate the social and environmental impacts of their activities? Is it really possible to capture and represent how value is created and sustained over time? (Busco, 2014). An Integrated Report is able to offer concise, stand-alone communication about how an organisation’s strategy, governance, performance, and prospects lead to the creation of value over the short, medium, and long term (Busco et al., 2013a). IR will help organisations determine how best to express their unique value-creation story in a meaningful and transparent way.

By its very nature an Integrated Report cannot simply be a reporting by-product. It needs to flow from the heart of the organisation and it should be the organisation’s primary report to stakeholders (Mervyn King’s Foreword, Integrated Reporting Council of South Africa, 2011). Additionally, it necessitates management responsibility throughout the company since environmental, social and governance matters affect core business (ACCA, 2011a). An Integrated Report allows stakeholders to gain a complete understanding of a company, its strategy and performance, and explain how the company is dealing with and has addressed sustainability challenges (ACCA, 2011a).

Traditional financial reporting does not provide a mechanism to evaluate performance relating to the use of external capitals. IR can provide a mechanism, so that it can enlighten consumers about how corporations’ consumption patterns affect people, nature and public goods (Bhattacharyya, 2013). By recognising the six different forms of capital and their interconnections, IR develops a framework and creates an opportunity for reporting social, human and other types of capital development that are not considered by GAAP reporting. Also, the IR framework offers a substantial opportunity relative to conventional reporting to showcase the role organisations play in value creation (Potter et al., 2013). The content of an IR is bound by the principle of stewardship of multiple forms of capital and value

drivers. IR presents an accounting framework that encounters all forms of capitals and their interconnections. IR is based on the principle of connectivity among these capitals. Integrated Reports are expected to present information in a way that stakeholders can understand, and further, to allow stakeholders to make decisions on these interconnected factors that contribute to value creation over time (Adams & Simnett, 2011).

Recognising the shortcomings of existing reporting models and driven by an urgent need to find more effective reporting solutions, discussions around the world have begun to focus on the new reporting regime known as IR (Integrated Reporting Council of South Africa, 2011). IR is only the tip of the iceberg. It is the visible part of what is happening below the surface - namely “integrated thinking” and “integrated decision-making” (Churet & Eccles, 2014). The IR Framework, prepared by the IIRC, highlights the importance of integrated thinking and its relationship to IR: “Integrated thinking is the active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects” (IIRC, 2013e, p. 2).

However, the usefulness of the integrated report is limited because the stakeholders do not value the integrated report, as they place more emphasis on the financial statements (McNally et al., 2017). In the absence of or with a minimum of integrated thinking, the application of codes of best practice and good governance does not automatically result in high-quality reporting (McNally et al., 2017). More work needs to be done to educate stakeholders and management on the uses and value of IR.

IR is a corporate practice that is evolving over time and is shaped by market forces in the absence of regulations (Eccles & Serafeim, 2014). IR is a new approach to reporting that may represent the next evolutionary step in accounting (Adams & Simnett, 2011). As an emerging innovative practice phenomenon, there are few academic studies available on IR (Stubbs & Higgins, 2014). To date, little has been reported about integrated reports, despite their recognised usefulness (Frías-Aceituno, Rodríguez-Ariza, & García-Sánchez, 2013). As opposed to traditional sustainability reporting, where patterns, determinants and motivations have been widely examined, it is still often unclear why corporations adopt IR (Jensen & Berg,

2012). Further, there is limited understanding about the reasons why corporations implement IR.

3.6 Integrated Reporting

3.6.1 Origins

IR originates from two distinct fields of accounting practice; financial reporting and sustainability reporting (Eccles & Krzus, 2010a). Financial reporting provides support for investors and sustainability reporting provides backing for stakeholders (Eccles & Serafeim, 2014). Until recently these reports developed along parallel tracks, focussing their respective attentions at different performance indicators and different users, leading practitioners (including accountants) to often use different languages, formats, and reports (Eccles & Krzus, 2010a)

The first company to issue an Integrated Report was Novozymes, a Danish company, in 2002, followed by a Brazilian company Natura in 2003 and the Danish Novo Nordisk in 2004. Several European and American companies started to produce integrated reports and more integrated websites (United Technologies Corporation, Aviva, Pfizer, Coca Cola, Nestlé) (Eccles & Serafeim, 2011a). In 2006, the EC Directive 2006/46 mandated that all publicly listed companies in Europe must include a corporate governance statement in their annual report (European Parliament, 2006). The corporate governance statement was in addition to the traditional financial statements and could be a stand-alone statement.

In 2010, filing integrated reports became mandatory for companies listed on the Johannesburg stock exchange (King, 2009). Companies that do not file reports have to explain the reasons why they are not doing so (Deloitte, 2012). South Africa promoted IR with the belief that the existing disclosures were not sufficient. This was a fundamental shift in the way that companies and directors acted and organised their disclosures (Institute of Directors, 2011; King, 2009). The changes are said to have achieved important results both for businesses performance and in providing information stakeholders need to assess performance (IIRC, 2011, 2013e). In March 2014 the Integrated Reporting Committee of South Africa endorsed the IIRC's 'investor value creation' focused Integrated Reporting Framework (IIRC, 2014).

Danish public companies have been required to present Integrated Reports since 2010. In France, the 2012 Grenelle II legislation required all companies (with more than 500 employees, public or private) to disclose non-financial information including environmental and social performance in their annual reports. This legislation effectively provided a foundation for a full integrated report once the IIRC issued its Integrated Reporting Framework (Eccles & Armbrester, 2011; Eccles & Serafeim, 2011a).

The production of an Integrated Report is a voluntary practice for companies in most countries. A study by Eccles and Serafeim (2011a) based on data gathered from the Sustainable Asset Management database concludes that 48 per cent of companies are practicing some degree of integration in reporting their financial and non-financial performance. In 2010, according to the Corporate Register, more than 200 organisations worldwide are purported to have produced Integrated Reports (ACCA, 2011c, p. 5). Another source (the Global Reporting Initiative) reports that approximately 160 companies were producing Integrated Reports in 2010 (Eccles & Armbrester, 2011). However, by 2018 over 300 businesses practicing IR in Japan alone and more than 1,500 businesses globally are using IR to communicate with their investors (IIRC, 2018).

3.6.2 Significant organisations involved in the development of IR

Six initiatives are seen as forerunners to the advent of IR. The 1972 United Nations Environmental Programme, the Brundtland Commission, the 1992 Rio de Janeiro Earth Summit, the 2002 World Summit on Sustainable Development, the 2012 Rio+20 conference and the 2006 alliance of the United Nations Global Compact (UNGC) and the Global Reporting Initiative (GRI), appear to have influenced assessing and reporting the effects of business in non-financial spheres.

The United Nations Environmental Programme

One of the most significant organisations that support the development of non-financial reporting is the United Nations. The United Nations General Assembly established a United Nations Environmental Programme in December 1972 following the United Nations Conference on the Human Environment (Stockholm Conference). The purpose of the new organisation was to "promote international

co-operation in the field of the environment and to recommend, as appropriate, policies to this end, [and] to provide general policy guidance for the direction and coordination of environmental programmes within the United Nations system" (Petsonk, 1989, p. 354). Subsequently, attention was drawn to the consequences of business and trade on the environment.

The Brundtland Commission

The World Commission on Environment and Development (also known as Brundtland Commission) published its final report in May 1987. The objective of the commission was to focus on the causes, rather than the effects, of environmental degradation. Unlike earlier international committees of experts, the Brundtland Commission did not wish to report on trends in the world environment. (Redclift, 1989). The Brundtland report deals not just with the adverse impacts of development on environment. It reverses this relationship and argues strongly that a degraded and deteriorating environment and resource base is now a real growing threat to development in an increasing number of countries. The report also links the deteriorating environmental situation to global macroeconomic conditions (Burton, 1987). The focus of the Brundtland commission is on the time perspective within which these problems must be resolved; it is argued that currently countries are borrowing "environmental capital from future generations with no intention or prospects of repaying" (Burton, 1987). The issue of how resources are sustainably utilised became a key mandate for stakeholders.

The 1992 Rio de Janeiro Earth Summit

The 1992 Earth Summit in Rio de Janeiro, the biggest intergovernmental conference the world had seen, was convened in Brazil by the United Nations Commission for Sustainable Development. The purpose of the 1992 Rio Earth Summit was to protect the earth and improve life for the most impoverished of its human inhabitants (Bruno & Karliner, 2002). It produced Agenda 21, an action plan for sustainable development, and created the UN Commission on Sustainable Development to oversee its implementation. That gathering was convened to seek ways to address the increasingly pressing exigencies of sustainability. Sustainability was to be achieved by seeking development which "meet the needs

of the present generation without compromising the ability of future generations to satisfy their own needs" (United Nations World Commission on Environment and Development, 1987). Businesses were implicated through the impact they made on the earth and all its peoples.

The 2002 World Summit on Sustainable Development

The United Nations World Summit on Sustainable Development held in Johannesburg in August 2002 was the fourth environmental ‘mega’ conference since the first was held in Stockholm in 1972. Two different approaches emerged to deal with the conundrum of overwhelming corporate power in a world desperately needing radical change toward sustainability. The first approach is ‘corporate responsibility’. Corporate responsibility refers to any attempt to get corporations to behave responsibly on a voluntary basis, out of either ethical or bottom-line considerations. The second approach is ‘corporate accountability’, which refers to requiring corporations to behave according to societal norms or face consequences (Bruno & Karliner, 2002, p. 34). The question arose, should responsibility be voluntary, or should it be imposed via regulation?

2012 Rio+20 conference

Green growth was a key theme of 2012 Rio+20 conference. The conference offered ‘greening the economy’ as a tool for sustainable development, and new global development goals are in the making (United Nations, 2012). Thus, the UN’s initiatives stimulated an awareness of the environmental impact of business activities throughout the world.

Alliance between UNGC and GRI

The world’s two most significant international corporate citizenship initiatives, the United Nations Global Compact (UNGC) and the Global Reporting Initiative (GRI), united in a strategic alliance in 2006. This strategic alliance aimed to provide the global private sector with an opportunity to embrace a responsible business strategy that is at once comprehensive, organizing, integrated and enjoys near or total universal acceptance. While the UN Global Compact covers citizenship “implementation” through its 10 universal principles in the areas of human rights,

labour standards, the environment and anti-corruption, the GRI's G4 Guidelines provide guidance on transparency and how to report on performance results.

The UNGC and the GRI strengthened the alliance by signing an agreement in May 2010 to align their work in advancing corporate responsibility and transparency. As part of this agreement, GRI would develop guidance regarding the Global Compact's ten principles and integrate UNGC issue areas into its Sustainability Reporting Guidelines. The UNGC would adopt the GRI Guidelines as the recommended reporting framework for the more than 5800 businesses that had joined the world's largest corporate responsibility platform. The UNGC and the GRI renewed their Memorandum of Understanding again in 2013. This occurred at the launch of G4, the fourth generation of the GRI Sustainability Reporting Guidelines.

The GRI is a non-profit multi-stakeholder, network-based organisation. It has developed a comprehensive Sustainability Reporting Framework which enables all interested organisations to measure and report in four key areas of sustainability (economic, environmental, social and governance performance) to achieve greater organisational transparency. The GRI Sustainability Reporting Guidelines are periodically reviewed to provide the best and most up-to-date guidance for effective sustainability reporting. The GRI issued the G4 Sustainability Reporting Guidelines in 2013. The aim of G4, the fourth such update, is simple: to help reporters prepare sustainability reports that matter, contain valuable information about the organisation's most critical sustainability-related issues, and make such sustainability reporting standard practice (GRI, 2014).

The push by these organisations and their consideration of the environmental impact of activities by corporations can be seen as the catalyst for the development of IR. Their call for more corporate responsibility and reporting on the use of the earth's resources and the effects on the environment require more transparency and accountability. The advent of IR could potentially address these issues faced by corporates.

3.6.3 The International Integrated Reporting Committee (IIRC)

In 2004, HRH The Prince of Wales established a project called “Accounting for Sustainability” (A4S) which brings together the finance and accounting community from business, government, academia and the capital markets. A4S’s work focuses on ways to integrate measures of environmental health, social well-being and economic performance to provide a ‘future-proofed’ framework for decision making and build the capacity needed to take action. Its purpose is to assist in ensuring that sustainable development would not only be discussed, but also embedded in organisations, to achieve a common approach in creating and implementing sustainable development strategies, to promote the idea of turning this strategy into the main organisational strategy and to encourage to recognize information about sustainability in mainstream business reports (Fijałkowska & Sobczyk, 2013).

On August 2, 2010, the A4S and the GRI announced the formation of The International Integrated Reporting Committee (IIRC) (Busco et al., 2013a). The IIRC is a joint initiative between A4S, the Global Reporting Initiative (GRI) and the International Federation of Accountants, together with a cross-section of representatives from the corporate, accounting, securities, regulatory and standard-setting sectors (ACCA, 2011b). The mission of the IIRC is

... to create a globally accepted integrated reporting framework which brings together financial, environmental, social and governance information in a clear, concise, consistent and comparable format. The aim is to help with the development of more comprehensive information about organisations, prospective as well as retrospective, to meet the needs of a more sustainable, global economy (KPMG, 2011a).

The role of the IIRC is to help develop a new internationally accepted approach to reporting – an approach which provides more comprehensive information about the full range of an organisation’s impacts and performance, past and future, in a clear, concise, consistent and comparable manner. In other words, to help develop reports that not only provide financial information, but information about an organisation’s governance, social and environmental performance; and not in disconnected sections or silos but in an integrated manner, which reflects the reality that all these

elements (financial, governance, social and environmental) are closely related and inter-dependent and flow from the organisation's overall strategy (ACCA, 2011b).

Even though IR aims to improve external reporting of the activities of businesses, the IIRC (2011) envisaged a number of benefits for corporations, which might arise following adoption of IR:

- better alignment of reported information with investor needs;
- availability of more accurate non-financial information for data vendors;
- higher levels of trust with key stakeholders;
- better resource allocation decisions, including cost reductions;
- enhanced risk management; better identification of opportunities;
- greater engagement with investors and other stakeholders, including current and prospective employees, which improves attraction and retention of skills;
- lower reputational risk;
- lower cost of, and better access to, capital because of improved disclosure;
- development of a common language, and greater collaboration across different functions within the organisation.

IR is a new reporting paradigm that is holistic, strategic, responsive, material and relevant across multiple time frames. It emphasises enhanced disclosure of the value drivers for organisations and represents a journey to more meaningful reporting (Adams & Simnett, 2011). As yet, an agreed definition for IR has not emerged.

3.6.4 Defining IR

A definition of IR is important to identify its features, the context within which IR operates and the essential requirements for its successful implementation within corporations. A definition also allows the identification of stakeholder expectations from the IR process. However, finding an acceptable definition remains elusive as writers tend to provide descriptions of its aims rather than what it is. For example, Owen (2013, p. 1) writes:

IR planned to: include a strategic rather than operational or transactional focus; longer- rather than short-term outlook; prospective rather than retrospective analysis; qualitative commentary as well as quantitative information; and reports on wider business performance metrics rather than on narrower external financial reporting data or audit compliance

Rossouw (2010) describes IR as involving: the disclosure of forward looking information, assurance on the quality of information, annual presentation, positive aspects and challenges, a holistic and integrated view of financial and sustainability elements, performance areas, assurance on material sustainability.

The International Integrated Reporting Council (IIRC) in its Discussion paper ‘*Towards integrated reporting - Communicating Value in the 21st Century*’ (2011, p.6) states:

IR brings together material information about an organisation’s strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organisation demonstrates stewardship and how it creates value, now and in the future.

According to KPMG (2011a), implementing IR is an organisational change, and not an event in itself. KPMG notes that organisations need to recognise up-front that IR is not just about producing an Integrated Report. KPMG states that it is about developing an effective integrated management and reporting process for the business which typically requires a zero-base, innovative approach that involves all disciplines within the business and effective engagement with stakeholders.

IR aims to “improve the quality of information available to providers of financial capital in order to enable a more efficient and productive allocation of capital, and support integrated thinking” (IIRC, 2013e, p. 2) and that organisations implementing IR are expected to make predictions about the future and disclose them in an integrated report. Further, IIRC indicates that the primary purpose of IR is to explain to providers of financial capital how value is planned to be created over the short, medium and long term and that the IR scope is not limited to the past and present, but extends to the future (IIRC, 2013e).

The IIRC indicates that it is not anticipated that companies will disclose all their forecast or projected results, however they should disclose the material information that will help stakeholders to assess the company's future value creation potential (IIRC & American Institute of Certified Public Accountants, 2013). IR is introduced as an attempt to promote "a more cohesive and efficient approach to corporate reporting that draws on different reporting strands" (IIRC, 2013e, p. 2). The IIRC expects IR to become the "corporate reporting norm, whereby, no longer will organisations produce numerous, disconnected and static communications" (IIRC, 2013e, p. 2). Thus, it could be summarised that IR embodies a process or communication, but no succinct definition is available.

3.6.5 The preparation of an Integrated Report

IR should enable capital providers and other key stakeholders to make decisions about the business's value and stewardship - the matters that shape its value for the longer term, its aspirations and plans for the medium-term, the business as it currently stands, and how it has delivered on its promises (KPMG, 2012b). IR is based on seven guiding principles (See Table 5). In each of these principles, an integrated report "should" provide a communication outcome.

Table 5: IR guiding principles

Guiding principle	Description
Strategic focus and future orientation	An integrated report should provide insight into the organisation's strategy, and how it relates to the organisation's ability to create value in the short, medium and long term and to its use of and effects on the capitals.
Connectivity of information	An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation's ability to create value over time.
Stakeholder relationships	An integrated report should provide insight into the nature and quality of the organisation's relationships with its key stakeholders, including how and to what extent the organisation understands, takes into account and responds to their legitimate needs and interests.
Materiality	An integrated report should disclose information about matters that substantively affect the organisation's ability to create value over the short, medium and long term.
Conciseness	An integrated report should be concise.
Reliability and completeness	An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.
Consistency and comparability	The information in an integrated report should be presented on a basis that is consistent over time and in a way that enables comparison with other organisations to the extent it is material to the organisation's own ability to create value over time.

Source: Extracted from IIRC (2013e)

These principles are related to the key content elements of an IR, shown by the IIRC (2013e), (See Table 6). Each integrated report should answer eight questions about its operations.

Table 6: Key content elements of IR

Content element	Operational question
Organisational overview and external environment	What does the organisation do and what are the circumstances under which it operates?
Governance	How does the organisation's governance structure support its ability to create value in the short, medium and long term?
Business model	What is the organisation's business model?
Risks and opportunities	What are the specific risks and opportunities that affect the organisation's ability to create value over the short, medium and long term, and how is the organisation dealing with them?
Strategy and resource allocation	Where does the organisation want to go and how does it intend to get there?
Performance	To what extent has the organisation achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
Outlook	What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
Basis of preparation and presentation	How does the organisation determine what matters to include in the integrated report and how are such matters quantified or evaluated?

Source: Extracted from IIRC (2013e)

The ACCA research study conducted in 2011 found that IR necessitates management responsibility. Further, it notes that an integrated approach requires the inclusion of non-financial risks on the company's central risk register, with due consideration for their impact in terms of both financial loss and reputational damage. Stakeholder engagement becomes an increasingly important business imperative in IR. In addition, ACCA (2011a) suggests that developing a dialogue with key internal and external stakeholders can help ensure that companies continue to focus on the most pertinent issues, identify opportunities for innovation and

growth, and build public trust. An extended concept of value creation and different types of capital are identified as new concepts and approaches in IR. These two approaches have introduced important new features for corporate reporting and are explained the next section.

3.6.6 Capital types and Value creation

The main reasons for including the six different capitals in the IR Framework are, firstly, to serve as part of the theoretical underpinning of the concept of value creation, and secondly, to provide a guideline for ensuring organisations consider all the forms of capital they use or affect (IIRC, 2013e). The IR Framework recognises that value is not generated by or within an organisation alone. Value is influenced by the external environment which provides the context within which the organisation operates; it is created through relationships with others. Value created depends on the availability, affordability, quality and management of various resources. For these reasons, IR aims to provide insights about the external environment that affects an organisation, the resources and relationships used and affected by the organisation.

All organisations depend on a variety of resources and relationships for their success. The extent to which organisations are running them down or building them up has an important impact on the availability of the resources and the strength of the relationships that support the long-term viability of those organisations.

IR reports on the company's consumption of six key sets of resources or 'capitals': financial, manufactured, human, intellectual, natural, and social (KPMG, 2011a), and in doing so, it extends the focus of company reporting beyond bottom line profit and the creation of shareholder wealth (Potter et al., 2013). The introduction of the "subjective" concepts of stock and flow of capitals creates difficulties for organisations to explain some of their capitals beyond insubstantial narratives (Cheng et al., 2014). At the heart of the IR Framework is the notion that companies should expand their reporting to include all the resources they use as inputs to their business model. The IIRC uses the term "capitals" to denote these various resources (IIRC, 2013d).

Table 7 provides a summary of the different types of capital according to the IIRC 2011 Discussion Paper on “*Towards integrated reporting: communicating value in the 21st century*”.

Table 7: Six Types of Capital

Capital type	Description
Financial	The pool of funds that is available to the organisation for use in the production of goods or the provision of services, and obtained through financing, such as debt, equity or grants, or generated through operations or investments.
Manufactured	Manufactured physical objects (as distinct from natural physical objects) that are available to the organisation for use in the production of goods or the provision of services, including buildings, equipment, and infrastructure (such as roads, ports, bridges and waste and water treatment plants).
Human	People’s skills and experience, and their motivations to innovate, including their alignment with and support of the organisation’s governance framework and ethical values such as its recognition of human rights, ability to understand and implement an organisation’s strategies, and loyalties and motivations for improving processes, goods and services, including their ability to lead and to collaborate.
Intellectual	Intangibles that provide competitive advantage, including intellectual property, such as patents, copyrights, software and organisational systems, procedures and protocols, and the intangibles that are associated with the brand and reputation that an organisation has developed.
Natural	Natural capital is an input to the production of goods or the provision of services. An organisation’s activities also impact, positively or negatively, on natural capital. It includes: water, land, minerals and forests, and biodiversity and ecosystem health.
Social	The institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being. Social capital includes: common values and behaviours, key relationships, and the trust and loyalty that an organisation has developed and strives to build and protect with customers, suppliers and business partners, and an organisation’s social licence to operate.

Source: (IIRC, 2011)

Value is created or destroyed through capitals within the ‘Business Model’ of the company. There is no single, generally accepted definition of the term “business model”. However, it is often seen as the process by which an organisation seeks to create and sustain value (IIRC, 2011, p. 10). The business model represents the chosen system of inputs, business activities, outputs and outcomes that aim to create value over the short, medium and long term (IIRC, 2011). The six types of capitals are stores of value that become ‘inputs’ to a company’s business model. However, these capitals, and their value do change over time, as they are increased, decreased or transformed through the activities and outputs of the organisation (Busco, 2014).

Figure 2 (below) illustrates integrated reporting capturing the value creation process and the six capitals. The figure illustrates that business outcomes impact the organisation and society in the form of the six capitals. Thus, IR has potential to report on the entities’ consumption of all six capitals in meaningful ways (Potter et al., 2013).

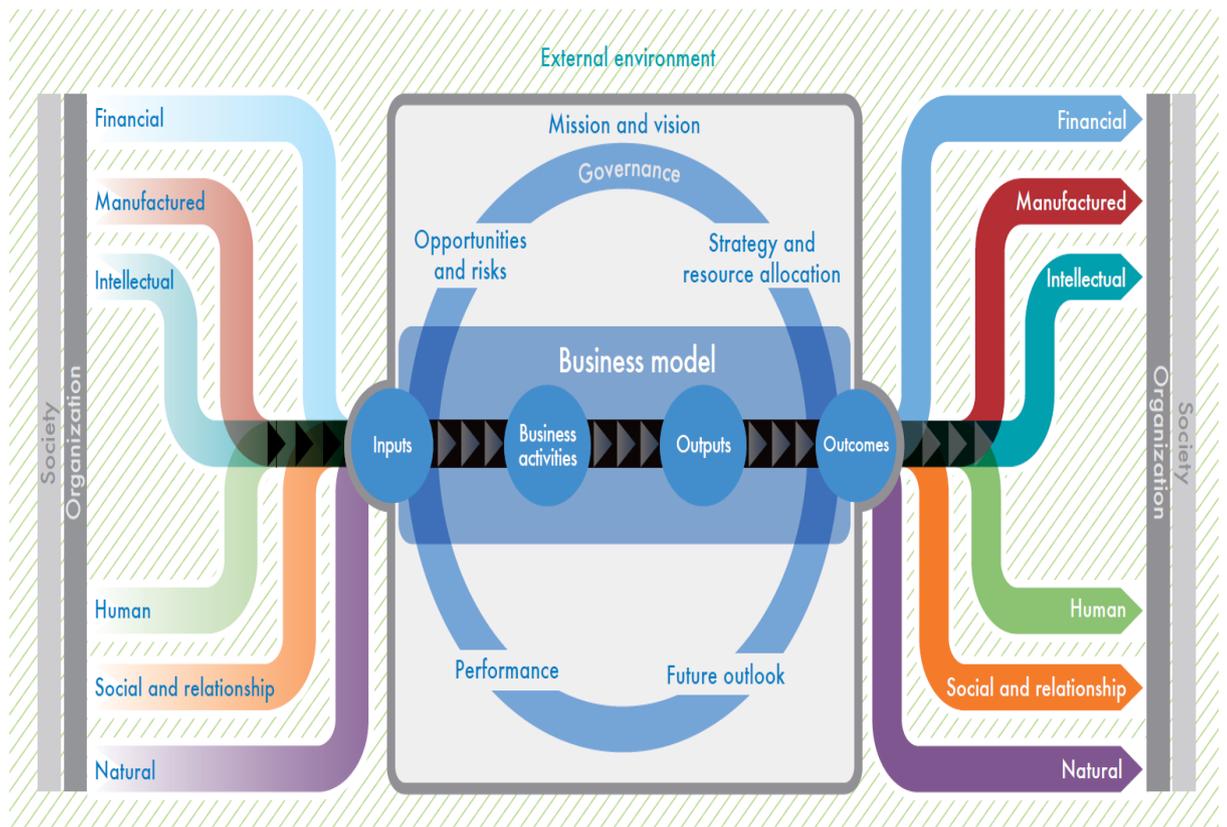


Figure 2: The complete picture of an organisation’s value creation process

Source: IIRC (2013d)

A key objective of IR is to enhance accountability and stewardship of the broad base of six kinds of capital, and to promote understanding of their interdependencies (Busco, 2014). Corporations produce goods and services to customers who value those goods and services. In the process, corporations create value for partners in the value chain, including employees, investors and others, who are involved in the value creation process. Corporations utilise a variety of capitals in the value creation process. Some capitals are internal in the sense that they are owned or controlled by the corporation, while others are external. An example of external capital is public goods, such as fresh air and knowledge (Dande, 2013). In the business model corporations consume or add value to capitals. For example, in delivering value to customers in the form of goods or services, firms consume manufactured and natural capital, while increasing financial and social relationship capitals (Dande, 2013).

3.7 Challenges and weaknesses of IR

In the absence of a generally accepted framework, companies that wish to move towards IR may encounter several dilemmas around relevance, scope, assurance and other issues (Deloitte, 2011). The absence of relevant IR standards and without mandatory assurance of non-financial information can lead to a wide diversity in the type and quality of information and forms of presentation of early integrated reports (Wild & van Staden, 2013). This suggests that early reports are not achieving the standard that meets the aims of the IIRC, i.e., integrated financial, social, and environmental information in a single report for stakeholders in a format that is concise, clearly expressed, consistent and comparable. There are some missing links in IR; such as standardisation, comparability, materiality, stakeholder engagement, assurance and trust (Bandeira & Pinto, 2013). Additionally, Cheng et al. (2014) identify the meaning of “overall stock of capital” and trade-offs between capitals as the key issues to be resolved.

IR aims to provide benefits to a range of stakeholders and, in particular, to providers of financial capital for investment decisions (IIRC, 2013a). While the initial objective of the Integrated Report was to communicate company financial and non-financial information to a broad range of stakeholders (IIRC, 2013), almost without exception, current Integrated Reports are aimed at investors (Watson, 2012). IR has

been criticised for its focus on financial capital providers while devaluing other stakeholders' needs, which are at least equally as important as investors' needs (Cheng et al., 2014). Although providers of financial capital are the primary intended users of integrated reports, IIRC claims that an integrated report should be designed to benefit all stakeholders – including employees, customers, suppliers, business partners, local communities, regulators and policy makers – interested in an organisation's ability to create value over time (IIRC, 2013e). However, Vesty, Ren, and Ji's (2018) findings based on an Australian IR pilot organisation reveal that the challenge for IR is to provide the means to report on the organisation's broader societal impacts, which go beyond measures of IR value creation. Further, they argue that the reporting in this setting is largely strategy-driven rather than a response to legitimacy pressures.

Collating and analysing financial and non-financial data and publishing annual reports by set deadlines is a significant challenge. Many managers consider integrating financial and non-financial information difficult and time consuming, though they realize and admit that it can bring significant benefits with implications for communication, investor relations, finance, sustainability, and stakeholders (Solstice Sustainability Works Inc, 2005). Time pressures and data gathering make this integration challenging. Moreover, too much forward-looking information may be detrimental to the organisation for competitive reasons. Organisations need to consider carefully the extent to which forward-looking information can be publicly shared (ACCA, 2011a).

The lack of regulations limits the usefulness of IR. There are significant variations in the IR reports among the IR practising organisations and Integrated Reports of the same organisation over time. The lack of regulations for IR reflects low comparability of information reported on IR reports (Eccles & Serafeim, 2014). Very few stakeholders use the Integrated Reports as their main source of financial and investment information; Integrated Reports are seen as additional information. Annual and interim financial reports by companies are still the mainstay of corporate financial information (Rensburg & Botha, 2014).

One other area where there are challenges for IR is assurance of Integrated Reports. A number of major challenges stand in the way of reaching assurance in Integrated Reports. The following issues highlight several high-level challenges:

- Liability concerns of the accounting firms/assurance providers (Eccles, Krzus, & Watson, 2012);
- Non-availability of an agreement around what a “true and fair” integrated report is (Eccles et al., 2012);
- Debates around whether the Integrated Reporting Framework in its current form provides suitable criteria and appropriate subject matter to enable assurance of integrated reports, most notably a better understanding of, among others, the following concepts:
 - connectivity of reporting
 - the impact of stakeholder responsiveness on reporting boundary
 - completeness of the issues reported on (Stubbs & Higgins, 2014).
- Concerns on ability to provide an assurance on the information contained in the integrated reports without considering the underlying processes of IR (Stubbs & Higgins, 2014).

McNally and Maroun (2018) found that a decision by their case organisation to prepare an integrated report gives rise to different forms of resistance which limits the change potential of the integrated reporting initiative. “A lack of understanding of the potential of integrated reporting and business management; over-reliance on rules or guidelines and a compliance-based approach to reporting are the most common examples of resistance to the introduction of integrated reporting and thinking” (McNally & Maroun, 2018, p. 1340).

Assurance can only assure the quality of the data in the reports. That is, the assurer evaluates the data in the report, but it neither assures nor judges the quality of the organisation’s business model and the organisation’s sustainability practices (ACCA, 2011c). Although standards for the assurance of financial and non-financial information currently differ, auditors of Integrated Reports will need to assess all data in a consistent and cohesive manner (ACCA, 2011a, p. 9).

Insights from a case study on a global player by Al-Htaybat & von Alberti-Alhtaybat (2018) assert that while the case organisation tries to uphold its

sustainability policies, inevitably also from a self-serving perspective, it is also seeking to increase financial value for its shareholders, thus the former could benefit the latter, which suggests business as usual, as was determined by Brown and Dillard (2014)'s prior study. Al-Htaybat & von Alberti-Alhtaybat's (2018) study illustrates that integrated reporting is an extension of integrated thinking.

Another problem is fear of accountability, increased responsibility, and commitment. IR requires senior management support and a new set of skills for successful implementation. Time pressures and data gathering can also make IR challenging (Azam et al., 2011). Existing reporting procedures, knowledge management and data collection systems must expand to enable companies to articulate both the linkages between financial and non-financial performance and how they contribute to the value-creation process (ACCA, 2011a, p. 9). It is an expectation of stakeholders that all the material information should be reported in order to make informed decisions.

3.8 Better results from IR

Much of the discussion about the need for IR relates to the need for corporations to respond to the call for accountability (in a holistic sense) for its exchanges with the rest of the world (section 3.8.1). At the firm-level there are also discussions on how, by adopting IR, corporations may achieve better results in external reporting (section 3.8.2), internal processes (section 3.8.3) and internal culture (section 3.6.4).

3.8.1 Global accountability

There is increasing pressure on organisations to report on the organisational and social dimensions of their business operations, but the requirements for information and reporting pertaining to these broader dimensions are neither standardised nor clear (Potter et al., 2013). Under these circumstances, it is important to investigate why companies are currently embarking on this innovative IR practice (Lai et al., 2013). Why do they need IR?

Corporations are the key contributors to economic, environmental and social well-being. Corporate sustainability is necessary for the long term sustainable development of the economy and society (Schaltegger et al., 2006a). Corporations

account for a large proportion of the world's economic activity and hold much of the international power, they control much of the world's resources, technology and innovation and have considerable influence over much of mankind's choices (Gray, 1994). Therefore, the introduction of a reporting mechanism, which focus on an organisation's strategy, governance, performance and prospects, exhibits that organisation's stewardship to society.

One of the most important intended benefits of IR for external stakeholders is that it will enforce accountability of firms to society. Firms are expected to minimize negative externalities, maximize positive externalities and optimize the use of natural capital. But, until IR was introduced there was no mechanism to evaluate firms' performance in using external capitals. IR can bridge this gap (Dande, 2013). Potter et al. (2013) explain that IR creates an opportunity to enhance transparency relating to social investment activities. However, Gibassier, Rodrigue, and Arjaliès (2018) suggest that IR displays the characteristics of a "rational myth", i.e., an aspirational story whose purpose includes reflecting on, and systematically accounting for, the pursuit of a collective goal.

Integrated reports are intended to provide comprehensive disclosure of a company's finances, governance, strategy and prospects while reflecting the commercial, environmental and social context in which it operates (Dobkowski-Joy & Brockland, 2013). This is because markets are not completely efficient, new management practices are constantly evolving. Tough choices are informed, not avoided, by better information and analysis. IR may be a good management practice that will increase efficiency and improve resource allocation and thereby help to create a sustainable society (Dumitru et al., 2013). There is a gap between the information currently being reported by companies and the information investors need to assess business prospects and value. IR can help fill this gap by providing a basis for companies to explain their value creation more effectively to the capital markets (KPMG, 2012b).

One goal of IR is to provide insight into a company's sustainable performance, value and impact today, and its prospects for the future. This places an emphasis on creating value over the short, medium and long term, not merely looking back in time and reporting on historical results. IR involves reporting on what opportunities

a company sees for its future revenue growth and impacts on its stakeholders. As the fundamental concepts of the draft international IR framework illustrate, IR is also about presenting a balanced view - it provides business and economic information, as well as social and environmental information (IIRC, 2013d). IR moves beyond compliance-based disclosures to emphasising a commitment to transparency. It is a transparent approach to reporting to cover a wide variety of issues and provide an honest representation of performance, both good and bad (Adams & Simnett, 2011).

Research conducted by the World Business Council for Sustainable Development (2014, p. 20) on “how South African companies has put IR into practice” shares investors’ views on the value of integrated reports:

- IR should be a key management tool to improve performance;
- The quality of IR is a clue to the quality of leadership;
- IR is a strategic means of communication, not a reporting burden;
- IR is part of the ongoing dialogue companies should have with stakeholders;
- IR should be the outcome of an internal integrated thinking process at Board and Management level.

Through the use of ‘proper’ IR, organisations can make their way forward and increase operational profits. Utilizing the internet as a mode of communication or online publishing, companies can reduce some of the publishing and printing cost (Solstice Sustainability Works Inc, 2005). As companies gain better understanding of the link between financial information and non-financial information, it will help them to reconsider their categories of new prospects, choices and risk (Eccles & Krzus, 2010a). Improved decisions can be made when concrete data regarding quantitative and qualitative performance metrics becomes available (Farris, Bendle, Pfeifer, & Reibstein, 2010). It is believed that evidence will become available to prove that the long-term success of an organisation is dependent on both traditional business practices and macro-economic factors such as human rights, working conditions, and environmental stewardship (Carroll & Buchholtz, 2014). Therefore, a new reporting mechanism, which takes into consideration all those factors is needed for the long-term success of the organisations.

The current business reporting model focuses largely on financial information, creating an information asymmetry for investors and stakeholders (ACCA, 2011c). Current reporting does not assist investors with information regarding intangible assets. Investors take into consideration both financial and non-financial key performance indicators (KPIs) in their economic decisions. Non-financial KPIs are important to restore investor trust but most companies struggle to prepare them (Azam et al., 2011). The IIRC (2011) believes that an integrated report should ultimately replace all other forms of corporate reporting and should represent the primary vehicle for communicating with shareholders and other stakeholders. Transparency and insight into the future and strategic direction of an organisation are the advantages of IR to internal and external stakeholders (Adams & Simnett, 2011). By broadening the lens through which corporate performance is assessed, to consider six different types of ‘capital’, many of the market failures and externalities that are not considered by traditional financial reports may be addressed (ACCA, 2014, p. 8).

Compared to sustainability reporting, IR provides several benefits as it facilitates integrated thinking within an organisation and provides forward-looking information (Adams & Simnett, 2011), and improves decisions on effective allocation of scarce resources (Eccles & Krzus, 2010a; Frías-Aceituno et al., 2013). The pilot program participants report five major internal benefits to their organisations, viz., improved connections between departments leading to integrated thinking; improved internal processes leading to a better understanding of the business; increased focus and awareness of senior management; better articulation of the strategy and business model; and creating value for stakeholders (IIRC, 2012b).

IR represents the cutting-edge and probably the future of corporate reporting worldwide (Fasan, 2013). Companies need IR to make sure that they have appropriate forms of stakeholder engagement, starting with the preparation of the report itself and using the report as the basis for further engagement, in order for the transformation function to be as effective as possible (Eccles & Serafeim, 2014).

Traditional reporting has not managed to successfully adapt to changes in world business and society. As a consequence, investor confidence in an annual report’s

reliability and capability to provide a true and fair view of a company's financial performance has decreased. Corporate failures, for example Enron, Parmalat and, more recently, Lehman Brothers, have decreased the confidence of investors in annual reports (Baker & Hayes, 2004). Perceptions of the early adopters of IR are expected to reflect diverse and widespread views of the benefits (Steyn, 2014).

3.8.2 External Reporting

IR provides a basis for companies to explain their value creation more effectively to capital markets (KPMG, 2012b), by providing stakeholders with additional information to help them make more informed decisions about companies and their long-term prospects. IR commonly relates to external reporting practices; to disclose an organisation's value creation story in a meaningful way. However, its rise in practice is mainly driven by internal needs of organisations (Dumay et al., 2017). As pointed out by Solstice Sustainability Works Inc (2005, p. 2), "there does not appear to be a significant external demand for integrated reporting" and "the main drivers are likely to be internal", as IR "can be helpful in building internal understanding of and support for sustainability".

Through IR companies have the potential to attain a better understanding of value drivers and how these drivers contribute to the achievement of strategic goals and value creation (Simnett & Huggins, 2015). IR aims to provide comprehensive disclosure of a company's finances, governance, strategy, and prospects while reflecting the commercial, environmental and social context in which it operates (Dobkowski-Joy & Brockland, 2013).

IR assists companies in overcoming the limitations of annual reports such as complexity, short-termism, shortage of non-financial information and sustainability reports, as well as low reliability, distrust by investors, and disconnection with financial performance (Fasan, 2013; Silvestri et al., 2017). There is a gap between the information reported by companies and the information investors need to assess business prospects and value (ACCA, 2011c; KPMG, 2012b). IR is expected to fill this gap (KPMG, 2012b).

Integrated reports should be concise and inclusive of all stakeholders (Abeysekera, 2013; Atkins & Maroun, 2015). Longer reports do not suggest better quality in the

IR environment (Wild & van Staden, 2013). IR is expected to be a concise, stand-alone communication about value creation over different time frames (Busco et al., 2013a). Longer reports could deter users and create a barrier to the provision of decision-useful information to stakeholders (Wild & van Staden, 2013). Further, those companies producing longer, more extensive reports, are deviating from the IIRC guiding principle of conciseness for integrated reports (Abeysekera, 2013; Atkins & Maroun, 2015).

IR should focus on conciseness, strategic relevance and future orientation (IIRC, 2013a), and IR is a good management practice (Dumitru et al., 2013). However, a Wild and van Staden (2013) study based on corporate integrated reports published as at January 2013 on the IIRC *Emerging Examples Database* found that the reports' focus emphasizes soft (general) measures like strategy, operating context and organisational overview rather than hard (specific) measures like performance and future outlook, with a generally low level of responsiveness to the principle of stakeholder inclusiveness.

South African listed companies attach value to the IR process primarily from the perspective of their corporate reputation, investor needs and stakeholder engagement and relations (Steyn, 2014). Further, their managers view IR as a vehicle for legitimising corporate activities (Steyn, 2014). Companies may use integrated reports as marketing tools to build the image. However, a weak accountability approach would be to use IR as an image-building, reputational tool (Silvestri et al., 2017; Stubbs & Higgins, 2015; Veltri & Bronzetti, 2014), implying less responsiveness on the part of a company towards its stakeholders (Stubbs & Higgins, 2015). A strong accountability approach implies more responsiveness on the part of organisations toward stakeholders (Stubbs & Higgins, 2015) and would enhance accountability and stewardship with respect to the broad base of six kinds of capital, and promote understanding of their interdependencies (Busco, 2014).

The IR gives rise largely of transparency regarding a company's impact on, and commitment to, the social, ecological and governance environments resulting from lowering reputation risk (Simnett & Huggins, 2015). The transition to IR has enabled companies to better differentiate themselves from their competitors and other organisations (Lodhia, 2015), and to improve their corporate reputations

(Adams, 2015; Steyn, 2014). IR creates an opportunity to enhance transparency (Potter et al., 2013) and to deliver an honest representation of performance, both good and bad (Adams & Simnett, 2011). Hence, IR can provide several benefits to companies in fulfilling their external reporting obligations.

3.8.3 Internal Processes

It is expected that IR improves decisions on effective allocation of scarce resources (Eccles & Krzus, 2010a; Frías-Aceituno et al., 2013). IR facilitates integrated thinking within a company (Adams & Simnett, 2011) and the IIRC (2012b) reports the pilot program participants achieved improved connections between departments leading to: integrated thinking, improved internal processes leading to a better understanding of the business, increased focus and awareness of the senior management, better articulation of the strategy and business model, and, creating value for stakeholders.

IR should help companies to reconsider new prospects, choices and risk (Eccles & Krzus, 2010a) as well as improve decisions regarding the effective allocation of scarce resources (Eccles & Krzus, 2010a; Frías-Aceituno et al., 2013). IR has a broader focus and provides forward-looking information (Adams & Simnett, 2011), which should provide insight into the future and strategic direction of a company. It leads companies towards appropriate forms of stakeholder engagement (Eccles & Serafeim, 2014). It is a good management practice that will increase efficiency (Dumitru et al., 2013). The findings of Lai, Melloni, and Stacchezzini (2018) based on 'Generali' as their case study company show that IR is able to produce socializing effects for a plethora of stakeholders. Further, they argue that the involvement of various stakeholders (for example employees, consumers, strategic partners, academics, and students) in the process of IR construction (e.g. consideration of students' comments to define IR subjects) was a sign of a willingness to attract and address more than just investors.

Implementation of IR is described as an organisational change, and not an event in itself (KPMG, 2011a). The companies that produce some form of IR (combined or integrated) change their processes and structures (Stubbs & Higgins, 2014). The decision to prepare the first IR is expected to lead to changes in decision-making

processes, informal and formal communication processes, materiality, and broader corporate risk identification processes (Adams, 2015). Stubbs and Higgins (2014) found incremental first-order changes to processes and structures in Australian early adopters of IR. Further, they found processes have not been perfected, but, at least work patterns and operations happen in a more structured way and process development is still happening. Their study does not uncover second order, transformative change, but rather incremental changes to processes and structures. Adams (2015) asserts the need to development new accounting and management processes in order to implement IR in an organisation.

Overall, IR is considered to be good management practice that will increase efficiency and improve resource allocation and thereby help to create a sustainable society (Dumitru et al., 2013). However, it is doubtful that IR can drive organisational change and long-term sustainability (McNally et al., 2017). A rapid move towards IR implementation will require that companies re-examine their reporting structures and require new IT system investments to provide for the non-financial aspects of IR (Hampton, 2012). As the relevant information processes are revamped to capture information for IR, their efficiency and effectiveness are also expected to improve significantly (Simnett & Huggins, 2015), which is anticipated to lead to higher quality and more comprehensive and timely information (Eccles, Cheng, & Saltzman, 2010). Also, effective IR requires more than the mere focus on economic issues or limited attention to social and environmental issues (Lodhia, 2015). For internal processes to improve, it may be necessary to change the internal culture.

3.8.4 Internal Culture

With the introduction of IR, it is more likely that management will recognize the significance of integrating non-financial concerns into business strategies (Simnett & Huggins, 2015). Moreover, these strategies can be communicated to employees to raise awareness at the operational level, which will facilitate a higher degree of collaboration and engagement (Adams & Simnett, 2011). IR should be the outcome of an internal integrated thinking process at Board and Management level (World Business Council for Sustainable Development, 2014). Integrated thinking can lead to improvement in performance throughout an organisation (IIRC, 2013b). The

World Business Council for Sustainable Development (2014) notes that integrated thinking is the key to successful IR. The IIRC (2013e) *IR Framework* recognizes that value is not generated by or within a company alone but is influenced by the external environment which provides the context within which the company operates, and is created through relationships with others.

An advantage of integrated thinking is that there is an evolving acceptance of it within an organisation (Feng, Cummings, & Tweedie, 2017). IR requires changes in behaviour, which is arguably a form of management control known as a cultural control (Merchant & Van der Stede, 2007). Dumay and Dai (2017) argue that for integrated thinking to work as anticipated by the IIRC, it must replace some of the existing organisational culture, because not doing so allows the status quo to remain. IR can break down operational and reporting silos, leading to improved systems and processes (Roberts, 2011). However, strong organisational cultures are not readily or easily replaced, especially if associated with an organisation's past success (Dumay et al., 2017). Companies need to develop sustainability management systems to support clear strategic focus on sustainability performance. However, Eccles, Ioannou, and Serafeim (2014) find that the companies in the study did not develop sustainability management systems to support a clear strategic focus on sustainability performance backed by detailed action plans (Eccles et al., 2014). Stubbs and Higgins (2014) observe an incremental change in the broadening of constituencies involved in the reporting process, through cross-functional teams, and attempts to move away from silo thinking and structures. IR requires a radical change in managers' mind sets at all levels and complete internalisation of the need to link non-financial and financial issues to ensure sustainability (Brown & Dillard, 2014; Stubbs & Higgins, 2014).

It is noted that most of these benefits recorded in the literature have yet to be realised and reported. The adoption of IR would be enhanced by research focussed on reporting achieved benefits. The literature, however, is helpful in indicating the potential challenges and risks of reporting future orientated predictions.

3.9 Future oriented predictions in IR and its risks

IR promotes the disclosure of future-oriented information, such as predictions, via integrated reports, enabling financial stakeholders to make informed decisions. Traditional financial reporting has been strongly criticized for its inability to fulfil the information requirements of stakeholders (Busco et al., 2013b), especially because of the non-availability of future-oriented information (Jensen & Berg, 2012). However, there is an inevitable risk for management disclosing future oriented information (Field, Lowry, & Shu, 2005; Graham, Harvey, & Rajgopal, 2005). The IR Framework indicates that such information is by nature more uncertain than historical information, but stresses that “uncertainty is not, however, a reason in itself to exclude such information” (IIRC, 2013e, p. 16).

The disclosure of historical information, which forms the backbone of traditional financial reporting, does not satisfy investors’ diversified information needs. Historical information is unable to provide sufficient insights to stakeholders regarding critical success factors, opportunities, risks, and management plans (Menicucci, 2013). According to the Integrated Reporting Council of South Africa (2011), stakeholders want forward-looking information that will enable them to assess the total economic value of a company more effectively. The publication of forward-looking information reduces information asymmetry between managers and investors and leads to a reduction in companies’ cost of external finance (Bujaki, Zéghal, & Bozec, 1999). Forward-looking disclosures enable stakeholders to assess a company’s future financial performance and include: next year earnings, expected revenues, anticipated cash flows, and risks and uncertainties (Aljifri & Hussainey, 2007). Forward-looking disclosures is said to have important advantages for both firms and managers (Celik, Ecer, & Karabacak, 2006).

Companies are warned that future-orientated disclosures may reveal future plans to competitors and they need to carefully consider the extent to which forward-looking information should be made publicly available (ACCA, 2011c; Graham et al., 2005; Mathuva, 2012). Disclosure revealing information to competitors may negatively impact on future performance (Mathuva, 2012). Graham et al. (2005) suggest that a great barrier to voluntary disclosure is the fear of setting a disclosure precedent that may be difficult to maintain in the future. Managers may also be reluctant to

reveal future oriented information if they judge that doing so would be unfavourable for their future career prospects or for the level of their future incentive pay. Johnson, Kasznik, and Nelson (2001) suggest companies might leverage their performance towards the level of their forecasts. Of course, the future is uncertain, making it difficult to predict with precision (Mathuva, 2012).

Inaccurate forecasts may lead to lawsuits (Field et al., 2005), thereby affecting managers' motivation to make disclosures of future-oriented information (Healy & Palepu, 2001). In addition, managers may want to avoid disclosing information that can be used by other stakeholders to apply pressure to the company (Nagar, Nanda, & Wysocki, 2003). For instance, US firms' future-orientated disclosure practices are relatively conservative as they are for relatively short periods and the managers delay releasing forecasts to decrease the probability of making an incorrect forecast that might lead to increased legal risk (Frost, 1996).

Future-orientated disclosures of Japanese firms are less informative when compared with France, Germany, and the UK (Frost, 1996). Further, Baginski, Hassell, and Kimbrough (2004) claim many managers voluntarily disclose their earnings forecasts to stakeholders without explanations (or attributions). They suggest that explanations may be seen as “potentially important information to investors who engage in strategic analysis of financial statement information” (Baginski et al., 2004, p. 2). They tend to provide future-orientated information in a generalised way in order to avoid the risk of disclosing competitive advantage information.

The management of risk from future-oriented disclosures is important in IR. Risk management is an important dimension of good governance, as well as a control tool to aid the achievement of strategic objectives “within the boundaries of a specified risk appetite” (Woods, 2009, p. 73). This view is supported by Mikes (2009), who claims the importance of making risk management ‘count’ is perhaps the most agreed upon lesson that industry actors are taking from the current credit crisis. In order to reduce the risk of uncertainty there must be risk management credibility within corporate boardrooms (Gendron, Brivot, & Guénin-Paracini, 2016). Celik et al. (2006) argue that management is the best source of information about the direction in which it intends to lead the company.

... an important driver of the opportunities and risk a company will face.... even though a company may not achieve its plan, understanding the general direction of the company is helpful [to users], ... [the plans] usually depend on key assumptions about factors or conditions that must be present for the plans to be successful.

Management involvement is critical to the success of the enterprise and to ensure that predictions are realistic and fulfilled. Therefore, managers should be aware of the key assumptions and conditions and how these factors affect the risks inherent in predictions. For instance, Power (2009) stresses the importance of the risk management process of an organisation. He argues that organisations should seek to identify all material risks to their objectives and sub-objectives, design controls and mitigations which produce a residual risk consistent with a target risk appetite, and monitor this entire process, making feedback adjustments as necessary. However, if the risk is but a “chance of loss” then managers should tighten the controls and monitor processes relating to the risks identified in the future-oriented information (Gahin, 1967, p. 123).

Overall, future-oriented information is particularly useful for stakeholders to make informed decisions (Aljifri & Hussainey, 2007; Hussainey, Schleicher, & Walker, 2003; Kasznik & Lev, 1995; Menicucci, 2013). Some studies assess the level of forward-looking information and determinants of forward-looking information disclosed in annual reports/integrated reports (for example Aljifri & Hussainey, 2007; Mathuva, 2012; Menicucci, 2013). However, these studies do not examine how the information is prepared for disclosure and how the risks involved are managed.

Velte and Stawinoga (2016) in their evaluation of 44 empirical studies on IR after the adoption of the IR framework by IIRC in December 2013, find that empirical research focuses mainly on market and investor reactions to IR. In a similar vein, Dumay et al. (2016, p. 11) state that “the vast majority of IR articles do not research practice, specific organisations or engage practitioners”. The issue of how IR practicing companies manage the risk inherent in disclosing future predictions is therefore an interesting one, yet there is, as far as could be ascertained, no empirical evidence reported in the literature.

Another study reveals “information about opportunities and risks and future outlook are the two least well reported content elements” (Eccles & Serafeim, 2014, p. 16). Because it involves a high degree of subjectivity and uncertainty, companies are reluctant to disclose such information. This is an area needing development, as “providing information on future outlook is something that companies are still struggling with” (Eccles & Serafeim, 2014, p. 16).

There are risks for managers when providing future-oriented information and it is difficult to predict future outcomes accurately (Deloitte, 2011; Mathuva, 2012; Potter et al., 2013). Druckman (cited in the Ernst & Young, 2015, April April Reporting magazine) explains that directors fear litigation if forward-looking information proves to be incorrect. Lawsuits may be brought where investors incur losses based on inaccurate forecasts (Field et al., 2005), and disclosures may be followed by increased stakeholder pressure. Therefore, managers are at risk when disclosing the future oriented information required in integrated reports (IIRC, 2013a, 2013e). This may be the reason why de Villiers, Rinaldi, and Unerman (2014) raise the issue of “how will organisations, especially companies, deal with the risk inherent in making predictions about the future, as required by the International Integrated Reporting Council (IIRC) type integrated reporting” (p. 1060) as an interesting research question.

However, companies are often reluctant to disclose future oriented information, and as most of the future predictions are generic in nature, there is a need for a more forward-looking reporting model (Atkins, Atkins, Thomson, & Maroun, 2015; PwC, 2015b) which measures outcomes and provides a perspective on future performance (McNally et al., 2017).

3.10 Materiality of the non-financial information in the Integrated Reports

One of the guiding principles proposed by the International Integrated Reporting Council (IIRC) is materiality. This section examines the effect of materiality on disclosure (3.10.1), how materiality levels can be determined (3.10.2), practice of materiality determination (3.10.3) and the challenges materiality presents to producers of non-financial information in integrated reports (3.10.4).

3.10.1 Materiality

One of the research questions of this study is related to determining the materiality level for non-financial information in IR. Materiality is one of the important guiding principles of the IR framework. According to the IIRC, materiality plays a crucial role in determining the matters to be included in an integrated report and in ensuring conciseness of the report (IIRC and American Institute of Certified Public Accountants, 2013). The IIRC stresses the need for all reported information to be material in nature to meet the changing information needs, ‘...only the most material information should be included in the integrated report’ (IIRC, 2011, p. 4). Materiality is a subjective determination process:

A matter is material if, in the view of senior management and those charged with governance, it is of such relevance and importance that it could substantively influence the assessments of the primary intended report users with regard to the organisation’s ability to create value over the short, medium and long term (IIRC, 2013d, p. 21).

There is no rule prescribing the frequency or precise approach of the materiality determination process (IIRC, 2015). A factor’s relevance must be weighted by its importance to the company (IIRC and American Institute of Certified Public Accountants, 2013).

In determining whether a matter is material, senior management and those charged with governance consider whether the matter substantively affects, or has the potential to substantively affect, the organisation’s strategy, its business model, or one or more of the capitals it uses or affects in the short, medium or long term (3.24) (IIRC, 2013d, p. 21).

This materiality determination process applies to both positive and negative matters (e.g., opportunities and risks, and favourable and unfavourable results or prospects for the future), and to financial and non-financial information (IIRC, 2013d, p. 21). It is important to perform materiality assessments at least annually. Yet, the materiality determination process has to be integrated in the everyday management of a company. This includes regular engagement with the primary intended report users to identify their information needs (IIRC, 2013d) so as to embrace multi-stakeholder perspectives (IIRC, 2015).

“What is regular is not defined, however, the materiality determination process is to be disclosed in an integrated report to enable the intended report users to understand how decisions to include or exclude matters were made” (IIRC, 2013d, p. 21). The information reported by organisations within the same industry may be presented as an example for the users when they want better to understand how the organisation identified and reported the chosen material aspects (IIRC, 2013d).

An emphasis on material matters is to improve internal and external decision-making by limiting extraneous information, focusing disclosures on the core issues managed by the organisation and supplying concise, digestible content. This emphasis seeks to improve the quality of information available to stakeholders to enable a more efficient and productive allocation of capital (IIRC, 2015). Application of materiality in IR is expected to benefit both users and preparers of integrated reports. This is expected to lead to a sounder understanding of the organisation, its value creation process and the management of that process (IIRC, 2015, p. 8).

The IIRC (2013e) asserts that the key to the materiality determination process is the concept of a reporting boundary. Determining the boundary for an integrated report has two aspects: the financial reporting entity (i.e., the boundary used for financial reporting purposes) and risks, opportunities and outcomes attributable to or associated with other entities and stakeholders beyond the financial reporting entity. After the parameters are established, the reporting boundaries need to be considered and set. Figure 3 (see page 75) illustrates how materiality levels are determined for an integrated report.

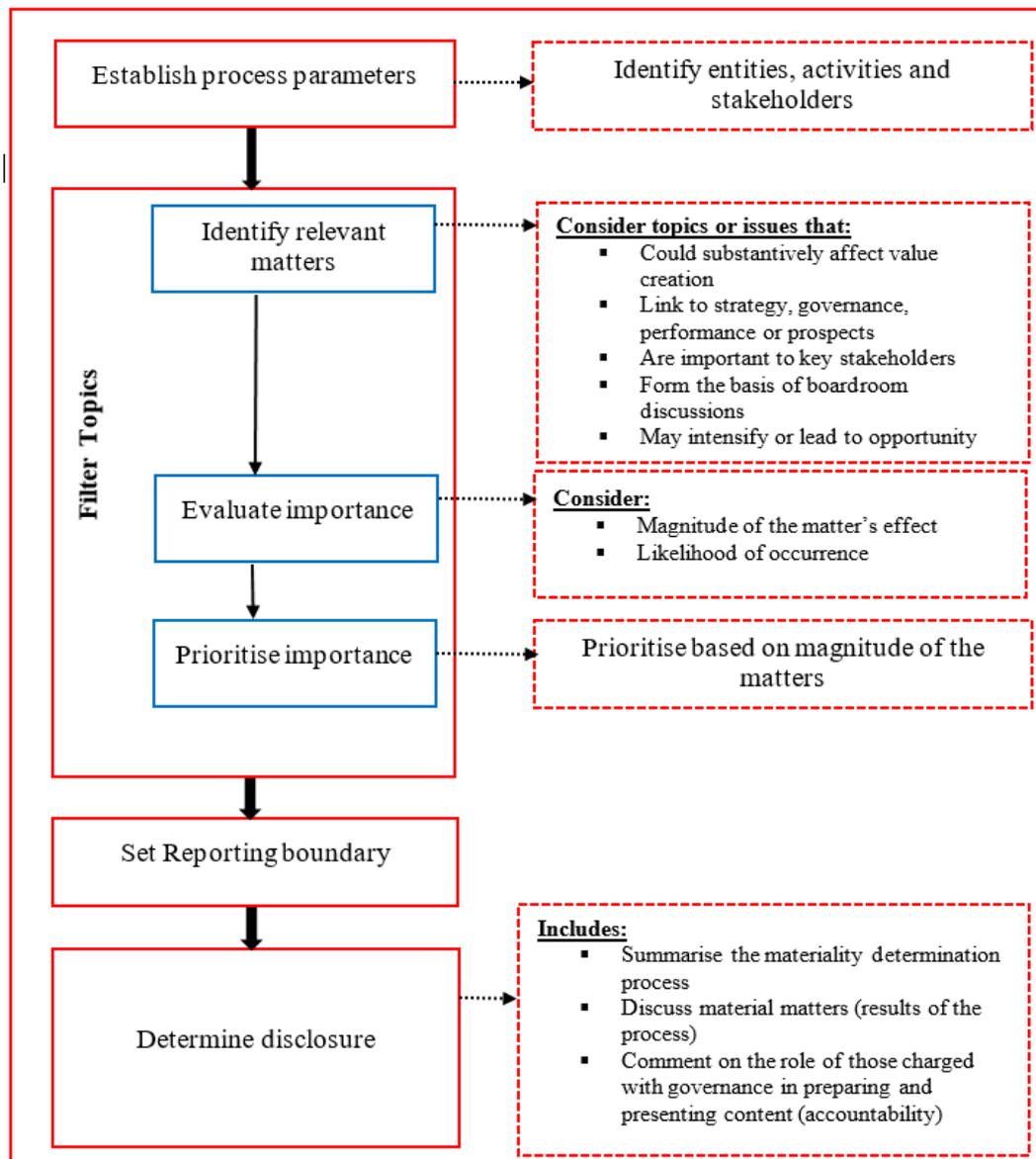


Figure 3: Determining materiality – Developing report content

Adapted from: IIRC (2015)

Impact on value creation is an important factor in determining materiality levels (IIRC, 2015). Matters that are considered material for financial reporting purposes, for sustainability reporting, or for other forms of reporting may also be material for IR purposes if they are of such relevance and importance that they could change the assessments of providers of financial capital with regard to the organisation’s ability to create value (IIRC and American Institute of Certified Public Accountants, 2013).

Materiality level determination is important because embedding the materiality determination process into management processes can enhance the efficiency and

effectiveness of decision-making and reporting. “The extent to which integrated thinking underpins the materiality determination process, and is linked to board and management discussions, is also important” (IIRC, 2015, p. 4).

There is a lack of rules for the materiality determination process. “Judgement should be used when deciding if, and to what extent, a detailed assessment is needed” (IIRC, 2015, p. 4), as there is no rule prescribing the frequency or precise approach of the materiality determination process. Since a given factor’s relevance must be weighted by its importance to the company, “Judgment is applied in determining the information to disclose about material matters” (IIRC and American Institute of Certified Public Accountants, 2013).

3.10.2 Materiality and disclosure

“Materiality is the key to reach conciseness and to push companies towards the disclosure of important information on their long-term performance” (Mio & Fasan, 2014, p. 4). Materiality forms the conceptual bedrock of corporate reporting (Eccles & Krzus, 2014). Yet IR “conciseness” is one of the features stressed by the IR Framework, and to develop a clear and accepted definition of materiality is, in the IR context, fundamental and much more important than for previous standards (Mio & Fasan, 2014). To date, no clear and accepted definition has emerged.

There has been growing dilemma in corporate reporting, arising from the demand for more information but also to have that information available in a concise manner. It is argued that corporate reporting is too lengthy and complex and that key messages are not being communicated effectively (Atkins & Maroun, 2015; International Association for Accounting Education and Research, Association of Chartered Certified Accountants, & International Integrated Reporting Council, 2016). Research indicates that company annual reports are increasing in length because companies face pressure to report on the organisational and social dimensions of business operations (Potter et al., 2013). Also, investors have increasing information needs to aid their decision making, including additional non-financial information to complement financial indicators (Eccles & Serafeim, 2011b), in particular, investors’ interest in sustainability information about environmental, social and governance matters (Ioannou & Serafeim, 2015).

Therefore, many large companies choose to publish information on much more than their financial position (Clements-Hunt & Lehrman, 2012). Corporations have tended to voluntarily disclose more information about environmental influences from their activities (da Silva Monteiro & Aibar - Guzmán, 2010). However, due to the increasing length of annual reports, stakeholders are seen to struggle to identify material information which impacts an organisation's success because of the large volume and diversity of non-financial information (Potter et al., 2013).

In financial reporting, information is material if its omission or misrepresentation could influence the economic decisions of the users of the specific reporting entities (Dumitru et al., 2013). For an individual entity, the materiality level is related to relevance, relying on the nature or size, or both, of the items to which the information refers. For IR, a materiality principle may need to be different to that used for financial information, in order to reflect the differing views of stakeholders about what is significant (Dumitru et al., 2013). "The materiality principle is also strongly linked to the principle of stakeholder-responsiveness, representing a step beyond a compliance-based approach, allowing reporting to become more responsive to individual organisations and to the needs of their stakeholders" (Adams & Simnett, 2011, p. 295). To be complete, integrated reports should be prepared taking into account the stakeholders perspectives, accordingly, "key stakeholders must be consulted" (Adams, 2004, p. 732). When the firm decides what information is material, it must, for its own good, take into account the perspectives of stakeholders beyond those who provide financial capital (Eccles & Krzus, 2014).

The assessment of materiality requires an organisation to identify the intended users of the report and to understand the types of decisions these users may be seeking to make based on the report (Hanks, 2012). The International Association for Accounting Education and Research et al. (2016) research on "*Factors affecting preparers' and auditors' judgements about materiality and conciseness in IR*" reveals that many companies have a specific process for determining materiality that involves both internal and external stakeholders and series of activities to identify, evaluate and prioritise material matters. Further, they find materiality

judgements consider the magnitude and the likely of occurrence of items (International Association for Accounting Education and Research et al., 2016).

Stubbs and Higgins (2014) established that organisations have systems to identify material issues but the integrated reports are changing their materiality process as they attempt to align the process with the business strategy. Solomon and Maroun (2012) observe, based on 10 South African companies over the period 2009 to 2011, an increased focus on materiality in integrated reports. They established a significant increase in the quantity of social, environmental and ethical information reported in the integrated reports that they considered material. They however do not explain how the materiality decision is made in these organisations. It appears that companies must also share how they make their materiality decisions, as institutional investors want a clear view of what is material to be communicated directly by the company rather than via third party sources (Ernst & Young, 2014).

While there may be no easy rule to follow in determining materiality, how companies go about making the ultimate decision of which externalities and issues are included in an integrated report should be a clearly defined process with solid lines of responsibility (Eccles & Krzus, 2014). Business management is ultimately responsible for determining which information is material, i.e. relevant, to the purposes of its primary stakeholders (such as investors). This assessment is made from the perspective of stakeholders and not the perspective of management and should reflect management's best interpretation of stakeholder expectations as at the reporting date (Corporate Reporting Dialogue, 2016).

The company's board of directors has the ultimate responsibility for putting in place a process that will enable it to make the final determination of what the company deems is material (Eccles & Krzus, 2014). A unique feature of materiality for IR purposes is that senior management and those charged with governance should be involved in the materiality determination process; to determine how best to disclose a company's unique value creation story in a meaningful and transparent way (IIRC and American Institute of Certified Public Accountants, 2013).

The responsibility for making a materiality determination ultimately lies with the Board of Directors, in order to fulfil its fiduciary responsibility. In doing so, "it

chooses which stakeholders to address, how to obtain their input, and the relative weightings to assign to issues and stakeholders” (Eccles & Krzus, 2014, p. 130).

3.10.3 Materiality level determination – practices

Stakeholder assessments appear to help companies identify a complete picture of business challenges and opportunities. In this respect, materiality has been much less of an issue than many had originally anticipated (KPMG, 2012b). Materiality determination for non-financial information is based on stakeholder analysis and investor requirements (International Association for Accounting Education and Research et al., 2016). The companies use materiality determination processes that are integrated into everyday management, including regular engagement with the primary intended report users to identify their information needs (IIRC, 2013d). The process embraces multi-stakeholder perspectives (IIRC, 2015).

Matters that are considered material for financial reporting purposes, for sustainability reporting, or for other forms of reporting are also deemed to be material for IR purposes when they are relevant and important with regard to the organisation’s ability to create value (IIRC and American Institute of Certified Public Accountants, 2013). The IIRC (2013d) suggests a matter is material if it could affect the organisation’s ability to create value over the short, medium and long-term. In determining whether a matter is material, companies should consider whether the matter substantively affects, or has the potential to substantively affect, the organisation’s strategy (IIRC, 2013d). Any actions needed to achieve strategic objectives could be considered for inclusion in the integrated reports.

Strategy has always been central to an integrated report, and materiality is equally as important as strategy. When it comes to what materiality is in the IR, the concept is inextricably linked to strategy, and the IR is conceived of as an instrument for communicating corporate strategy, as it cascades across the group (Lai, Melloni, & Stacchezzini, 2017). Further, the findings based on Assicurazioni Generali (one of the biggest insurance groups in the world and the top firm in Italy), indicate that strategy determines IR materiality content, such that a strategy basis defines “what IR deserves to be included in the Integrated Report” (Lai et al., 2017, p. 544).

“The extent to which integrated thinking underpins the materiality determination process, and is linked to board and management discussions, is also important” (IIRC, 2015, p. 4) The IR is said to describe strategic priorities, and related actions, and results (Lai et al., 2017). Some companies use specific techniques, such as a materiality matrix, and weighting and ranking key performance indicators (International Association for Accounting Education and Research et al., 2016). The literature records that companies consider key performance indicators and strategy when they determine the materiality levels of non-financial information in their integrated reports. For instance, Stubbs and Higgins (2014) found that, based on internal mechanisms mobilized by Australian early adopters of IR, companies are changing the materiality process by focusing on “fewer, more strategic issues rather than lots of issues that are, for example, covered by the GRI” (p.1083). IR practicing companies assigned a pertinent function to the IR and aligned the definition of materiality with business strategy (Stubbs & Higgins, 2014). Thus, by giving materiality a ‘strategy meaning’, they satisfy the information demands of investors and stakeholders in the rapidly changing world, and IR can satisfy the important need expressed by the board to reveal the corporate strategy.

Judgment needs to be applied in determining the information to disclose about material matters (IIRC and American Institute of Certified Public Accountants, 2013). Also, any lack of guidance to determine materiality could lead to an assessment of materiality purely on judgment (Bernstein, 1967), as materialized in financial information. Judgement is a vital part of any professional’s work. In accounting, it plays an important role every step of the way (Bernstein, 1967), so it is not unexpected to find judgement being used in materiality decisions by the professionals. However, an undefined concept of professional judgment in materiality determination for non-financial information can only result in a proliferation of loose standards and practices, because judgement facilitates comparability, and acts as a regulator of quality (Bernstein, 1967). Given vague or non-existent guides for the application of such an important concept, the result must be a wide variety of practice in an area where a reasonable degree of uniformity and comparability is essential (Bernstein, 1967). What is material and what is not should not be left to an undefined realm of "judgment."

In the vacuum of a lack of guidance, organisations tend to copy the reporting strategies of peers in the industries they operate in (Robertson & Samy, 2015). Thus, it is observed that the companies turned to other companies, in the same industry or not, to benchmark their techniques and reporting practices. This practise may not be appropriate if materiality is an entity concept. Each entity might have a different disclosure according to the proposition that “material information is any information which is reasonably capable of making a difference to the conclusions reasonable stakeholders may draw when reviewing the related information” (Corporate Reporting Dialogue, 2016, p. 2).

“Materiality is a firm-specific social construct” (Eccles & Krzus, 2014, p. 119). While the firm may undertake an involved stakeholder engagement process, it makes the ultimate decision as to what is material to its strategy. In doing so, it exercises judgment as to what is both important and relevant to the user audience, and of equally symbolic importance, what is not relevant or important enough to report (Eccles & Krzus, 2014).

The purpose of materiality in integrated reporting is to generate a high degree of company transparency and accountability, so as to facilitate access to reliable information and protect investors (Cohen & Karatzimas, 2015; Edgley, 2014). Considering the lack of standards or framework for materiality in financial reporting, Bernstein (1967) suggests organisations establish a definite ‘framework’ to help managers arrive at meaningfully similar conclusions regarding questions of materiality. This approach may be suitable for guiding decisions on materiality in non-financial information in integrated reports.

Deloitte (2010) argues, using the International Financial Reporting Standard framework, that materiality is an entity-specific form of relevance, based on both the magnitude and the nature of the items to which the information relates. Implementation depends on the materiality determination process, which is entity-specific and based on industry and other factors, as well as multi-stakeholder perspectives (IIRC, 2015). However, uniformity is an important factor to consider in corporate reporting. It is important because decisions involving the use of accounting information can be made in a vacuum or by the consideration of a single variable. It is, therefore, necessary to have guidelines or standards which, given

similar circumstances, will help integrated report preparers to arrive at meaningful similar conclusions regarding the concept of the materiality of non-financial information.

Stakeholder engagement is one of the key factors to the materiality level determination of non-financial information in integrated reports (IIRC, 2015; IIRC and American Institute of Certified Public Accountants, 2013). It is important that managers determine the materiality levels of non-financial information and only report that which is material, otherwise stakeholders may struggle to absorb large volumes of non-financial information (Potter et al., 2013). Materiality decisions must avoid information overload, and obfuscation of core issues (Mio & Fasan, 2014).

Unerman and Zappettini (2014) argue that companies use materiality to exclude negative information and rhetorically report an image of sustainability that differs from their underlying behavior. This contradicts the IIRC requirement (IIRC, 2015; IIRC and American Institute of Certified Public Accountants, 2013) that the materiality process should be applied to both positive and negative matters, including risks and opportunities and favorable and unfavorable performance or prospects. The manipulation of a materiality level of non-financial information to improve the image of a brand or use disclosure as a marketing material to obtain a competitive advantage implies the use of IR at a weak accountability level, implies less responsiveness of organisations toward stakeholders, and seen as an image-building, reputational tool (Stubbs & Higgins, 2015). These practices could undermine the credibility of Integrated Reports.

The guidance offered by the IIRC is based on principles that allow for significant variation in the way companies may apply the materiality principle and develop their own materiality determination processes (Lai et al., 2017). The lack of substantive guidance on and experience in assessing materiality in the IR context makes the materiality determination challenging.

3.10.4 Materiality challenges

The literature identifies that materiality in IR is not clearly articulated and understood and that to date there is little published academic research on materiality in IR (International Association for Accounting Education and Research et al., 2016). Previous studies on materiality levels for non-financial information are limited to identifying whether there was an increasing focus and reporting on materiality (ACCA, 2012; Solomon & Maroun, 2012); challenges of materiality in IR (ACCA, 2012; Eccles & Krzus, 2014); and whether organisations have processes to identify material issues (Stubbs & Higgins, 2014).

Whilst the concept of materiality is well established and tested for quantitative elements of financial reporting, it is less understood for qualitative elements that are more common in an environmental or social context (Adams & Simnett, 2011). The pressure on organisations to report on the non-financial dimensions of operations is increasing through the globalisation of organisations, increasingly knowledgeable stakeholders, greater potential litigation risk, and challenging global financial markets (Potter et al., 2013). However, the requirements for information pertaining to these broader dimensions are neither standardised nor clear. Although providers of financial capital form the “direct audience” of integrated reports, the “indirect audience” of stakeholders also exerts pressure on the firm’s selection of material issues (Eccles & Krzus, 2014, p. 121).

The duty of corporations is not just to “perform,” but also to “report” material actions back to society beyond those that are profit-related (Eccles & Krzus, 2014). Increasing the level of non-financial disclosure by companies allows investors and stakeholders to make more informed decisions. However, companies need to be careful to avoid information overload, which causes investors and stakeholders to process an ever-increasing amount of data. Information overload is one of the issues for IR to tackle (Mio & Fasan, 2014). Materiality level determination for non-financial information can play a vital role in making the integrated report concise and producing relevant information on value creation by the organisations. Materiality is key to reaching conciseness in integrated reports (IIRC, 2015). Therefore, materiality seeks to avoid information overload and obfuscation of core issues (IIRC, 2015).

There is considerably less guidance and experience on assessing materiality in the context of IR (Hanks, 2012). Non-financial KPIs are important to maintain investor trust but most companies struggle to prepare them (Azam et al., 2011). Until IR was introduced there was no mechanism to evaluate firms' performance in using external capital. (Dande, 2013). However, the challenge for IR is how to determine materiality levels for all these types of non-financial information.

Materiality poses certain challenges for the IR movement (Eccles & Krzus, 2014). Establishing materiality for traditionally 'non-financial' items, which are hard to quantify, is more challenging, but crucial for the development of IR (ACCA, 2012). The entity-specific perspective makes the materiality determination for non-financial information even more challenging. What is material lacks generalisability and cannot be standardised. What ultimately passes the materiality threshold for inclusion in an integrated report demands the exercise of judgment to separate the "material" from the "immaterial" by the reporting entity itself (Eccles & Krzus, 2014).

IR offers a series of challenges to management and auditors of an organisation; these include determining the materiality level for qualitative elements that are common in social and environmental contexts (Adams & Simnett, 2011). IR brings new challenges to organisations as it is closely linked to business strategy and value creation (Stubbs & Higgins, 2014). The absence of regulations for materiality level determination for non-financial information is a challenge for organisations when they have to make materiality decisions without guidance or experience. There are some missing links in IR including materiality and stakeholder engagement (Bandeira & Pinto, 2013).

Dragu and Tiron-Tudor (2014, p. 223) note that there is a missing framework for Integrated Reports because there is "lack of standards and specific guidelines, no measurements for non-financial information, and finally the convergence between financial and non-financial information." In 2012, (PwC) writes that reporting is at a crossroads where "the voices questioning whether the current reporting model gives a fair reflection of an organisation are getting louder" (p. 5) and raised the concern that "while in many countries corporations are required by law to include significant non-financial information in their reports, this information is often not

provided in a coherent way with a clear link between economic drivers, financial information, and social and environmental impacts” (ibid).

In practice, the materiality of sustainability-related information is extremely difficult to establish. It is difficult to establish materiality for traditionally ‘non-financial’ factors (ACCA, 2012), due to less guidance and experience in assessing materiality in the IR context (Hanks, 2012). Materiality represents a ‘starting point’ for the IR preparation process (PwC, 2015a). Placing a financial value on materiality for financial risks is a complex process.

The stakeholder assessments appear to have helped companies identify a complete picture of business challenges and opportunities (KPMG, 2012b). Accounting professionals, and standard setters, indicate challenges associated with implementing materiality in an IR context (Climate Disclosure Standards Board et al., 2016; Ernst & Young, 2013a; IIRC, 2015; IIRC and American Institute of Certified Public Accountants, 2013; International Association for Accounting Education and Research et al., 2016). Materiality is a challenge that IR offers to management (Adams & Simnett, 2011; Steyn, 2014).

What types of guidance are available to a company to assist with the implementation of materiality determination levels? There is no rule prescribing the frequency or precise approach of the materiality determination process. “Judgement should be used when deciding if, and to what extent, a detailed assessment is needed” (IIRC, 2015, p. 4). What ultimately passes the materiality threshold for inclusion in the integrated report demands the exercise of judgment to separate the “material” from the “immaterial” (Eccles & Krzus, 2014, p. 122). Thus, the extant literature informs that there may be no easy rule to follow in determining materiality.

Materiality determination in IR is infinitely more challenging because “information importance” is difficult to translate into monetary terms (Steyn, 2014). Many discussions of IR stop at identifying measurement difficulties (Potter et al., 2013). The need for future research to focus on developing clear disclosure guidelines, especially regarding disclosures relating to materiality and stakeholder engagement, was identified by Van Zyl (2013).

3.11 The IR Implementation challenges

Perceptions of the early adopters of IR are expected to reflect diverse and widespread views of the challenges (Steyn, 2014). However, the literature exposes three sources of challenges during the implementation of IR. These are the IIRC guidelines, the integrated report preparers and the internal processes of the reporting entity.

3.11.1 The IIRC guidelines

IR literature and IR practising organisations provide the challenges posed by the IIRC guidelines. King (2016) asserts the difficulties in interpreting and applying a principles-based reporting framework in a relatively limited timeframe adds to the challenge of preparing a high quality integrated report. According to Lodhia (2015, p. 597), “IR is a complex process involving a sequence of activities rather than merely an outcome in the form of an integrated report” and for an effective integrated report “organisations need to consider the entirety of business operations” by being “clear about their teleoaffective structures.”

An important barrier to a more widespread adoption of IR is lack of ‘rules’ and standards (Stubbs & Higgins, 2014). For instance, South African listed companies began IR at a time when guidance was limited to the IRC draft framework (Steyn, 2014). The IIRC framework itself has refrained from specifying any key performance indicators (KPIs) that integrated reporters should use (ACCA, 2017). Also, measuring and quantifying inputs, outputs and outcomes in a meaningful way in integrated reports could be challenging (ACCA, 2017). There is a wide range of diversity in the type and quality of information, and forms of presentation due to the absence of relevant IR standards and nonexistence of a mandatory requirement for assurance of non-financial information (Wild & van Staden, 2013). This results in less comparability among the reports and, accordingly, the report readers’ perception of reliability could be lost.

IR aims to enhance accountability and stewardship for the various types of capital (financial, manufactured, intellectual, human, social and relationship, and natural) and to promote understanding about their interdependencies (IIRC, 2013e). South African-based organisations found what to include under each type of capital and

how capitals interconnect and link to strategy was not clear (McNally et al., 2017). This indicates that there is confusion about what IR means (Dumay et al., 2017).

Silvestri et al. (2017) observe, based on the Italian Casillo Group, that the company faced difficulties in structuring the reports, and in identifying different processes and components of the business model. Further, they argue it is difficult to make the firm's value creation process explicit and understandable, both owing to the lack of capability of the managers in preparing the integrated report and the stakeholder's ability to understand its content. Further, stakeholders struggle in their decisions due to the large volume and variety of non-financial information (Potter et al., 2013).

IR focuses on the ability of an organisation to create value in the short, medium and long-term, and in so doing, it has a combined emphasis on conciseness, strategic focus and future orientation, the connectivity of information and the capitals and their interdependencies (IIRC, 2013e). An IIRC IR business network participant 'Solvay S.A.' records experiencing difficulty in achieving connectivity between non-financial indicators and financial results (ACCA, 2017). Similarly, Silvestri et al. (2017) find their case study company faced difficulty integrating financial information derived from traditional financial reporting with non-financial information.

One of the IR guiding principles is conciseness (IIRC, 2013e). Many participants in the IIRC IR Business Network find conciseness difficult as they try to provide sufficient context to help readers understand the organisation's value-creation process and performance (ACCA, 2017). The IIRC pilot programme participant, 'SASOL' Company explains that "it is a challenge to explain the business succinctly and simply, given Sasol's complex operations in diverse industries operating globally" (IIRC, 2013c, p. 38).

The IIRC anticipates that IR practicing organisations apply the IIRC framework to produce their integrated reports (IIRC, 2013e). Guiding principles and content elements of the IR framework govern the overall content of an integrated report (IIRC, 2011). It is expected that IR brings together material information about an organisation's strategy, governance, performance and prospects in a way that

reflects the commercial, social and environmental context within which it operates (IIRC, 2011). The IIRC IR Business Network participant, 'PTT Global Chemical Public Company Limited,' describes the challenge they faced, "the Framework is quite detailed, and this can make it hard for companies to produce concise reports that investors can read and understand" (ACCA, 2017, p. 26). It appears that companies expect more guidance on implementing IR and that stakeholders are familiarised with this new form of reporting.

3.11.2 The report preparers

Lodhia (2015) reports preparers' perceptions on the challenge of IR, "IR becomes complex and nobody can understand it" (p.594). IR emphasizes the importance of integrated thinking within the organisations. Integrated thinking leads to integrated decision-making and actions (IIRC, 2013e). McNally et al. (2017) finds that a shared understanding of the purpose of the integrated report is lacking and the relevance of the new report format is questioned (McNally et al., 2017).

An important outcome of IR is "integrated thinking", which is the active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects (IIRC, 2013e). The IIRC IR Business Network participants recognise that the integrated reports businesses produce are the manifestation of their internal integrated thinking and management (ACCA, 2017). Integrated thinking indicates the importance of understanding and involvement of the employees in IR of an organisation.

IR necessitates management responsibility throughout the company (ACCA, 2011a). The literature identifies top management support is a critical factor for the successful implementation of the Enterprise Resource Planning (ERP) system for an organisation (Fui-Hoon Nah, Lee-Shang Lau, & Kuang, 2001). The successful implementation of any new system in an organisation requires the support of top management. Holland, Light, and Gibson (1999) argue that senior management must be committed to its own involvement and willingness to allocate valuable resources to the implementation effort of ERP. This does not appear to be an issue as the extant literature does not expose any difficulties in convincing top

management of the value of IR. However, the literature identifies that understanding and acceptance of integrated thinking needs to be raised.

3.11.3 The internal processes

Determining, measuring and gathering data are identified as the key challenges to the successful implementation of integrated decision-making and reporting systems (Accounting-for-sustainability, 2012). An IIRC pilot programme participant, the South African Oil and Gas Company (SASOL) indicates that obtaining accurate, timely and complete input for the Integrated Report and effectively coordinating information from many functions across the business were the main challenges during the implementation period (IIRC, 2013c).

The ‘push logic’ (Stubbs & Higgins, 2014) approach for driving the new report format is where the IR is being imposed on existing structures with no or little consideration for how it can be used to improve proactivity, accountability and sustainability performance (Adams & Frost, 2008). Companies were quick to adopt the IIRC’s framework and issued a new type of report to their stakeholders but without the corresponding changes to their sustainability management and accounting systems (McNally et al., 2017).

The information required to be disclosed in the Integrated Report is significantly different from the content of the historical annual report (Steyn, 2014). Integrated reporting results in data collection and reporting on factors that generally were not previously disclosed, and this could require costly adjustments to management information systems. IR requires different metrics and new methodologies to fill data gaps. This process often takes time to develop (IIRC, 2013a, 2013b, 2013d, 2013e). Therefore, organisations need to explore innovative ways of communicating the interconnections between different types of information needs (McNally et al., 2017).

Information systems and processes that are inadequate for supplying reliable information is a significant problem for South African listed companies during the implementation of IR. South African IR implementers faced a daunting task of developing appropriate information systems to support reporting content. Development of appropriate information systems should be considered a primary

area of focus for companies moving towards IR (Steyn, 2014). Changing internal processes relating to disclosure activities, aimed at producing an integrated report, and internal decision-making are challenging (Dumay et al., 2017), especially during the implementation period.

Organisations that work in silos rather than adopting integrated thinking experience a lack of linkage in reporting. This suggests that organisations will need to change existing practices through greater cross-functional communication to facilitate the diffusion of IR (Robertson & Samy, 2015). ACCA (2017) reports the challenge of connectivity. Connectivity is more than producing a report and drawing lines between things; it is about building understanding at each level of the business. Thus, organisational structures and operations need to be aligned with strategic goals and designed to enable integrated thinking (Lodhia, 2015). Thus, the literature indicates that when implementing IR, there are several challenges for internal processes that will take time to resolve.

3.12 Conclusion

This chapter has reviewed the literature on the historical evolution of corporate reporting to the recent emergence of Integrated Reporting. It also discusses the benefits of IR, future oriented predictions and the associated risk, materiality level determination for non-financial information in Integrated Reports, and IR implementation challenges. As a result of increased information needs of stakeholders, corporations introduce non-financial information disclosures under different names during diverse time frames. Corporate reporting is not static, but is constantly evolving. The literature review identifies that the available literature on IR is limited since IR is still at the initial stage of development.

The production of an Integrated Report is a voluntary practice for companies in most countries. There are several reasons, including the benefits of adopting IR, why some companies are adopting IR while it is not compulsory. The IIRC introduced its pilot programme in 2011 with the objective of developing an international IR framework. Organisations face several challenges in the adoption and implementation of IR. The disclosure of future-orientated information and the

determination of materiality levels for non-financial information are two of the most important and difficult tasks in the IR process.

In contrast to other modern developments in corporate reporting, where patterns, determinants and motivations are widely examined, it is unclear why corporations adopt IR. Further, it is uncertain why companies pursue IR, what approaches and internal mechanisms early adopters use to implement it, and whether it is driving organisational change at this early stage. To date little has been reported about Integrated Reports, despite their recognised usefulness.

Hence this research addresses five questions that will help to bridge the gap in the literature and build understanding of the processes and dilemmas facing companies in the move towards adopting IR:

1. Why did the sample of Sri Lankan Public Listed Companies (PLCs) adopt IR?
2. What challenges are faced by Sri Lankan PLCs during the implementation of IR in their companies?
3. How are the materiality levels determined for the non-financial information disclosed in the Integrated Reports of Sri Lankan PLCs?
4. How does the management of Sri Lankan PLCs deal with the risks inherent in future oriented predictions?
5. Has the management of Sri Lankan PLCs achieved the expected benefits of adopting IR?

IR is relatively new concept. The experience organisations have with IR is limited. Therefore, implementation of IR is not easy and numerous challenges could arise during the implementation stage. The review of the literature has established that few empirical studies have been undertaken on the adoption and implementation of IR.

CHAPTER 04

THEORETICAL FRAMEWORK

4.1 Introduction

This chapter discusses a theoretical framework which helps to explain why the sample of Sri Lankan PLCs managers chose to adopt integrated reporting (IR). A theoretical framework can be defined as a set of interrelated constructs, concepts, definitions, or propositions that present a systematic view of phenomena which could be used to guide a particular research project (Creswell, 2003). A theoretical framework is regarded as an essential starting-point for any study, but it is argued that it should be capable of being challenged and refined as a result of the research process (Humphrey & Scapens, 1996). Theory can be a powerful tool by which interpretive researchers convey the richness and analytical detail of their work (Ahrens et al., 2008). The researcher must be able to continuously link theory and findings from the field to generate findings for the interest of the wider accounting research community. Prior theories, therefore, have the potential to provide deeper insights into accounting practices being investigated as well as legitimising the research findings. The researcher must avoid forcing theoretical constructs on to the data, but instead allow the constructs to emerge from the data (Ahrens & Dent, 1998).

Corporate environmental disclosure represents a strategy to respond to the expectations of various stakeholders and society in general (Gray et al., 1995; Guthrie & Parker, 1989). To implement this strategy successfully, the quantity and quality of such environmental information must be adequate. Companies disclose voluntary information regarding the environmental dimensions of their activities as a means of demonstrating the overall creation of value, as part of the process of being accountable to stakeholders and society in general (Freeman & Velamuri, 2008).

Several competing theories such as Political economy theory, Institutional theory, Stakeholder theory, Agency theory, Stakeholder-agency theory, Legitimacy theory, and Signalling theory, on non-financial disclosure have emerged. I have chosen

‘Institutional Theory’, with specific reference to the concepts of institutional isomorphism and institutional entrepreneurs to provide an understanding of the IR adoption at Sri Lankan PLCs. The rationale for the selection of institutional theory is discussed in this chapter. The chapter also explains the contributions of institutional isomorphism and institutional entrepreneurship, in exploring the IR adoption decision by the sample of Sri Lankan PLCs.

This chapter is structured into seven sections. Section 4.2 outlines the theoretical perspectives of IR practice, section 4.3 explains issues with New Institutional Theory (NIT). Section 4.4 presents the concept of institutional work and institutional entrepreneurs. Section 4.5 provides a literature review of the use of institutional theory in accounting research, and Section 4.6 describes the theoretical framework for the adoption of IR by Sri Lankan PLCs. Section 4.7 concludes the chapter.

4.2 Theoretical perspectives of IR practice

This section justifies the adoption of institutional theory for the theoretical lens adopted in the study. Several researchers have used this theoretical lens to explain the achievement of legitimate expectations on the form and adoption of verities of non-financial reporting (Bebbington, Higgins, & Frame, 2009; Brown, de Jong, & Levy, 2009; Etzion & Ferraro, 2010). The following discussion includes an introduction to the theory. It also links the theory to IR practice, its predictions about IR motivations, institutional entrepreneurs, and the role of entrepreneurs in creating new institutions.

4.2.1 Institutional theory

Reporting is based on accounting information which is gathered within organisations. IR is the latest global development in corporate reporting (Schaltegger, Bennett, & Burritt, 2006b). Accounting is shaped by its institutional context; its form and role are determined by the organisational environment. Accounting also helps to shape this environment (Moll, Burns, & Major, 2006). Institutional theory is one of the most dominant frameworks in organisational analysis (Lounsbury, 2008). There is rising interest in institutional theory in providing arguments to support transparency practices (Brammer, Jackson, &

Matten, 2012; Matten & Moon, 2008). Institutional theory explores how (at a broader level) particular organisational forms might be adopted in order to bring legitimacy to an organisation (Deegan, 2009; Zahir-ul-Hassan & Vosselman, 2010). Generally, accounting is accepted as a symbol of legitimacy (Brown & Fraser, 2006; DiMaggio & Powell, 1983; Meyer & Rowan, 1977). “Organisations confirm (to institutional pressures for change) because they are rewarded for doing so through increased legitimacy, resources and survival capabilities (Scott, 1987, p. 498). According to institutional theory, organisations are embedded in a comprehensive system of political, financial, educational, cultural and economic institutions that exert institutional pressure on them (Jackson & Apostolakou, 2010; Matten & Moon, 2008). For example, Jensen and Berg (2012) find that IR adoption is determined by institutional pressures similar to the pressures exerted by the financial, educational, labour, cultural and economic systems of a country.

Some institutional theorists believe that organisations are open systems and organisational structures arise as reflections of rationalised institutional rules (DiMaggio & Powell, 1983; Meyer & Rowan, 1991). All organisations are socially constituted and are the subject of institutional processes that “define what forms they can assume and how they may operate legitimately” (Scott, 1995, p. 136). “Institutional theory is based on the premise that organisations respond to pressures from their institutional environments and adopt structures and/or procedures that are socially accepted as being the appropriate organisational choice” (Carpenter & Feroz, 2001, p. 569). Managers adopt institutionalised practices because the social legitimacy of their firms is at stake – managers desire to be seen as acting “normally” and “appropriately” amongst their peers. Institutionalism induces isomorphism whereby firms adopt similar practices, in similar ways, and articulate similar reasons for doing so (Higgins, Stubbs, & Love, 2014). New-institutional theory, in particular, has stressed how organisations adopt institutionalized forms of behaviour in an effort to increase their internal and external legitimacy (Scott, 1995).

In addition, institutional theory links organisational practices (such as corporate reporting) to the values of the society in which an organisation operates, and to a need to maintain organisational legitimacy (Deegan, 2009). Voluntary non-financial information disclosure and voluntary engagement in CSR activities by an

organisation are considered as a part of institutional practice (Deegan, 2009). Institutional theory tends to adopt a broad macro view to explain why an organisation adopts a particular structure or a particular reporting practice (Deegan, 2009). Also the theory assumes that organisations adopt structures and management practices that are considered legitimate by other organisations in their fields, regardless of their actual usefulness (Carpenter & Feroz, 2001). One of the important points that needs to be considered in institutional theory is that organisational activities are not necessarily rational and intentionally conceived by managers or shaped entirely by individual organisational circumstances. Organisational activities come about to meet expectations or to do what other legitimate firms are doing. Managers may not even be aware that their actions, and the rationale for undertaking them, are institutionally shaped (Friedland & Alford, 1991; Milne & Patten, 2002). The advantages of compliance to institutional norms are three-fold: (i) increased prestige for the organisation; (ii) stability, legitimacy, social support and acceptance in the profession and (iii) invulnerability to questioning (DiMaggio & Powell, 1983). Morgan, Campbell, Crouch, Pedersen, and Whitley (2010) define field as:

The field in which we are interested can be defined in terms of how the forms, outcomes, and dynamics of economic organisation (firms, networks, markets) are influenced and shaped by other social institutions [training systems, legal systems, political systems, educational systems, etc.] and with what consequences for economic growth, innovation, employment, and inequality (p.2).

Further, institutional theory is primarily concerned with an organisation's interaction with the institutional environment, the effects of social expectations on the organisation, and the incorporation of these expectations as reflected in organisational practices and behavior (Martinez & Dacin, 1999). The use of IR is one of the ways that reflect organisational practices and behavior chosen in order to meet social expectations. Financial services institutions have become early adopters of IR. It has been suggested that this industry might be pursuing this new reporting regime in order to regain legitimacy following the major loss of investor confidence in the wake of the global financial crisis (Wild & van Staden, 2013).

Another view is that the institutionalization of management practices is “a process entailing the creation of reality” (Scott, 1987, p. 505) where IR attempts to

demonstrate the reality of the reporting process by explaining material information about an organisation's strategy, governance, performance, and prospects in a way that reflects the commercial, social and environmental context within which it operates (IIRC, 2013e). This explanation of institutional theory is the first step in the justification for why this theory has been chosen as the theoretical lens to provide an understanding of why Sri Lankan PLCs became early adopters of IR in spite of all the challenges associated with this form of reporting.

4.2.2 Types of institutional theories

Three types of institutional theories have been used to gain insights into organisational change. They are: Old Institutional Economics (OIE); New Institutional Economics (NIE); and New Institutional Sociology (NIS) (Scapens, 2006). Old Institutional Economics is concerned with the institutions that shape the actions and thoughts of individual human agents. New Institutional Economics is concerned with the structures used to govern economic transactions. By contrast, going beyond an individual perspective and economic factors, New Institutional Sociology (NIS) adopts a broader, multi-dimensional approach for focussing on issues of external and internal organisational contexts (Greenwood & Hinings, 1996). New Institutional Sociology (NIS) is concerned with the institutions in the organisational environment that shape organisational structures and systems (Scapens, 2006). Drawing on the new institutional sociology (NIS) perspective, this thesis focuses on how various institutional pressures (internal and external) drive the adoption of integrated reporting by the sample of Sri Lankan PLCs. The sections below provide a rationale for the selection of New Institutional Theory (NIT) which is derived from NIS and Institutional Entrepreneurs for the theoretical framework of this thesis.

4.2.2.1 New Institutional Theory (NIT)

New Institutional Theory (NIT) was chosen as the appropriate theoretical lens to investigate the research phenomenon of integrated reporting in Sri Lanka. The concept of New Institutional Sociology (NIS) was developed in the seminal work of Meyer and Rowan (1977). They argue that organisations are influenced by their institutional environment and gradually become isomorphic with them. From NIS,

New Institutional Theory (NIT) was subsequently developed and elaborated further by DiMaggio and Powell (1983). This new direction argued that organisations must conform to institutional pressures if they wanted to gain legitimacy within an organisational field. DiMaggio and Powell (1983) pointed out that these institutional pressures could occur from three sources namely coercive, mimetic, and normative isomorphism. Scott (1995) further developed the three institutional pressures introduced by DiMaggio and Powell (1983). Scott (1995) identifies three distinct pillars of the institutional context namely: regulative (consistent with coercive pressures); normative (related to normative pressures); and cultural cognitive (elaboration of mimetic pressures). The regulative pillar directs action through coercion and threat of formal sanction, the normative pillar supports action through norms of acceptability, morality, and ethics, and the cognitive pillar guides action through the very categories and frames by which actors know and interpret their world (Scott, 1995). Mimetic, normative and regulative factors represent the different forces acting on institutions. These forces are argued to apply different levels of motivations by institutions in the adoption of social patterns (Kostova & Roth, 2002) of which IR is considered to be an emerging social movement in the field of reporting (Eccles & Krzus, 2010b).

Institutional theorists attempted to understand institutionalization as a process of isomorphism (DiMaggio & Powell, 1983; Lounsbury, 2008) where institutional pressures can force organisations to adopt the same organisational forms (Greenwood & Hinings, 1996). According to institutional theory, companies are economic units that operate in environments containing similar institutions that affect their behaviour and impose expectations on them (Campbell, 2007). Acceptance of this pressure results in companies with institutional similarities to adopt homogeneous patterns of behavior (Claessens & Fan, 2002). The process of homogenisation has been termed isomorphism (DiMaggio & Powell, 1983), and is believed to promote the stability and long-term survival of companies, equipping them with greater power and institutional legitimacy. However, more than one isomorphic pressure may be operating simultaneously, and influences of institutional pressures may change over time as a result of constantly changing endogenous (e.g. key decision maker's norms; values and unconscious conformity to traditions; motivation; competence and professionalism at the individual level;

and shared belief systems, power and politics at the organisational level) and exogenous factors (e.g. regulatory pressures; public pressures; and professional norms and values at the organisational field level) (Carpenter & Feroz, 2001). It is suggested, for instance, that the three types of isomorphic forces collectively influence Corporate Social Responsibility Reporting (CSRR) practices and patterns adopted by companies (de Villiers & Alexander, 2014). The following sections describe the three classifications of institutional isomorphism: coercive, mimetic, and normative.

4.2.2.1.1 Coercive isomorphism

Coercive isomorphism arises from formal and informal pressure exercised on the organisation by the other organisations on which they depend and the expectations of the society in which the company operates (DiMaggio & Powell, 1983). In support of this view, Judge, Li, and Pinsker (2010) confirm that coercive isomorphism stems from resource dependence and legitimacy concerns. Coercive pressures can arise from regulative forces and resource dominant actors (Touron, 2005). Coercive isomorphism relates to the external factors, such as shareholder influence, and government policy. This isomorphism arises because of pressure from powerful, critical stakeholders who want to change organisations' institutional practices (Deegan, 2009). Deegan (2009, pp. 359,360) states "a company could be coerced into adopting its existing voluntary corporate reporting practices to bring them into line with the expectations and demands of its powerful stakeholders". Thus, companies most likely to act responsibly in reporting their behaviour are those which operate in an institutional context where there is coercive pressure, arguably where a significant, well-developed legal system exists that seeks to protect stakeholders, and which is not exclusively oriented towards shareholders' interests (Campbell, 2006). It is assumed in new-institutionalism that externally codified rules, norms, or laws assign legitimacy to new management practices (Matten & Moon, 2008). A key issue is to investigate whether the IR adoption decision of Sri Lankan PLCs could have been formally and informally pressured by the actions of the IIRC, IIRC supporting organisations, shareholders and other stakeholders.

4.2.2.1.2 Mimetic isomorphism

Mimetic isomorphism stems from organisations modeling the practices of others, which are largely practices from rivals in the field (Jennings & Zandbergen, 1995; Scott, 2008). DiMaggio and Powell (1983) proposed the notion of mimetic isomorphism and was identified later by Scott (1995) as the cognitive pillar. This type of isomorphism, where companies often respond to uncertainty by replicating the actions of the most successful industry members, is mimetic (Meyer & Rowan, 1977). In addition, mimetic isomorphism involves organisations trying to copy or improve upon the other organisations' practices to obtain competitive advantages in terms of legitimacy. The argument being that, legitimacy is 'a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions' (Suchman, 1995, p. 574).

However, uncertainty is one of the powerful forces which encourages imitation (DiMaggio & Powell, 1983). The prime threat in imitation seems to be perceived challenges to organisational legitimacy and competitive advantage from a failure to be seen to either follow best practice, as adopted by other organisations, or to institute practices more advanced than those of competitors (Unerman & Bennett, 2004, p. 692). Pressures on organisational behaviour include the need to conform to wider industry norms regarded as best practice in order to avoid reputational risk, to employ report content as a means to manipulate stakeholder perceptions, and to gain, or attempt to regain, operational legitimacy. Such pressures may drive individual firms within an industry to adopt particular practices, such as the manner of communicating firm information (DiMaggio & Powell, 1983; Scott, 1995). Therefore, in a business environment with increased uncertainty and increasingly complex technologies, managers tend to consider practices as legitimate if they are regarded as "best practice" in their organisational fields such as business re-engineering or total quality management (Matten & Moon, 2008). Subsequently, mimicking others is argued to be a cost-effective way of getting legitimacy (DiMaggio & Powell, 1983, 1991; Mizuchi & Fein, 1999) and IR adoption by companies appears to be the new trend in best practice to maintain corporate legitimacy and to obtain competitive advantages.

4.2.2.1.3 Normative isomorphism

Normative isomorphism arises from group norms to adopt particular institutional practices. Educational and professional authorities that directly or indirectly set standards for legitimate organisational practices are the source of isomorphic pressure known as normative isomorphism in new institutionalism (Matten & Moon, 2008). Professions play a major role in normative isomorphism (DiMaggio & Powell, 1983). This isomorphism process occurs through two mechanisms: a transmission of norms by professionals; and the development of professional networks (DiMaggio & Powell, 1983). Organisations adopt similar formal structures such as accounting standards under the pressures of organisational institutions such as state laws and regulations, stock exchanges, and the accounting professions (Kholeif, 2010).

Normative isomorphism assumes organisations adopt the structures and procedures advanced by particular dominant professions, professional bodies and/or consultants. The normative isomorphic process relates to the pressures emerging from common values to adopt particular institutional practices (DiMaggio & Powell, 1983). Deegan (2009, p. 362) claims,

“the professional expectation that accountants will comply with accounting standards acts as a form of normative isomorphism for the organisations for whom accountants work to produce accounting reports (an institutional practice) that are shaped by accounting standards. In term of voluntary reporting practices, normative isomorphic pressures could arise through less formal group influences from a range of both formal and informal groups to which managers belong – such as the culture and working practices developed within their work place”.

Also, normative isomorphism is indicated as the process of applying professionally correct procedures to the organisation where education, training, social interaction, and professional membership play important roles in shaping individuals’ beliefs towards shared norms (de Villiers, Low, & Samkin, 2014).

4.3 Issues with NIT

Research into understanding change processes and their motivations are largely restricted to factors at the organisational field level (Ezzamel, Robson, Stapleton,

& McLean, 2007; Greenwood & Suddaby, 2006; Greenwood, Suddaby, & Hinings, 2002) or at the organisational level (Burns & Scapens, 2000; Lukka, 2007). In addition, the New Institutional Theory (NIT) emphasises isomorphism and as such ignores human agents and their interests (DiMaggio & Powell, 1983, 1991; Tolbert & Zucker, 1983). One of the major criticisms of NIT is its relative inattention to the role of proactive actors in constructing institutions (Dambrin, Lambert, & Sponem, 2007; Dillard, Rigsby, & Goodman, 2004; Lounsbury, 2008). To address this issue researchers have integrated the institutional entrepreneurship approach from institutional work. The next section discusses the concepts of institutional work and institutional entrepreneurs.

4.4 Institutional work

The concept of institutional work describes “the purposive action of individuals and organisations aimed at creating, maintaining and disrupting institutions” (Lawrence & Suddaby, 2006, p. 215). This concept is used to explain non-isomorphic change using an institutional lens (Dacin, Goodstein, & Scott, 2002). Rules and structures ensure a measure of conformity among individuals. Therefore, researchers often focus on how institutions; rules, structures and routines influence individuals. However, the concept of institutional work acknowledges that individuals are able to influence institutions (Bui & de Villiers, 2014). The creation and change within new/old institutions requires institutional work from a wide range of actors, both those with the resources and skills to act as entrepreneurs and those whose role is supportive or facilitative of the entrepreneur's endeavours (Leblebici, Salancik, Copay, & King, 1991).

DiMaggio (1988), Oliver (1991); (Oliver, 1992) suggest an approach to the study of institutional work that focuses on three key elements. The first element in the study of institutional work should highlight the awareness, skill and reflexivity of individual and collective actors. The second element is that an understanding of institutions as constituted in the more and less conscious action of individual and collective actors. The third element (which is a practice perspective on institutional work) suggests that we cannot step outside of action as practice and argues that even action which is aimed at changing the institutional order of an organisational field occurs within sets of institutionalised rules.

Some institutional theorists strongly emphasise the ‘taken-for-grantedness’ of institutions and have the potential to construct actors as cultural ‘dopes’ (Hirsch & Lounsbury, 1997). Other institutional theory-based studies in accounting (Abernethy & Chua, 1996; Gendron & Barrett, 2004) have highlighted that economic exchange is always “embedded” within institutionalised societal norms and interpretive rules such as fairness, equity and reciprocity, and seniority are taken for granted (Chua & Mahama, 2007). In contrast, the concept of institutional work suggests the existence of culturally competent actors with strong practical skills, resources and sensibility and that these actors creatively navigate within their organisational fields (Clemens, 1993; Greenwood, Suddaby, & Hinings, 2002; Holm, 1995; Oakes, Townley, & Cooper, 1998).

The change process at the individual organisational level affects both internal and external factors (Brignall & Modell, 2000; Collier, 2001; Modell, 2002; Tsamenyi, Cullen, & González, 2006). Old Institutionalism (OI) and New Institutionalism (NI) in sociology could be used to understand the process of change. Old institutionalism is about internal factors or intra-organisational dynamics such as interests, values, power dependencies and capacity for action. New institutionalism explains the external factors, at an organisational field level, affecting the change process (Greenwood & Hinings, 1996). The change process is the result of interaction between these two factors where the interaction is supported by ‘institutional entrepreneurs’ (Dillard et al., 2004; Greenwood & Hinings, 1996). The role of actors in the transformation of existing institutions and fields has also risen in prominence within institutional research. Institutional studies have documented the ability of actors, particularly those with some key strategic resources or other forms of power, to have significant impacts on the evolution of institutions and fields (Clemens, 1993; Greenwood et al., 2002; Holm, 1995; Oakes, Townley, & Cooper, 1998).

4.4.1 Institutional entrepreneurs

The concept of institutional entrepreneurs is helpful in exploring how actors shape emerging institutions and transform existing ones despite the complexities and path dependencies that are involved (Garud, Hardy, & Maguire, 2007). Institutional entrepreneurs are skilled actors who use existing cultural and linguistic materials to

narrate and theorise change so that other social groups in the field agree to cooperate in the change process (Greenwood et al., 2002; Maguire, Hardy, & Lawrence, 2004; Suddaby & Greenwood, 2005). These entrepreneurs try to connect the new practices to stakeholders' routines and values (Maguire et al., 2004). In addition, institutional entrepreneurs use 'framing' strategically (Khan, Munir, & Willmott, 2007) where they articulate their change projects in particular ways to "define the grievances and interests of aggrieved constituencies, diagnose causes, assign blame, provide solutions, and enable collective attribution processes to operate" (Snow & Benford, 1992, p. 150).

The concept of institutional entrepreneurs has emerged to help answer the question of how new institutions arise (Fligstein, 1997; Rao, Morrill, & Zald, 2000). Institutional entrepreneurship represents the activities of actors who have an interest in particular institutional arrangements and who leverage resources to create new institutions or to transform existing ones (Fligstein, 1997; Maguire et al., 2004; Rao et al., 2000). The role of actors in creating new institutions has been titled as institutional entrepreneurship (Eisenstadt, 1980). Institutional entrepreneurs serve as agents of legitimacy supporting the creation of institutions that they deem to be appropriate and aligned with their interests. These agents have the resources and hence the power to shape the character of institutions and institutional change (Dacin et al., 2002, p. 47). However, creation and change within institutions is expensive, and requires high levels of interest and resources. Thus, only institutional entrepreneurs, who are organised and possess sufficient resources, are capable of introducing institutional change (Leblebici et al., 1991). Garud et al. (2007) define institutional entrepreneurs as path creating/path changing individuals or organisations. It has been found that sometimes, even less powerful actors may shape the institutional change, especially in emerging fields (Zahir-ul-Hassan & Vosselman, 2010).

The role of actors in creating new institutions has been examined primarily under the rubric of institutional entrepreneurship (DiMaggio, 1988; Eisenstadt, 1980). It is argued that institutional entrepreneurs are central to institutional processes. New institutions arise when organised actors have sufficient resources. Institutional entrepreneurs see an opportunity to realise interests that they value highly

(DiMaggio, 1988). The role of actors in the transformation of existing institutions and fields has also risen in prominence within institutional research. Institutional studies have documented the ability of actors, particularly those with some key strategic resources or other forms of power, to have significant impacts on the evolution of institutions and fields (Clemens, 1993; Greenwood et al., 2002; Holm, 1995; Oakes et al., 1998).

Research studies have mostly focused the discussion of institutionalisation process to an individual organisation's adoption decision and effects of the institutional environment. Minimal attention has been paid to the roles of both the organisation or to the field level actors in fuelling social construction and institutionalisation of new organisational constructs at field level. These kinds of individual organisations or field level actors have been identified as institutional entrepreneurs (Zahir-ul-Hassan & Vosselman, 2010). Institutional entrepreneurs may be individuals or organisations (Maguire et al., 2004; Zahir-ul-Hassan & Vosselman, 2010). Individuals/actors are knowledgeable agents with a capacity to reflect and act in ways other than those prescribed by taken-for-granted social rules and technological artefacts (Garud & Karnøe, 2003; Mutch, 2007).

To qualify as institutional entrepreneurs, individuals must break with existing rules and practices associated with the dominant institutional logic(s) and institutionalise the alternative rules, practices or logics they are championing (Battilana, 2006; Garud & Karnøe, 2001). Institutional entrepreneurship links with the undertakings of actors who are able to mobilise resources to enable collective action (Khan et al., 2007). Institutional entrepreneurship has been presented as a promising way to account for institutional change endogenously (Battilana, 2006).

DiMaggio (1988) describes the concept of institutional entrepreneurship as a means of understanding how new institutions arise. The concept of institutional entrepreneurship is important because it focuses attention on the manner in which interested actors work to influence their institutional contexts through such strategies as technical and market leadership, lobbying for regulatory change and discursive action (Fligstein, 1997; Hoffman, 1999; Lawrence & Suddaby, 2006; Maguire et al., 2004; Rao et al., 2000; Suchman, 1995).

It has also been claimed that there is a tendency of early adoptions of organisational constructs to be driven by efficiency rather than legitimacy considerations (DiMaggio & Powell, 1983). Accounting research also indicates that both efficiency and legitimacy considerations might operate and that they need not be mutually exclusive (Hopper & Major, 2007). Models that combine insights from transaction cost economics and institutional theory in sociology point to the interplay between efficiency and legitimacy (Zahir-ul-Hassan & Vosselman, 2010). The involvement of institutional entrepreneurs is important in this interplay. They are powerful actors that take an interest in a particular institutional arrangement. They deploy resources at their disposal to create and empower such arrangements. They bring about change while advancing their own agendas (Mizruchi & Fein, 1999). One important category of such actors is the category of professionals, often organised in professional networks. Professionals, because of their knowledge and status, often play a leading role in field-level change (Bui & de Villiers, 2014). These actors promote innovations in the field, and support and advertise them by explaining benefits and highlighting disadvantages of the competing alternatives (Zahir-ul-Hassan & Vosselman, 2010). Professionals such as consultants, controllers and accountants are important institutional entrepreneurs in accounting as they shape and control practices and technologies. They are organised in professions and professional networks that encompass organisations such as accounting institutes, non-academic/practitioner platforms and other organisations used for disseminating ideas and making contacts. The professionals and their networks are active in constructing the organisational construct at the level of the organisational field (Zahir-ul-Hassan & Vosselman, 2010). Sharma, Lawrence, and Lowe (2014) found that accountants and heads of business units were instrumental in enabling changes to business routines through accounting technology.

It is important to note that most of the empirical studies of institutional entrepreneurship conducted thus far have been in emerging fields that are less institutionalized and consequently characterized by higher levels of uncertainty (Déjean, Gond, & Leca, 2004; Garud, Jain, & Kumaraswamy, 2002; Lawrence, 1999; Lawrence & Phillips, 2004; Maguire et al., 2004).

4.5 Prior studies on use of institutional theory

Institutional theory is one of the most dominant theoretical perspectives in organisational analysis (Lounsbury, 2008) and is increasingly being applied in accounting research (Abernethy & Chua, 1996; Bebbington et al., 2009; de Villiers & Alexander, 2014; Dillard et al., 2004; Sharma, Lawrence, & Lowe, 2010; Sharma et al., 2014; Tsamenyi et al., 2006). Notably, some scholars have used institutional theory to draw useful insights into the adoption of IR (Higgins, Stubbs, & Love, 2014; Jensen & Berg, 2012; Wild & van Staden, 2013). The two sections below provide evidence for the use of institutional theory for understanding IR adoption and non-financial reporting.

4.5.1 Non-financial reporting

Prior studies have attempted to explain the achievement of a legitimate agreement on the form and adoption of varieties of non-financial reporting, through an institutional lens (Bebbington et al., 2009; Brown, De Jong, & Lessidrenska, 2009; Etzion & Ferraro, 2010). Bebbington et al. (2009) analysed the influence of cultural-cognitive, normative and coercive isomorphic pressures on how sustainability reporting was shaped in six New Zealand firms. They found that mimetic isomorphism lay behind embracing sustainable development reporting within New Zealand corporations. This rationale constitutes a cognitive mechanism within institutional theory. Further, for those particular New Zealand organisations, choosing to engage in sustainable development reporting appears not to be a rational choice. They found that non-financial reporting is initiated because it has come to be an accepted part of pursuing a differentiation strategy where it offers some contribution to existing business challenges, and because organisations value the rewards it offers. de Villiers and Alexander (2014) find the overall characteristics of corporate social responsibility reporting (CSRR), specific examples of CSRR, and the CSRR management structures of Australian and South African mining companies to be similar. Further, they found that similarities appear to be driven by isomorphic pressures, i.e. companies copy others, are pressurised to adopt, and because of the professionalization of CSRR, these companies willingly adopt general (global) solutions to respond to environmental pressures. Fortanier, Kolk, and Pinkse (2011) find evidence for upward harmonization in reporting for

MNEs that adhere to global CSR standards. They found that adherence to global CSR standards reduced the cross-country differences in CSR reporting and made these reports more harmonised. This seems to hint at a dynamic isomorphism in which MNEs adhere to global standards, stimulated by and put in the context of international institutions, which leads to increased interaction between these firms, often via regular events that take place.

Sotorrío and Sánchez (2008) argue that although differences may exist when comparing companies in different societal groups, companies in the same societal level will have similar practices due to the isomorphic attributes. They found that on average, the level of CSR was higher in Europe compared to North America. This was attributed to the stronger institutional environment in European countries regulated by different European institutions (European Commission, national and local governments, consumers associations and NGOs), media or financial investors. Further, the region or country of a company can condition the level, components and motives of its social behaviour, and can be used to corroborate the premises of the institutional theory (Sotorrío & Sánchez, 2008). Muthuri and Gilbert (2011) found for the Kenyan situation that the nature and orientation of CSR differ across companies with operations only in Kenya and those headquartered abroad or with international operations. They noted that firm-related drivers such as public relations and performance, as well as global institutional pressures, explain the focus and form of CSR in Kenya. Further, Kenyan companies were found to mimic the practices of foreign corporations. Khalif's (2010) study based on Egyptian companies found that organisations adopt similar formal structures such as IFRSs under the pressures of external organisational institutions such as state laws and regulations, stock exchanges, and accounting professions.

4.5.2 Integrated reporting

The institutionalisation of integrated reporting is unfolding and isomorphism is likely to follow (Higgins et al., 2014). Lai et al. (2013) postulate that institutional factors may influence IR adoption. Jensen and Berg (2012) find that IR practicing companies differ significantly from those of traditional sustainability reporting (TSR) companies in terms of the institutional conditions under which they operate. Indeed, they find that IR adoption is influenced by institutional pressures from the

financial, educational and labour system, cultural system and economic system of a country. van Bommel and Rinaldi (2014) suggest that the trajectory of integrated reporting is determined largely by outside legitimating forces. Wild and van Staden (2013) using an institutional theory approach assert that within a given financial environment and industry activity climate, firms seek advantages and benefits from early adoption of a new reporting regime such as IR. They identified factors to support business confidence in order to regain legitimacy following the major loss of investor confidence in the wake of the global financial crises and optimizing access on favourable terms to capital markets. Eccles and Serafeim (2011a) claimed that potential pressure from large institutional shareholders in both public and private equities may stimulate IR implementation.

Frias - Aceituno, Rodríguez - Ariza, and Garcia - Sánchez (2014) found a negative impact of industry concentration on the development of a more pluralist report. Their study simultaneously took into account stakeholders, sustainability, and the long-term viewpoint, as well as questions of responsible investment, business ethics, and transparency. Another finding was that company size and profitability, on the other hand, have a positive impact on the likelihood of an integrated report being produced. Frías-Aceituno et al. (2013) study analysed the adoption and diffusion of integrated reporting using an institutional theoretical framework. The results of this study showed that companies located in civil law countries, and where indices of law and order are high, are more likely to create and publish a broad range of integrated reports, thus favouring decision taking by the different stakeholders. Moreover, size, profitability and country legal enforcement are positively related to IR adoption.

García-Sánchez, Rodríguez-Ariza, and Frías-Aceituno (2013) suggest that stakeholder influence from institutional perspectives on the extent of integrated reporting is significant at country level. Firms originating from countries with higher collectivist and feminism dimensions are more likely to produce integrated reports. At the firm level, firm size, industry and profitability are associated with the extent of holistic disclosure adopted. Eccles and Serafeim (2011a) postulated that the future of IR diffusion requires the existence of both market and regulatory forces in conjunction with institutional theory. For instance, voluntary IR adoption

will compel corporations in an industry to emulate other leading firms' best practices. McNally et al. (2017) found that the companies participating in their study included information in their integrated reports because disclosure requirements were referred to in codes of best practice or in their competitors' reports referring to memetic isomorphism of institutional theory. Further, the accounting profession and the big accounting firms have a huge influence on the IR adoption decision as the IIRC's governing council is dominated by the accounting profession and multinational enterprises (Dumay et al., 2017; Flower, 2014). The highest percentage of submission letters to develop current IR guidelines were received mainly from report preparers and sustainability professionals during the consultation period (Reuter & Messner, 2015). However, Wild and van Staden (2013) assert mimetic isomorphism is a factor driving the early uptake of IR.

4.6 Theoretical framework for understanding the adoption of IR by Sri Lankan PLCs

New Institutional Theory (NIT) concentrates on isomorphism and appeared to ignore human agents and their interests (DiMaggio & Powell, 1983, 1991; Tolbert & Zucker, 1983) in the change process. However, individuals are able to influence institutions (Bui & de Villiers, 2014) in the creation and change of new/old institutions. Therefore, the theoretical framework of this study incorporates both the isomorphic impact and the human impact on the IR adoption process.

This section discusses the theoretical framework for understanding the adoption of IR by Sri Lankan PLCs. The framework incorporates institutional isomorphism and focuses on mimetic, normative and coercive processes as well as the concept of institutional entrepreneurs. According to Deegan (2009), institutional theory links to organisational practices, including accounting and other non-financial reporting practices. The new institutional theory assumes that organisations adopt structures and management practices that are considered legitimate by other organisations in their fields. Legitimated structures or practices can be transmitted to organisations in a field in a number of ways, that is through imitation, coercion, and normative pressures (Carpenter & Feroz, 2001). Voluntary adoption of IR practices can be considered a part of institutional practice.

IR represents a journey to more meaningful reporting that can be instrumental for reporting organisations (Adams & Simnett, 2011), and it increases the effectiveness of what firms report (Higgins et al., 2014). As a result, there is an overt institutionalisation agenda underway – supported by the IIRC (Higgins et al., 2014; Rowbottom & Locke, 2013). Business associations are influential because they stimulate organisations and industries, bringing together like-minded managers who develop a shared experience that shapes norms about how others in similar situations will think and act (DiMaggio & Powell, 1983). In this regard, the IIRC is important. It has brought together like-minded managers from more than 80 business organisations and more than 35 investor institutions under the IIRC pilot programme. Also, IIRC is a coalition of some of the world’s most powerful accounting-related organisations. This includes reporting bodies (e.g., the GRI, the Sustainability Accounting Standards Board); the “Accounting for Sustainability” (A4S) project; business associations (e.g. the World Business Council for Sustainable Development, the Global Compact), standard-setting bodies (e.g. the IFRS – Foundation for International Accounting Standards Board, the Tokyo Stock Exchange), accounting bodies (e.g. CPA Australia, ACCA), consulting firms (including KPMG, PwC, Deloitte) and academics and non-governmental organisations (e.g. the WWF, Transparency International) (Higgins et al., 2014). Therefore, it is evident that IR has undergone much institutionalism. The IIRC and other supportive global organisations have made IR a worldwide trend. IR has gone under an institutionalisation agenda. In addition, IIRC pilot programme participants produce quality-integrated reports. Therefore, the practice of organisations who produce integrated reports is considered legitimate by these organisations.

Coercive isomorphism stems from resource dependence and legitimacy concerns (Judge et al., 2010). Though IR is not a regulatory reporting requirement in Sri Lanka, the IIRC and its supporting organisations have made IR a world-wide trend. Therefore, the IIRC and its supporting organisations are able to influence Sri Lankan companies to adopt IR. One Sri Lankan PLC has participated in the IIRC pilot programme and the IIRC could influence other companies to adopt it through the pilot programme participant.

A firm can be coerced by its influential or powerful stakeholders into adopting particular reporting practices (Deegan & Samkin, 2013; Eccles & Serafeim, 2011a). Sri Lankan PLCs could have powerful stakeholders including institutional investors locally and globally. These stakeholders have power to influence companies to adopt IR for better transparency.

Competition is high among companies in Sri Lanka. Competition is identified in the literature as a reason for companies to adopt IR (McNally et al., 2017). Wild and van Staden (2013) found mimetic isomorphism as one factor driving the early uptake of IR by firms in the financial services industry. Companies wish to follow best practices within their industry, and so adopt mimetic processes whereby the managers copy the “best practice” strategies of other successful organisations or competitors (Jensen & Berg, 2012). In addition, companies may try to copy or improve upon other organisations’ best practices in order to obtain a competitive advantage in terms of “legitimacy”.

CASL is the authoritative body in Sri Lanka for reporting. Companies adopt structures and procedures advanced by particularly dominant professions, professional bodies and/or consultants (DiMaggio & Powell, 1983). The auditors of Sri Lankan PLCs obtain “practicing certificates” from CASL (Yapa, Ukwatte Jalathge, & Siriwardhane, 2017). Also, qualified accountants and some employees of the finance divisions of Sri Lankan PLCs are members of CASL. Therefore, CASL has the ability to influence Sri Lankan companies towards the adoption of IR by means of their auditors and qualified members. In addition, CASL conducts seminars and round table discussions about IR and has issued an implementation guide for IR. CASL organises an annual reports awards competition including special awards for best-integrated reports in the country. It is able to influence companies through all the above functions.

The “Big 4” accounting firms have played a profound role in the globalization of accounting and represent normative pressure (Albu, Nicolae Albu, Bunea, Artemisa Calu, & Madalina Girbina, 2011). The largest accounting firms in the country can encourage Sri Lankan companies to adopt IR.

Creating and changing new institutions requires institutional work on the part of a wide range of actors, both those with the resources and skills to act as entrepreneurs and those whose role is to support or facilitate the entrepreneur's endeavours (Clemens, 1993; Greenwood et al., 2002; Holm, 1995; Leblebici et al., 1991; Oakes et al., 1998). Most of the top-level employees of the finance divisions and some of the directors of the sample companies are members of CASL. They have skills and power to allocate resources to effect change. Therefore, these interviewees can be viewed as institutional entrepreneurs. Figure 4 illustrates a model of adoption of IR by Sri Lankan PLCs to address the research question: why did Sri Lankan PLCs decide to adopt IR?

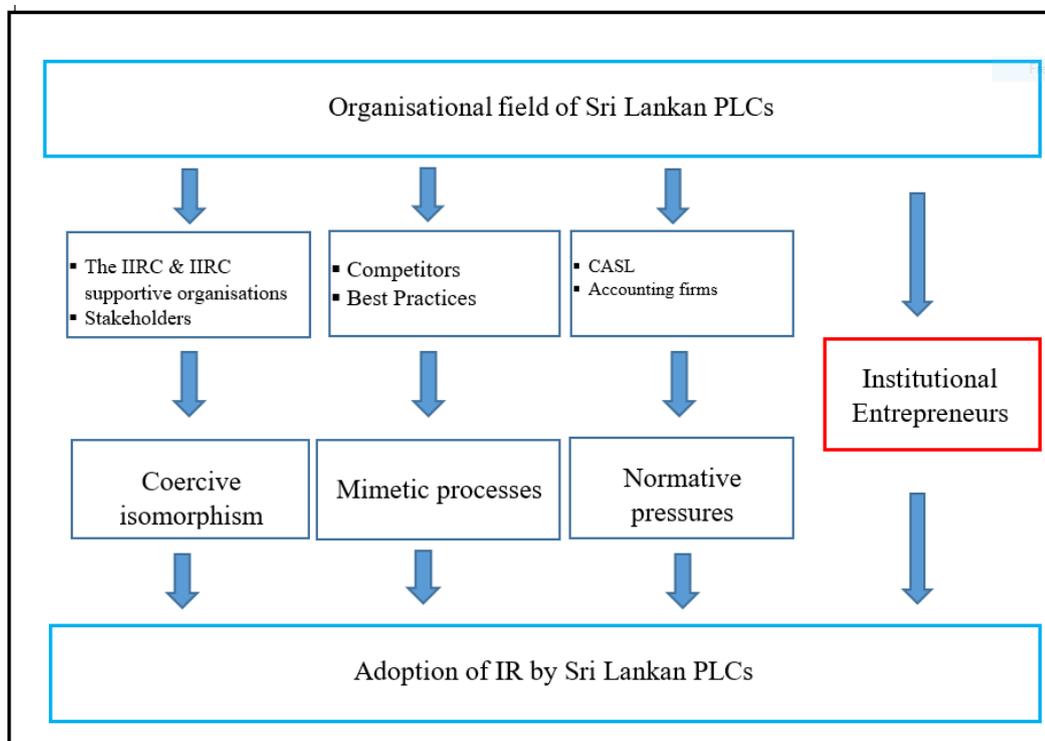


Figure 4: Institutional isomorphism, institutional entrepreneurs and adoption of IR at Sri Lankan PLCs – The theoretical framework

Source: Author

4.7 Conclusion

This chapter discussed the theoretical framework that will be used to analyse why the sample of Sri Lankan PLCs have adopted IR. Institutional Theory with special reference to institutional isomorphism and institutional entrepreneurs is considered as the suitable theoretical framework for describing and analysing how external and

internal forces influenced Sri Lankan PLCs' managers into adopting integrated reporting. The new institutional theory argues that organisations are influenced by the institutional environment and gradually become isomorphic with them. Institutional theorists explained institutionalization as a process of isomorphism whereby institutional pressures lead organisations to adopt similar best practices. Institutional pressures could occur from three sources: coercive, mimetic, and normative isomorphism. Coercive isomorphism stems from regulative forces and resource dominant actors. It includes external factors, such as shareholder influence and government policy. Mimetic processes involve managers copying strategies of successful organisations or competitors to gain competitive advantage. Normative isomorphism assumes organisations adopt the structures and procedures advanced by particular dominant professions, professional bodies and/or consultants.

To understand why companies adopt IR, there needs to be an understanding of the change processes at the organisational field level (Ezzamel et al., 2007; Greenwood & Suddaby, 2006; Greenwood et al., 2002) as well as at the organisational level (Burns & Scapens, 2000; Lukka, 2007). The theoretical framework for this study therefore, expands the lens to identify the impact of institutional work and institutional entrepreneurs to analyse why interviewees chose to adopt IR in Sri Lankan PLCs.

CHAPTER 05

RESEARCH METHODOLOGY AND METHODS

5.1 Introduction

The identification of research methodology and methods is an important and essential element of the research process. This chapter describes the core assumptions regarding the nature of knowledge and phenomenon to be investigated as well as the methods through which that knowledge is obtained (Llewellyn, 1993; Morgan & Smircich, 1980). According to Chua (1986b, p. 604), “methodological assumptions indicate the research methods deemed appropriate for the gathering of research data”. Llewellyn (1993, p. 232) argues that the “methodology adopted will shape the research process and the research findings to a far greater extent than will the research method”. A qualitative research methodology and an interpretive paradigm inform the analytical approach of this research.

Section 5.2 explores the philosophical assumptions of the research paradigm that underpin this research. Section 5.3 presents the interpretive research paradigm. Section 5.4 explains the qualitative research methodology used. Section 5.5 sets out the research methods employed to collect data and the ethical considerations of conducting interviews. Section 6 outlines the data analysis processes. Section 7 discusses the reliability and validity of the qualitative data. Section 8 concludes the chapter.

5.2 The Philosophical assumptions underpinning the research

A research paradigm shapes how people study their world and is the way that people look at the world, interpret it and decide which of the things they see are valid and important to document (Rubin & Rubin, 1995). The paradigm also suggests how research should be conducted, by whom and with what degree of involvement or detachment (Rubin & Rubin, 2011). However, each research study is based on assumptions. These assumptions are the views of the researcher about the nature of the world and the knowledge that can be obtained (Myers, 2013). These philosophical assumptions are said to be embedded in the researcher’s mind (Chua, 1986b).

An appropriate research paradigm is vital in developing and conducting a research project. An appropriate research methodology cannot be selected without understanding the philosophical assumptions (ontological and epistemological) that the researcher has about the world. Further, these paradigms or worldviews determine the conduct and outcomes of research. Guba and Lincoln (1994) define an assumption as ‘a basic belief system or worldview that guides the investigation’, not only in the choice of methods but in ontologically and epistemologically fundamental ways: “it holds a worldview that defines for its holder, the nature of the world, the individual’s place in it, and the range of possible relationships to that world and its parts” (Guba & Lincoln, 1994, p. 107).

5.2.1 Ontological and epistemological assumptions

Ontological assumptions deal with the nature of reality (Collis & Hussey, 2003). The form and nature of reality and what can be known about it are issues concerning ontology. These are fundamental assumptions about the ‘real’ world (Guba & Lincoln, 1994). Realism and idealism are terms used to describe ontology and this focuses on the study of existence or the nature of the reality (Ryan, Scapens, & Theobald, 2002). Epistemology is concerned with the nature of the relationship between the researcher and what is being researched. It deals with the relationship between the known and the knower of what is known (Guba & Lincoln, 1994). Methodological assumptions are about how can the inquirer go about finding out whatever he or she believes can become known (Guba & Lincoln, 1994; Sarantakos, 2013).

The core of epistemology is to decide how to acquire knowledge through “justified true belief” (Ryan et al., 2002, p. 11) and it addresses the question of how a phenomenon is identified and how it is verified as “truth” (Carter & Little, 2007, p. 1317). “Epistemological assumptions decide what is to count as acceptable truth by specifying the criteria and the process of assessing truth claims” (Chua, 1986a, p. 604). The epistemological belief of a researcher will be contingent upon the researcher’s ontological beliefs (Chua, 1986b). If the researcher views reality as an object, then the researcher will use scientific methods to prove or falsify the phenomenon under study. On the other hand, if the researcher views reality as a

social construct then the researcher will engage in using subjective and interpretative methods to investigate the phenomenon under study.

Researchers in accounting may adopt a view that reality exists independent of the researcher and is something out there (Chua, 1986b) which can be discovered. This view of reality encourages the researcher to undertake research where the phenomenon under study comes into being by using the scientific methods (Chua, 1986b; Willmott, 1983). These methods include hypothesis testing using a structured set of predetermined variables, and experiments in a controlled environment where the researcher is a passive participant and follows a predetermined structured set of rules (Hopper & Powell, 1985; Willmott, 1983). An objective view of reality can be used in accounting research only if the variables of a phenomenon being studied have stable meanings (Willmott, 1983). This study does not assume an objective view of reality. Instead the study adopts the view that reality is socially constructed. This view implies that reality is multifaceted because it is shaped by both human and non-human interactions (Hines, 1989). This view of reality encourages the researcher to seek to capture and reflect on the distinctive form and process of the actual research setting (Willmott, 1983). Therefore, “social reality is emergent, subjectively created, and objectified through human interaction. All actions have meaning and intention that are retrospectively endowed and that are grounded in social and historical practices” (Chua, 1986a, p. 615).

Several classifications of methodological orientation exist in the accounting, sociology, and organisation studies literature (Burrell & Morgan, 1979; Chua, 1986b; Hopper & Powell, 1985; Morgan & Smircich, 1980). Research methodologies adopted by most accounting researchers have been inspired by Burrell and Morgan’s (1979) framework (Chua, 1986b; Hopper & Powell, 1985; Laughlin, 1995). The Burrell and Morgan (1979) framework provides important insights to the other classification schemes. From Burrell and Morgan’s (1979) paradigmatic model, two paradigms have emerged as the more widely discussed in the research literature and have been generally used to classify all social enquiries (Guba & Lincoln, 1998): the functionalist (also known as positivism/quantitative paradigm) and interpretivism (also known as qualitative paradigm). This research adopts the interpretivist paradigm.

5.3 The Interpretive research paradigm

Neuman (2006) states that interpretivism is the second major philosophical paradigm whose aim is to understand and interpret the way people create and sustain their social world. Interpretive researchers' epistemology assumes that access to reality is through social construction such as language, consciousness and shared meaning (Myers & Avison, 2002). The epistemology of interpretivism may take various forms but is firmly set against the utility of a search for laws or understanding regularities in the world of social affairs. For the interpretist, the social world is essentially relativistic and can only be understood from the point of view of the individuals who are directly involved in the activities which are to be studied (Burrell & Morgan, 1979).

Burrell and Morgan (1979) argue that the interpretive paradigm is:

informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experience; it seeks explanation within the realm of individual consciousness and subjectivity, within the frame of reference of the participant as opposed to the observer of action (Burrell & Morgan, 1979, p. 28)

Thus, interpretive accounting researchers believe that social reality is a consequence of human behavior and acceptance of social reality is conditioned by individuals' experiences (Chua, 1986b). Interpretive research is concerned with obtaining consequential information from the various social interactions (Braa & Vidgen, 1999). The aim of the interpretive research approach is not to test a hypothesis but to discover and describe the interaction between the various independent social factors (Rubin & Rubin, 2011). In interpretive research, there are no pre-defined dependent or independent variables. The aim is to understand human judgments in different situations and understand how people assign meanings to them (Kaplan & Maxwell, 2005). The interpretive paradigm allows researchers to gain an in-depth understanding of the subject under study by discovering the subjective meanings that participants assign to it (Easterby-Smith, Thorpe, & Lowe, 2002). The aims of this PhD research are to examine the motives of managers in adopting IR, expected benefits and their realisation, the challenges faced during the implementation of IR, managing the risk of future oriented

predictions and materiality level determination for the non-financial information disclosed in the Integrated Reports of Sri Lankan PLCs. These are all unknown phenomena that need to be explored in this study. The interpretivism paradigm will allow for the exploration of these phenomena through analysis of individuals' experiences of IR for this social reality.

The interpretive social researchers' ontological assumptions would be in interpreting and determining what constitutes knowledge and how it is constituted. A researcher adopting this paradigm should be aware that the focal point is the individual consciousness and subjectivity which is embedded in the participants' perspectives instead of the researcher's perspective (Burrell & Morgan, 1979). The interpreter's goal is to reconstruct the participants' self-understanding of a given phenomenon. This thesis gathers data from participants and interprets their experiences and opinions of IR practices.

Chua (1986b) summarises the aims of interpretive research:

Interpretive knowledge reveals to people what they and others are doing when they act and speak as they do...the aim of the interpretive scientist is to enrich people's understanding of the meanings of their actions, thus increasing the possibility of mutual communication and influence. (Chua, 1986b)

The view that reality is socially constructed encourages the researcher to seek to capture and reflect on the distinctive form and process of the actual research setting (Willmott, 1983). The researcher, therefore, is not a passive participant but is actively engaged in the research activities bringing his/her own interpretation of the social setting in which the research takes place (Easterby-Smith et al., 2002).

Knowledge is constructed by interpreting the meaning of human action within its social setting (Kaplan & Maxwell, 2005). The interpretive researcher, therefore, engages in interpreting lived experiences of human actors (Llewellyn, 1993; Parker, 2008; Prasad & Prasad, 2002; Sandberg, 2005). In order to interpret the lived experiences, the researcher has to deconstruct them and then interpret the actions explaining the intentions within the context the action took place (Parker, 2008).

The interpretive approach is better suited to understanding social reality enquiry (Crotty, 1998) since this approach takes into account the subjectivity of humans

involved in social action. An interpretive approach lends itself to revealing reality-constructing practices as well as subjective meanings that are circumstantially conveyed (Silverman, 1997). Further, meaning is constituted by way of interpretive practice (Silverman, 1997). As such, the interpretive endeavour would minimise the distance between the knower (researcher) and the known (participants under study) (Burrell & Morgan, 1979). Interpretive researchers have direct engagements with the groups they are studying (Parker, 2008). The data are collected with the aim of capturing actors' understanding from inside and capturing multiple constructed realities.

For this research, an interpretive paradigm is adopted so that understanding is gained into the meaning of why the new accounting regime IR was adopted by some Sri Lankan companies. The interpretive approach provides a wider scope to explore the benefits, challenges and processes of the IR systems from the interviewees at different levels of their organisations. As each interviewee's perspectives will be important in this thesis, the interpretive paradigm supports the understanding of the multiple perspectives (Steward, 1994). Interpretivism allows the study of accounting within its social context and the incorporation of the wider social and political influences in explaining the construction of knowledge (Humphrey & Scapens, 1996).

5.4 Qualitative research methodology

Research methodology refers to the overall approach to the research process, from the theoretical underpinning to the collection and analysis of the data (Collis & Hussey, 2003). This methodology considers how the researcher approaches what can be known about reality. It concerns how a researcher can go about finding what he or she believes can be known and is constrained by the characteristics of the paradigm (Guba & Lincoln, 1994). Different kinds of research questions should be investigated using different methodologies (Ahrens & Chapman, 2006). Methodology concerns the set of spectacles that determine the type of methods that could be used for investigating the phenomenon (Laughlin, 1995).

Qualitative research is a holistic approach as well as an interdisciplinary landscape that generates knowledge from different angles (Hesse-Biber & Leavy, 2011).

Lichtman (2013, p. 7) defines qualitative research as:

... a way of knowing in which a researcher gathers, organizes, and interprets information obtained from humans using his or her eyes and ears as filters. It can be contrasted with quantitative research, which relies heavily on hypothesis testing, cause and effect, and statistical analyses.

Qualitative methods facilitate the research of issues in depth and detail. “Approaching field work without being constrained by predetermined categories of analysis contributes to the depth, openness, and detail of qualitative inquiry” (Patton, 2015, p. 22).

Lewis-Beck, Bryman, and Liao (2004) and Crotty (1998) advocate that researchers should use different modes of inquiry for different studies. The quest to understand social reality is better accomplished by a qualitative approach (Lewis-Beck et al., 2004). Qualitative research involves “an interpretive, naturalistic approach to the world” (Denzin & Lincoln, 2000, p. 3). Hesse-Biber and Leavy (2011) indicate three purposes for conducting qualitative research. These have been summarised in three categories: (i) exploring and understanding social reality; (ii) offering a rich description of social life, and (iii) explaining social phenomena.

A qualitative approach is able to present an inclusive view and improve the explanatory power of a phenomenon (Dixon-Woods & Fitzpatrick, 2001). The approach involves the systematic collection, organisation, and interpretation of textual material derived from talk or observation (Lewis-Beck et al., 2004). The goal of qualitative research is to provide an understanding of issues or particular situations by investigating the perspectives and behaviour of the people in these situations and the context within which they act. Qualitative methodology is usually used where a researcher believes that social reality is subjective (Creswell, 2003). Qualitative research is used in studies aimed at providing detailed descriptions and analysis of different scenarios in which accounting operates (Lee & Humphrey, 2006). Qualitative researchers are generally concerned with ‘accurate description’, therefore, they develop a description of the phenomena, analyse data for themes, and present an interpretation or conclusion from the data (Creswell, 2003).

Qualitative methods facilitate an in-depth, detailed investigation of selected issues, without the constraints of priori categories found in questionnaires (Patton, 2015). Qualitative methods generate a relatively large amount of detailed information from fewer participants from which the complexity and the meanings of a specific situation can be extracted (Miles & Huberman, 1994). The focus of qualitative research is meaning rather than measurement. When a relationship is supported, the qualitative data often provide an understanding of the dynamics underlying the relationship, that is, the “why” of what is happening (Eisenhardt, 1989). Another important feature of the qualitative methodology is that the researcher aims to find patterns among themes developed by clustering or categorising perceptions (Lincoln & Guba, 1985; Miles & Huberman, 1994). Qualitative inquiry has such themes as naturalistic inquiry, inductive analysis, holistic perspective, qualitative data and personal content (Patton, 1990).

This thesis aims to provide an understanding of the context within which IR systems operate, the internal stakeholders’ expectations, and their efforts to fulfil these expectations. The qualitative research methodology was selected because this research studies the IR phenomenon at Sri Lankan PLCs from multiple perspectives. The perspectives include investigating the interviewees’ experiences through analysing their perceptions on who and what influences the IR adoption decision; what benefits can be expected through implementation and the extent of realisation of those benefits; what challenges are faced during IR adoption; what methods are used to deal with the risk of predictions about the future; and the determination of materiality levels for non-financial information.

5.5 Research methods

A research method is a strategy which moves philosophical assumptions to research design and data collection. Research methods are concerned with the means by which data relating to the investigated phenomena can be collected and/or analysed, with research approaches being either qualitative or quantitative in nature (Creswell, 1994). The research method directly impacts the way data are collected. The research method needs to be both relevant and precise to be justifiable within a particular field of knowledge (Harvey & Myers, 1995). Research methods are only insightful when the methods are linked to larger paradigmatic issues (Prasad, 2005)

and are consistent with the researcher's methodological assumptions because "knowledge is created from data and analysis" (Carter & Little, 2007, p. 1317).

Wolcott (1994) describes three major modes through which qualitative researchers gather their data; interviewing, observation and studying materials prepared by others. Silverman (2011) lists four methods used by qualitative researchers as: observations, analysing texts and documents, interviews, recording and transcribing. The combination of these sources depends on the nature of the research methodology. The data collection for this research seeks to reveal important components of IR adoption and practicing aspects of IR by the interviewees from selected Sri Lankan PLCs. Semi-structured interviews, annual reports (ARs) and Integrated Annual Reports are used to collect data. Interview data is then analysed using thematic analysis.

5.5.1 Interview

The interview is a research method to obtain data that tells of the experiences and perceptions of individuals or groups (Garner & Scott, 2013). Interviews are particularly useful in uncovering the story behind a participant's experiences (Doody & Noonan, 2013). Researchers can follow a line of questions to gain information about a topic (Doody & Noonan, 2013). There are three approaches to conducting in-depth interviews which can differ from one another based upon the degree of formality and structure. They are: (1) structured interviews; (2) unstructured interviews; and (3) semi-structured Interviews (Collis & Hussey, 2009; Robson, 1993; Silverman, 2013). Structured interviews are designed to be used with a specified set of research questions (Bryman, 2012) in which the interviewer exercises a relatively high level of control over the interview conversation (Rowley, 2012). In contrast, unstructured interviews feature a relatively low level of control over the interview conversation (Rowley, 2012). In semi-structured interviews, the interviewer has a list of research questions, with the flexibility to pursue other topics that arise during the interview (Collis & Hussey, 2009). Such interviews are not limited to the pre-prepared questions. This approach allows the researcher to develop follow-up questions during the interview (Collis & Hussey, 2009). Semi-structured interviews address the weaknesses inherent in both structured and unstructured interviews (Rubin & Rubin, 2005).

Further, the semi-structured interview approach keeps the interaction focused, while allowing at the same time the individual's perspectives and experiences to emerge (Patton, 1987). This ensures that the qualitative insights gained from the discourse are relevant and meaningful to the research questions under investigation. According to Bryman and Bell (2003, p. 343), the flexibility provided by semi-structured interviews allows interviewers to examine how an "interviewee frames and understands issues and events – that is, what the interviewee views as important in explaining and understanding events, patterns, and forms of behaviour".

In addition, face-to-face interviewing creates a relaxed and friendly environment for the interview that stimulates interviewees to speak freely and openly about the topic under investigation, and it enables respondents to provide responses in their own terms and in the way that they think and use language (Rubin & Rubin, 2011). This is viewed as essential in gathering rich in-depth data (Hermanowicz, 2002). The use of face-to-face interviews allows researchers to obtain the points of view of respondents and allows some flexibility to adjust and explain the questions, particularly when respondents appear reluctant to answer due to a lack of understanding as to the meanings of questions or are reluctant to disclose sensitive information (Curran & Blackburn, 2001). Face-to-face interviews are especially valuable if the researchers are to understand the way the respondents perceive the social world under study (Rubin & Rubin, 2011).

5.5.2 The interview guide

An interview guide ensures that important issues are covered in each of the interviews. It establishes the direction and scope of discourse, allows the interviewers to give undivided attention to the interviewee's responses, and enables the prompts to be appropriately situated during the interviews (McCracken, 1988). The semi-structured interview guide allows the interviewer to "explore, probe, and ask questions that will elucidate and illuminate that particular subject. The guide also serves as a checklist during the interview to make sure that all relevant topics are covered" (Patton, 2015, p. 439).

Further, the interview guide can be used in a flexible manner (Silverman, 2013). Departures from the guide are inevitable and encouraged (Bryman, 2012). The

interviewer has the freedom to change the flow of questions and to field new questions in pursuit of new sub-topics that are identified during the conversation (Jenner, Flick, von Kardoff, & Steinke, 2004). An interview guide encourages careful listening to the interviewee and adjusting the interview according to the conversation as opposed to rigidly adhering to the guide (Mealer & Jones, 2014). This leads to a natural free-flowing conversation that is loosely guided by the interview guide (Hermanowicz, 2002). A well thought out interview guide helps to build rapport with interviewees who feel comfortable opening up to the researcher (Braun & Clarke, 2013).

For this study, an interview guide was developed in English. The interview questions in the guide were derived from the research questions of this thesis and related issues identified in the literature (Cheng et al., 2014; de Villiers, Rinaldi, Unerman, et al., 2014; Morros, 2016). To assess the face validity of the interview instrument, the draft of interview guide was discussed with supervisors, academics in the financial reporting discipline, and Ph.D. colleagues. Their views were useful in contributing to the validity and reliability of the interview data (Lichtman, 2013). The interview guide was subsequently used to conduct the semi-structured interviews. The interview guide, containing the list of questions to be explored in the interviews, is provided in Appendix A.

5.5.3 Sample selection of Sri Lankan PLCs and purposive sampling of interviewees

The criterion for company selection was the adoption of IR and/or production of integrated reports/integrated annual reports, irrespective of the level of integration of IR. When selecting PLCs for the list of sample companies, the researcher went through all the annual reports of all the PLCs in Sri Lanka for financial years 2012/2013 and 2013/2014 to review whether the companies had adopted IR or they were producing integrated reports or integrated annual reports. Three months into the start of this PhD study (June, 2014), the researcher identified 16⁸ PLCs in Sri Lanka which had adopted or produced integrated reports/integrated annual reports

⁸ Gunarathne & Senaratne (2017) identified 32 IR adopters as of August 2014. The difference in number of IR adopters could be due to time difference of the 2 studies and time difference of releasing integrated reports/IARs by the Sri Lankan PLCs.

during the past periods. The researcher approached all 16 PLCs and sought approval from higher-level management to interview employees involved in integrated reporting. Consent was provided for 12 PLCs to conduct interviews with their employees. The researcher conducted 55 semi-structured interviews in total (see Table 8).

Purposive sampling techniques were used to select the employees. Purposive sampling techniques are primarily used in qualitative studies and may be defined as selecting units (e.g., individuals, groups of individuals, institutions) based on specific criteria associated with addressing the research study's questions. Purposeful sampling is characteristic of interpretive research (Bryman, 2012). Maxwell (1998) defines purposive sampling as a type of sampling in which, particular settings, persons, or events are deliberately selected for the important information they can provide that cannot be obtained as well from other choices.

For this study, interviewees were selected using purposive sampling, based on their involvement in the IR process of the company. Individuals who were able to provide insights into the development, implementation and preparation of integrated reports were selected for this research. This selection of interviewees was made in consultation with the head of finance/accounting division of the 12 PLCs. The interviews commenced in October 2015 and were completed in April 2016. The interviewees' profile is presented in the Table 8.

Table 8: Profile of interviewees⁹

No.	Inter.Code	Inter. Date	Interviewee's Position	Company	Industry	Duration: Minutes
1	A M01	29/01/2016	Manager - Finance	A	Insurance	76
2	A M02	7/02/2016	Chief Manager - Finance	A	Insurance	105
3	A E01	16/02/2016	Executive	A	Insurance	40
4	A E02	16/02/2016	Executive	A	Insurance	45
5	A M03	3/03/2016	Assistant Accountant	A	Insurance	59
6	A M04	3/03/2016	Chief Operating Officer	A	Insurance	64
7	B M01	8/02/2016	Director/CFO	B	Finance	58
8	B M02	9/02/2016	DGM - Finance	B	Finance	88
9	B M03	9/02/2016	Manager - Treasury	B	Finance	68
10	B M04	10/02/2016	Head - Risk Management	B	Finance	82
11	B M05	15/02/2016	AGM - Finance	B	Finance	105
12	B M06	16/02/2016	Head - Sustainability	B	Finance	79
13	C M01	17/02/2016	Director/CFO	C	Motors	59
14	C E01	11/03/2016	Assistant Manager	C	Motors	78
15	C M02	16/03/2016	GM - Human Resources	C	Motors	76
16	C M03	6/04/2016	Accountant	C	Motors	57
17	D M01	17/03/2016	Manager - Finance	D	Insurance	74
18	D M02	18/03/2016	CFO	D	Insurance	48
19	D E02	30/03/2016	Assistant Accountant	D	Insurance	83
20	D M03	1/04/2016	Head - Risk Management	D	Insurance	51
21	D E03	1/04/2016	Executive - Finance	D	Insurance	46
22	E M01	23/03/2016	Group Finance Director	E	Diversified Holdings	75
23	E E01	7/04/2016	Assistant Manager	E	Diversified Holdings	44
24	F M01	14/10/2015	Manager - Finance	F	Banking	74
25	F M02	15/10/2015	AGM - Finance	F	Banking	47
26	F M03	21/10/2015	Manager - FTP Unit	F	Banking	60
27	F M05	30/10/2015	Manager - Finance	F	Banking	63
28	F M04	22/10/2015	Head - Finance	F	Banking	73
29	F M06	24/11/2015	Chief Manager - Operations	F	Banking	69
30	F M07	27/11/2015	Chief Risk Officer	F	Banking	71
31	F M08	10/12/2015	DGM - Marketing	F	Banking	53
32	F M09	21/01/2016	AGM - Compliance	F	Banking	41
33	F M10	22/01/2016	DGM - Human Resources	F	Banking	46
34	F M11	22/01/2016	DGM - Management Audit	F	Banking	63
35	F M12	26/01/2016	Manager - Risk Management	F	Banking	35
36	F M13	26/01/2016	Manager - Risk Management	F	Banking	54
37	F M14	26/01/2016	Manager - Risk Management	F	Banking	38
38	G M01	5/04/2016	Senior Manager - Finance	G	Banking	78
39	G M02	5/04/2016	CFO	G	Banking	59
40	H E01	1/03/2016	Executive - Administration	H	Banking	79
41	H E02	1/03/2016	Assistant Manager - Finance	H	Banking	48
42	H E03	14/03/2016	Assistant Manager - Finance	H	Banking	75
43	H E04	17/03/2016	Executive	H	Banking	57
44	I E01	25/02/2016	Assistant Manager - Finance	I	Finance	83
45	I E02	25/02/2016	Assistant Manager - CRM	I	Finance	50
46	I M01	25/02/2016	Manager - Finance	I	Finance	95
47	I M02	25/02/2016	Senior Manager - Finance	I	Finance	60
48	I E03	26/02/2016	Junior Executive - Finance	I	Finance	74
49	I E04	26/02/2016	Deputy Manager - Finance	I	Finance	66
50	I E05	26/02/2016	Executive - Finance	I	Finance	31
51	I M03	26/02/2016	Senior Manager	I	Finance	40
52	J E01	3/03/2016	Assistant Manager - Finance	J	Insurance	63
53	J M02	24/03/2016	Manager - Finance	J	Insurance	59
54	K E01	7/04/2016	Senior Assistant Manager	K	Telecommunication	83
55	L M01	18/02/2016	GM - Finance	L	Finance	50

⁹ 14 interviewees were selected from one of the sample companies (F) by considering the special circumstances of the company. This company had adopted IR in 2012 and practice it for two years. However, the company stopped practicing IR in 2014 and again started the traditional reporting practice. Again, after two years in 2016, the company re-implemented IR in to the company.

5.5.4 Interview protocols

Suitable interviewees were selected based on their involvement in the IR process of the organisation and knowledge about the IR concepts. This method of selection enhances the reliability of the data in this research. Each potential interviewee was contacted to ensure their willingness to participate in an interview. Interview appointments were arranged via telephone or by e-mail. Upon agreeing to take part, each participant was sent a covering letter (Appendix B) which outlined the purpose of the interviews and the areas to be covered. The interview guide was not sent to avoid discussion and agreement of the same answers for the same questions by the employees of the same company. Supplying the information about the objectives and areas of the questions to be covered in the interviews enabled them to prepare for the interview. This procedure serves to increase the validity of the information provided (Saunders, Lewis, & Thornhill, 2009). All participants were assured of confidentiality and anonymity, and this was communicated through the participant's information sheet (Appendix C). Before the interviews, an information sheet (Appendix C) and a consent form (Appendix D) were emailed to each of the participants.

Before starting the interview, the Participant's Information Sheet was given to the interviewee and their consent obtained via a signed Consent Form (Appendix D). Fifty four interviews (out of 55) were conducted in the interviewees' offices and one interview¹⁰ was conducted at the university of Kelaniya, Sri Lanka. Conducting interviews in natural settings (such as office and home) further ensures a high level of validity of qualitative research (Creswell, 2003). All interviews were conducted in English.

The interview sessions were designed to last for about 60 minutes. With the consent of each interviewee, all the interviews were tape-recorded to ensure the accuracy and reliability of data. Tape recording the interviews helps to reduce mistakes in transcribing the interviews (Barriball & While, 1994). Different types of probing questions were used during the interviews to uncover the particular viewpoints held by the interviewees on issues related to IR practices. The length of the interviews

¹⁰ It was not possible to conduct an interview with this interviewee at his office due to his busy work schedule. Therefore, this interview was conducted at the University of Kelaniya, Sri Lanka during an evening time.

ranged from 31 to 105 minutes. Most interviews ranged between 60-90 minutes with 63 minutes being the average.

Each interview took between 12 to 14 hours to transcribe. Although this is an intensive and time consuming effort, it plays a key role in bringing the researcher closer to the data. Each interview transcript was an average of 19 pages. To ensure accuracy, the transcription was reviewed while listening to the tape. The transcribed scripts were then read several times to identify possible codes and themes. This enhanced the validity of coding.

Since the research involves human subjects, approval from the University of Waikato Human Research Ethics Committee was required. The ethical approval from the University was obtained before the start of the interview process. Participants were ensured that both their identities as well as that of their corporations would be kept confidential. The transcript of each participant is recorded under an assigned code (e.g. A M01) to protect anonymity, in accordance with ethical requirements.

5.5.5 Document selection and analysis

Document analysis is a systematic procedure for reviewing or evaluating documents—both printed and electronic (computer-based and Internet-transmitted) material (Bowen, 2009). Like other analytical methods in qualitative research, document analysis requires that data be examined and interpreted in order to elicit meaning, gain understanding, and develop empirical knowledge (Corbin & Strauss, 2008). Documents contain text (words) and images that have been recorded without a researcher's intervention. Atkinson and Coffey (2004) refer to documents as 'social facts', which are produced, shared, and used in socially organised ways (p. 47). Document analysis is often used in combination with other qualitative research methods as a means of triangulation—'the combination of methodologies in the study of the same phenomenon' (Denzin, 2017).

All documents viewed and analysed are public documents, so no permissions were needed for access. Documents consisting of the annual reports (ARs) and the available integrated annual reports were obtained and reviewed (See Table 9) from those 12 PLCs participating in the interview data collection process. In total 14 ARs

(relating to the periods before IR was introduced), and 50 integrated annual reports (produced after introducing IR) were examined.

Table 9: ARs and integrated annual reports of the sample companies

Company Name	IR adoption year	Years of ARs	Years of integrated annual reports ¹¹
Commercial Bank of Ceylon PLC	2012	2011, 2014, 2015	2012, 2013, 2016
Sampath Bank PLC	2014	2013	2014,2015,2016
Nations Trust Bank PLC	2014	2013	2014,2015,2016
Citizens Development Business Finance PLC	2013/14	2012/13	2013/14, 2014/15, 2015/16, 2016/17
People's Leasing & Finance PLC	2013/14	2012/13	2013/14, 2014/15, 2015/16, 2016/17
Mercantile Investments and Finance PLC	2013/14	2012/13	2013/14, 2014/15, 2015/16,
Softlogic Insurance PLC ¹²	2013	2012	2013, 2014, 2015, 2016
HNB Assurance PLC	2012	2011	2012, 2013, 2014, 2015, 2016
Union Assurance PLC	2013	2012	2013, 2014, 2015, 2016
Diesel & Motor Engineering PLC	2010/11	2009/10	2010/11, 2011/12, 2012/13, 2013/14, 2014/15, 2015/16, 2016/17
John Keells Holdings PLC	2011/12	2010/11	2011/12, 2012/13, 2013/14, 2014/15, 2015/16, 2016/17
Sri Lanka Telecom PLC	2013	2012	2013, 2014, 2015, 2016
Total Reports		14	50

¹¹ Some of the sample companies name their reports as 'integrated annual reports' (IARs). However, some companies name the reports as annual reports (ARs) and explain that the reports are integrated annual reports in the notes inside the report. Therefore, at times, the reader cannot judge the nature of the report just by looking at the name of the report.

¹² In October 2016, the shareholders of Asian Alliance Insurance approved a special resolution to change the Company's name to Softlogic Life Insurance PLC.

The earliest adopter of IR, in their 2010/11 reporting year, is Diesel & Motor Engineering PLC. Further, it is noted that Commercial Bank of Ceylon PLC, initially produced integrated annual reports for 2012 and 2013, then resumed integrated reporting in 2016 after a pause of two years (2014 and 2015).

Extracts from ARs (reports before introducing IR) and integrated annual reports (after introducing IR) validate the identified interview themes, by either supporting interviewees' comments or dissenting with their arguments. The researcher identified the status of ARs, developments in reports, examples of important IR practices (e.g. disclosing future-oriented predictions) and brought to the findings and discussion chapters as live sources of evidence. The extracts enhanced the comments of the interviewees.

5.6 Data analysis

Qualitative data analysis is a reflexive process that begins as soon as the data collection begins rather than after data collection has been completed (Stake, 1995). Data analysis conducted simultaneously with data collection enables the researcher to identify earlier the emerging themes and patterns and to develop categories of information to help shape the research process (Irvine & Gaffikin, 2006). As suggested by Yin (2003) and Miles and Huberman (1994), the data analysis process of this study begins immediately after the first interview and ends at the final writing stage of the thesis.

Qualitative data analysis enables the researchers not only to collect data but also to observe and research the impressions and reactions of the participants at the interview, so that the findings are based on 'in-depth' analysis (Yin, 2009). There are three different main strategies in data analysis, namely: categorising strategies (such as coding and thematic analysis); contextualising strategies (such as narrative analysis and individual case studies analysis); and memos and displays (Maxwell, 1998). Powell and Renner (2003) list the following steps in data analysis: get to know your data; focus the analysis; categorise information; identify patterns and connections within and between categories; interpret the data and bringing it all together. Maxwell (1998) supports these categorisation strategies. Thematic

analysis was used to analyse the data collected from the interviews and from the companies' published reports.

5.6.1 Analysis of interviews

Thematic analysis is recommended for working with qualitative data (Atkins & Maroun, 2015; Bailey & Peck, 2013; Boyatzis, 1998). Thematic analysis is a most common qualitative analytic method (Roulston, 2001), and is a method for identifying, analysing and reporting patterns (themes) within data (Braun & Clarke, 2006). This form of analysis is in-depth and interprets various aspects of the research topic (Boyatzis, 1998). Further, thematic analysis enables the researcher to answer the questions of who says what, to whom, why, how, and with what effect? (Babbie, 2015). An advantage of using thematic analysis is that it allows the researcher to actively enter the worlds of native people and to render those worlds understandable from the standpoint of a theory that is grounded in the behaviours, languages, definitions, attitudes, and feelings of those studied (Denzin 1971 in Owen, 1984).

In addition, thematic analysis allows a more comprehensive understanding of the phenomenon (Boyatzis, 1998) and has been defined as “a process for encoding qualitative information” (Boyatzis, 1998, p. 4). This method of analysis also allows “the researcher to identify themes within individual responses, thus preserving individual perspectives, in addition to finding themes common to all or most interviewees” (Zorn & Ruccio, 1998, p. 480). According to Attride-Stirling (2001, p. 388), thematic analysis:

Provides a technique for breaking up text, and finding within it explicit rationalisations and their implicit signification . . . seeks to unearth the themes salient in a text at different levels.

The goal of the thematic analysis in this research is to extract salient themes from interviewees to promote greater understanding of IR practices in Sri Lanka. As the interpretation of the data is dependent on the context in which the data were extricated, an understanding of IR from different perspectives was gained. Initial codes were generated, themes extracted from the transcribed interview data, and later grouped to form the findings and discussion chapters (Chapters 6 to 10) of this thesis.

This research study used Computer Assisted Qualitative Data Analysis Software (CAQDAS): NVivo version 11 to conduct the thematic analysis. The NVivo software facilitated the process of organising, re-arranging and managing the considerable amount of qualitative data. However, NVivo requires manual handling of data at various points (Jones & Diment, 2010). Qualitative data analysis software is only a tool which can aid in more efficient management and interpretation of the data, but it is the researcher who ultimately interprets the data (Kvale, 2007). The NVivo software package assists with the analysis and coding processes. Codes were derived from the interview data based on the actual words or terms used by the interviewees, which included text at phrase, sentence, and paragraph levels. Codes were grouped into categories and then classified into themes as patterns emerged within the data (Neuman, 2006; Patton, 2005).

There are six phases of thematic analysis (Braun & Clarke, 2006). The analysis is not a linear process of simply moving from one phase to the next, but entails moving back and forth amongst the data as needed (Braun & Clarke, 2006). Table 10 sets out the phases of the thematic analysis process that were utilised. These stages are expanded in the subsequent discourse to explain how the phases were implemented during this research.

Table 10: Stages of thematic analysis

Phase	Name of the phase	Description
1	Familiarise with the data	Become familiar with the depth and breadth of the content. This includes repeated reading of the data, reading the data in an active way searching for meanings and patterns.
2	Generation of initial codes	The generation of initial codes from the data. Coding was performed using NVivo software programme.
3	Search for themes	Re-focus the analysis at the broader level of themes, rather than codes, involves sorting the different codes into potential themes, and collating all the relevant coded data extracts within the identified themes.
4	Review themes	Review themes involving refinement of candidate themes. It is important to ensure that data within themes should cohere together meaningfully.
5	Define and name themes	Define and further refine of themes: identifying the essence of what each theme is about and determining what aspect of the data each theme captures.
6	Produce the report	The final analysis and write-up of the report ensure that the analysis provides a concise, coherent, logical, non-repetitive and interesting account of the story the data tell within and across themes.

Source: Adapted from Braun and Clarke (2006)

Phase 1: Familiarisation with the data

All the interviews were transcribed verbatim by the researcher to ensure the quality of the transcripts (Gibbs, 2007). It enabled the researcher to become familiar with the data and develop a deep understanding of the participants' views. Each transcription was reviewed while listening to the tape to ensure that any important information had not been missed out. Verbatim transcripts help the researcher to go back and review the transcript in order to understand the context in which the statement was made during the interview. However, pauses and expressions of emotions were ignored. These behavioural patterns were not important for this

research. However, verbatim transcription is a time-consuming process (Braun & Clarke, 2013). To reflect on the interviews and improve the quality of subsequent interviews, the researcher commenced transcribing as soon as an interview was conducted.

The transcripts were read and re-read to obtain better insights and familiarity with the data and to develop a deeper understanding of the phenomena under investigation (Creswell, 2014). This phase allowed the researcher to inhabit the world of the text and to appreciate the meanings derived from the experiences of managers from the sample companies. The researcher in this data analysis phase engaged in dialog with the text. Each transcript was unique as interviewees represented 12 different companies, faced different circumstances, and each manager’s view of the situation was potentially different.

The transcripts were imported into NVivo. Interview transcripts were stored in internal sources in NVivo (see Fig. 5). After storing the data, the second phase of analysis, generating initial codes, was undertaken.

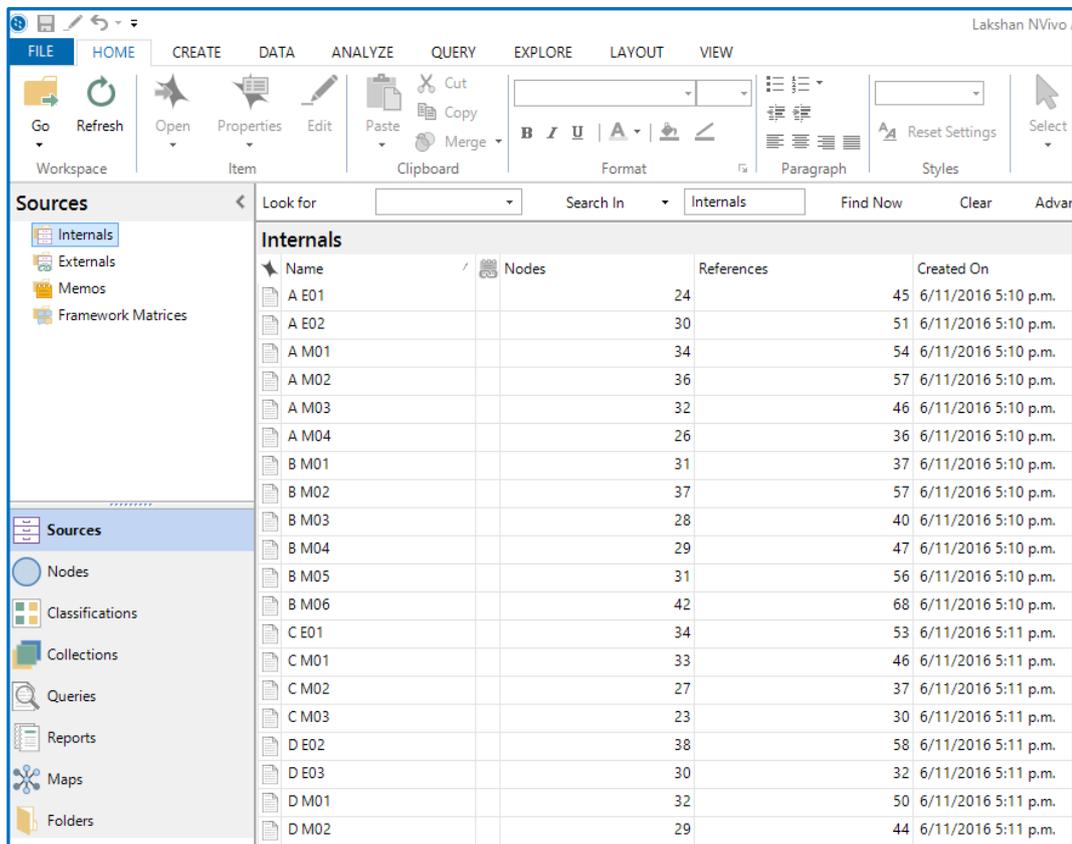


Figure 5: An example of interview transcripts imported to NVivo

Phase 2: Generation of initial codes

Coding involves assigning a label or a name that captures the essence of the piece of data that it represents (Strauss & Corbin, 1998). In NVivo, codes were entered as ‘nodes’ and form the basis for categorising the data. Nodes are ‘containers’ for categorising the projects, ideas, or topics the researcher is interested in (Richards, 1999). Coding involves assigning a label or a name that captures the essence of the piece of data that it represents (Strauss & Corbin, 1998). Coding not only enables the researcher to find quickly all the relevant data to answer his research questions but also helps to obtain and refine clues from the materials.

However, the process of coding of data is an interpretive act as different researchers undertake the process in different ways (Miles, Huberman, & Saldana, 2014). This study employed an inductive strategy which allowed codes to emerge from the data (Strauss & Corbin, 1998).

Text segments in the form of a word or short sentences that were deemed to be meaningful and relevant to the research question were highlighted and attached to a node (code) created in the NVivo (see Fig. 6). The codes were then grouped into themes using NVivo, which shows relationships between the codes (Auerbach & Silverstein, 2003).

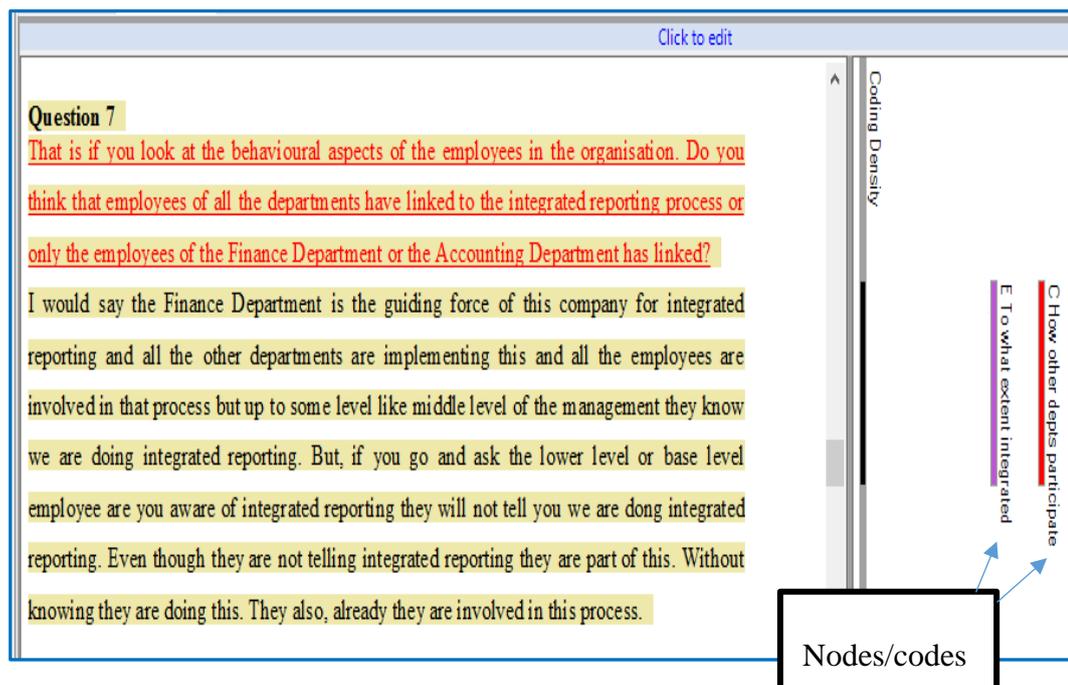


Figure 6: An example of ‘coding’ in NVivo

Phase 3: Searching for themes

Each code was compared and contrasted to ascertain a theme that extended the understanding and logical meanings behind the codes. A theme captures something important about the data in relation to the research question (Braun & Clarke, 2013). This phase ends when a set of themes and sub themes have been linked to the data extracts (Braun & Clarke, 2006). Sub-themes were created by combining codes that were alike and shared similar or common features. By creating themes, the researcher is able to interpret or draw meaning out of what is happening (Bryman, 2012). For example, to support the node ‘influences of IR adoption’, a number of child nodes were created (see Figure 7).

Researchers need to review their themes to ensure that they are still valid (Braun & Clarke, 2013). During the process, some of the themes were removed, merged, or renamed. However, “without looking at all the extracts in detail it is uncertain whether the themes hold as they are, or whether some need to be combined, refined, and separated, or discarded” (Braun & Clarke, 2006, pp. 90-91). So, the themes and sub-themes were traced back to the research questions, objectives, literature review and the theoretical framework. At this point, the relevance and importance of individual themes were considered. The development, by using parent and child nodes of NVivo, for the theme “Influences of IR adoption” is illustrated in Figure 7.

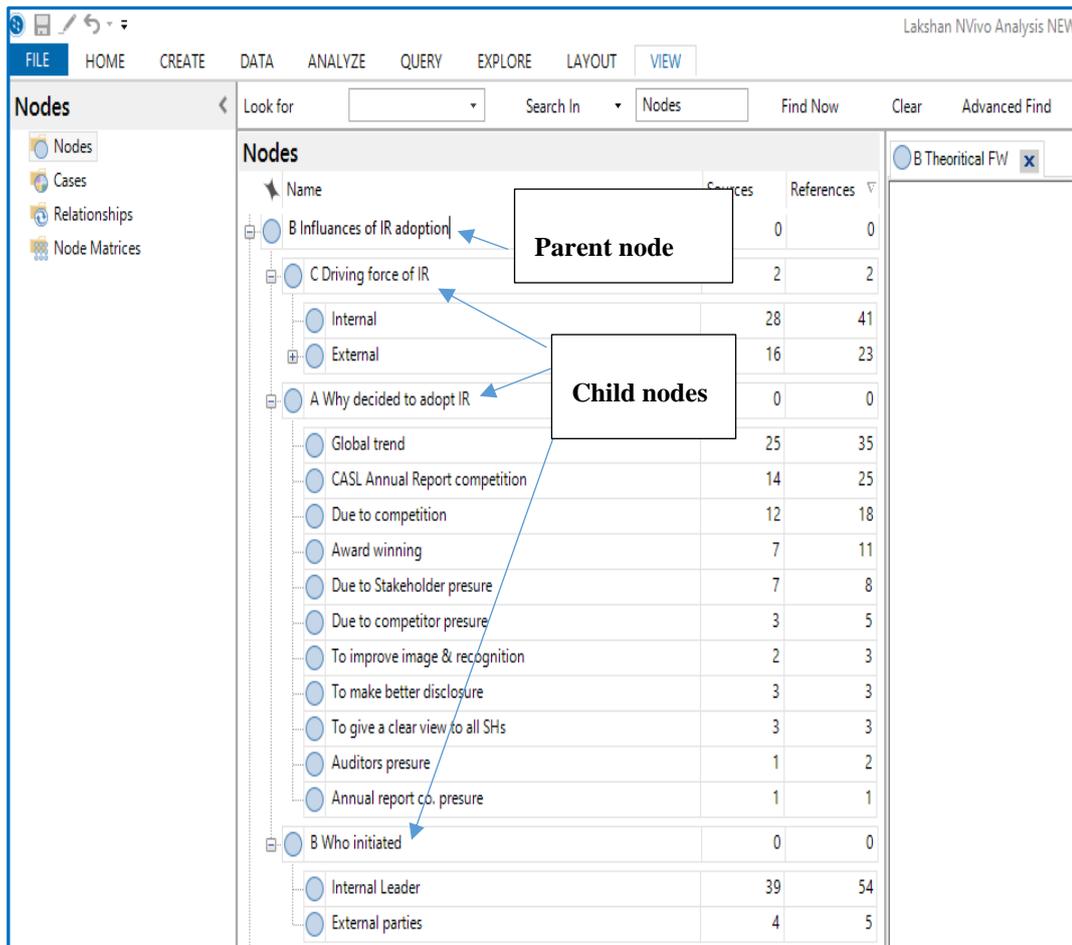


Figure 7: Examples of parent and child nodes created in NVivo

Phase 4: Review themes

At this phase, the researcher needs to return to the themes to refine codes, themes, and sub-themes (Braun & Clarke, 2013). This reviewing phase involves two levels:

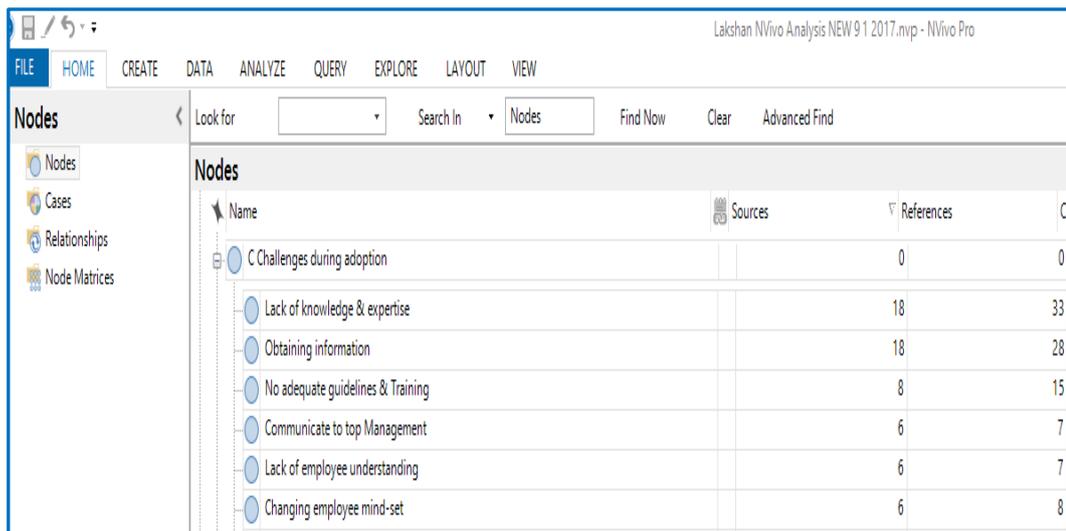
Level 1 - Reviewing at the level of the coded data extracts (Braun & Clarke, 2006).

All the themes and sub-themes checked to ensure that the segments of text matched the themes.

Level 2 - Reviewing the entire data set (Braun & Clarke, 2006). All the transcripts were read carefully to ensure that all the important themes were identified and that relevant text had been linked to themes and sub-themes. Some new text which was not allocated previously was identified and attached to existing themes.

Phase 5: Define and name themes

The names of themes and sub-themes should be “(a) conceptually meaningful to the phenomenon studied; (b) clear and concise, communicating in fewer words possible; and (c) close to data” (Boyatzis, 1998, p. 31). In a similar way, Braun and Clarke (2006, p. 93) assert “names need to be concise, punchy, and immediately give the reader a sense of what the theme is about”. Figure 8 illustrates a few themes and sub-themes relating to one of the research questions.



The screenshot shows the NVivo Pro interface with a list of nodes. The main window displays a table of nodes and their associated counts. The table has columns for Name, Sources, References, and Cr. The nodes listed are:

Name	Sources	References	Cr
C Challenges during adoption		0	0
Lack of knowledge & expertise		18	33
Obtaining information		18	28
No adequate guidelines & Training		8	15
Communicate to top Management		6	7
Lack of employee understanding		6	7
Changing employee mind-set		6	8

Figure 8: An illustration of themes and sub-themes of the research

Phase 6: Produce the report

Phase 6 begins when the researcher has a set of fully worked-out themes and involves the final analysis and write-up of the report. It is important that the analysis (the write-up of it, including data extracts) provides a concise, coherent, logical, non-repetitive and interesting account of the story the data tell - within and across themes. Each write-up must provide sufficient evidence of the themes within the data, i.e., enough data extracts to demonstrate the prevalence of the theme (Braun & Clarke, 2006). This phase aided the findings and discussion of this thesis.

5.7 Reliability and validity

Reliability and validity are important factors in qualitative research (Bryman, 2004). Although reliability and validity are treated separately in quantitative studies, these terms are not treated separately in qualitative research. Instead, terminology that

encompasses both, such as credibility, transferability, and trustworthiness is used (Golafshani, 2003, p. 600). Due to the different nature of data, reliability and validity in qualitative studies rely heavily on the data collection and analysis process (Golafshani, 2003; Hesse-Biber & Leavy, 2011). There are no specific tests that can be applied to qualitative methods to examine reliability and validity (Bryman, 2004).

Reliability refers to the possibility of reproducing the same results if the research is repeated (Collis & Hussey, 2009). Though reliability is often related to quantitative research methods, the idea is valid to qualitative methods as well (Golafshani, 2003). Silverman (2011) suggests three main criteria to enhance the reliability of interviews: (i) an interview guide should be developed which is clear and understandable for interviewees. The guide can also ensure precision in the coding and analysis of the data. (ii) accurate taping and transcribing is required to make the findings more reliable. (iii) inter-coding reliability needs to be maintained in order to avoid any ambiguity in coding. All three criteria were applied to enhance the reliability of this qualitative research study.

Validity in qualitative research is as important as reliability (Golafshani, 2003). Validity is achieved using the method of non-forcing the interviewees and with strategically well-chosen interviewees (Stenbacka, 2001). Barriball and While (1994) argue that validity of interviews is determined by the extent to which interviewees are willing to provide knowledgeable data. Further, validity indicates the extent to which the interpretation of the results accurately reflects the phenomena under consideration (Collis & Hussey, 2009). It indicates the importance of careful selection of interviewees for the purpose. For this research, interviewees were strategically and purposely chosen by considering their expertise and involvement in the IR process of their company.

Furthermore, Hussey and Hussey (1997, p. 78) define validity as “the extent to which the research findings accurately represent what is really happening in the situation”. One of the key characteristics of qualitative research is the high level of validity since the research takes place in the natural setting, such as the office, or the home of the interviewee (Creswell, 2003, p. 181). Fifty-four interviews (of 55) were conducted in the interviewees’ offices. One interview was conducted at the

University of Kelaniya, Sri Lanka. Creswell (1998) recommends a full approach of the verification process because verification underscores qualitative research as a distinct approach and is a legitimate mode of investigation in its own right.

It is also indicated that prolonged engagement requires spending sufficient time in the field in order to better understand the phenomenon under examination (Lincoln & Guba, 1985). This involves interviewing a range of social actors and developing a sound rapport in interviews to encourage interviewees to come up with rich in-depth accounts of their experiences. This research engaged with a large number of interviewees (55) holding responsibilities at different levels, representing 12 companies engaged in IR at different implementation stages. This ensures a rich and diverse set of data for analysis.

Both reliability and validity in qualitative research rely on the interview process and the quality of data collection, transcription, and analysis. This research applied all the appropriate procedures to ensure the reliability and validity of the data.

5.8 Conclusion

The philosophical paradigm chosen for this research is an interpretive approach. It was selected by considering the nature of the study. An interpretive approach is considered to be the appropriate research methodology for this qualitative field research. The qualitative research methodology and an interpretive paradigm inform the analytical approach of this research. Participants were selected using purposive sampling, to ensure the participants had knowledge of the phenomena under study.

Semi-structured interviews, annual reports prior to implementing IR, and integrated annual reports produced by the participant companies provided data for this research. A total of 64 annual and integrated reports were examined. Fifty-five interviews were conducted. The interviewees represented 12 PLCs in Sri Lanka. The interviews were held over the six months - October 2015 to April 2016. The data was analysed using NVivo software to classify and record the emergent themes. The six phases of thematic analysis advocated by Braun & Clarke (Braun & Clarke, 2006) served to guide the process of analysis. Reliability and validity concerns were addressed by following relevant guidance around the issues found in the literature.

CHAPTER 06

INSTITUTIONAL THEORETICAL LENS ON IR ADOPTION

6.1 Introduction

This chapter addresses the research question “Why did Sri Lankan Public Listed Companies (PLCs) decide to adopt IR?” The chapter discusses the adoption of IR by the sample companies using an institutional theoretical lens, with specific reference to the concepts of institutional isomorphism and institutional entrepreneurs.

The influences on the IR adoption decision through the institutional isomorphism lens (section 6.2) and institutional entrepreneurs (section 6.3) are examined. Section 6.4 presents an analysis, using the institutional theory lens, of the benefits the sample companies expected to gain through the adoption of IR. Section 6.5 concludes the chapter. The findings from the analysis are discussed towards the end of each subsection.

6.2 The decision to adopt IR – Institutional Isomorphism

It is not mandatory to produce integrated annual reports (IARs) in Sri Lanka. However, there are forces at play that persuade companies to adopt new practices. The role of institutional isomorphism influencing the decision to adopt IR is herein analysed and discussed under three headings: coercive isomorphism (Section 6.2.1); mimetic isomorphism (Section 6.2.2); and normative isomorphism (Section 6.2.3).

6.2.1 Coercive isomorphism

Coercive isomorphism arises from formal and informal pressures exercised on an organisation by the other organisations on which they depend (DiMaggio & Powell, 1983); resource dependence and legitimacy concerns (Judge et al., 2010); and influential or powerful stakeholders who encourage the adoption of particular reporting practices (Deegan & Samkin, 2013; Eccles & Serafeim, 2011a).

Interviewees from nine (of 12) companies mentioned ‘global trend’ as a reason for their move to IR:

It's a global trend as well as a Sri Lankan trend. Therefore, we were keen to adopt this IR (Interviewee I E03).

The external reasons have been the worldwide trend towards the adoption of IR as the best-accepted norm and the promotion of IR by various institutions and organisations. This includes the IIRC, UNGC, the United Nations Global Compact, and other awards bodies. For example, in Sri Lanka, CASL presents annual reporting awards, and the Chamber of Commerce presents Best Corporate Citizen Awards. So these bodies also encourage IR whenever they are considering companies and applicants for awards (Interviewee F M08).

Interviewees of some Sri Lankan companies felt that they had developed their IR process to a higher level – as evidenced by the IIRC IR pilot programme participant winning the Gold Medal for the best Integrated Annual Report (IAR) at the Institute of Chartered Accountants of Sri Lanka (CASL) annual report awards for several years. While the pressure from the IIRC appears to be of coercive isomorphism, the pressure from CASL is more subtle; it encourages companies to enter the competition to produce the best IAR. In a way, this subtle encouragement is more linked to normative isomorphism (discussed later).

One Sri Lankan company had participated in the IIRC pilot programme in 2011. This IIRC pilot programme participant's report, and their achievements would have influenced other Sri Lankan companies to move into IR. This is an example of how the IIRC influences other organisations to move towards IR through coercive isomorphism. Another interviewee also mentions the IAR of the IIRC pilot programme participant:

The pioneer of integrated reporting in Sri Lanka is 'DIMO'. I think the effort and care that they take has also given us some insights into IR (Interviewee F M05).

Coercive isomorphism also is found to stem from shareholders. Funds used to finance the companies are obtained from shareholder capital and borrowings. It also became apparent that the wider group of stakeholders of Sri Lankan companies can influence or coerce Sri Lankan companies to adopt IR. Some interviewees state that pressure from their shareholders influenced them to introduce IR:

At our AGM, some shareholders question why we are doing these bulky reports. They sometimes complain that they can't read all these things. This encourages us to move towards IR (Interviewee I M02).

There are shareholders who are looking at whether what we are doing is in line with other companies. Some organisations have introduced IR. We have shareholders who hold shares in other companies as well. Therefore, in order to add value to the shareholders, as well as our stakeholders, we should be in line with their requirements (Interviewee H E03).

It appears also that international shareholders applied pressure on one company to introduce IR, to adopt the new practice:

In our company, out of the top twenty shareholders, twelve are from outside the country, with access to large overseas funds. When we go to investor forums and take part in campaigns outside Sri Lanka, these overseas shareholders want IR. They want to receive these integrated reports. Because of that, we changed the reports (Interviewee I M02).

This pressure from large institutional shareholders who hold equity in the sample companies suggest coercive isomorphism where there is formal pressure for IR adoption.

DiMaggio and Powell (1983) postulate that coercive isomorphism arises from formal and informal pressures exercised on an organisation by the other organisations on which they depend. Although there is no legal requirement to produce IARs in Sri Lanka, the Sri Lankan companies were 'persuaded' to adopt IR in line with other local and global organisations that are moving towards IR due to the influence of the IIRC. Coercive pressures can arise from regulation forces and resource-dominant actors. The IIRC acts as one of the resource-dominant actors, encouraging organisations around the world to adopt IR, using the established IIRC Framework. Various supporting organisations (e.g. GRI, the Sustainability Accounting Standards Board, A4S, World Business Council for Sustainable Development, the Global Compact), and standard setting bodies that encourage IR are also considered sources of coercive pressures.

The IIRC and its supporting organisations are portrayed as exerting informal coercive pressure on the sample companies' IR adoption decision. Self-regulatory and voluntary initiatives, most notably codes of conduct issued by bodies such as the UN, the Organisation for Economic Cooperation and Development, the

International Labor Organisation, and the Global Reporting Initiative (GRI), are also seen as forms of coercive isomorphism (Matten & Moon, 2008).

Coercive isomorphism also stems from resource dependence and legitimacy concerns (Judge et al., 2010). A firm can be coerced by its influential or powerful shareholders or wider group of stakeholders into adopting particular reporting practices (Deegan & Samkin, 2013; Eccles & Serafeim, 2011a). An important finding was that several interviewees indicated that their institutional practices changed in response to pressure from the shareholders upon whom the organisation is dependent. It seems that the sample companies' decision to adopt IR has been mainly influenced by the informal pressure exercised by the IIRC. Thus, coercive isomorphism is observed arising through pressures from the IIRC, IR-supporting organisations and shareholders.

6.2.2 Mimetic isomorphism

Mimetic isomorphism stems from competition (McNally et al., 2017); copying best practices (Jensen & Berg, 2012; Matten & Moon, 2008); and stakeholders' demands for an increased range of information (Wild & Van Staden, 2013).

Interviewees from most of the sample companies (representatives from nine PLCs) mentioned competition or competitor pressure. For example:

Our competitors started to do IR, almost everyone did (Interviewee A M03).

We wanted to be competitive in our reporting as well. It's really competitive in Sri Lanka and everyone wants to present the best annual report. It's not just the competition, it shows transparency, and the annual report reflects our transparency. So, winning an annual report award for IR reflects how transparent we are in the reporting process. We don't want to lose that position in the industry and, in order to secure our position, we need to adopt the current trends. We need to follow current trends, that is IR (Interviewee I M01).

The sample companies also want to be better than their competitors. The interviewees indicated that they do not want to be inferior in their reporting activities:

To stand out from our competitors and be better than other companies in the market. Our desire was that our report would be better than our competitors' reports. With this change [IR], I think we now have a competitive advantage (Interviewee D E02).

Each time we would compare ourselves with whatever companies in the industry were considered the best in Sri Lanka, and use them as a benchmark. Other companies were also moving towards IR by that time. That also persuaded us to move to IR (Interviewee D M01).

Mimetic isomorphism is also observed to stem from the desire to follow best practice. The sample companies were influenced to adopt IR by national and international trends. Interviewees also considered that best practices can be used to maintain corporate legitimacy and to obtain further competitive advantage.

It was the trend and we have to adopt good practices, global practices. That is our priority, and the main reason for us to go for IR (Interviewee I M03).

We introduced the best possible disclosure practices in terms of better reporting. As a finance company, we appreciate the importance of transparency (Interviewee L M01).

It is a trend, an international trend. It is internationally accepted best practice, and we also wish to adopt international best practice (Interviewee B M01).

The bank embraces best practices. Therefore, we decided to implement IR (Interviewee F M11).

In order to gain legitimacy, the interviewees are keen to follow best practice. Similarly, the interviewees clearly wished to follow best practices within their industry, and so adopt mimetic processes whereby the managers copy the strategies of other successful organisations and competitors, which are regarded as best practices. A key influence on IR adoption is the best practices of other Sri Lankan companies that have adopted IR. One Sri Lankan company that had participated in the IIRC pilot programme influenced other companies to also adopt IR. The majority of the interviewees indicated that they copied or improved upon other organisations' practices in order to obtain a competitive advantage.

There appeared to be a desire to adopt IR as one way to achieve legitimacy. Legitimacy is considered to be 'a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially

constructed system of norms, values, beliefs, and definitions' (Suchman, 1995, p. 574). In a business environment with increased uncertainty and increasingly complex technologies, managers tend to consider practices as legitimate if they are regarded as "best practice" in their organisational field (Jensen & Berg, 2012; Matten & Moon, 2008). The desire to emulate the best practices of leading national and international firms (Eccles & Serafeim, 2011a) exerted pressure on Sri Lanka companies to adopt IR.

Mimetic isomorphism is also seen to influence companies to respond to their stakeholders' demands for an increased range of information on the firm's social and environmental impacts by reporting in a manner that is perceived to be consistent with, or better than, that of their competitors in a particular industry (Wild & van Staden, 2013). Competition is identified in the literature as a reason for companies to adopt IR (McNally et al., 2017). These findings have been confirmed in this Sri Lankan study where mimetic isomorphism is observed as pressure from competitor organisations and other IR-practising Sri Lankan companies which resulted in adoption of IR by the sample companies.

6.2.3 Normative isomorphism

Normative isomorphism stems from structures and procedures advanced by particularly dominant professions, professional bodies and/or consultants (DiMaggio & Powell, 1983). The big four accounting firms play an important role in the globalisation of accounting through normative pressure (Al-Omari, 2010; Irvine, 2008; Kamal Hassan, 2008; Street & Gray, 2002).

Though CASL as the national accounting and auditing standard-setting body has not mandated IR, it tries to influence Sri Lankan listed companies to apply IR:

That basically comes from the Chartered Institute direction because the world has moved in that direction. The Institute has taken the initiative and provided the guidelines. So, we are also compelled to move in that direction in order to fall in line with the tune of the Institute (Interviewee F M04).

CASL has had a huge impact on the adoption of IR among the sample companies. Interviewees indicated that CASL encourages the sample companies to move towards IR by presenting awards for the best IARs and non-traditional annual

reports. Representatives from eight of the twelve sample companies stated that the CASL annual report competition was one factor influencing them to adopt IR. The sample companies expect that winning an award at the CASL annual report award ceremony will improve the image of the organisation:

Initially, it was only because of the CASL awards competition, but after that we realised that this is a very good value-added concept for the company (Interviewee A M01).

The CASL annual report competition is very competitive and we value that very much. They recognize IR as a separate section in the competition and every year the focus on IR and the recognition given increases. Last year the CMA Institute also introduced a new award purely for IR. With that, the Chartered Institute also introduced two new award categories. As a result, all companies are now moving in that direction (Interviewee I M02).

In my opinion, the key driving force is the external awards and the recognition associated with it. Organisations are driven towards achieving those awards in order to get some recognition. Owing to those developments, over the past few years, the IR awards are now highlighted in all the business newspapers and business articles. So, we also became very interested in developing our brand through IR (Interviewee B M03).

As the accounting and auditing standard-setting body for the whole country, CASL introduces and updates accounting and auditing standards in keeping with those international requirements which are applicable to Sri Lankan companies.

CASL was conducting awareness programmes and training programmes for IR. They were even conducting an awards ceremony. They were holding discussions with all the organisations to come up with IR, and to identify the areas where they needed improvements (Interviewee B M04).

CASL is the main accounting body in Sri Lanka. They gave us a set of guidelines for the preparation of our annual integrated report and showed us how things should be done, etc. Their guidelines influenced us to keep going with the IR (Interviewee D E02).

The IR concept has been embraced by the Chartered Institute. So, regardless of whether you like it or not, all the organisations in this country have to follow IR. If you are competing for a place in the annual report awards competition, you have to move in that direction (Interviewee F M04).

The Chartered Institute wanted us to move into IR. It was not a choice or option for us. We had to do that. Two years back they included a special category called Best Integrated Reporting in the annual report awards. With that, the Institute hoped to promote integrated reporting (Interviewee D M03).

The big accounting firms in Sri Lanka also appear to be influential actors who exert normative pressure on the adoption of IR in the sample companies. Their persuasion ranged from ‘urging’, which suggests some pressure, to ‘helping’:

Ernst & Young were behind us, urging us to move to IR (Interviewee H E03).

KPMG, the external auditors, influenced us. We sought advice from them. They were very much involved in the IR implementation (Interviewee F M06).

The external auditors, especially the big four audit firms, have helped us by arranging certain training sessions (Interviewee B M05).

Although accounting firms do not impose preferred practices on clients, they provide opinions or suggestions on financial reporting practices:

We received support from KPMG to introduce IR and re-align our content (Interviewee A E02).

Further, annual report design companies¹³ provided considerable impetus for the sample companies to introduce IR. They possess knowledge and expertise in producing IARs. Their directions and advice influence Sri Lankan companies to implement IR:

Our annual report was facilitated by an annual report agency for about five to six years. They provided us with really good support to move to IR. They were very helpful in facilitating this process. They had the necessary knowledge and shared it with us (Interviewee B M04).

¹³ Companies that provide services to companies to design their annual reports in an attractive manner. This is an outsourcing of annual report designing part to experts in the field who possess skills and knowledge to design annual reports.

The preparation of the annual report of the Bank is handled by an annual report agency called 'Smart Media'. They may have produced more than 50% of the annual reports in the country. One of the main driving forces to go for integrated reporting was this annual report agency (Interviewee F M04).

This is an important finding because the influence of the annual reports design companies to the IR adoption decision of Sri Lankan companies is a new finding not previously mentioned in the literature on isomorphism. The pressure from annual report design companies would stem from the knowledge and the expertise that they have on IR and hence their significant influence on companies who use their services.

The influence of CASL, accounting firms, auditors and annual report design agencies demonstrates normative isomorphism. Normative isomorphism is observed in the findings of interview responses. It appears that the sample companies' decision to adopt IR was influenced by the structures and procedures advanced by particularly dominant professions, professional bodies and/or consultants, consistent with the findings of DiMaggio and Powell (1983).

CASL plays an active role in promoting IR to Sri Lankan companies. They conduct roundtable discussions and seminars for professional members and representatives from the listed companies to popularise IR. Thus, accounting and finance staff of Sri Lankan companies, especially accountants who are members of CASL, can be expected to influence Sri Lankan companies to adopt IR. In 2015, CASL issued an IR implementation guide, to promote IR among Sri Lankan companies. This guide incorporates principles of the IIRC, the GRI, and the UN Global Compact (CASL, 2015a). The findings indicate CASL as an influential factor for the adoption of IR by the sample companies.

Under the patronage, guidance and support of the IIRC, the Council of CASL formed a committee on 05 July 2016, titled the Integrated Reporting Council, with a view of promoting IR in Sri Lanka and enabling corporates and others interested to share knowledge on matters relating to the content, context and implementation (CASL, 2018). CASL has taken leadership to conduct a series of programmes focusing on integrated reporting development among the PLCs in the country. Therefore, as the key provider of resources for reporting and auditing matters in the

country, CASL has a great deal of influence in encouraging Sri Lankan companies to adopt IR.

Educational and professional authorities that directly or indirectly set standards for “legitimate” organisational practices are the source of normative isomorphism in new institutionalism (Matten & Moon, 2008). Organisations operating in an institutionalised environment will naturally seek external measures of merit, such as ceremonial awards or endorsements by important people or organisations, in order to derive legitimacy (Meyer & Rowan, 1977). To encourage and recognise excellence in annual reporting, CASL organises an annual reports awards competition. This is effectively a search for the most cohesive, clear and customised annual reports that best reflect an entity’s operations while going beyond the purely statutory boundaries of their reporting obligations (CASL, 2016). CASL’s annual report awards ceremony is one of the events which promotes the adoption of IR.

Further, all listed companies in Sri Lanka need to be audited by qualified statutory auditors who obtain “practicing certificates” from CASL (Yapa et al., 2017). Therefore, auditors who are members of CASL also have the ability to influence Sri Lankan companies towards the adoption of IR. The influence of professionalisation allows for the rapid diffusion of new models of change throughout organisations. Thomas (1989) claims a company relies on professional specialists such as accountants and auditors who exert their influence on various corporate strategies, including financial reporting decisions. The degree of professionalisation in accounting practices is also influenced by the accounting firms themselves.

Albu et al. (2011) argue that the “Big 4” accounting firms have played a profound role in the globalization of accounting and therefore represent normative pressure. The four largest international accounting firms that operate in Sri Lanka are KPMG, Ernst & Young, PwC and BDO partners. Together, they audit 84 per cent of the listed companies in Sri Lanka (Yapa et al., 2017). Therefore, the auditors of the sample companies can be considered to have a huge influence on the adoption of IR.

The standard-setting process is less transparent, but still seems to be dominated by the partners and members of the four largest audit firms in Sri Lanka. This is because CASL is predominantly represented by the partners and managers of the four largest audit firms in Sri Lanka, who utilise their authority in the CASL council to make decisions on accounting standards (Yapa et al., 2017). This again suggests that the decision to implement IR in Sri Lanka was hugely influenced by the largest four audit firms operating in the country.

There is consensus in the literature that the big four accounting firms play an important role in the globalisation of accounting and represent significant normative pressures within the accounting field (Al-Omari, 2010; Irvine, 2008; Kamal Hassan, 2008; Street & Gray, 2002). Since the IIRC's governing council is dominated by the accounting profession and the multinational enterprises (Dumay et al., 2017; Flower, 2014), the largest accounting firms have significant influence on the IR adoption decision by the companies in Sri Lanka. This is evident in the comments from the interviewees about the influence of accounting firms on the IR adoption decision.

6.3 Institutional entrepreneurs and IR adoption

Institutional work acknowledges that individuals can influence institutions (Bui & de Villiers, 2014). Institutional entrepreneurs are also agents of change (Sharma et al., 2014). Out of the 55 interviewees, one clear example of institutional entrepreneurship was identified. In this section, this case is presented and discussed in conjunction with the extant literature.

The Director Finance/CFO of this case study exhibits many of the characteristics of institutional entrepreneurs. He had put a lot of effort into introducing IR into his organisation even before the IIRC introduced the consultation draft of the international IR framework. The company's first IAR was produced for the financial year 2010/11. The Director Finance/CFO drives the process of IR adoption in his company:

If you tell me that I am the driving force behind IR, that's correct because I am not only the public eye of IR in this company, I also get involved a lot in conceptualisation and everything else as well (Interviewee C M01).

It was initiated by our Finance Director. He was the main person who kept driving it, and he was always the driving force behind it. He is the one who decided on developing this IR concept - where everything is in a single report (Interviewee C M03).

Institutional entrepreneurs use existing cultural and linguistic materials to narrate and theorise change so that other social groups in the field agree to cooperate in the change process (Greenwood et al., 2002; Maguire et al., 2004; Suddaby & Greenwood, 2005) and try to connect the new practices to stakeholders' routines and values (Maguire et al., 2004). As suggested by Garud et al. (2007), this Director Finance/CFO is a path-creating/path-changing individual in the organisation. Another interviewee in the same organisation commented on the way the Director Finance/CFO drives the IR process and his knowledge of this area:

He is the Finance Director; he is also a Board Director and an Executive Director. He always pioneers this; he drives IR and the reporting process. His thinking and his depth of knowledge has a huge bearing on our own thinking and IR. That thinking influences our operations as well (Interviewee C M02).

Creating and changing new institutions requires institutional work on the part of a wide range of actors, both those with the resources and skills to act as entrepreneurs and those whose role is to support or facilitate the entrepreneur's endeavours (Clemens, 1993; Greenwood et al., 2002; Holm, 1995; Leblebici et al., 1991; Oakes et al., 1998). The Director Finance/CFO can allocate the resources required to facilitate change: the introduction of IR. In addition, he has the knowledge of IR required to bring about the change, and his followers within the organisation rely on this knowledge. Sometimes, even less powerful actors may shape institutional change, especially in emerging fields (Zahir-ul-Hassan & Vosselman, 2010). However, in this case, the Director Finance/CFO is a powerful actor in all aspects, especially those involving knowledge of IR and resource allocation:

The IR drive is being led by Director Finance/CFO. He is the pioneer person. Actually, people say he is the Sri Lankan 'guru' of integrated reporting in a Sri Lankan context. He has a huge knowledge of the subject (Interviewee C E01).

Many invitations are received by the director to talk about IR at very important forums. I think this is because he has become an authority on this subject in Sri Lanka. Our company has become a trendsetter in IR because of him (Interviewee C M02).

Accounting professionals such as consultants, controllers and accountants are important institutional entrepreneurs and can shape the control practices and technologies (Zahir-ul-Hassan & Vosselman, 2010). The Director Finance/CFO is a fellow member of CASL and has exhibited institutional entrepreneurial characteristics in IR. His role is to support and facilitate the entrepreneur's endeavors. He explains:

I was instrumental but, of course, I do not take all the credit as I have a super-dedicated team. Therefore, we all work together but I think that it is correct to say that I am instrumental in leading the annual report team (Interviewee C M01).

Professionals play a leading role in field-level change by taking advantage of their knowledge and status (Bui & de Villiers, 2014). These actors promote innovations in the field, support and advertise them by explaining their benefits, and highlight the disadvantages of competing alternatives (Zahir-ul-Hassan & Vosselman, 2010). The changes initiated by institutional entrepreneurs mean that organisations will be forced to deviate from their original practices by modification, addition or replacement (Dorado, 2005). The Director Finance/CFO wants to be innovative in reporting and demonstrates the advantages of IR to the other members of his organisation:

The Director wanted to carry out reporting differently and that was how he started doing IR. First, he heard about it, learned how to do it, and then wanted to try it. I have had a lot of discussions with him and I understand his way of thinking. He wanted to do it differently because he believed in IR, not just the report (Interviewee C M02).

This case study, like most of the empirical studies of institutional entrepreneurship conducted so far, is in an emerging field that is less institutionalized and consequently characterized by higher levels of uncertainty (Déjean et al., 2004; Garud et al., 2002; Lawrence, 1999; Lawrence & Phillips, 2004; Maguire et al.,

2004). This case illustrates how an institutional entrepreneur can be the driving force for adopting IR.

6.4 Expected benefits seen through Isomorphism Perspectives

This section provides empirical evidence of the benefits expected by the sample companies from the isomorphism perspective of institutional theory. All the interviewees of the sample companies expected to achieve several benefits through the implementation of IR. They expected numerous benefits, and most of these expectations could have been influenced by each of the different types of institutional isomorphism: coercive, mimetic and normative. The pressures are subtle, the expectations are raised as an enticement to adopt IR.

Through analysis of the interview transcripts, twelve expected benefits were identified and these are categorised under three broad headings: External Reporting, Internal Processes, and Internal culture. The types of isomorphism for each expected benefit are also identified and presented in Table 11, along with the relevant subsection.

Table 11: Expected benefits and type of Isomorphism

Expected benefits	Type of isomorphism	Chapter Subsection
External Reporting (sec 6.4.1) Provide a holistic picture	Coercive, Normative	6.4.1.1
Produce user-friendly accounting reports and information	Coercive, Normative	6.4.1.2
Produce a concise report	Coercive, Normative	6.4.1.3
Improve recognition/image of the organisation	Mimetic, Normative	6.4.1.4
Improve the quality of information and reports	Coercive, Normative	6.4.1.5
Show the real picture	Coercive	6.4.1.6
Avoid duplication	Coercive	6.4.1.7
Consider all elements of value creation	Coercive, Normative	6.4.1.8
Internal Processes (sec 6.4.2) Support strategic planning	Coercive	6.4.2.1
Support process improvement	Coercive	6.4.2.2
Internal culture (sec 6.4.3) Introduce a holistic approach towards all stakeholders	Coercive	6.4.3.1
Create an integrated corporate culture	Coercive	6.4.3.2

It is noted that the largest number of benefits that were expected from adopting IR relate to external reporting. Each of these expected benefits and the type of isomorphic pressure for each benefit is discussed in more detail in the following sub-sections.

6.4.1 External Reporting

The sample companies expected benefits from external reporting perspectives in eight ways. These eight expected benefits result from pressures associated with coercive and normative forms of isomorphism.

6.4.1.1 Provide a holistic picture

The sample companies take the view that giving the total picture of an organisation is important from the stakeholders' point of view. They believe this could include explaining current performance, future expectations, strategies to achieve desired targets, and corporate directions. The quote below illustrates how they expect to see a holistic picture of the organisation disclosed through IR:

We want to keep potential investors informed, keep them engaged, tell them how well we are managing our business, and show how well we will be doing in the next three or five years' time. Another crucial benefit we are expecting is to be able to communicate with the public and potential investors regarding our strategies and our corporate direction in a comprehensive manner that they can understand - not just communicating our existing financial numbers (interviewee A M02).

The interviewees believe that the disclosure of all information by linking together all the business models, capitals, KPIs, outcomes and strategies of an organisation will provide a more complete picture of the organisation - enabling the reader to take a birds' eye view of proceedings:

We are linking the business model, all the capitals, the KPIs, the outcomes, and the strategies. We are integrating all these into the main reports. This time we are trying to link the whole business model into the report so that the readers know all about our business. He should not have to go here and there to look for data and things. So, this is actually a type of mind map. Shareholders want information about the business and our ideas, and they want to know whether their investments are secure and what the organisation is doing for them (Interviewee B M03).

The interviewees agree that the objective of introducing IR is to make their stakeholders better informed by disclosing quantitative as well as qualitative aspects of their organisations. An interviewee explains:

We believe that IR helps us to insert qualitative aspects into a quantitative report, helping our customers understand us better. For example, they know how our products are manufactured because there is more disclosure regarding the manufacturing process. We are able to explain about suppliers and supplier ethics, making sure that they understand not only what we are, but that we are also concerned about our suppliers who manufacture goods for us. We also describe our suppliers' own practices. For example, when we choose a supplier we ask them, do you employ small children? do you pay compensation to your employees? do you contribute to their Provident Fund? We expect all these things to be disclosed through our integrated report and the whole objective is to have better investors, better customers, better suppliers, and better employees (Interviewee E M01).

The sample companies expect to disclose information regarding all aspects of their business to achieve better communication with their stakeholders. This, in turn, is expected to help stakeholders such as shareholders and customers make decisions as they now have an overall picture of the business activities.

IR aims to provide comprehensive disclosure of a company's finances, governance, strategy and prospects while reflecting the commercial, environmental and social context in which it operates (Dobkowski-Joy & Brockland, 2013). An integrated report should include all material matters, both positive and negative, in a balanced way (IIRC, 2013e).

The IIRC encourages the disclosure of a holistic picture of an organisation through the use of integrated reports (IIRC, 2011). CASL also encourages Sri Lankan companies to report a holistic view of their organisations (CASL, 2015). Therefore, it can be seen that the expected benefit 'to give a holistic picture' stems from the

coercive isomorphism of the IIRC as well as from the normative isomorphism of the CASL.

6.4.1.2 Produce user-friendly accounting reports and information

Provision of user-friendly information is one of the most important qualities of accounting information. Most of the interviewees identify this as an expected benefit. One interviewee comments on how they expect to provide user-friendly information through IR:

We expected clarity, better navigation, and better understanding for the reader - to showcase our business model and then show our stakeholders what they give us and what they get out of it in a concise and clear way, along with a better understanding about the business and performance of the company (Interviewee D M01).

Traditional financial reports are not always well-structured and can be full of repetition, hindering the stakeholder decision-making process. One sample company expects IR to help them deliver user-friendly reports:

Expected benefits were to produce a very user-friendly report for the reader, i.e., the stakeholders of the annual report, rather than repeating the same information in four or five different places. We expected to be able to provide very simple, user-friendly reading material for the stakeholder. In traditional reports, the investor had to search through several sections to get a clear understanding of matters (Interviewee F M04).

One of the primary purposes of financial reporting is to disclose information to stakeholders so that they can then make informed decisions. The IIRC anticipates that organisations using IR will not need to produce numerous disconnected and static communications (IIRC, 2013e), and that IR will help organisations determine how best to express their unique value-creation story in a meaningful, transparent and user-friendly manner. IR can take an organisation beyond compliance-based disclosure to emphasising a commitment to transparency. Such a transparent approach to reporting can cover a wide variety of issues and helps provide an honest representation of performance – both good and bad (Adams & Simnett, 2011).

IR is meant to make investor decision-making easier by providing user-friendly reports and information. The IIRC anticipates and encourages IR-practicing organisations to produce user-friendly accounting reports (IIRC, 2013e). In a

similar way, CASL expects user-friendly IARs from IR-practicing Sri Lankan companies (CASL, 2015). Therefore, the expected benefit of ‘user-friendly accounting reports and information’ stems from the coercive isomorphism of the IIRC as well as from the normative isomorphism of the CASL.

6.4.1.3 Produce a concise report

Conciseness helps the reader to understand the content of a report. One interviewee comments:

One expected benefit is to clearly present a report which can describe things in a concise and user-friendly manner so that the reader does not have to sort through a large number of pages in order to understand what the bank is trying to say. For instance, we have to bring various things such as cooperate governance, sustainability, financial figures, financial reviews, etc., together in one place. Therefore, we present all this information in a single table and merge everything together so that you can see the connectivity within each area (Interviewee F M05).

The interviewees expected to be able to reduce the number of pages in the report, achieve cost savings, and help stakeholders understand the business more easily:

We are able to report our performance in a very concise manner and we can also reduce the number of pages. You are then also contributing to cost savings and helping the stakeholder understand your business properly without including too much information which is not relevant (Interviewee I M03).

The conciseness of integrated reports provides several benefits to the organisations involved as well as to those reading the reports. These benefits include user friendliness and easy navigation of the report, a better understanding of the business, the elimination of unnecessary duplication, and cost savings. Integrated reports are expected to be concise (Abeysekera, 2013; Atkins & Maroun, 2015), and should offer stand-alone information communicating how an organisation’s strategy, governance, performance and prospects will lead to the creation of value over the short, medium, and long term (Busco et al., 2013a).

Potter et al. (2013) note that stakeholders often struggle with their decisions due to the large volume and variety of non-financial information present. IR has a combined emphasis on conciseness, strategic focus and future orientation (IIRC, 2013e). The expected benefit ‘to produce a concise report’ reflects the coercive

pressure of the IIRC and normative pressure from CASL since both these organisations encourage the use of concise integrated reports.

6.4.1.4 Improve recognition/image of the organisation

The interviewees expect an improvement in recognition and image resulting from better disclosure of the organisation's performance, strategies and potentials. For example:

Recognition was one of the key objectives that we looked at, locally and internationally (Interviewee B M02).

It improves the recognition of the organisation. Initiating and implementing integrated reporting and then winning awards for IR is what is meant as recognition (Interviewee A E01).

The interviewees also expect to improve their reputation among investors, employees and principals all over the world:

We do business with principals from all over the world. IR increases our reputation. It is good to display our personality and our thinking. It helps our principals make good judgments. It also helps the investors make good judgments. In addition, it is a very important document for employees. I would say it is good for employer branding. It is good to increase our reputation in the market (Interviewee C M02).

The interviewees take the view that winning an award for IARs at the annual report competitions organised by professional bodies will improve recognition of their organisation:

We expected that it would give us a reputational thing. It's a sort of advertisement, because it is recognised throughout the country. It promotes trust in the annual report because if we create something and if the Chartered Institute (CASL) recognises this is a great report, then users will see this as a good thing and proof that the company is performing well (Interviewee I E05).

Further, the interviewees expect to improve the recognition of their organisations by implementing IR and then winning awards for presenting IARs. They consider IR will improve public confidence because they assume it will act as a form of advertisement. One expected benefit from improved recognition is an improved ability to attract capital.

The IIRC IR pilot programme participants demonstrated that IR could act as a mechanism to clearly articulate strategy and the business model, and to communicate those aspects externally - resulting in improved corporate transparency, enhanced corporate reputation and, as a result, lower reputational risk (IIRC, 2013c). Reputation is vitally important for any organisation because it impacts bottom-line profitability through its ability to attract employees to its jobs, investors to its securities, and customers to its products (Ruth & York, 2004, p. 14). Further, Eccles and Armbrester (2011) claim IR will deliver external market benefits by satisfying stakeholders' expectations, enhancing the company's reputation and brand, and helping to manage regulatory risks.

It was found that for all but one of the sample companies there was an expectation to improve recognition and the image of the organisation. This expectation stems from competitor pressure and pressure from other successful organisations in Sri Lanka already using IR. The interviewees also expect to be able to improve recognition by winning awards at the CASL annual reports awards ceremony. They were attracted by the 'carrot' offered by CASL. Therefore, this expected benefit is influenced by both mimetic isomorphism and normative isomorphism.

6.4.1.5 Improve the quality of information and reports

One of the benefits expected by the interviewees is an improvement in the quality of information and reports. The interviewee below explains how they expected this outcome through introducing IR:

We are trying to give better quality information to our stakeholders in relation to financial reporting as well as other non-financial items. Actually, our main interest is to produce a good annual report which will help our shareholders, depositors and stakeholders gather information. That is our primary focus (Interviewee B M01).

The quality of the information is important in order to increase the readability of the report. Stakeholders can make decisions accurately and quickly when an organisation provides quality information through a clear, concise report. The interviewees hold these expectations:

We expected to increase the readability of the report and the quality of the information through integrated reporting. Therefore, stakeholders could then make decisions quickly. That is the reason we reduced the number of pages and included as much quality information as possible (Interviewee C E01).

We introduced IR to improve our reporting. IR can present a very clear and focused report to the shareholder who is the main user of the report. We thought that this approach was better than traditional reports (Interviewee D M02).

The IIRC (2013e, p. 2) recognises that one of the aims of IR is to “improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital”. The quality of corporate reporting greatly influences the quality of investment decisions made by investors. Here, “quality” refers to completeness, accuracy and reliability (Singhvi & Desai, 1971). It is evident that the interviewees of the sample companies expect to increase the readability of their reports, to provide a clear and focused report, to produce a good flow of reporting, and to offer better quality information to enhance stakeholder decision-making. These expectations are consistent with the aims of IR, as expressed by IIRC (2013e, p. 2) in “the international IR framework”. This finding suggests coercive pressure from the IIRC. If a company adopted IR, then they expected to receive the benefits as communicated to them by CASL and the IIRC.

6.4.1.6 Show the real picture

The interviewees expected that practising IR would help disclose the real picture of their organisations:

We were happy to report what we do. What we report is what we do. If you report what you do, then I think this is a very fair approach. You are just displaying what you are doing inside. We did not have to make an extra effort to think about this or to comply. That is what we wanted (Interviewee C M02).

It's like painting a picture of the organisation. What we really wanted to tell the community, and our stakeholders, is what we are really doing in the organisation (Interviewee I E03).

Both positive and negative outcomes can occur in an organisation. Disclosure of both positives and negatives is important from the stakeholders' perspective since it affects their decisions. As an interviewee states:

We thought the report should be an analysis of positives and negatives and not just be about looking good and having pretty pictures (Interviewee D E02).

The disclosure of the real picture, including strategies, outcomes and environmental factors that could affect the outcomes, was one of the benefits expected from the adoption of IR by the sample companies:

We could easily tell our stakeholders what strategies we have to follow and why we have followed that strategy, what the outcomes were and what we did to achieve those outcomes, and what macroeconomic trends we have actually found. We can easily communicate to the stakeholders, we can be transparent, we can tell them about the strategies we have adopted. If we went wrong, we can tell them that we went wrong because of this (Interviewee I E01).

Overall, the interviewees stated that they are happy to report what they do within their organisations. It is easy for them since it does not require any extra effort.

IR is not just reporting good news but presenting an honest representation of performance. Stakeholders are interested in seeing the real picture of an organisation. If an organisation clearly and accurately reports what it does, then stakeholders can understand the real inside story of the organisation and this, in turn, can lead to better decisions by the stakeholders - as expected by the IIRC (2013e). The expected benefit of 'show the real picture' stems from coercive isomorphism since the IIRC and shareholders both put pressure on companies to disclose the real picture.

6.4.1.7 Avoid duplication

The interview findings indicated that duplication is one of the problems that the sample companies face and that this can have an adverse effect on the report reader. The interviewees take the view that the adoption of IR was an opportunity for them to avoid duplication and unnecessary repetition:

Duplication is one of the key issues/problems that we had. With IR coming in, we thought that this would be an opportunity to avoid it, and that is the advantage that we now have (Interviewee B M02).

IR would eliminate these repetitions, producing a more focused document for the reader. You would have one single story - from start to end. I think that would even help the annual report preparers get their collective story across to the reader (Interviewee F M03).

Avoiding duplication - definitely. We can reduce 350 pages to 150 pages easily (Interviewee F M07).

The interviewees expected to avoid duplication and produce a focused document for the reader. Proper discussions within teams and good report planning and reporting can help avoid duplication. The bulkiness of the reports could also be reduced if duplication is eliminated. The IIRC emphasis quality and conciseness of reporting (IIRC, 2013e). Therefore, the expected benefit of avoiding duplication illustrates the coercive pressure of the IIRC.

6.4.1.8 Consider all elements of value creation

Disclosure of value creation is one of the most important aspects of IR. The interviewees shared that their organisations expected to enhance value creation for all stakeholders by identifying all the elements present in their disclosures:

We wanted to emphasize value creation. It's not merely the shareholders that we needed to enhance wealth maximization for. We also needed to enhance value creation for all the stakeholders. Through IR, we expected to identify better value-creating inputs, value-creating outputs and a proper process for value creation, overall (Interviewee B M06).

One should ask “why not use IR?” IR focuses on all the elements of value creation whereas traditional corporate reporting highlights only one aspect of the value creation process. I feel that IR is important because you then present much more of your value creation story rather than just one single component (Interviewee C M01).

However, value creation for shareholders or shareholder wealth maximization, alone, is not always sufficient in the current business context. This is acknowledged:

In an organisation, value creation is not only financial value creation. There are a lot of other values which support the creation of financial value. We expected that IR would bring together all these aspects, for all the stakeholders in our business (Interviewee C M02).

The interviewees expect IR to help them focus on and disclose all the elements of value creation through their IARs. IR aims to “promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time” (IIRC, 2013e, p. 2). There is an expectation that IR will provide a basis for companies to explain their value creation more effectively to capital markets (KPMG, 2012b).

Value creation is not limited to financial value creation. Since value creation is highlighted by the IIRC (2013e) and the CASL (2015) in their guides to IR, the expected benefit ‘consider all the elements of value creation’ seems to have been influenced by coercive isomorphism of the IIRC and normative pressure of CASL.

6.4.2 Internal Processes

The interviewees expected improvements in internal processes in two ways: through supporting strategic planning and supporting process improvements.

6.4.2.1 Support strategic planning

The interviewees expect that IR would support strategic planning in their organisations. They expected IR to help identify risk and opportunities and support the strategic planning process in their organisations:

It was expected that IR would help us identify our risks and opportunities because, if you look at our annual report, we have a separate chapter on risk. It helps the top management to be more collaborative with senior management in the setting of goals and targets (Interviewee C M03).

The interviewees noted that it would also lead to improved short-, medium- and long-term strategic focus to suit environmental changes:

The first thing we need to have is a focus. This is what we have to achieve in the next five years' time, in the next three years' time, and in the next year. In our business context, what are the macro- economic changes that could happen in the market, and how do we change our strategies based on the market conditions? I think those are the things that we will have to focus on when we are carrying out IR. The reporting cannot come after that because whatever we are doing should be in the report, and nothing else. I think integrated reporting gives us that method of thinking (Interviewee I E01).

Making employees more aware of the strategies, initiatives and key priorities (important for the success of the company), is also expected:

Internally, we expect our employees to get to know our strategies, where our company is going, what this year's key priorities and strategies are, what initiatives we are taking this year, and how this will affect the next three- to five-year strategy. We are definitely practicing these things already; however we have also started putting more emphasis on these matters. That's the main benefit, because unless employees are aware of our strategies or initiatives we won't have the necessary drive. We also want to communicate our plan to our stakeholders and show how well aware we are of our corporate strategy and how ready we are not only for today, but for the next three years or five years (Interviewee A M02).

The interviewees expect that IR will help their strategic planning in several ways, including proper identification of risks and opportunities, helping top management to be more collaborative, placing more emphasis on important factors and educating employees.

An IAR should provide insight into the organisation's strategy, as well as, support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term (IIRC, 2013e). IIRC (2013e) states that IR has a combined emphasis on conciseness, strategic focus, and future orientation. Since the IIRC encourages integrated thinking and decision-making within

organisations, the expected benefit of ‘support strategic planning’ clearly seems to have been influenced by coercive isomorphism.

6.4.2.2 Support Process Improvement

The interviewees expect process improvements through the application of IR. Interviewees describe expected process and efficiency improvements:

With IR, we are expecting to achieve better efficiency within the company and, as a result, good productivity and savings in waste (Interviewee A M01).

How I look at it is not purely in terms of reporting but everything behind the report as well. I look at the entire process. It’s not just about reporting - it’s all about what we do and that gives us the motivation to do more. IR definitely helps us to improve our processes, policies and operations. That’s why we introduced IR (Interviewee D M03).

Innovativeness is one of the important aspects to consider in achieving organisational objectives. The interviewees expect innovativeness to help achieve process improvements and to help identify drivers that support value creation processes in their organisations:

I think innovation is good because in the value creation model we have to be innovative. We have to identify what actually drives our organisation to create value. I think IR motivates us to be more innovative (Interviewee I E03).

They expect to improve efficiency within their organisations through IR. Furthermore, they expect improvements in processes, policies and the operations of their businesses. IR is also expected to support innovation and information efficiency.

IR is still in its early adoption stage and, at this stage, IR is a “transition” from sustainability reporting rather than a radical, new innovative initiative that is driving “transformation” (Stubbs & Higgins, 2014, p. 1087). This “transition” also requires innovativeness in an organisation.

Dumitru et al. (2013) promote IR as a good management practice that will increase efficiency and improve resource allocation and thereby help to create a sustainable society. Phillips, Watson, and Willis (2011) identify the ability of IR to transform

corporate processes. IR leads to improved systems and processes (Roberts, 2011). IR emphasizes integrated thinking within an organisation. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term (IIRC, 2013e). Integrated thinking and integrated decision-making support process improvements in an organisation. Therefore, the expected benefit of process improvement is influenced through the coercive isomorphism of the IIRC. The sample companies expect to benefit from the transformation brought by IR.

6.4.3 Internal Culture

Improvements in internal culture were expected to be achieved through introducing a holistic approach towards all stakeholders and creating an integrated culture.

6.4.3.1 Introduce a holistic approach towards all stakeholders

The interviewees consider stakeholder engagement and dialog to be very important. They expect that IR will help them achieve stakeholder satisfaction:

The complete satisfaction of the stakeholders will be achieved through IR. They will gain a very clear view of the strategies, operations and business results, future expectations and growth levels of the organisation. All these people will be happy and they will begin to contribute their best to the organisation. Even the stakeholders will not think twice about investing in it. In addition, employees will also give their utmost with a very happy and confident work attitude. Moreover, the customers will be happy and they will then spread this news to other people so that the company's image, brand value, profits and everything associated with it will improve (Interviewee A M04).

The interviewees consider IR as a way of taking a holistic approach towards the treatment of all stakeholders. One interviewee elaborates:

Previously, we used to treat the requirements of the customers separately, and the shareholders separately, and then the employees separately. But now we have come to see that the stakeholders are linked with one another and that they are all linked with the company in very similar ways. So, it is best if we can address all their requirements in an integrated manner because, ultimately, all teams are working towards one goal - achieving better results in the form of profits, wages, services or whatever. They all want to see better results. To address that holistic view, we preferred to take an integrated approach rather than stick with the individual approaches that we had used earlier (Interviewee D E02).

The interviewees also expected to be able to improve relationships with and the satisfaction of their stakeholders:

Better presentation and satisfaction of stakeholder needs, not only for shareholders but also for other stakeholders like employees, customers and suppliers. Using the IR process, we can cater to all requirements by means of one single report (Interviewee F M01).

An integrated report is expected to provide insight into the nature and quality of the organisation's relationships with its key stakeholders, including how and to what extent the organisation understands, takes into account and responds to their legitimate needs and interests (IIRC, 2013e) and it should be inclusive of all stakeholders (Abeysekera, 2013; Atkins & Maroun, 2015). Stakeholder engagement is very important for the success of any organisation. Stakeholder engagement can be understood as the practices that the organisation adopts to involve stakeholders in a positive manner in its organisational activities (Greenwood, 2007). Engagement with multiple stakeholders also affects the firm's level of innovativeness (Ayuso, Ángel Rodríguez, García-Castro, & Ángel Ariño, 2011). Eccles and Serafeim (2014) postulate that companies need IR in order to make sure that they have appropriate forms of stakeholder engagement. However, the IR framework is not distinctly stakeholder-oriented (Steyn, 2014).

Managers of South African-listed companies are more motivated by the legitimising aspect of advancing their corporate reputation and satisfying broader stakeholder requirements when compiling the integrated report than satisfying purely investor needs (Steyn, 2014). This indicates that IR can also be used as a vehicle for managing a broader stakeholder group, rather than just investors. Addressing individual stakeholders separately is expensive and requires lots of time.

On the other hand, all stakeholders are working to achieve the same goal: better results. However, since South African-listed companies had reported substantial benefits both in terms of improved trust relationships with stakeholders and more meaningful engagement with stakeholders (Steyn, 2014), the interviewees of sample companies had the same expectations.

As IR emphasises the importance of ongoing positive relationships with the organisation's key stakeholders (IIRC, 2013e), the interviewees expected to introduce a holistic approach to the treatment of stakeholders. To support that process, they planned to: provide better clarity to stakeholders; address all stakeholder requirements in an overall/integrated way; and totally satisfy all stakeholders. By means of these activities, the interviewees anticipated that they would be able to improve their companies' image and brand value. Therefore, the holistic approach towards all stakeholders is under the influence of IIRC coercive pressure.

6.4.3.2 Create an integrated culture

The interviewees expected integrated culture and integrated thinking to be important pillars supporting the successful adoption of IR:

We wanted to build an integrated culture into the processes of the company. That is central to my understanding. If you don't do it and if you start reporting without it, I don't know how it will be successful (Interviewee B M05).

They believe that integrated thinking leads to integrated decision-making and actions. They expect that IR can help avoid silo thinking and support an integrated way of thinking:

At the beginning, we expected to see holistic thinking coming in rather than silo thinking. The data was always there with the finance department, but now this new culture has been created. It is helping us to break down these silos and let people think of themselves as part of a single organisation (Interviewee F M10).

Therefore, they take the view that simply reporting is not sufficient by itself. Every aspect of the business needs integration. An interviewee explains how an organisation can connect its core business with other aspects of its activities:

Our focus is not simply on the reporting. Our business should be integrated with every aspect of our operations. Otherwise, we can't report it. With this IR concept, we now see the importance of connecting our core business with all those other aspects (Interviewee I M01).

The interviewees also expected to build an integrated culture into their business processes. They wanted actual integrated thinking to come first and reporting to come second.

IR is only the tip of the iceberg (Churet & Eccles, 2014). It is the visible part of what is happening below the surface -namely “integrated thinking” and “integrated decision-making” (Churet & Eccles, 2014). The IR Framework identifies the importance of integrated thinking and its relationship to IR: “Integrated thinking is the active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects” (IIRC, 2013e, p. 2).

The interview results show that the interviewees expect IR will help break down silos and ensure integrated thinking. The IIRC also emphasises and encourages the importance of integrated thinking to integrated decision-making and actions within an organisation (IIRC, 2013e). Therefore, the expected benefit to ‘create an integrated culture’ seems to have been influenced by the IIRC’s coercive isomorphism. As a result of the overt institutionalization agenda being implemented by the IIRC (Higgins et al., 2014; Rowbottom & Locke, 2013), business organisations in some countries are influenced to adopt IR. This appears to have happened for the Sri Lankan sample companies.

The more integrated thinking is embedded in the business, the more likely the companies can expect that a fuller consideration of key stakeholders’ legitimate needs and interests is incorporated as an ordinary part of conducting business (IIRC, 2013e). Again, the companies appear to be influenced to adopt IR through the expected benefits presented by IIRC. Therefore, the expected benefit of an integrated corporate culture can be seen as the IIRC using coercive isomorphism.

Companies need to recognise, up front, that IR is not just about producing an integrated report. Rather, it is about developing an effective integrated management and reporting process for the business concerned. This typically requires a zero-

base, innovative approach that involves all disciplines within the business and effective engagement with stakeholders (KPMG, 2011a). If companies adopt a zero-based approach, they can expect to achieve most of the benefits expected. Whether these benefits are subsequently achieved will be discussed in Chapter 10.

6.5 Conclusion

All three types of isomorphic forces are observed to have collectively influenced the IR adoption decision of the sample companies. The interviewees of sample companies demonstrated experiences of coercive isomorphism stemming from pressures from the IIRC, IR-supporting organisations and shareholders. The interviewees also appear to be pressured by mimetic isomorphism from competitors and other organisations who had already adopted IR. Since the interviewees considered IR as the best practice for non-financial reporting, they felt pressured to adopt it. The findings from the Sri Lankan interviewees' IR adoption accord with the findings of de Villiers and Alexander (2014), in that all three forces are observed to collectively influence the adoption of IR.

CASL and the four large accounting firms in Sri Lanka all exerted normative isomorphism pressure on the sample companies to adopt IR. CASL, acting as both the accounting and auditing standard setter, the reporting regulator, and the issuer of practicing certificates to all audit-listed companies throughout the country, had a huge influence on Sri Lankan companies in persuading them to adopt IR. CASL utilised activities such as issuing guidelines on how to prepare IARs, offering special awards for IARs, and conducting workshops and roundtable discussions to promote IR among the business organisations. Annual report design organisations in Sri Lanka provide services to companies, also are a source of pressure on Sri Lankan companies to adopt IR, by way of normative isomorphism. The role of these organisations as an agent of normative isomorphism has not been identified or discussed in existing literature.

One clear case of institutional entrepreneurship was identified. The institutional entrepreneur had the required skills and resources to make the change. This organisation produced its first IAR even before the IIRC introduced the consultation

draft of the international IR Framework. The adoption of IR due to institutional entrepreneurship is not discussed in the existing IR literature.

Existing research literature is unclear why corporations adopt IR (Jensen & Berg, 2012; Stubbs & Higgins, 2014). This study provides empirical evidence to fill this knowledge gap. Further, this research contributes two new findings to the IR literature:

- The normative isomorphic pressure from annual report design organisations; and
- The presence of an institutional entrepreneur in IR adoption.

It appears that the interviewees of sample companies desired to reap the benefits, promoted principally by the IIRC and CASL, following their adoption of IR. Overall, the IR adoption decision can be seen to have been motivated by the expectation of several benefits. Almost all these benefits appear to have been used as tools of the three types of institutional isomorphism - coercive, mimetic and normative.

CHAPTER 07

IR IMPLEMENTATION CHALLENGES

7.1 Introduction

This chapter addresses the research question: What challenges are faced by Sri Lankan PLCs during their initial IR implementation? It investigates the IR implementation challenges as perceived by the interviewees of the sample companies. It outlines and discusses several challenges that impede successful implementation of IR. One company in the sample produced its first integrated annual report (IAR) for the financial year 2010/2011. Another of the sample companies produced its first IAR for the year 2015/2016. Thus, the challenges faced by most of the interviewees are relatively recent.

Three broad categories of challenges that the interviewees faced during their initial period of IR adoption relate to: the IIRC guidelines (Section 7.2); experience as IAR preparers (Section 7.3); and company internal processes (Section 7.4). Section 7.5 concludes the chapter.

7.2 Challenges posed by the IIRC guidelines

Early adopters of IR are expected to have diverse and widespread views of the challenges involved (Steyn, 2014). According to Lodhia (Lodhia, 2015, p. 597), “IR is a complex process involving a sequence of activities rather than merely an outcome in the form of an integrated report” and for an effective integrated report “organisations need to consider the entirety of business operations” by being “clear about their teleoaffective structures”.

Several challenges were faced by the interviewees during the IR initiation period because of difficulties following the IIRC framework (the Framework) and its components. Six challenges are identified from the analysis of the interview transcripts. These challenges are inadequate guidelines (Section. 7.2.1), confusion about the different types of capital (Section. 7.2.2), lack of understanding about the IIRC framework and its requirements (Section 7.2.3), the Business Model concept (Section 7.2.4), making connectivity (Section 7.2.5), and the production of a concise IAR (Section 7.2.6).

7.2.1 Inadequate IIRC Framework Guidelines

The interviewees do not feel that the guidelines provided by IIRC are adequate for early IR adopters. They experience a vacuum in introduction caused by the non-availability of a standardised way of reporting.

Our main issue in IR was non-availability of standardized way of reporting. Deciding how the report should be structured was an issue because there was no particular structure, it was not decided at that time (Interviewee C M03).

Some of the interviewees began IR in 2010/11, but the draft consultation document of the International IR Framework only became available in April 2013. They indicated that no detailed guidelines were available from the IIRC. Preparing IARs by following the Framework was a challenging task, especially for early adopters.

Some interviewees were not happy about the guidelines and the way the IIRC issued those guidelines. They felt that there was no clear direction on how to prepare IARs:

We didn't see any proper guidelines, or we didn't see any frequently used definition for IR because all the people (including CASL) engaged in the IR are doing is they are just giving the guidelines, 'this is how you should do' (Interviewee B M06).

The interviewees wanted to train their employees. However, they pointed out that training on IR was not available in Sri Lanka:

We prefer going for training on IR but it's not very much available in Sri Lanka. That training requirement is definitely there because we need our people to be trained. We now do self-study and train but even we like to learn more but it's not available here (Interviewee G M01).

The non-availability of sector-specific guidelines was also an issue for some. They stated the IIRC general guidelines for all sectors were not very helpful:

IR guidelines are more general, not specified for the businesses. We are in the finance business. There are no specific IR guidelines for finance business (Interviewee B M01).

The interviewees were not happy with the initial guidelines that were available. Significantly, they encountered several difficulties due to a lack of a standardized method of reporting, lack of international IR reports for benchmarking, lack of sector-specific guidelines and lack of available IR training. The interviewees faced

difficulties in identifying different processes and components with regards to guiding principles and content elements as well as how to structure the IR reports.

Implementation of a new concept for the first time is not easy. IR implementation was made more difficult because of inadequate guidelines. The interviewees commented that there were no adequate guidelines for early IR adopters. They faced difficulties in structuring the reports, i.e. identifying different processes and components of the business model in a way that presents the value creation story to the reader in an understandable way. This lack of adequate guidelines may negatively affect the quality of IARs and could slow the adoption of IR among other companies in the country. The finding supports Stubbs and Higgins (2014) view that a lack of rules and standards may be inhibiting the more widespread adoption of IR.

ACCA (2017) comments that measuring and quantifying inputs, outputs, and outcomes in a meaningful way is a challenge. Some of the sample companies began IR when little information was available about how to prepare an integrated report – other than the consultation draft of the International IR Framework. The findings from this Sri Lankan study are similar to South African companies' experience with IR (Steyn, 2014). Also, consistent with the findings of Wild and van Staden (2013), this Sri Lankan research confirms that in the absence of relevant IR standards and without mandatory requirements for assurance of non-financial information, there is a wide range in the type and quality of information and reporting forms of IR presentation by the sample companies. This suggests that the sample companies as early adopters of IR in Sri Lanka did not achieve a standard of reporting expected by the IIRC. Integrating financial, social, and environmental information into a single report for stakeholders in a format that is concise, clearly expressed, consistent and comparable during the initial years of implementation is a huge challenge, especially without adequate guidelines. This creates significant comparability issues for the readers of IARs and raises the question whether the format provided is useful and credible.

7.2.2 Types of capital

During the IR implementation period, most of the interviewees were unaware of how to recognise and report different types of capital relating to manufactured, intellectual, human, social and relationship, and natural capital. The interviewees struggled to identify the relevant types of capital in their companies. Some of the interviewees were very confused about the different types of capital:

We confused with what are the capitals that we are going to report and whether the information that we have provided and the strategic intent was sufficient (Interviewee B M02).

We actually found difficulty when it came to the types of capitals. So, the very first challenge was to identify what are the perfect capitals for our organisation (Interviewee B M06).

Importantly, interviewees were also uncertain how to make links to other components in the IARs or the appropriate placement of the information:

As a bank, we had an issue with manufactured and intellectual capital. If you take our report, we did not report on that. If you take a manufacturing organisation, you know what is your manufactured capital, but in terms of a bank how we are going to put it? (Interviewee G M01).

Furthermore, the various IR requirements added to the challenge:

Under IR, we didn't know how to report our subsidiary reviews. As a Group, we have to do it. Earlier we had a section for subsidiary reviews but now under these six capitals where are we going to report subsidiary reviews. The other issue was our compliance, corporate governance section because we are governed by three different rules: SEC rules, Code of ethics and Finance directions. We didn't know where to report, under IR category. Earlier in our reports, we reported our support services like internal audit, IT, RME documentation. But we didn't know where to report under IR (Interviewee I M02).

Even after implementing IR, some interviewees were initially reluctant to deviate from their traditional way of reporting to disclose the six different types of capital required by the IIRC. A clear concern of interviewees was that they were anxious about whether readers/users of their annual reports would understand and accept this new form of integrated reporting.

IR requires us to be more focused on the capitals concept. Initially, we were a little bit reluctant to follow this capital concept and deviate from our standard method of reporting. Even though we shifted to IR concept, we were little reluctant to change that mind because we thought Sri Lankan people still used to their old style, because of that thing we were reluctant to follow that (Interviewee I M01).

Reporting on the different types of capital during the initial period was unsuccessful due to confusion about, and inadequate knowledge and understanding of, IR concepts. The interviewees felt that the IARs preparers needed to have a better grasp about the use and impact of different types of capitals in their companies. The guidance from the IIRC was therefore perceived by the interviewees to be inadequate.

IR aims to enhance accountability and stewardship for the various types of capital and to promote understanding about their interdependencies (IIRC, 2013e). McNally et al.'s (2017) study found that not only did South African-based organisations not know what to include under each type of capital, the organisations could not interconnect the capitals or link them.

This Sri Lankan study reveals that the interviewees wanted to explain the different types of capital, to demonstrate how they are interconnected, and to link them to the strategy as expected by the IIRC. However, similar to McNally et al.'s (2017) findings, they experienced confusion and a lack of confidence due to their inadequate knowledge of the various concepts of capital under IR. They had not experienced reporting on multiple types of capitals, although they had reported some information on human capital prior to the adoption of IR.

7.2.3 Framework interpretation

The IIRC expects IR practicing organisations to apply the IIRC framework to produce their integrated reports (IIRC, 2013e). Guiding principles and content elements of the IR framework govern the overall content of an integrated report (IIRC, 2011). It is expected that IR brings together material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates (IIRC, 2011).

Most of the interviewees were unsure of the meaning of IR and its related disclosure requirements. The interviewees had difficulties in understanding the IR framework, its requirements and how to implement it:

The difficult part was understanding the IR framework. There was no training or nothing of that offered (Interviewee D M01).

In the IR framework, we didn't have any clear guidelines. If it is material then you'll have to report but other than that how to identify the materiality, what to report, what not to report, we don't have any idea. That was the major challenge we faced (Interviewee I M02).

Due to the lack of clarity of the IIRC guidelines, some of the interviewees referred to integrated reports produced by companies in other countries to identify what might be the requirements of an integrated report:

By just looking at the IIRC guidelines, it was difficult to identify the real requirements. From reading outside reports only we were able to identify them, what were the real requirements (Interviewee I E04).

The key challenges we had were how to define the IIRC guidelines. To mitigate the risk, we have gone through certain annual reports and did it with the way that they have done but initially, the key challenge was to understand and implement it (Interviewee B M02).

The interviewees encountered several challenges during IR implementation. They considered that there should be more information and involvement from the IIRC to clarify IR concepts, so that IR could be used not only as a reporting tool, but also as a tool to improve organisational processes and performance:

I think there should have been more involvement from the IIRC to pass down the knowledge, not only as a reporting concept but to the business field what would be the importance of this particular framework (Interviewee L M01).

The interviewees' main concern was the difficulties that they encountered in understanding and reporting the concepts and requirements of the IR framework. They had to review integrated reports produced by companies in other countries to provide guidance on how to prepare their own integrated reports.

As found in King's (2016) study, there were difficulties in interpreting and applying a principles-based IIRC Framework in a relatively limited timeframe. This time pressure added to the challenge of preparing high quality integrated reports. Sri Lankan early IR implementers also experienced several practical challenges. Many of these challenges were related to the principle-based nature of the IIRC Framework which allowed for a lot of interpretation on how the integrated reports were to be prepared. The challenges experienced by the interviewees appeared to cause employee frustration and low quality IARs. This issue may be a factor for the slow adoption of IR among other companies in Sri Lanka.

7.2.4 Business Model

Dealing with the business model and different processes was difficult for some of the interviewees. The presentation of a business model (which is seen as the core of IR in terms of making the company's value creation process explicit and understandable) to readers was difficult:

Identifying different processes and different components of the business model was a challenge. At that time, there was nothing for IR and then only we could find a few reports on the web. Even internationally, there were no many reports to follow, to benchmark (Interviewee I E04)

It was a challenge to develop the business model in a meaningful manner to communicate our value creation (Interviewee I E02).

The interviewees reported difficulties in structuring the reports and identifying the different processes and components of the business model to represent the value creation stories of their companies to readers in an understandable way. This finding is supported by Silvestri et al. (2017) who observed, based on the Italian Casillo Group, that the company faced difficulties in structuring the reports and in identifying different processes and components of the business model. Further, the study found that it was difficult for the company to make its value creation processes explicit and understandable, both owing to the lack of capability of the managers in preparing the integrated report and the stakeholders' ability to understand its content. These difficulties were also mentioned by the interviewees in this study.

7.2.5 Making connectivity

IR has a combined emphasis on conciseness, strategic focus and future orientation, the connectivity of information and the capitals and their interdependencies (IIRC, 2013e). The interviewees struggled to make meaningful connections between the different components of their IARs.

The issue was identifying the correct inputs and outputs and connectivity under each capital; we never thought that we are doing that in the practical scenario. The perception that we are having on the input maybe not directly linked with the output (Interviewee B M06).

We had a very difficult time to maintain the flow of our report due to less clearness of integrated reporting framework (Interviewee A M02).

Further, it was difficult for the interviewees to consolidate data received from several sources:

Consolidating data from multiple sources was usually a challenge which we are still facing (Interviewee F M013).

According to the interviewees, integration of financial, environmental and social aspects is not an easy task without appropriate knowledge or experience. They pointed out that available IR guidelines were inadequate for this purpose. The interviewees also had challenges in connecting non-financial indicators and financial results:

We did not have any idea about how to integrate the three: the financial, environment and the social part. That was the major challenge for us. No one was having a proper guideline on the integrated annual report. We didn't know how we are going to integrate these two financial and non-financial aspects. One reason was the lack of knowledge (Interviewee B M06).

The challenge was to have the connectivity of financial information and non-financial. All focussing highly on financials and kind of targets and all. It was a little difficult for us to have that connectivity (Interviewee I M01).

Making a clear connectivity among different components of the IARs is important to give the reader a good understanding of the organisation. ACCA (2017) states that connectivity is more than producing a report and drawing lines between things; it is about building understanding about each aspect of the business. Furthermore, integration of financial, environmental and social aspects is not an easy task without

proper knowledge. Silvestri et al. (2017) found their case study company faced difficulty in integrating financial information derived from traditional financial reporting with non-financial information. One could argue that the available guidelines were inadequate for the purpose because IIRC IR Business Network Participant Solvay S.A. also experienced difficulty in achieving connectivity between non-financial indicators and financial results (ACCA, 2017). The interviewees of the sample Sri Lankan companies also experienced connectivity challenges with their integrated reports.

7.2.6 Concise reporting

One of the IR guiding principles is conciseness and that an integrated report should be concise (IIRC, 2013e). However, the interviewees faced challenges in designing and producing a concise report, especially during the initial implementation periods:

The difficulty was to come up with a concise report, especially during the initiation. That was the challenge (Interviewee B M04).

Interviewees indicated that instead of concise reports, the size of the reports actually increased:

With the integrated reporting framework, the number of pages in the report has to reduce. However, it has increased (Interviewee F M04).

The interviewees consider that producing a concise report is a challenge when all the requirements of the IIRC Framework are applied:

The challenge was maintaining the conciseness adhering to all these requirements. We have to streamline our processes more to completely adhere to the guidelines prescribed in IR (Interviewee I M01).

The interviewees indicated that their competitors released a lot of information through annual reports. As a result, they were unsure which information to remove and which to include in the IARs. They also noted difficulties in determining materiality levels, especially for non-financial information. While the interviewees wanted to follow GRI and IR guidelines, all these challenges caused an increase in the size of the IARs:

We have to produce a concise report and we did not know what to eliminate and what to report. We can't eliminate all the information because our competitors had a lot of information in their reports. Because of that, we did not eliminate a lot of information and we tried to comply with both IR and GRI guidelines. That was the major issue we faced at the implementation (Interviewee I M02).

The interviewees encountered difficulties during the IR implementation period in producing a concise report. In most cases, they indicate that the number of pages of the IAR increased when compared to traditional reports. An integrated report should be concise (IIRC, 2013e). Many participants in the IIRC IR Business Network find conciseness difficult as they try to provide sufficient context to help readers understand the organisation's value-creation process and performance (ACCA, 2017). The IIRC pilot programme participant, 'SASOL' Company explains: "it is a challenge to explain the business succinctly and simply, given Sasol's complex operations in diverse industries operating globally" (IIRC, 2013c, p. 38).

Many participants in the IIRC IR Business Network also found conciseness difficult when they attempted to provide sufficient context to help readers understand the organisation's value-creation process and performance (ACCA, 2017). The IIRC IR Business Network participant, 'PTT Global Chemical Public Company Limited,' describes the challenge they faced, "the Framework is quite detailed, and this can make it hard for companies to produce concise reports that investors can read and understand" (ACCA, 2017, p. 26).

Also, the sample companies tend to disclose more information when their competitors disclose more information, which unfavorably affects conciseness. All these factors tend to increase the size of an IAR. In some companies, due to a lack of understanding of materiality determination of non-financial information, non-important information is also included in the IARs, increasing their size. The increasing size of the Integrated Annual Reports goes against the concept of conciseness and could reduce the readers' ability to make informed decisions. The findings imply that IR adoption does not stimulate 'new innovations in disclosure mechanisms' (Stubbs & Higgins, 2014), during the initial periods, in a way that can help to create concise reports. This suggests that the materiality determination

process for non-financial information of the sample companies is not functioning properly and therefore, adequate guidelines, training, and feedback are needed.

7.3 Challenges posed to interviewees as IAR preparers

Challenges for interviewees derived from: inadequate knowledge and expertise (Section 7.3.1), inadequate understanding and training (Section 7.3.2), the need to change employee's mind-sets and a reluctance to change (Section 7.3.3), increased workload burden for employees (Section 7.3.4), and obtaining the support of top management (Section 7.3.5).

7.3.1 Inadequate knowledge and expertise

Lack of knowledge and expertise about IR was one of the main obstacles encountered by the interviewees during the implementation phase. The knowledge interviewees had about IR was limited. The interviewees faced significant challenges during the implementation phase due to a lack of knowledge:

This was an especially very challenging concept to the company to implement because of the main reason lack of knowledge about this area. Without knowing that correctly, I don't think we can smoothly implement this to any company in Sri Lanka. The main challenge was this is a very new concept initially. We had to do our own research on IR (Interviewee A M01).

The lack of expertise, lack of adequate resources, and non-availability of a contact person from the IIRC or CASL to get clarification, hindered the successful preparation of IARs during the implementation period:

One difficulty was the lack of expertise. Of course, at that time there were not enough reading materials around. There was no person for us to talk to and get information. Lack of expertise was one major weakness and lack of resources to get information was another difficulty that we faced (Interviewee D E02).

Inadequate knowledge and a lack of training forced the companies to implement IR through trial and error:

I could see the team found it a bit difficult at first because we were not exposed to it before. We did not have any formal training. So, it was an exercise by trial and error. It was very much an exercise of trial and error at the beginning (Interviewee F M06).

Interviewees indicated that many things did not seem to be right, clear or easy, due to inadequate knowledge, during the initial phases of implementation. They criticised that there were no institutions providing training. The perusal of the IIRC guidelines had to be made alone, without support. The interviewees expressed the view that their IR understanding was insufficient:

In the first report, we have not got everything right because we did not have proper training in Sri Lanka. We don't have a body to train us because Chartered Institute also does not have any training programmes or training methods or materials. We just downloaded the IIRC guidelines and we read it and understood what was there. We did not understand everything because practically no one is known, don't have a person to guide us who have done it in the past. So, we read it ourselves and we grab whatever the things in our capacity to grab and we report it. We reported whatever the things we are confident since we don't have a party to get information and resource person (Interviewee I E01).

Some of the interviewees re-arranged existing non-financial information into an acceptable flow. But there exists a sense that re-arranging flow was not what was intended by IR:

When it came to the preparation of this report, there was no proper guidance for Sri Lankan companies as to how IR should be done. So actually, during the first year, most of the companies ... what we did was we re-arranged the same thing, the non-financial information to some extent to a nicer flow. That was the thing that we did. Actually, that was a problem faced by all the companies in Sri Lanka (Interviewee J M02).

The interviewees were challenged by a lack of knowledge and expertise during implementation. They explained that there were no adequate reading materials or a contact person, adequate training, or proper and adequate guidelines. They argued that all of these things could impact upon the quality of reporting and lessen the chance of meeting the objectives of IR expected by the IIRC.

The literature suggested confusion about what IR means could present a barrier to IR adoption (Dumay et al., 2017). The organisations that have adopted IR are grappling with how best to implement it within their organisations (Stubbs &

Higgins, 2014). These views were reflected in this study. The interviewees had significant challenges arising from the lack of sector-specific guidelines. They stated that the IIRC has issued only one set of general guidelines for use by all the sectors. If sector-specific guidelines were available, it would have been easier for organisations to design IARs by considering the industry or the business sector. This finding should be a seriously considered by the IIRC if it wishes to see more companies adopt IR. The interviewees of sample banks do not consider the general guidelines as being particularly relevant or adequate for their purposes. They argued that sector-specific guidelines could encourage disclosure of specific information which is more relevant to the sector to which the company belongs.

Some of the interviewees were confused about IR and IIRC guidelines. A clear understanding of the IR concept is a prerequisite for successful implementation, but “IR becomes so overly complex that nobody can understand it” (Lodhia, 2015, p. 594). In the absence of adequate knowledge and proper training, interviewees use trial and error, which led to poor quality reporting. The interviewees felt that many mistakes were made during the initial phases, due to their inadequate knowledge. They commented that without training and experience in IR, they lacked confidence that their understanding of the IIRC guidelines was adequate to prepare quality IARs.

7.3.2 Inadequate IR understanding and training

During the initial years of IR implementation, interviewees from the sample companies did not have a clear understanding of IR and that lack of understanding became a barrier to successful implementation:

In the first year, I don't think anyone had a clear idea about what is integrated reporting (Interviewee J M02).

It was a difficult task during the first year because people were not aware of IR (G M01).

Sometimes, IR required extra time and effort to explain the concept to other employees:

We need to convey that message to our lower level employees. So, sometimes when we tell employees you need to do today this thing but they can't understand what we are talking about. So, we need to tell this strategy in a simple way which the other employees also can understand. So, that was another challenge (Interviewee A M01).

The findings indicate that finance department staff in the sample companies had some understanding of IR but that members of other departments (non-finance) did not:

We were looking at IR and the awareness among the staff members other than the finance was not that much (Interviewee F M05).

When we started IR, the biggest challenge was to make employees aware of what is IR. Finance team knows what is IR but when we work together with other departments, other units to get their cooperation for the IR it was a challenge because we have to explain everything (Interviewee G M01).

The sample companies wanted to provide IR education to their employees. However, they encountered several problems as there was a lack of educational resources, training, and experts on IR:

The problem we had was educating or making employees aware of IR. No training or educational resources was available. (Interviewee A M04).

IR emphasizes the importance of integrated thinking within organisations. Integrated thinking leads to integrated decision-making and actions (IIRC, 2013e). McNally et al. (2017) find that a shared understanding of the purpose of the integrated report is lacking and the relevance of the new report format is questioned. This inadequate knowledge of IR was found in the Sri Lankan study. Some of the interviewees expressed confusion about IR and IIRC guidelines.

An important outcome of IR is “integrated thinking”, which is the active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects (IIRC, 2013e). The IIRC IR Business Network participants recognise that integrated reports businesses produce are the manifestation of their internal integrated thinking and management (ACCA, 2017). Integrated thinking emphasises the importance of understanding and involvement of the employees in IR of an organisation. However, this outcome was found to be lacking in the sample companies.

The interviewees had difficulties in understanding and reporting the concepts and requirements of the IR framework. Further, integration of financial information derived from traditional financial reporting with non-financial information (Silvestri et al., 2017) was a difficult task for the interviewees. To overcome the issues, they referred to integrated reports produced in other countries. Some interviewees expect more involvement from the IIRC. However, a sound understanding of the IR framework and its requirements is important to achieve the aims of producing an integrated report.

The lack of a contact person to talk to or to get information from about the issues during IR implementation was a significant concern. This is an important aspect for the IIRC and CASL to consider. They should appoint a contact person who can work with the companies and discuss difficulties faced by novices during the initial period of implementation. This could be a powerful way to influence and to accelerate the diffusion of IR among not just the Sri Lankan companies, but globally.

The consequences of lack of employee understanding resulted in issues with gathering relevant information, poor links between financial and non-financial information, and a reduction in the quality of the Integrated Annual Reports. With the lack of understanding and participation, it is doubtful that the anticipated objectives by the IIRC can be achieved, i.e. where integrated thinking leads to integrated decision-making and actions (IIRC, 2013e).

7.3.3 Mind-set and change reluctance

Employee willingness is an essential requirement for the successful implementation of a new system. However, employees sometimes do not support new systems, causing implementation difficulties. Some employees in the sample companies did not want to adopt IR in their organisation. Some employees believed IR to be just another form of reporting and a waste of time; they did not want to implement it:

There were employees who didn't want to do it sort of a mind-set (Interviewee B M05).

I don't think employees understood the advantages of doing an integrated report (Interviewee A M03).

Employees have not taken it as a good thing because they have just said why are we wasting our time in doing this, it's just reporting (Interviewee D E03).

The integrated reports businesses produce are the manifestation of their internal integrated thinking and management. Silo thinking which leads to segmented actions restricts the benefits that an organisation can enjoy by introducing IR. It was found that segmental behavior made it challenging for some of the sample companies to come up with a cohesive effort and timely delivery of the report. Interviewees noted that silo thinking made IR implementation difficult:

We had a kind of "this is my part and I will do my part to the best of my ability" thinking pattern when it comes to the preparation of the annual reports. It was in segmental basis that we were doing various parts. When it comes to IR we have to forget about it as my part but this is our report. So that was the main shift. As long as we have that proper mindset, it won't be a problem. Earlier it was very difficult to come to a cohesive effort and finally delivering the report on time (Interviewee F M07).

Changing the mindset of employees was also found to be difficult because the IR concept was new:

The first thing was changing the mind-set of the people those who were doing IR. That was the main thing rather than the top management or the other departments or stakeholders. So, in the initial stage, we just focussed on that, changing the mind-set of our people. It was difficult because we did something else and we are now trying to do a completely different thing (Interviewee I E01).

Interviewees argued that the finance department alone could not implement IR successfully. They also claimed that changing mindsets and obtaining support was not easy since reporting was not any other departments' (non-finance) major responsibility:

IR was a difficult thing because it needs the support of lots of people. Only the Finance Department cannot do this. Changing minds is one of the more difficult things because this reporting may not be their main thing. We needed to change their minds a lot, however, that took some time (Interviewee I M01).

Initially, employees of the most of the sample companies resisted IR implementation. Interviewees indicated that influencing those employees was the biggest challenge. Some departments were opposed to the concept of IR. Significantly, some of the sample companies had to use authority to enforce changes.

Making the change, influencing the people was the challenge; the biggest challenge. Initially, people resisted. Certain departments were not so positive about it. They wanted to follow the same old thing. We would not have done it unless we didn't have the real authority given by the top level people. With the top management blessings only we were able to change it. We had to enforce, we had to use authority. Unless otherwise we really force them people don't change (Interviewee B M05).

Integrated reporting necessitates management responsibility throughout the company (ACCA, 2011a). This did not happen with all the sampled companies. Higher management involvement was crucial during implementation, especially to obtain the commitment of employees from non-finance departments.

7.3.4 Perceived increased work burden for employees

It was found that employees considered IR a burden as they perceived that it increased their workload. This implies that the likelihood of successfully implementing IR will be reduced. Before implementing IR, different sections of the annual report (e.g. CSR, sustainability) were prepared by different divisions. With the introduction of IR, the entire responsibility for IR in the Sri Lankan sample PLCs rested with the finance division.

Before IR, the work was broken down into departments. The CSR part was done by Marketing. Finance Department was only doing the financial section. Operations did Life Section. That was how they have done it but now with the IR since they don't know what really this framework is now it has become the responsibility of the finance department. Also, we have to do it with our day-to-day work and we have to take the responsibility of that. This has become a burden because getting information and all has become the most difficult thing as far as I feel (Interviewee A E01).

IR in an organisation should be a continuous process throughout the year (IIRC, 2013e). Interviewees also believe that it should not be a year-end task. Performing IR tasks while engaging in regular work increases workload and could lead to a decrease in productivity and reduced innovativeness. It would appear that IR has become a burden for employees:

IR in an organisation should be a continuous process. I think if there is a separate group of people to continue this throughout the year, it will be easy for them, it will be easy for the company as well to report. Here what happens is we are doing our day to day work in the Finance Department and as an additional thing, we have to do this integrated annual report also. It's a burden for us (Interviewee A E02).

I'm fed up because we do a lot of daily work other than reporting. If the job is only for reporting, stuff may be interesting and you can research and do it properly. Now the thing is we engage in a lot of daily work and at the end of the year when the annual report comes we start working on it. So, it's kind of a burden now for me personally (Interviewee A M03).

The interviewees were of the view that the appointment of a dedicated and separate team for IR could avoid the process becoming a burden for employees. They maintained that employees have day-to-day responsibilities, and managing them with additional IR reporting work is challenging:

There is no dedicated team for IR. We have to do our day to day own work and other operations. The other team members, they also have some other day-to-day operational functions to live in this organisation. With that, they need to find some time to learn IR and thinking about the strategies everything, they need to manage that. So, time management also matters. So, a key challenge was the time management (Interviewee B M01).

Furthermore, interviewees noted that once their organisation won awards for their IARs, they felt compelled to retain the award. They argued that this goal requires continuous improvements and placed further pressures on employees:

The recognition, compliance and all this and then IR gives more responsibility to us because when you win an international award, you win a local award you are compelled to retain that, so it's about continuous improvement. You have to continuously drive it. We are keeping on driving and looking for improvements, value additions, and awards. All increase our obligations (Interviewee B M02).

IR has a combined emphasis on conciseness, strategic focus and future orientation, the connectivity of information and the capitals and their interdependencies (IIRC, 2013e). This obviously adds more tasks and responsibilities to employees involved in such reporting functions. Therefore, IR practicing organisations need to think about: employing additional employees to work on IR, appointing a separate team for IR, and re-scheduling employees' jobs without making the IR a burden for them. Only then will the organisations be able to achieve the aims of IR as expected by the IIRC.

7.3.5 Top management support

The literature identifies top management support as a critical factor for the successful implementation of an Enterprise Resource Planning (ERP) system for an organisation (Fui-Hoon Nah et al., 2001). The successful implementation of any new system in an organisation requires the support of top management. Holland et al. (1999) argue that senior management must be committed to being involved and willing to allocate valuable resources to the implementation of an Enterprise Resource Plan. In a similar way, the sampled companies perceive that IR implementation requires commitment and involvement of top management.

The interviewees encountered difficulties convincing top management to support the IR concept during the initiation period. Interviewees argued that the support of top management is essential for successful IR implementation because resource allocation for the new concept, communication among the divisions of the company, and obtaining the support of the employees at all the levels, depends on the support of top management. A significant challenge therefore was convincing the top management of the sample companies of the value and importance of IR:

The main challenge was to convey this message to the top management, the value of the IR and how this concept is important to the company (Interviewee A M01).

Interviewees explained that management focussed on the appearance of the report and not the content. Therefore, the interviewees experienced difficulties in explaining the different features of IR:

It was very difficult for us to explain to top management why IR is better than the previous one. They were not bothered about the content of the report, rather they were concerned about the appearance, the look, and feel of the report (Interviewee D E02).

It was also indicated that the top management of some of the sample companies were only concerned about the results, especially the financial results, and not the way the results were presented to stakeholders.

The CEO and top management of the organisation want the result and it does not, sometimes, matter how it's presented. They want actual results. Acknowledging them was a difficult task in the organisation (Interviewee I E03).

It was also found that a lack of knowledge of IR among the members of the top management team made the implementation more challenging. An interviewee explained how the lack of awareness among top management became an obstacle:

At that time, top management didn't have any idea about IR. So, there is nothing to discuss with them because they didn't know anything about IR (Interviewee I M02).

The interviewees acknowledged that convincing the top management of the importance of IR was one of the challenges during IR implementation in their companies. The top management of the sample companies did not possess adequate knowledge about IR. Some of the interviewees commented that top management did not bother about the content of the reports and the way the company disclosed its story to the stakeholders. For these reasons, the interviewees ran into several barriers in trying to convey the value and importance of IR. They encountered difficulties in explaining to their top management, during the initiation period, why IR is superior to traditional reporting. Interviewees emphasised that IR implementation required support, commitment and involvement of top management, but they had significant issues obtaining support.

Like any new system in an organisation, the successful implementation of IR requires commitment and involvement of top management, including a willingness to allocate required resources. This is important because obtaining the support of all levels of employees and communication among the divisions depends on the support of top management. The interviewees of sample companies encountered difficulties in convincing top management to adopt IR. Managers were often unaware of the IR concept and importance of it. The people who are involved in the initiation of IR should, as an early step, make top management aware of the concept and its importance. A suggestion is that the IIRC or CASL in the Sri Lankan context could organise IR awareness programmes aiming at the higher-level managers of listed companies.

7.4 Company internal processes and mechanisms

Internal processes and mechanism challenges included: difficulty in obtaining information, lack of proper information systems (IS) and configuring the IS, silo thinking without proper communication among the business units, and lack of support from other divisions.

7.4.1 Information Access

The interviewees indicated that obtaining information for IARs was a challenge during the initial phases of implementation. IR provides a holistic picture of an organisation incorporating financial and non-financial information. Interviewees found that collecting financial and non-financial data presented several challenges:

The main challenge was on data gathering. We faced many difficulties due to data collection issues in reporting in initial years. Making the other departments to collect data on behalf of the finance department was the real challenge (Interviewee B M05).

The interviewees also faced difficulties in collecting quality and useful data:

The difficulty was having the information and useful data, getting quality data because you are going to publish it at the end of the day (Interviewee C M01).

Interviewees believed that IR requires more information than traditional reports, to provide a comprehensive picture of an organisation. Challenges arose in obtaining

the additional information needed to give a holistic picture during the initial phases of implementation:

It has been a bit difficult because if it is just a report you can get information from here and there and just put it in one place and produce a report but when it comes to IR, it has to give a very comprehensive picture of what's happening within the organisation. So, getting information has been a bit difficult at the earlier stages (Interviewee D E03).

It would appear that the interviewees faced immense difficulties during the IR implementation stage in gaining co-operation from other divisions to collect information. These difficulties included: obtaining useful and quality data; obtaining information to give a holistic picture; procedures to capture negative aspects, as well as trying to collect data throughout the year.

The literature indicates that there are challenges with internal processes when implementing IR. Determining, measuring and gathering data is identified as one of the key challenges to the successful implementation of integrated decision-making and reporting systems (Accounting-for-sustainability, 2012). An IIRC pilot programme participant, the South African Oil and Gas Company (SASOL) indicates that obtaining accurate, timely and complete input for the integrated report and effectively coordinating information from many functions across the business were the main challenges during the implementation period (IIRC, 2013c). It would appear from the interview findings that to gain adequate access to data, the sample companies needed a data capturing system ensuring accuracy and on-time delivery of information.

7.4.2 Inadequate information systems (IS)

A significant problem related to information systems and processes that were inadequate to supply reliable information for the sample companies during the implementation of IR. It was emphasised by interviewees that they experienced severe difficulties in obtaining data due to lack of suitable processes to capture the data:

We didn't have basically a very comprehensive data capturing process (Interviewee A M02).

Initial couple of years were a bit of hectic ones because data collection and all were not sufficient because our systems and processes were not there at the expected level. So initial years were of course very tough, a couple of years we were getting, for example, maybe the electricity consumption, the training hours, the external hours, the internal hours, all that was here and there. So we had to go through all the hard copies to identify how many hours we have done, everything we had to, it took so much of our time (Interviewee B M05).

We didn't have a proper mechanism for collecting data or identifying what matters to the company (Interviewee A M03).

The challenge we faced was tracking information at the initial stage because we did not have developed processes to capture every information to do the integrated reporting at first when we were doing the first report (Interviewee I M01).

The interviewees realised that it was difficult to obtain necessary information as processes were not developed to capture information. Some of the interviewees indicated that they did not plan to capture negative aspects of business operations. It appears that most companies attempted to collect data in a similar manner to traditional reporting, i.e. near the year-end. However, IR needs data to be collected throughout the year. An important finding was that the sample companies faced obstacles caused by inadequate information processes during the initiation of IR:

It could be positive or negative, we should be able to measure. The lacking point was we were not capturing them. That was the difficult part because first, you need to create awareness and you need to get their outcomes timely not at the end of the year, but throughout the year. That process has to be implemented (Interviewee K E01).

Further, the interviewees identified some issues related to the lack of systematic data collection processes and reliability of the available sources:

The key problem we had during the initial phase of implementation was the lack of proper systematic process of identifying certain information. When it comes to integrated reporting if we are providing certain information we need a reliable source for it (Interviewee B M02).

It was found that IR implementers faced a daunting task of developing appropriate information systems to support reporting content. This is perceived as a key challenge for companies moving to implement IR. Information systems in the

sample companies were not fully capable of providing the required information. Systems required some enhancements and that involved considerable time:

One of the challenges would be providing data to match the IR requirements. Sometimes the current systems might not be able to produce data for the new IR format. Matching data to the new requirements would take a while and would need some developments (Interviewee F M013).

The interviewees noted that the responsibility of IARs and data collection tended to rest with the finance department. They pointed out that the other departments focused on assigned targets and goals rather than exploring innovative ways of communicating the interconnections between different types of information needs. In this context, data collection systems were not always compatible and there were problems with interpreting information:

The real challenge was putting up the data gathering processes in place. The systems were not developed. So, Data gathering, gathering processes, making it a live process was the biggest challenge that we had. The other departments are not bothered because they have so many targets given to them on a daily basis, they have challenges there itself. So, making them collect data on behalf of us so that we can report was the real challenge (Interviewee B M05).

It was found that the sample companies started IR without adequate information systems. Consequently, they struggled with systems that were inadequate to capture data for an IAR. Some of the sample companies did not have a comprehensive data capturing process or proper mechanism for collecting data. Some sample companies had issues with the reliability of data. Further, the interviewees were not aware of the extent of the changes to information systems necessary to implement IR. While IR adoption necessarily implies “substantial changes to management information systems” (Steyn, 2014, p. 476), the sample companies were yet to modify their existing information systems.

According to Lodhia (2015), “IR is a complex process involving a sequence of activities rather than merely an outcome in the form of an integrated report” (p.597) and for an effective integrated report, “organisations need to consider the entirety of business operations” by being “clear about their teleoaffective structures” (ibid).

The information required to be disclosed in the integrated report is significantly different from the content of the historical annual report (Steyn, 2014). It results in data collection and reporting on factors that generally were not previously disclosed, and this could require costly adjustments to management information systems. IR requires different metrics and new methodologies to fill data gaps, which is a process that often takes time to develop (IIRC, 2013a, 2013b, 2013d, 2013e). Therefore, organisations need to explore innovative ways of communicating the interconnections between different types of information needs (McNally et al., 2017).

Steyn (2014) found that information systems and processes that are inadequate for supplying reliable information was a significant problem for South African listed companies during the implementation of IR. He found that South African IR implementers faced a daunting task of developing appropriate information systems to support reporting content and argued that the development of such systems should be considered a primary area of focus for companies moving towards IR. Changing internal processes relating to disclosure activities and internal decision-making are challenging (Dumay et al., 2017), especially during the implementation period.

The interviewees went through huge difficulties in trying to obtain data due to the lack of a proper process to capture the required data. Part of the problem is because the information required to be disclosed in the integrated report is significantly different from the content of the historical annual report (Steyn, 2014). He argued that organisations need proper systems to provide robust information where the accuracy of the data depends on the reliability of the data source. Therefore, development of appropriate information systems to support reporting content should be considered a primary area of focus for companies planning to generate an integrated report (Steyn, 2014).

Changing internal processes to disclose activities aimed at producing an IAR was a big challenge for the sample companies during those initial periods. From the findings it is suggested that implementers need to identify required changes and modifications to existing information systems and introduce those system changes before moving to IR.

7.4.3 Silo thinking

Active consideration by an organisation about the relationships between its various operating and functional units is important (IIRC, 2013e). Companies need to introduce suitable mechanisms to encourage the involvement of all the divisions in the company.

The sample companies went through tough periods of IR implementation due to inadequate communication amongst the business units. Consequently, the sample companies encountered numerous coordination issues during the initial implementation of IR:

Communication and coordination of everything for reporting purpose was a bit difficult task (Interviewee F M02).

Coordination issues were there because IR is a kind of a team effort. ... the stand-alone reporting is also a team effort but IR requires more team effort. So, we had that challenge when we first moved into IR (Interviewee F M01).

For some of the sample companies, most of the business units were not informed about the decision to implement IR. They were unaware of the IR implementation:

It was not really communicated to the other business units that we are going to this framework. It was not communicated that we are going to this new framework or this is how we are going to do it (Interviewee F M013).

Communication issues therefore arose due to a misunderstanding of the IR concept among different business units. Furthermore, connectivity was lacking, and the companies had difficulties in building IR understanding at each level of the business. Some units perceived IR as only for reporting purposes and could not see any value for the business. The resulting coordination issue is recognized by an interviewee:

Coordinating different units was a bit of a difficult task. Because they think this was only for reporting and this was not going to create any value for the organisation (Interviewee F M02).

The sample companies faced significant challenges due to silo thinking and lack of communication between divisions. Coordination of different business units was difficult during the initial period. The concept of IR was not really communicated to the business units. In some sample companies, misunderstanding of the IR

concept led to coordination issues, as insufficient communication existed across the business units.

Interviewees that work in conceptual silos rather than adopting integrated thinking also experienced a lack of linkage in reporting. This finding is supported by Robertson and Samy (2015) who write that organisations will need to change existing practices through greater cross-functional communication to facilitate the diffusion of IR. Chopra and Meindl (2007) explain that the silo effect is a lack of communication and common goals between departments in an organisation. It is evident that organisational structures and operations need to be aligned with strategic goals, and designed to enable integrated thinking (Lodhia, 2015). All these challenges were experienced by most of the interviewees.

IR needs a team effort, therefore, proper communication and coordination among different business units are important. It was found that a lack of awareness of the IR implementation decision by some of the business units and silo thinking creates doubt about the success of IR and quality of the IARs of the sample companies. Communication issues also arose due to a misunderstanding of the IR concept among different business units. Some employees perceived IR only as a reporting exercise and did not see how it could create any value for their unit or company.

7.4.4 Divisional support

All except one of the sample companies assigned responsibility for IARs to the finance division. Interviewees indicated that they experienced challenges in obtaining support from other divisions and departments. Some of the departments were not willing to support IR:

We have to get information and support from other divisions for IR. There was a question of willingness to support by the other departments (Interviewee D E02).

The difficult task was to guide other departments' employees telling the importance, how this is different from the previous reporting as well as to get the support from others (Interviewee H E03).

One interviewee recognised the problems resulting from considering IR as the work of a single department. It became an obstacle to the integrated thinking and IR:

The difficulty of obtaining the support of the other employees was there. They think that its finance department's work (Interviewee I E03).

Some divisions were reluctant to provide the expected support and information. It became difficult to obtain information from other divisions:

The other departments (non-finance) have to come with their value additions. For them, this is not the main area because this is not their core aspect but this is something that we (finance) focus. Getting information from them as per the needs of providing a better-integrated report was not an easy task (Interviewee B M03).

However, some interviewees commented on other divisions' negligence and lack of awareness of the real value of IR and the difficulty of getting them involved:

It was kind of only the Finance Department interest on it. Others didn't see the real value or outcome of IR. Convincing them took a bit of long time (Interviewee G M02).

Getting them understand and getting them involved were challenges during the implementation (Interviewee L M01).

Employees in other divisions (non-finance) of the most of sample companies were reported to be unaware of the real value or importance of IR. Therefore, obtaining their support was challenging. Some of the sample companies' interviewees stated that only the finance department was interested in IR. Other divisions perceive IR is just the responsibility of the finance division. Therefore, getting other divisions' support and engagement on IR was difficult. These factors greatly impact on the successful implementation of IR and final the quality of the first IARs. The interviewees emphasised that there was a lack of support from other divisions.

Like other examples in the literature, the sample companies embarked on their "integrated reporting journey" (King, 2016) without a fully developed accounting and sustainability management infrastructure (McNally et al., 2017). Rather than exploring innovative ways of communicating the interconnections between different types of information needs (McNally et al., 2017), different departments of the sample companies focused on their assigned targets and goals and gave little or no attention to IR. The responsibility of IARs and data collection was seen to rest with the finance departments. A shared understanding of the purpose of the IAR was also lacking in the sample companies and the relevance of the new report format was questioned, as reported in a study by McNally et al. (2017).

During implementation, the interviewees had trouble obtaining the support of all divisions. Some of the sample companies found that only the finance department was interested in IR. Other divisions thought IR was the responsibility of the finance division. IR is not just the responsibility of the department which produces the IAR. It is argued by the interviewees that all should be responsible. Understanding the real value of IR by all is helpful for the success of IR. If some divisions are reluctant to provide the expected support and information, implementation could fail, or poor Integrated Annual Reports could result. Therefore, organisations need to introduce processes to explain IR, and to implant the concept of ‘shared ownership’ to all divisions and employees.

7.5 Conclusion

This chapter examined challenges that the interviewees faced during their IR implementation journey. There were several issues with the IIRC guidelines: they were inadequate and confusing, particularly regarding the types of capital. There were also issues with the business model, connectivity, and how to create a concise report. The interviewees encountered difficulties creating a concise report while adhering to all the IR requirements. They emphasised that there needs to be more structured guidance provided and a ‘call-centre’ or ‘buddy system’ to assist first-time implementers. Further, the early adopters of IR could help by providing answers to Frequently Asked Questions (FAQs) specific to implementation and implementation issues. Interviewees also asked for more guidance and support from external organisations, particularly from the IIRC and CASL in the Sri Lankan context.

The main issue the sample companies have is the lack of a standardised way of reporting. When there is no particular structure, the report preparers struggle to structure the IR report. This situation is made worse by a lack of international IR reports for benchmarking, the non-availability of sector-specific guidelines and lack of IR training. If training on IR were available in the local context, it could be a helping hand for IR adopters.

There are also several challenges involving the personnel of the sample companies: lack of knowledge and expertise, creating employees’ mind-set in favour of IR,

obtaining the support of top management, and the extra workload for employees. The interviewees noted that changing the mindsets and obtaining support from employees was not easy since reporting was not seen as the responsibility of the non-finance departments. Therefore, there is a need for all departments to be jointly responsible for the production of the IARs. Support of top management was also stressed by the interviewees.

The internal processes during IR implementation also presented challenges via a lack of: suitable information systems, appropriate communication and coordination among different business units, and support from all divisions. All of these factors compound implementation difficulties, creating employee frustration, poor quality integrated annual reports and possibly contributed to the slow diffusion of IR among the other companies in the country.

These challenges make implementation difficult and hinder the production of quality IARs by the sample companies. For IR implementation to be successful in an organisation, the first step is to identify and explore possible barriers to implementing IR. This identification would inform the way organisations could make internal changes to processes and modifications to human behavior.

Amongst the challenges, silo thinking is found to restrict the benefits that an organisation could enjoy by introducing IR. It is a challenge for companies to obtain cohesive effort and on-time delivery of an IAR. The interviewees argue that the finance department alone cannot implement IR successfully within an organisation. They also indicated data collection systems were not always compatible for aggregation purposes and there were problems with interpreting information.

Most of the challenges identified as occurring during the implementation stage of IR have been raised in the literature, mainly as a theoretical discussion or as a stand-alone case study. Accordingly, this chapter has made a significant contribution to the literature by providing empirical evidence of the challenges experienced by Sri Lankan initiators of IR.

CHAPTER 08

MATERIALITY LEVELS DETERMINATION FOR NON-FINANCIAL INFORMATION

8.1 Introduction

This chapter addresses the research question: “How are the materiality levels determined for non-financial information in the Integrated Reports of sample Sri Lankan PLCs?”

Materiality is one of the main guiding principles proposed by the International Integrated Reporting Council (IIRC) in its IR framework. This principle is key both to achieving concise reports and to encourage companies to disclose important information about their long-term performance. The materiality principle is well established and tested for the quantitative elements of financial reporting. However, materiality is less understood in relation to non-financial information.

This chapter has four sections. Section 8.2 examines managers’ views and employee involvement in materiality level determination. Section 8.3 examines the eight techniques used by managers to determine materiality levels for non-financial information. Section 8.4 concludes the chapter.

8.2 Managers’ views and employee involvement

It is important that managers determine the materiality level of non-financial information and only report that which is material, as stakeholders may struggle to absorb large volumes of non-financial information (Potter et al., 2013). Materiality decisions must seek to avoid information overload, and the obfuscation of core issues (Mio & Fasan, 2014).

The key themes of the findings in this section relate to the way the sample company managers perceive materiality levels (Section 8.2.1), their views on issues and difficulties in determining appropriate materiality levels (Section 8.2.2), and their perception of who is responsible for decision-making (Section 8.2.3).

8.2.1 Perceptions on materiality levels for disclosure

The interviewees recognized the importance of materiality determination:

That is basically coming from the top because of its importance. The top management involvement is very much essential in order to identify the material factors. We do have group discussions with the top management basically the CEO, the Chief Operations Officer, CFO, the finance team, and the people who are involved in the annual report. We get together and discussed what sort of material aspects that the company is disclosing (Interviewee B M06).

We go into the shoe of the stakeholder and think whether this information is really required to make a very good solid decision about the company and if we decide so, yes we disclose that information to our stakeholders. That is one of the main reasons why we disclose our negative aspects (Interviewee D E03).

It is the base of non-financial part of our report. We are really concern on materiality. We don't put all the crap, we don't dump there. Then the integrated sense also won't be there. Then our information is overloaded (Interviewee B M05).

Citizens Development Business Finance PLC, provides an example of how one company expresses their commitment to IR. Since adopting IR in 2013/14, it appears that the company has attempted to communicate more concisely and coherently on how business strategy, corporate governance, risk management, capital performances and prospects lead to the creation of value. The company's operations have expanded over the years. The company focuses on materiality levels to provide important financial and non-financial performance indicators that reflect the company's ability to remain commercially viable and socially relevant to the communities in which it operates. The 2016/17 IAR shows that the company has revised material matters by presenting the determination process that: highlights material determinants and material drivers, prioritises material aspects, and uses a materiality matrix (Citizens Development Business Finance PLC, 2016/17). Four years of Integrated Annual Reports (IARs) were reviewed for this company, and the reports over the periods show significant developments in materiality disclosures.

Interviewees indicate that emphasis on material matters can improve internal and external decision-making as it focuses on the core issues managed by the

organisation. One interviewee describes the positive impact of the use of materiality in non-financials on ‘the brand’ of the company:

It will be making more kind of a brand visibility and your presentation how do you say your openness in presenting. This will create definitely a positive perspective, a positive impact on brand (Interviewee K E01).

Figure 9, an extract from the company’s IAR illustrates how Softlogic Insurance PLC displays materiality levels of non-financial information. The organisation promotes its brand by showcasing important events such as awards won: ‘*CMA excellence in Integrated Reporting Awards 2016*’, Gold award for the best ‘*Integrated Report in the insurance category*’; product promotions: ‘expansion of cashless hospitalization’, ‘doctor’s visit to your doorstep’, ‘emergency medical facilities and medical test at your doorstep’, ‘delivery of prescription medicines to your doorstep’, and the re-branding of the company through a name change¹⁴ (Softlogic Insurance PLC, 2016, p.17.)

¹⁴ The previous name of the company was Asian Alliance Insurance PLC.



Figure 9: Year at a Glance (Source: Softlogic Insurance PLC, 2016, p. 17)

The use of materiality levels to determine the content of non-financial information can bring various benefits to stakeholders and organisations. An interviewee indicates that materiality levels in the IAR help provide a competitive edge:

It's like we provide what is giving us an edge over others. For example, we have given a diagram saying that these are the products we are offering to the customers and exclusive products and services only our bank is offering to the customers. This is like a competitive analysis (Interviewee G M01).

Most interviewees believe providing information about exclusive products and services through IARs helps to create an edge over competitors.

Citizens Development Business Finance PLC (2016/17), uses its IAR to announce different product categories and exclusive features of their products. It discloses different savings and fixed deposit products with their features through its IARs (see Figure 10).

2.5.2.1 Deposit and Savings Products	
FD/Savings Product	Product Detail
CDB Savings 	'CDB Savings' is the Company's general savings account which offers customers the highest interest rate for any savings account.
CDB Salary Plus 	'CDB Salary Plus' enables the account holder to do more, above and beyond the limits of the monthly remuneration as follows: <ul style="list-style-type: none"> • A personal loan upto 15 times the salary. • Pre-approved lease facility. • Quick cash up to two times the salary. • Unlimited standing orders free of charge. • Free SMS alerts and other value additions.
CDB Rankati 	'CDB Rankati' is a minor savings account which ensures a secure future for children with an amazing array of gifts and benefits through different savings plans to suit customer's needs.
Mudarabha savings 	Mudarabha (investment) is a contract between two parties; one providing 100% of the capital and the other providing specialist knowledge and expertise to invest the capital and manage the investment project.
CDB Dhana Surakum 	'Dhana Surakum' is the general fixed deposit with a higher comparative interest rates
CBD Aee 	'Aee' is a specialised deposit scheme which focuses on the female community
CDB Deegayu 	'Deegayu' fixed deposit focuses on the senior citizens of the country with an improved margin over interest rates and with many benefits
Mudarabah Deposit 	Mudarabah deposit is a profit sharing form of investment option available for customers, which operates under the Sharia guidelines (Islamic Finance). profits generated through such deposits at the stipulated period are being shared between customers and CDB at a pre-agreed ratio at the time of investment.

Figure 10: Deposit and Savings Products (Source: Citizens Development Business Finance PLC, 2016/17, pp. 56-57)

However, while materiality can assist organisations by including information in the IARs, which brings publicity to the company and its products and services, it can also create issues about what might be 'desirable' disclosure. Interviewees have concerns about sharing "competitive advantage" information:

The banking industry is really an open industry. So then, we can't have a strategy that is unique to our bank. If we are following a kind of a strategy, within minutes, others will get to know. So, we can't say that maybe we create a kind of a competitive advantage, therefore we are not publishing those things. In my opinion, non-financial information is the sort of marketing materials also. We have to talk about non-financial information and get more business and we can improve our competitive advantage by publishing that information (Interviewee F M04).

This viewpoint supports Stubbs & Higgins's (2015) finding that the use of IR is a weak accountability level for stakeholders and seen as an image-building, marketing tool.

Nations Trust Bank PLC (2016) uses its non-financial information in IARs as an obvious marketing tool to improve the image of the company. Figure 11 displays their promotion of amex spend, master cards, and some other products via the IAR:

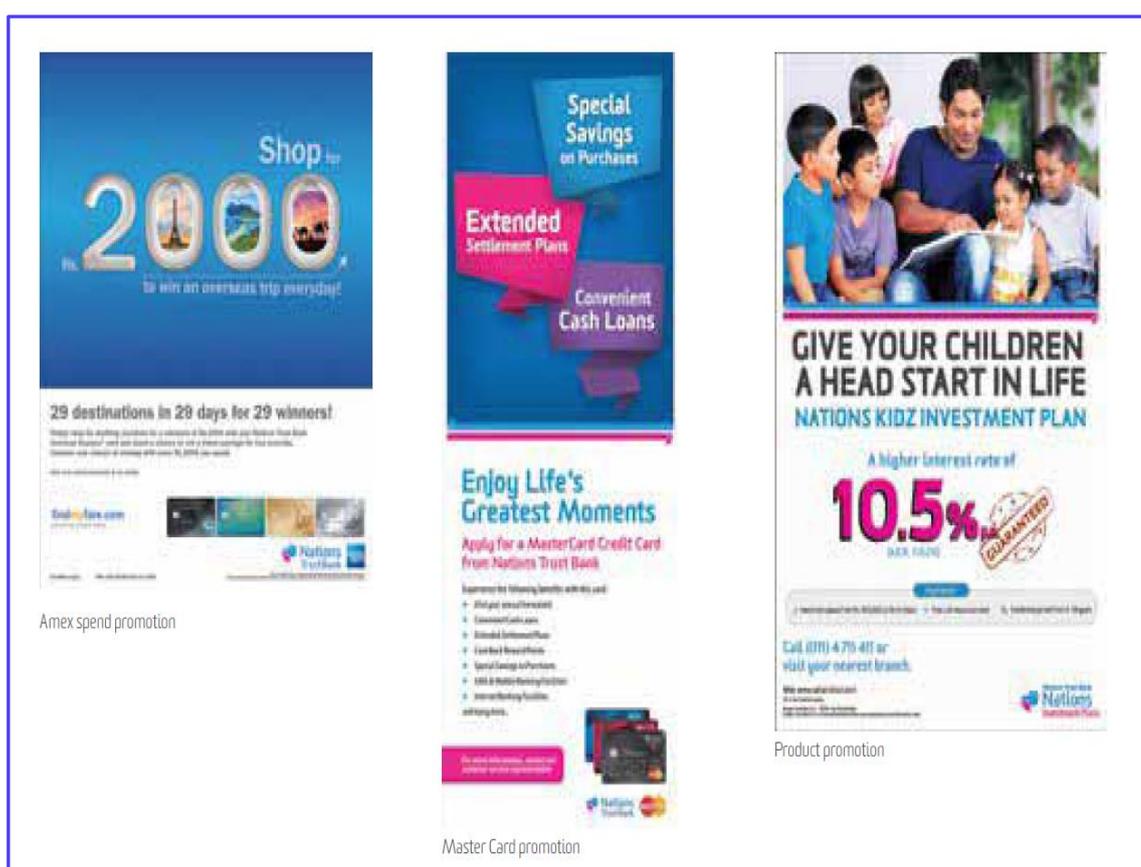


Figure 11: Delivering Strategy through Our Business Lines (Source: Nations Trust Bank PLC, 2016, p. 85)

Materiality is an entity-specific concept (IIRC, 2015). Some managers view that materiality determination in IR is entity-specific and different organisations can use different methods to determine materiality of non-financial information:

If you take another organisation for the same factors, they might have a different way of determining the materiality (Interviewee C M03).

The findings indicate that interviewees find materiality determination problematic because the structures, business processes, work patterns, organisational culture, and values vary from organisation to organisation. Therefore, different organisations apply methods, which are entity specific when they determine the materiality of non-financial information. IR guidelines are too general to help in materiality determination.

Stakeholder engagement is seen to be important in IR (IIRC, 2015). However, sometimes, the stakeholder engagement may not happen as expected. Some interviewees indicate that there can be a disruption in the two-way communication between the organisation and their stakeholders. This might lead to difficulties in determining materiality:

The organisation thinks this is material. But, for it to be material, the other party also should agree. Until that happens all the materiality levels that each organisation disclose in the annual reports may not be correct. If someone is not happy or not in agreement with that they should come and talk to the organisation. That tendency is not there. If this feedback comes only I think we can improve our way of reporting. (Interviewee F M02)

If the stakeholder engagement does not happen in a desirable manner, then the organisation cannot determine the materiality levels of non-financial information in the best way. This could impact upon the benefits of conciseness and disclosure of information on the long-term performance of an organisation.

Companies could use materiality to exclude negative information (Unerman & Zappettini, 2014). A few managers are of the view that organisations prefer to report only positive aspects rather than both positives and negatives. It was found that the decision to report negative aspects depends on the circumstances:

If that is a positive thing, we will be reporting it. Reporting of negative things, that depends. If it has any benefit to either of the stakeholders like internal or external, then it is positive. (Interviewee A E01)

What managers consider to be material appears to be influenced by what is best for the entity by such actions as promoting products and services and selectively choosing to report positive aspects. When considering some of the non-financial information of the sample companies (for example see Figure 10), it can be questioned whether the IR practicing companies are encompassing the information that is required for informed decisions by stakeholders. This creates doubt as Flower (2014) point out that the IIRC Framework “leaves far too much discretion to the firm’s management” (p.10) and the preparers may “highjack” the content and level of disclosure in the integrated reports (ibid). Significantly, it was found that most of the sample companies used IR as an image building reputational tool, which deviated from the IIRC’s objectives of IR.

Unerman and Zappettini (2014) argue that companies use materiality to exclude negative information and rhetorically report an image of sustainability that differs from their underlying behavior. This contradicts the IIRC requirement (IIRC, 2015; IIRC and American Institute of Certified Public Accountants, 2013) that the materiality process should be applied to both positive and negative matters, including risks and opportunities and favorable and unfavorable performance or prospects.

Some managers perceive materiality as an entity-specific concept, as presented by the IIRC, who consider that implementing the materiality principle depends on the materiality determination process, which is entity-specific and based on industry and other factors, as well as multi-stakeholder perspectives (IIRC, 2015). However, uniformity is an important factor to consider in corporate reporting. Greater uniformity is necessary because it facilitates comparability, and acts as a regulator of quality (Bernstein, 1967). Importantly, therefore, from discussions with the interviewees it is necessary to have guidelines or standards which, given similar circumstances (e.g. sector specific), will help integrated report preparers to arrive at meaningful similar conclusions regarding the concept of the materiality of non-financial information.

8.2.2 Issues in determining materiality

Implementing materiality in an IR context is challenging (Climate Disclosure Standards Board et al., 2016; Ernst & Young, 2013a; IIRC, 2015; IIRC and American Institute of Certified Public Accountants, 2013; International Association for Accounting Education and Research et al., 2016). The managers of the sample companies view materiality determination for non-financial information as a challenging task. Interviewees express their views:

Basically, it is very difficult to get a right or wrong answer for this materiality (Interviewee B M05).

Determination of materiality is a major challenge (Interviewee C E01).

Interviewees argue that materiality determination is complex because they perceive non-financial information is non-quantifiable, and interviewees link this issue to risk management (discussed in Chapter 9):

It is very difficult to identify materiality levels in non-financials because it's non-quantifiable (Interviewee F M07).

It's the management challenge to filter top priority. The materiality issue really links with the risk management and governance process. You have to be vigilant all the time and to filter those key materiality issues (Interviewee K E01).

In Figure 12 Softlogic Insurance PLC (2016) shows stakeholder prioritization, based on the extent of power and interest of each stakeholder category, is the key to filter materiality of the company's non-financial information. This company believes that a comprehensive process of prioritizing is necessary for the better understanding and monitoring of its stakeholders and their needs:

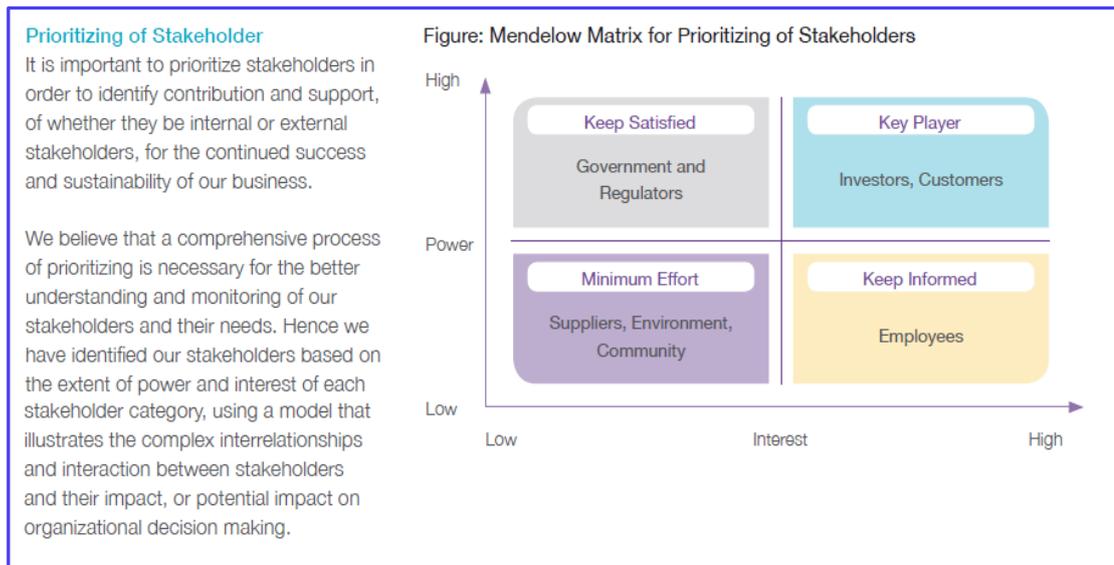


Figure 12: Prioritizing Stakeholders (Source: Softlogic Insurance PLC, 2016, p. 59)

One interviewee commented on the necessity to have a regulatory framework for determining materiality levels:

Yes, there can be instances that we are not disclosing, this maybe because we feel that it is not necessary for a reader to know about these things. Some subjectivity is there, I'm not denying it. For an example near misses or near losses. The best way of overcoming the difficulty of the materiality of non-financial is to come up with a regulatory framework and say that at least these requirements also need to be there (Interviewee F M07).

Managers are aware of the challenges of determining materiality levels for non-financial information, but they take a perspective of what is good for their entity. They are willing to tackle the challenge by considering its positive impact on the brand of the company and ability to use IARs as a marketing tool to obtain a competitive advantage.

All the interviewees are of the view that materiality level determination for non-financial information is a difficult task. However, there are few regulations or guidelines available to determine the materiality levels for non-financial information. It makes the materiality determination a challenge for IR practicing companies. The lack of experience by the IR preparers makes the situation tougher. Accounting professionals and standard setters indicate challenges associated with implementing materiality in an IR context (Climate Disclosure Standards Board et al., 2016; Ernst & Young, 2013a; IIRC, 2015; IIRC and American Institute of

Certified Public Accountants, 2013; International Association for Accounting Education and Research et al., 2016). Materiality is difficult to establish for ‘non-financial’ factors (ACCA, 2012), and it is a challenge for management (Adams & Simnett, 2011; Steyn, 2014).

8.2.3 Responsibility for materiality level determination

Top management is responsible for determining which information is material (Corporate Reporting Dialogue, 2016; Eccles & Krzus, 2014; IIRC & American Institute of Certified Public Accountants, 2013). The top management of all the sample companies are involved in the materiality determination for non-financial information and are accountable for decisions:

Material levels are determined by the top management in their strategy meetings. Mainly the issues are discussed at Board meetings and all... (Interviewee A E01).

Actually, the sustainability committee. It consists of Executive Directors, Group Management Committee members - and those responsible for employees, those responsible for the customers and also certain employees responsible for the environmental matters, then Legal department, they are responsible for compliance. So, it's a diverse one (Interviewee C E01).

At initial stages, all the departments involve but the final decision will be taken by the senior management or the top management and it goes to the board level (Interviewee J E01).

All interviewees give high importance to the materiality determination for non-financial information. They indicate that matters are discussed and determined at top management or strategy meetings. This is because of the importance of non-financial information in showing an organisation's value creation story in a meaningful way to improve the quality of information available to providers of financial capital and other stakeholders. It is argued that better quality information will enable a more efficient and productive allocation of capital and decision making, and enhance accountability and stewardship for the broad base of capitals including financial, manufactured, intellectual, human, social and relationship, and natural.

Managers view materiality level determination as being important. They indicate that it is not an easy task. A task that, whilst involving other levels of management,

is seen as the responsibility of top management. Management is ultimately responsible for determining which information is material (Corporate Reporting Dialogue, 2016). Senior management and those charged with governance should be involved in the materiality determination process (IIRC and American Institute of Certified Public Accountants, 2013). It is management's, and ultimately the board's, responsibility to ascertain what information is material to report (Eccles & Krzus, 2014).

It is important that managers determine the materiality level of non-financial information and only report that which is material, as stakeholders may struggle to absorb large volumes of non-financial information (Potter et al., 2013). The interview findings indicate that managers have a positive attitude towards the application of materiality levels for non-financial information in their integrated reports.

The interviewees' positive perception could be a good sign for the development of guidelines for non-financial information materiality levels and further diffusion of IR (Robertson & Samy, 2015). Interviewees of some of the sample companies addressed the challenges surrounding the application of the materiality principle by making a "strong" subjective ontological choice (i.e. assign a strategy meaning to the materiality principle) that simplified the different possible solutions (Lai et al., 2017). The findings indicate that several different techniques are used by the companies to assist with the task of materiality determination. These techniques are explained in the next section.

8.3 Materiality level determination techniques

Analysis of techniques that the sample companies use to determine materiality levels for non-financial information, using the interview transcripts and the IARs of the sample companies, reveal three themes. There are techniques that focus on stakeholders (Section 8.3.1), those that emphasise value creation and KPIs (Section 8.3.2), and those that use judgement, benchmarking, or a combination of methods (Section 8.3.3).

8.3.1 Stakeholder focus

One theme that the interviewees of sample companies consider when determining the materiality of non-financial information is the impact of the organisation's operations on stakeholders. The impact is measured through the importance of the matter to the business and its stakeholders. Three ways this measurement is achieved include: stakeholder analysis (Section 8.3.1.1), usefulness of information for decisions (Section 8.3.1.2), and impact on stakeholders (Section 8.3.1.3).

8.3.1.1 Stakeholder analysis

Obtaining stakeholder perspectives is important in deciding materiality levels (IIRC, 2015; IIRC and American Institute of Certified Public Accountants, 2013). One interviewee explains:

Stakeholders' feedback is a major input of the non-financial things we are reporting (Interviewee I E01).

Another interviewee comments on stakeholder analysis and the materiality level determination:

That is not that we just think and decide. That is based on the analysis that we do on our stakeholders. Maybe the previous correspondence, communications that they have. That is basically based on the understanding that we have on our stakeholders and the results of certain correspondence that we have with them. For example, when investors' interests are growing and they are questioning about a particular section, if we have not reported, we start thinking these are material ones and we need to add up. (Interviewee B M05)

Citizens Development Business Finance PLC (2016/17) illustrates how it considers matters important to stakeholders when determining the materiality of non-financial information. The company starts by engaging stakeholders to understand their expectations. The process includes defining the scope and objectives of materiality assessment, identifying material matters, categorizing, identifying materiality drivers, and prioritization.

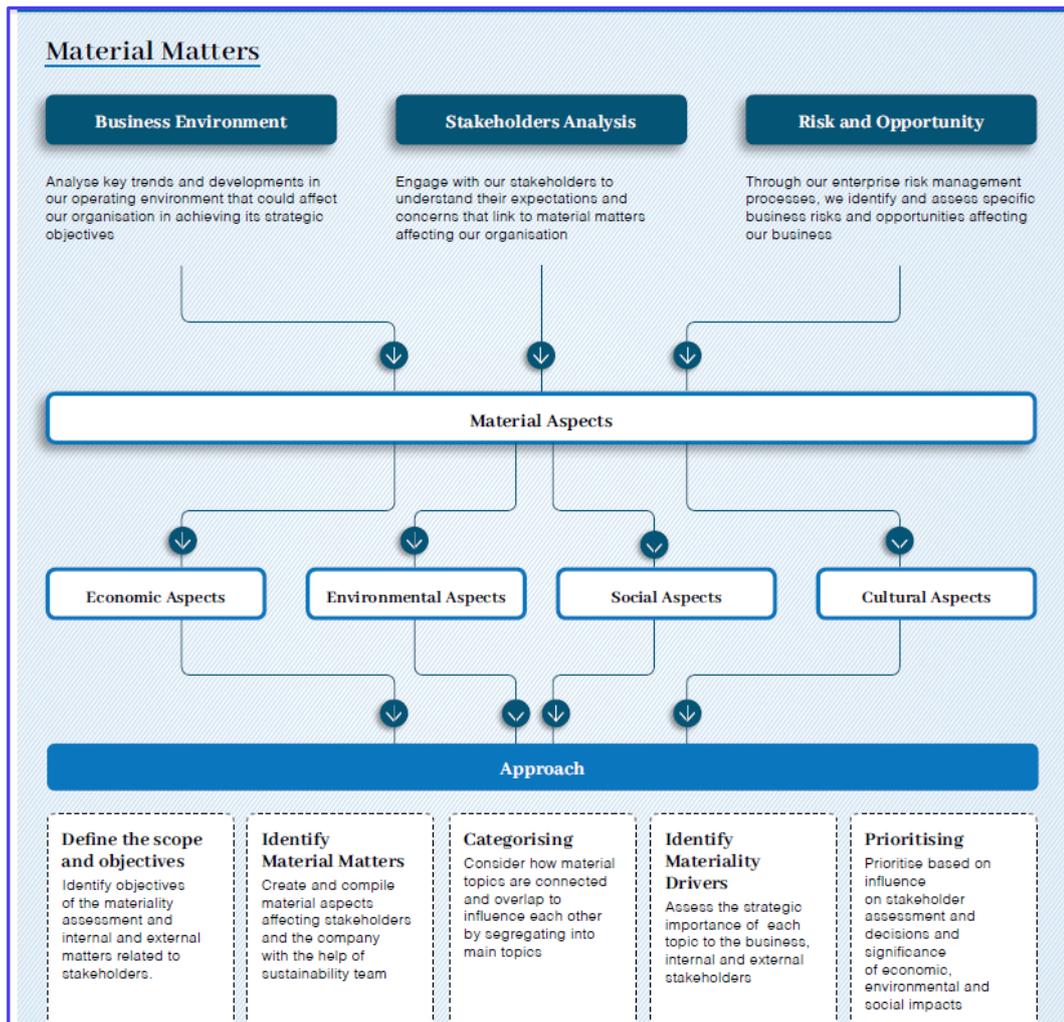


Figure 13: Material Matters (Source: Citizens Development Business Finance PLC, 2016/17, p. 52)

The findings indicate that the success of the materiality level determination depends on identification of intended report users and their decisions. The importance of stakeholder engagement in determining materiality levels and providing quality information is expressed by an interviewee:

We have built up a materiality matrix considering the interest and influence of all our stakeholders. We map the stakeholders into that matrix every year and we identify what are the most important information required by the stakeholders and produce the information. We go into the shoe of the stakeholder and think whether this information is really required to make a very good solid decision about the company and if we feel so yes we give that information to our stakeholders. That is one of the main reasons why we disclose our negative aspects (Interviewee D E03).

An illustration of how a sample company determines materiality levels for stakeholder engagement is taken from HNB Assurance PLC. The material aspects and impact identification process of HNB Assurance PLC includes:

- Stakeholder Inclusiveness: identify key stakeholders and their concerns through active engagement;
- Sustainability Context: identify economic, social and environmental impacts of the organisation and those concerns on strategies;
- Materiality: listing all the material aspects, testing materiality in relation to the business and the stakeholders and selecting and reporting the most material aspects; and
- Completeness: ensure the report covers all material economic, social and environmental performance and impacts.

The materiality matrix of HNB Assurance PLC (2016) considers two aspects: influence on stakeholder decision making and economic/social/environmental impacts within or outside the organisation, to determine whether to report a matter in the integrated report of the organisation. If both the aspects are within the area of medium or/and high, then those items are reported in the IAR as material items. Their IAR extract (Figure 14) illustrates the materiality matrix, clearly showing the consideration of stakeholder perspective, used to determine materiality levels.

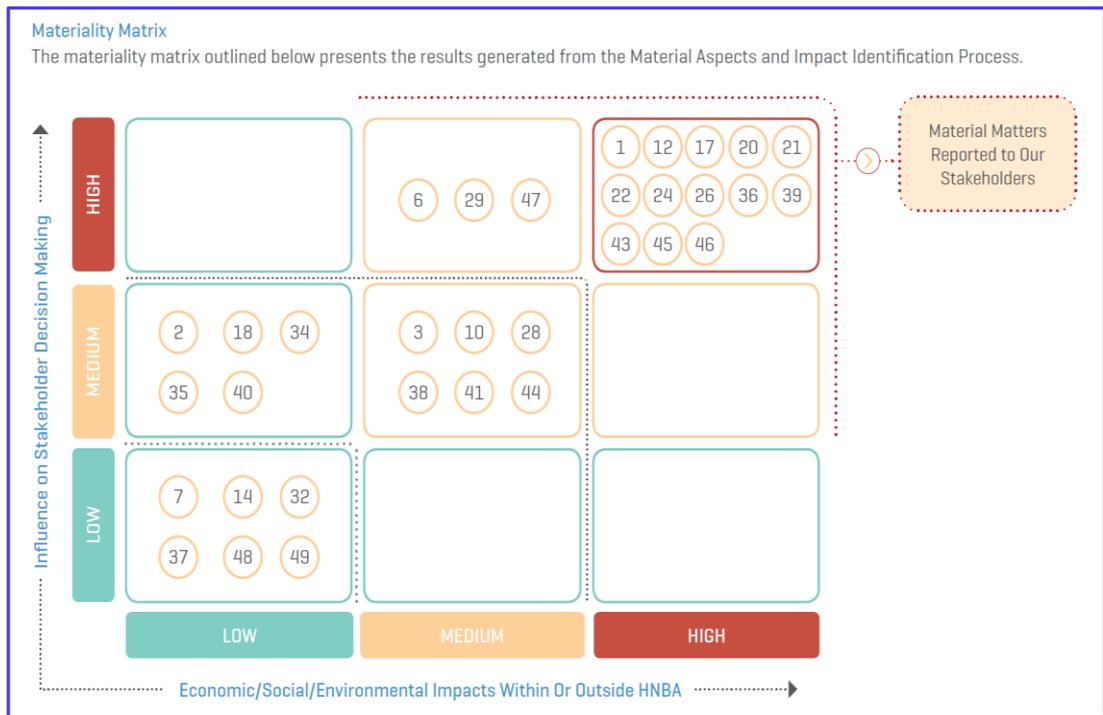


Figure 14: Materiality Matrix (Source: HNB Assurance PLC, 2016, p. 20)

After identifying material aspects, the company then identifies the boundaries of such aspects based on economic, social and environmental impacts created both within and/or outside the organisation. Figure 15 presents an abstract of the list of material aspects and their boundaries.

GRI Category	No.	Aspect	Sustainability Significance	Materiality Within the Organisation	Materiality External to the Organisation	Reporting Status
Economic	1	Economic Performance	●	●	●	Reported
	2	Market Presence	●	●	●	Not Reported
	3	Indirect Economic Impacts	●	●	●	Reported
	4	Procurement Practices	n/a	n/a		
Environmental	5	Materials	n/a	n/a		
	6	Energy	●	●	●	Reported
	7	Water	●	●	●	Not Reported
	8	Biodiversity	n/a	n/a		
	9	Emissions	n/a	n/a		
	10	Effluents and Waste	●	●	●	Reported
	11	Products and Services	n/a	n/a		
	12	Compliance	●	●	●	Reported
	13	Transport	n/a	n/a		
	14	Overall	●	●	●	Not Reported
Social - Labour Practices and Decent Work	15	Supplier Environmental Assessment	n/a	n/a		
	16	Environmental Grievance Mechanisms	n/a	n/a		
	17	Employment	●	●	●	Reported
	18	Labour/Management Relations	●	●	●	Not Reported
	19	Occupational Health and Safety	n/a	n/a		
	20	Training and Education	●	●	●	Reported
	21	Diversity and Equal Opportunity	●	●	●	Reported
	22	Equal Remuneration for Women and Men	●	●	●	Reported
Social - Human Rights	23	Supplier Assessment for Labour Practices	n/a	n/a		
	24	Labour Practices Grievance	●	●	●	Reported
	25	Investment	n/a	n/a		
	26	Non-Discrimination	●	●	●	Reported
	27	Freedom of Association and Collective Bargaining	n/a	n/a		
	28	Child Labour	●	●	●	Reported
	29	Forced or Compulsory Labour	●	●	●	Reported
	30	Security Practices	n/a	n/a		
	31	Indigenous Rights	n/a	n/a		

● High ● Moderate ● Low n/a - not applicable

Figure 15: Materiality Matrix (Source: HNB Assurance PLC, 2016, pp. 20-21)

A key finding was that interviewees considered that the materiality principle is strongly linked to the principle of stakeholder-responsiveness, allowing reporting to become more responsive to individual organisations and to the needs of their stakeholders. An interviewee elaborates the significance of considering the needs of different stakeholders in determining the materiality level:

We see in customers' perspective, in employees' perspective, and in shareholders' and other stakeholders' perspective what is important and what do they expect? So, we put ourselves back to their shoes and see what is the expectation and what we need to ideally give them because this is an annual communication which is going to everyone. So, what we want to decide in giving that and what is important in giving that. So, that is how we decide the materiality (Interviewee G M01).

It is highlighted by the interviewees that stakeholder engagement is necessary to identify the key stakeholders and their priorities. Sometimes, it is not possible to communicate with all the stakeholders at the same level. The identification of key stakeholders and the stakeholder engagement process of one company is outlined:

Based on the stakeholder engagement model we identify who are the important stakeholders and their priorities. We understood that we are unable to communicate or inform all the stakeholders at the same level. We have the responsibility and give more priority to identify stakeholders also. So, keeping in mind the stakeholders' importance and their systematic approach, we thought that is the best approach we can take. It depends on to whom that is material (Interviewee A M02).

Sampath Bank PLC, IAR (2016) uses a stakeholder engagement mechanism including management philosophy, engagement mechanism, material matters to stakeholders, and the company's strategic response. Figure 16 shows the engagement mechanisms with different stakeholders that have been designed to identify different material aspects to individual stakeholders.

STAKEHOLDER ENGAGEMENT MECHANISM G4 - 24,25,26,27						
		Engagement Mechanism	Frequency of Engagement	Matters Relevant to Stakeholders	Our Strategic Response	Page
EMPLOYEE	Management Philosophy: Commitment to create an environment conducive for employees to develop and reach their potential, both professionally and personally	Open door policy	R	<ul style="list-style-type: none"> ● Ethical employment practices ● Career development ● Employee communications ● Rewards / recognition ● Employee well being ● Work-life balance 	<ul style="list-style-type: none"> ● Competitive rewards and benefits to attract the best talent in the market ● Promoting greater diversity and inclusion ● Develop from within through training & development ● Encourage greater engagement ● Performance-based incentives ● Effective handling of grievances ● Maintain high standards of occupational health & safety ● Ensure employee welfare ● Foster a sense of belongingness 	73 to 81
		Employee forums	P			
		Employee suggestions schemes	R			
		Grievance handling procedure	R			
		Employee social committees	R			
		Feedback forms	A			
		Business unit level meetings	R			
		Intranet	24/7			
		Memorandums / Circulars	R			
		News letters	Q			
		Training	R			
		Get-together / Events	R			
		Sampath Employee Notification System (SENS)	24/7			
		CSR projects	R			
COMMUNITY AND ENVIRONMENT	Management Philosophy: Working in tandem with global and local mandates that safeguard the environment and promote community empowerment	Ground-level interactions with community leaders by staff	R	<ul style="list-style-type: none"> ● Community capacity building ● Community empowerment ● Social welfare of communities ● Environmental projects ● Preservation of local culture 	<ul style="list-style-type: none"> ● Socially responsive transformative CSR model ● Transparency and governance ● Community engagement ● Employee volunteerism ● Become a catalyst for change 	87 to 93
		Interactions with social groups and volunteer organisations	R			
		Feedback forms / environment grievance handling mechanism	R			
		Discussions with government representatives	R			
		Discussion with other organisations, community and opinion leaders on community development efforts	R			
		Media based forums	R			
		CSR projects	R			

A – Annually, P-Periodically, Q- Quarterly, R-Regularly, 24/7 – 24 hours 7 days

Figure 16: Stakeholder Engagement Mechanism (Source: Sampath Bank PLC, 2016, pp. 47-49)

In addition, the materiality determination process can be related to the daily management process by appointing responsible stakeholder “owners” as reported by an interviewee:

We have identified the stakeholder groups that is customer, employee, investors, and other stakeholders, likewise, we have categorized our stakeholders. We have stakeholder owners, we call them the stakeholder owners of the organisation. When it comes to the customers the Chief Marketing Officer will be the person who is addressing all the customer related issues. So, based on that we have determined the material aspects (Interviewee B M06).

Further, interviewees commented on how they consider multi-stakeholder perspectives in the process:

We take into account different needs of stakeholders. If there is a certain stakeholder say mentioned that something is important, regardless of whether it's difficult for us or whether it would not look that nice we would still disclose it (Interviewee D M01).

We did a comprehensive material analysis. We discussed with our stakeholders, suppliers, customers, employees, shareholders. So, we prepared documents to get the information from them and discuss with them and take the information to check our materiality levels (Interviewee H E01).

Based on the requirements of the stakeholders, companies even disclose information which may not be viewed favourably. For example, HNB Assurance PLC (2016) reports a 62 per cent reduction of training hours per employee compared with the previous year.

The extract taken from the IAR of Sampath Bank PLC (2016) indicates what information relating to customers is gathered through the stakeholder engagement process. Topics include: customer service, product satisfaction, brand perception, customer convenience, innovation and customized solutions, communication, promotions, information on products, benefits and rewards and loyalty recognition.

STAKEHOLDER ENGAGEMENT MECHANISM						
		Engagement Mechanism	Frequency of Engagement	Matters Relevant to Stakeholders	Our Strategic Response	Page
CUSTOMER	Management Philosophy: Uphold the customers right to demand a stable and progressive banking environment which provides a superior service platform and promotes customer choice / convenience	One-to-one feedback from customers who visit the Bank	R	<ul style="list-style-type: none"> Customer service Satisfaction with existing products 	<ul style="list-style-type: none"> Effective complaint resolution Maintain service excellence 	82 to 85
		Customer surveys conducted via traditional or non traditional research techniques	P	<ul style="list-style-type: none"> Brand perception and reputation Customer convenience 	<ul style="list-style-type: none"> Deliver technology-driven banking solutions 	
		Social media interactions	24/7	<ul style="list-style-type: none"> Need for innovation and customized solutions 	<ul style="list-style-type: none"> Continuous introduction of innovative products that promote greater customer convenience 	
		Customer complaint handling mechanism	24/7	<ul style="list-style-type: none"> Communication methods 	<ul style="list-style-type: none"> Effective marketing communication 	
		ATL, BTL & digital communications	R	<ul style="list-style-type: none"> Special promotions 	<ul style="list-style-type: none"> Maintaining data security and customer privacy 	
		Feedback forms-paper based / electronic mediums	R	<ul style="list-style-type: none"> Timely and relevant information on products and services 	<ul style="list-style-type: none"> Promoting island-wide customer inclusiveness 	
		Correspondence	R	<ul style="list-style-type: none"> Customer touch-points 	<ul style="list-style-type: none"> Better market share 	
		SMS alerts	24/7	<ul style="list-style-type: none"> Customer benefits and rewards 		
		Corporate website	24/7	<ul style="list-style-type: none"> Loyalty recognition 		
		Sampath Vishwa (Internet Banking) portal	24/7			
		Customer call centre	24/7			
		CSR projects	R			

Figure 17: Stakeholder Engagement Mechanism (Source:Sampath Bank PLC, 2016, p. 47)

Interviewees believe that stakeholder analysis is an important factor to determine materiality levels for non-financial information. Through stakeholder analysis, the companies recognize stakeholder requirements and accordingly, disclose information on long-term performance and value creation, including non-financial information. IARs should reflect meaningful interaction and engagement with stakeholders, filtering material issues and demonstrating responsiveness in the business strategy and ultimately performance.

All the interviewees believed that their materiality determination for non-financial information is based on stakeholder analysis and investor requirements; as suggested by International Association for Accounting Education and Research et al. (2016). The companies use materiality determination processes that are integrated into everyday management. The processes include regular engagement with the primary intended report users to identify their information needs (IIRC, 2013d), which results in embracing multi-stakeholder perspectives (IIRC, 2015).

Stakeholder engagement is said to be one of the key factors to the materiality level determination of non-financial information in integrated reports (IIRC, 2015; IIRC and American Institute of Certified Public Accountants, 2013). Further, the IIRC (2013e) asserts that the key to the materiality determination process is the concept of a reporting boundary. Determining the boundary for an integrated report has two aspects: the financial reporting entity (i.e., the boundary used for financial reporting purposes) and risks, opportunities, and outcomes attributable to or associated with other stakeholders beyond the financial reporting entity. The use of boundaries is evident amongst the IARs of the sample companies. They acknowledged that external stakeholders have a significant effect on the ability of the reporting entity to create value. Another way to reflect the stakeholder focus is to examine the usefulness of information.

8.3.1.2 Usefulness of information for decisions

Interviewees explained that their materiality level for non-financial information is based on the usefulness of information for decision-making. They consider the decision-making needs of different stakeholders as part of the materiality determination process. This primarily includes providing a better picture or better understanding of the business to the stakeholders:

We adopted IR in the first place to give a better picture, to give a better understanding of the business to the readers. There are certain granular things which we may have to report to comply. We focus on what the different stakeholders would want for decision-making. For example, if an employee or potential employee wants to know about the company (Interviewee D M01).

We discuss with the employees, sustainability committee. We discuss that what are the information required by stakeholders to make decisions, collective decisions. Based on that we determine materiality levels for non-financials (Interviewee C E01).

The interviewees' comments are supported by the content of the IARs of the sample companies. John Keells Holdings PLC (2016/17) illustrates the consideration of the importance of information to the stakeholders and the company in determining the materiality of non-financial information. Their assessment of the material aspects is based on relative importance to both the company and stakeholders – see Figure 18.

Report Content

The annual report is one of the primary methods used by the Group to respond to stakeholder concerns during the financial year. The process of recognising key sustainability related risks, significant stakeholders, assessment of the material aspects based on relative importance to both the Group and stakeholders, and to formulate policies and management approaches to manage and mitigate these aspects have become an integral part of defining this report.

Figure 18: Materiality and Stakeholder Relationships (Source: John Keells Holdings PLC, 2016/17, p. 93)

Citizens Development Business Finance PLC (2016/17) uses another approach. Figure 19 demonstrates the relevance of each material aspect and its respective material drivers. These drivers are evaluated for their significance to internal and external stakeholders.

Aspect	Aspect Boundary								Materiality		Reported
	Significance as per Sustainability Context	Internal				External			To CDB	To Stakeholders	
		CDB	Employees	Customers	Community	Suppliers & Business Partners	Regulators				
Economic											
Economic performance	H	Δ	Δ	Δ	Δ	Δ	Δ	Δ	H	H	Yes
Environment											
Energy	M	Δ							M	M	Yes
Effluents and waste	M	Δ							M	M	Yes
Social: Labour practices and decent work											
Employment	H	Δ	Δ				Δ		H	M	Yes
Labour/management relations	M	Δ	Δ						M	M	Yes
Training and education	M	Δ	Δ						M	M	Yes
Equal remuneration for women and men	M	Δ	Δ						M	M	Yes
Social: Human rights											
Non-discrimination	M	Δ							M	M	Yes
Child labour	M	Δ							M	M	Yes
Forced or compulsory labour	M	Δ							M	M	Yes
Social: Society											
Local communities	M	Δ			Δ				M	M	Yes
Anti-corruption	M	Δ			Δ				M	M	Yes
Anti-competitive Behaviour	M	Δ						Δ	M	M	Yes
Compliance	M	Δ						Δ	M	M	Yes
Social: Product responsibility											
Marketing communications	M	Δ		Δ					M	M	Yes
Customer privacy	M	Δ		Δ					M	M	Yes
Compliance	M	Δ						Δ	M	M	Yes

H – High M – Moderate L – Low Δ – Relevant to

Figure 19: Prioritizing Materiality Aspects (Source: Citizens Development Business Finance PLC, 2016/17, p. 54)

An interviewee explains the use of the financial reporting definition in determining the materiality levels for non-financial information:

We go by the definition. If the omission or misstatement influence the decision of the stakeholder, say if we are not giving this information and that may affect the decision of the stakeholders'. We always get into the shoes of the stakeholders and think whether we need to give this particular information or rather we need to talk about this particular topic (Interviewee F M01).

Two interviewees commented that the materiality level of non-financial information is primarily focussed on valuable and relevant information for a decision maker:

We must disclose the information which is of value to our readers, our key stakeholders and to our company (Interviewee I E04).

It depends on the relevance to the external party to make decisions about the company. We set our material level for non-financials based on the relevance of the information to the decision maker (Interviewee J M02).

The matters that support sound judgments and decisive actions by stakeholders and management are considered to be material by Union Assurance PLC (2016). The company states that material issues are those that could make a major impact on the company's ability to deliver its promises. The disclosure of material matters is seen to influence the decisions of the stakeholders.

MATERIALITY

Defining materiality is critical to ensuring UA understands its significant economic, environmental and social impacts of conducting business. Material issues are defined as those that could make a major impact on the company's ability to deliver its promise to various stakeholders. We mainly consider what matters and how it matters to the business. Reporting on these matters is critical in enabling stakeholders and management to make sound judgments and take decisive actions.

Figure 20: Materiality (Source: Union Assurance PLC, 2016, p. 29)

The information needs of different stakeholders are identified through the stakeholder engagement process. John Keells Holdings PLC (2016/17) shows how its decision to report non-financial information is based on its relative importance to internal and external stakeholders.

MATERIALITY AND STAKEHOLDER RELATIONSHIPS

In defining report content, the Group sought to prioritise the material impacts based on their relative importance to internal and external stakeholders. This prioritisation and identification of material aspects for reporting is shown below.

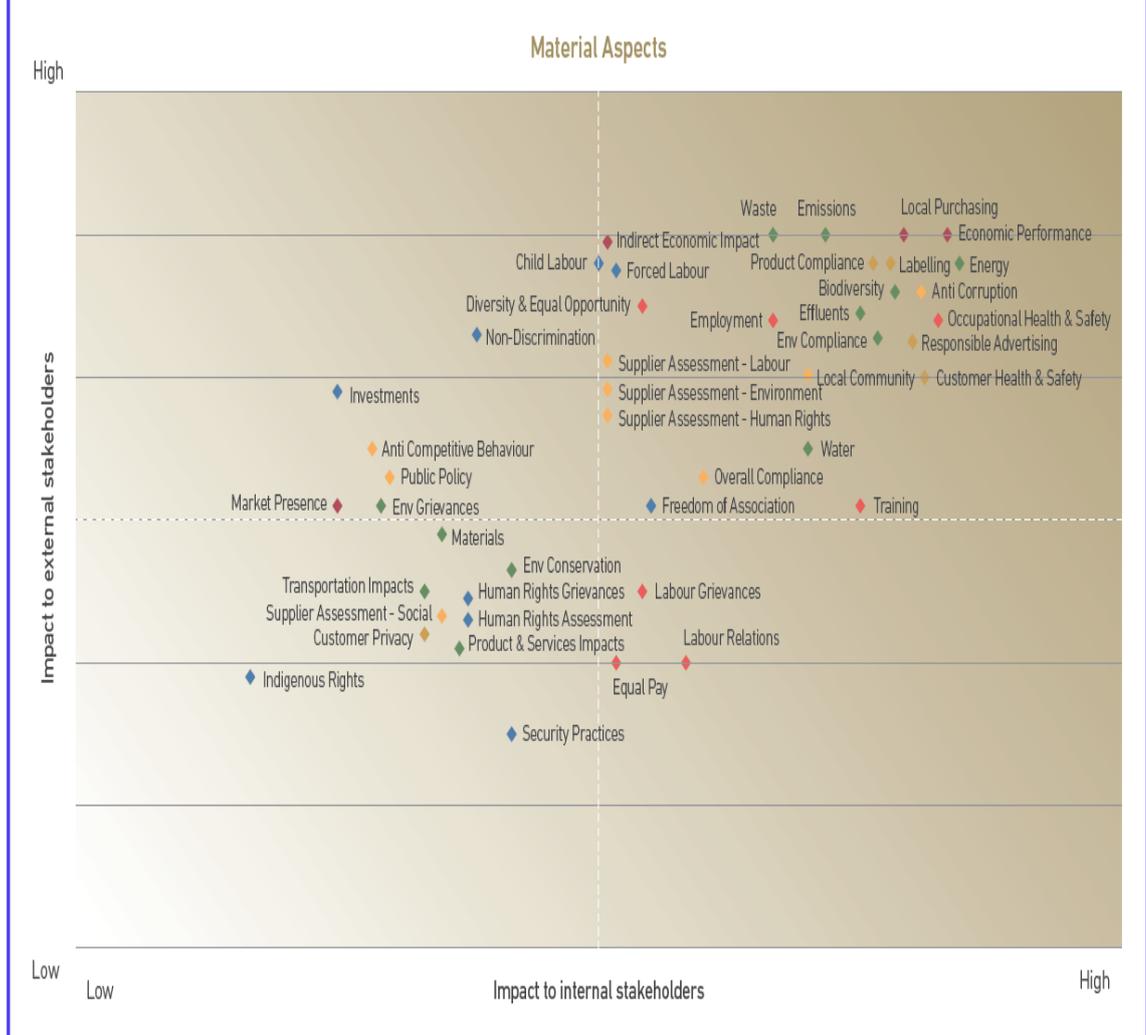


Figure 21: Materiality and Stakeholder Relationships (Source: John Keells Holdings PLC, 2016/17, p. 98)

Interviewees' comments and extracts from IARs show that the companies consider the usefulness of information for decisions by internal and external stakeholders when they determine the materiality of non-financial information. It is a balancing act for managers to determine how much weight they give to each stakeholder.

The companies implicitly or explicitly appear to follow guidance contained in the literature. Matters that are considered material for financial reporting purposes, for

sustainability reporting, or for other forms of reporting are also material for IR purposes when they are relevant and important with regard to the organisation's ability to create value (IIRC and American Institute of Certified Public Accountants, 2013). The financial reporting definition of what is material, if its omission or misrepresentation could influence the economic decisions of the users (Dumitru et al., 2013), is also applied in some cases. Another way for managers to decide whether to insert material non-financial information into their IARs, is by assessing the impact of information on the stakeholders.

8.3.1.3 Impact on stakeholders

Most of the interviewees commented that they consider the impact of information on stakeholders to determine materiality levels for non-financial information. The extract below indicates how a manager perceives the impact on stakeholders in the process of materiality determination:

Materiality is based on the impact. Materiality for non-financials determines by considering the correlation between activity and the outcome (Interviewee C M02).

Union Assurance PLC (2016) provides an example of considering impacts of its operations. While explaining 'natural capital', the company identifies environmental impacts stemming from energy consumption, water consumption, emissions, waste, and effluents as well as the impact on biodiversity. The company is mindful of future generations and claims to make every effort to minimise negative environmental impacts and comply with all applicable laws and regulations. The company commits to promoting sound environmental practices that enable it to conduct operations in a sustainable and environmentally sound manner. As such, when the company reports non-financial information, it considers the impact on the stakeholders. Figure 22 illustrates the use of stakeholder impact based on relative importance to internal and external stakeholders.

MATERIALITY ASSESSMENT						
NO	ASPECT	BOUNDARY	IMPACT		MATERIALITY	REPORTED YES / NO
			INTERNAL	EXTERNAL		
ECONOMIC						
1.	Economic performance	UA	High	High	High	Yes
2	Market presence	UA	Low	Low	Low	No
3	Indirect economic impacts	Community	High	High	High	Yes
4	Procurement practices	Suppliers	Low	Low	Low	No
ENVIRONMENT						
5	Material	UA	Low	Low	Low	No
6	Energy	UA	Medium	Medium	Medium	Yes
7	Water	UA	Medium	Medium	Medium	Yes
8	Bio diversity	UA	Low	Low	Low	No
9	Emissions	UA	Medium	Medium	Medium	Yes
10	Effluent and waste	Environment	Medium	Medium	Medium	Yes
11	Products and services	UA	Low	Low	Low	No
12	Compliance	UA	Medium	Medium	Medium	Yes
13	Transport	Environment	Low	Low	Low	No
14	Overall	UA	High	High	High	Yes
15	Supplier environmental assessment	Suppliers	Low	Low	Low	No
16	Environmental grievance mechanism	UA	Low	Low	Low	No
SOCIAL						
LABOUR PRACTICES AND DECENT WORK						
17	Employment	UA	High	High	High	Yes
18	Labour / management relations	UA	High	Medium	High	Yes
19	Occupational health and safety	UA	High	Low	High	Yes
20	Training and education	UA	High	High	High	Yes
21	Diversity and equal opportunity	UA	High	Medium	High	Yes
22	Equal remuneration for women and men	UA	High	Medium	High	Yes
23	Supplier assessment for labour practices	Suppliers	Medium	Low	Medium	Yes
24	Labour practices grievance mechanisms	UA	High	Medium	High	Yes

Figure 22: Materiality Assessment (Source:Union Assurance PLC, 2016, p. 30)

Furthermore, managers in different companies perceive the impact on stakeholders in the process of materiality determination:

If any of the stakeholders will have an impact on the said incident, then we determine it as material and we should report on it (Interviewee D E02).

There is a materiality impact. Based on that we decide the impact to the reader, the investors and the various stakeholders. Based on that we decide the materiality impact. So, based on that we decide what kind of information and intensity to give the information (Interviewee G M02).

In Figure 23, People’s Leasing & Finance PLC (2016/17) interprets materiality assessment based on the impact on six categories of stakeholders (employee, customer, business partner, community, environment, and investor). The impact is measured through the importance of the matter to the business and its stakeholders at both internal and external levels:

Materiality Assessment								
No Significant change from previous reporting period in the list of material topics and topic boundaries.								
Supported sustainable development goal No. (Ref. page 43)	GRI standard no.	Material GRI topic	Topic Boundary/Stakeholder group 102-46					Management approach
			Employee	Customer	Business partner	Community	Environment		Investor
1, 5, 7, 8, 13	201	Economic performance	☑				☑	Financial Capital Refer pages 53 to 66.
1, 5, 8	202	Market Presence	☑					
2, 5, 7, 1, 8, 18	203	Indirect economic impact	☑	☑		☑		Social and Relationship Capital Refer pages 99 to 134.
12	204	Procurement practices			☑			
16	205	Anti-corruption	☑	☑				
8, 12	301	Materials					☑	Nature Capital Refer pages 135 to 148.
7, 8, 12, 13	302	Energy					☑	
6, 14, 15	304	Biodiversity					☑	
6, 14, 15	305	Emissions					☑	
3, 6, 12, 13, 15	306	Effluents and waste					☑	
16	307	Environmental compliance					☑	
12	308	Supplier environmental assessment					☑	
5, 8	401	Employment	☑					
8	402	Labour/management relations	☑					
3, 8, 16	403	Occupational health and safety	☑					
4, 5, 8	404	Training and education	☑					
5, 8, 16	405	Diversity and equal opportunity	☑					
5, 8, 16	406	Non-discrimination	☑					
8, 16	408	Child labour	☑					
8	409	Forced & compulsory labour	☑					
16	410	Security Practices	☑					
1, 11	413	Local communities				☑		Social and Relationship Capital Refer pages 99 to 134.
16	414	Supplier social assessment			☑	☑		
12, 16	417	Marketing and labeling		☑		☑		
16	418	Customer privacy		☑				
16	419	Socioeconomic compliance				☑		

Figure 23: Materiality Assessment (Source:People’s Leasing & Finance PLC, 2016/17, p. 51)

Two interviewees explain how the impact of information on stakeholders is decided based on stakeholder feedback, which determines the materiality level:

The materiality of non-financial information is decided considering the extent of impact on the stakeholders, as well as on the bank. It could be a concern raised by some party, but the impact may be high for the bank (Interviewee F M03).

Material level for non-financial information basically based on the impact. Impact on the business and impact on stakeholders. It might be negative or positive. Based on stakeholders' feedback only we are deciding what would be the impact (Interviewee I E01).

The Sri Lanka Telecom PLC uses a materiality matrix (Fig. 24) and ratings (see Figure 25) to determine the level of impact on the stakeholders and the business. It appears that the company decides whether to report on the IAR based on the impact on the stakeholders and the company.

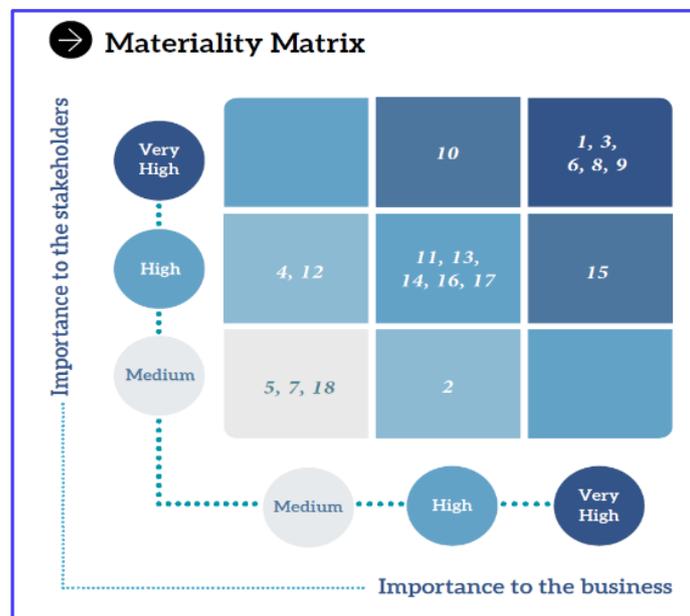


Figure 24: Materiality Matrix (Source:Sri Lanka Telecom PLC, 2016, p. 60)

Rating of material aspects →

No.	Aspect	Indicator	Importance to the business	Importance to the stakeholder
Economic				
1.	Economic performance	EC 1 EC 3	Very High	Very High
2.	Market presence	EC 6	High	Medium
3.	Indirect economic impacts	EC 7 EC 8	Very High	Very High
Environmental				
4.	Energy	EN 3 EN 6 EN 7	Medium	High
5.	Emissions	EN 19	Medium	Medium
Social				
6.	Employment	LA 1 LA 2	Very High	Very High
7.	Occupational health and safety	LA 8	Medium	Medium
8.	Training and education	LA 9 LA 10 LA 11	Very High	Very High
9.	Diversity and equal opportunity	LA 12	Very High	Very High
10.	Equal remuneration to men and women	LA 13	High	Very High
11.	Labour practices grievance mechanisms	LA 16	High	High
12.	Local community	SO 1	Medium	High
13.	Anti-competitive behaviour	SO 7	High	High
14.	Compliance	SO 8	High	High
15.	Product and service labelling	PR 3 PR 5	Very High	High
16.	Marketing Communications	PR 7	High	High
17.	Customer privacy	PR 8	High	High
18.	Compliance	PR 9	Medium	Medium

Figure 25: Rating of Material Aspects (Source: Sri Lanka Telecom PLC, 2016, p. 60)

The IAR (2016) of Sri Lanka Telecom PLC explains that the impact is measured through the ‘importance’ of each aspect which takes into consideration both its relevance and significance. The IAR (2016) of the company explains that ‘significance’ considers the probability of an adverse event occurring, in relation to a particular aspect, as well as the severity of such an event taking place. Relevance and significance is considered from both stakeholders and business perspectives. In this way, the sample companies limit the amount of information provided by considering impacts on the various stakeholders. Mio and Fasan (2014) explain that

this technique helps to avoid information overload, and obfuscation of core issues. KPMG (2012b) write that the stakeholder assessments appear to have helped the companies to identify a complete picture of business challenges and opportunities. In this respect, materiality has been much less of an issue than many had originally anticipated.

8.3.2 Value creation and Key Performance Indicators (KPIs)

A focus on value creation (Section 8.3.2.1) and the use of Key Performance Indicators linked to organisational strategy (Section 8.3.2.2) provide different perspectives on materiality determination approaches used by the sample companies.

8.3.2.1 Value creation

An important criterion to identify material matters is the possibility of affecting an organisation's ability to create value (IIRC, 2013d). Interviewees of all the sample companies revealed that they consider value creation in the determination of the materiality levels for non-financial information. Interviewees explained materiality level is based on value creation for the company and stakeholders:

Non-financial sections materiality level is decided based on how this area is important to the company and to the society. That is how we create value for the company and to our customers, stakeholders (Interviewee A M01).

For example, through the stakeholder engagement process, Citizens Development Business Finance PLC (2016/17) identifies 'Talent Acquisition' as one of the aspects of human capital which is very important to the organisation's ability to create value over the short, medium and long term. The 'Talent Acquisition Model' has been presented in their IAR.

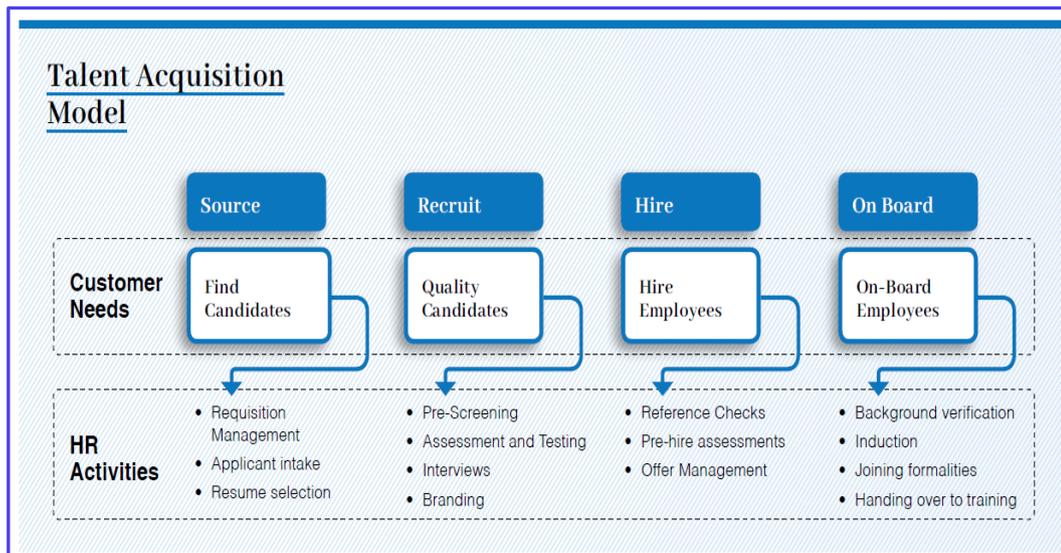


Figure 26: Talent Acquisition Model (Source: Citizens Development Business Finance PLC, 2016/17, p. 93)

An interviewee explains how they consider value additions to capital and value added to society when determining materiality levels:

At present, our plan is to communicate whatever the value additions. The type of value additions that we have created. We can directly put numbers but the value additions, we have to elaborate value additions in our capitals. So, we focus on the values that we have added to the society. That is our focus, the value additions. This is difficult (Interviewee B M03).

Findings indicate that, sometimes, the impact on value creation cannot be measured in financial terms; however, it is important to present the information using non-financial indicators. Diesel & Motor Engineering PLC (2016), identifies relationship capital as an important component of the value creation process. In Figure 27, their relationships with business partners are documented.

Relationship Capital - Business Partners

Key Performance Measures

Aspect	Measure	2016/17	2015/16	2014/15	2013/14	2012/13
Relationship with Business Partners	No. of Business Partners	94	95	77	77	81
	No. of relationships above 50 years	7	7	7	7	6
	No. of relationships between 25 to 50 years	9	9	9	8	10
	No. of relationships between 01 to 25 years	70	60	52	54	58
	No. of new Relationships Commenced during the year	8	19	9	8	7
Relationship with Local Suppliers	Payments to local suppliers (Rs.billion)	6.4	5.3	4.3	5.3	4.7

Overview

DIMO's business partnerships lie at the heart of our value creation process and therefore, we consider this a capital that requires careful management.

At the outset, when evaluating potential partnerships with new Business Partners we focus on portfolio of best-in-class products and global brands. During our 78 years of successful business, we have acquired

over 105 such internationally renowned brands into our pool of relationship capital. These brands complement each of our business domains, and deliver solutions that are technologically advanced and functionally sound. The value delivered by our local supplier network further enhances the inputs from our foreign business partners (Please see the Business Report on pages 84 to 93 for our segment-wise brand portfolio and key business partners).

Our current portfolio includes 94 principals, 51% of Asian origin and 37% from Europe. Of these, eight appear in the Fortune 500 list of 2016 - an indication of the superiority of our business partner profile.

The illustration below shows DIMO's global representation and the number of brands we represent through our worldwide business partner network.

Figure 27: Relationship Capital – Business Partners (Source: Diesel & Motor Engineering PLC, 2016, p. 72)

The analysis of IARs of the sample companies indicate that ascertaining and reporting value addition and value creation takes different forms depending on the company. An extract (see Figure 28) from Citizens Development Business Finance PLC, IAR (2016/17) illustrates materiality determinants and drivers that help to determine value additions for different aspects. For example, their value additions have four dimensions; economic, social, environmental and cultural. Economic factors: build and nurture a sustainable organisation, standardise service levels for all stakeholders, bring efficient resolution of customer complaints on a real-time basis, and effective risk management. Social factors include: nurturing an empowering environment, spurring socio-economic development, enhancing financial literacy, and being responsive to human needs and development.

Environmental factors inculcate a sense of responsibility and affinity towards the environment, infuse green practices in each business activity, and encourage energy savings. Cultural factors entrench ethical transformation throughout the company.

	Material Determinants	Material Drivers
Economic	Build and nurture a sustainable organisation	Diversity of products and services offered
	Advance the ease and convenience of financing	Easy accessibility through numerous customer touch points
	Balance the acceptable risk return appetite	Efficient and high quality IT platform
	Standardise service level for all stakeholders	Standardised service excellence
	Widen the operational footprint of the Company	Trust and safety
	Efficient resolution of customer complaints on a real time basis	Initiate sustained growth transactions
	Increase access to a variety of financial solutions	
	Reduce the cost of services	
	Promote financial inclusion	
	Plan and forecast for an uncertain economic recovery	
	Comply with governance and ethics	
	Effective risk management	
	Integrity of information technology (IT) systems	
Social	Nurture an empowering environment	Build a performance driven culture
	Maintain a consistent community investment strategy	Develop new markets, revenue streams and customer bases
	Spur socio-economic development	Contribute to strengthening social welfare
	Responsible access to finance sources	Enhance facilities for employee development
	Enhance financial literacy	Continuous customer education on proactive actions
	Lend for social well-being and community upliftment	Improve communication within and out of the Company
	Be responsive to human needs and development	
Environmental	Inculcate a sense of responsibility and affinity towards the environment	Ensuring compliance with existing and developing environmental regulations
	Infuse green practices in each business activity	Contributing to behaviour change for a more sustainable future
	Resource and energy consumption	Reducing environmental impact
	Energy savings due to conservation and efficiency improvement	Encourage employees to adopt green practices
	Be a carbon conscious entity	
	Compliance with environmental laws and regulations	
Cultural	Embed ethical transformation throughout the Company	Maintaining high ethical standards.
	Encourage employee engagement	Responsible lending
	Practicing corporate values	Fair treatment to all stakeholders
	Consistent communication across the most developing platforms	Regulatory change
	Embed talent management	Building an innovative culture
		Developing high performing and competent people

Figure 28: Material Matters (Source: Citizens Development Business Finance PLC, 2016/17, p. 53)

Some interviewees identified IR as value taken and value given. They share how the companies determine materiality based on value creation to various stakeholders or based on impact on the value creation of the organisation:

Materiality for non-financial information is determined in terms of value creation. Because the end of the day integrated reporting is value taken and value given out. So, the materiality also should be looked at in terms of the value created to the various stakeholders (Interviewee FM05).

It directly relates to value creation. We are giving to our key stakeholders. We have identified key stakeholders in our value creation model. It has a direct relationship with materiality and our value creation model (Interviewee IE04).

I'll just give one example say customer complaints. Customer complaints will not be reflected in the P&L or Balance Sheet but these customer complaints can cascade down to a very unsatisfied customer who may not re-visit us or maybe giving some bad information about our institution which will have a reputational issue. It will have an impact on the value creation of the bank. So whenever there are customer complaints we do keep track on it and then we pass it on to the relevant authorities and ask them to act upon them, maybe follow it up with a letter, maybe give a call, get to know about what happened and take action and keep them informed that this will not happen again. That is why we do customer satisfaction surveys and keep reporting on it. (FM 07)

The IAR (2016) of Commercial Bank of Ceylon PLC illustrates the materiality levels identification through a value creation process, which is based on both corporate planning and stakeholder engagement. Two axis of the graph (see Figure 29), are labelled 'Impact on Stakeholders' and 'Impact to Bank', are ranked as 'Low', 'Medium', and 'High' based on the bank's value creation process and stakeholder concerns.

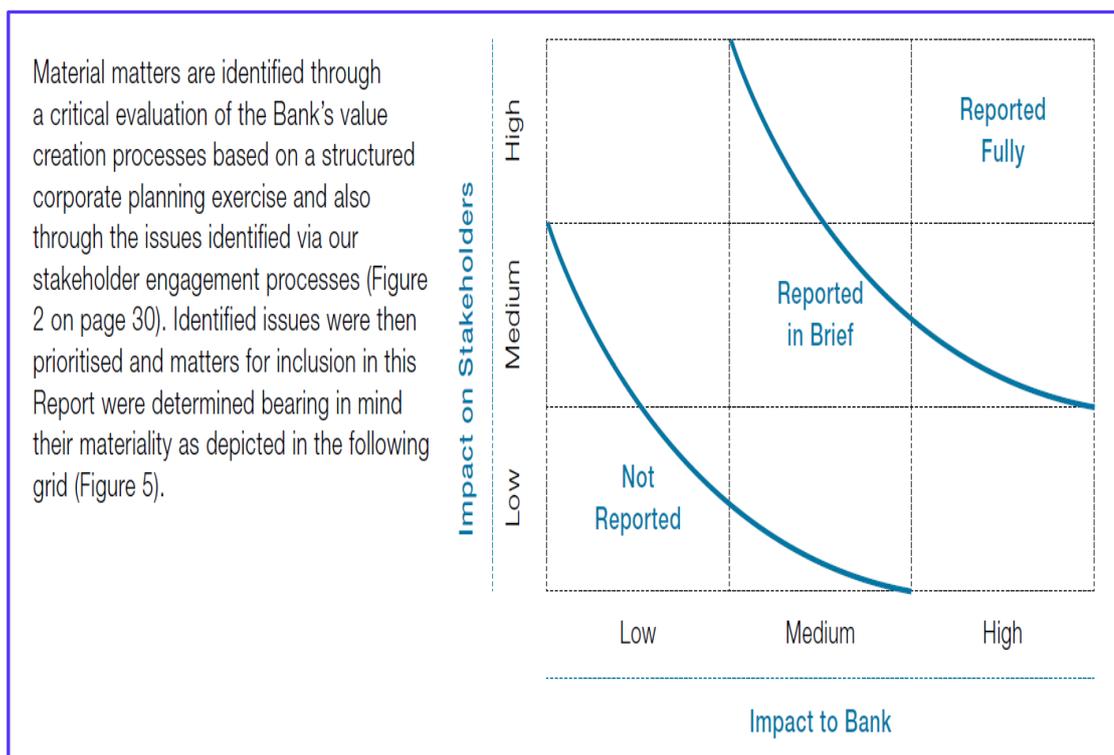


Figure 29: Materiality Matters (Source: Commercial Bank of Ceylon PLC, 2016, p. 33)

The IIRC (2013d) suggests a matter is material if it could affect the organisation's ability to create value over the short, medium and long-term. In determining whether a matter is material companies should consider whether the matter substantively affects, or has the potential to substantively affect, the organisation's strategy (IIRC, 2013d). Strategy has a huge impact on value creation. Any actions needed to achieve strategic objectives could be included in the integrated report. Deloitte (2010) argues on the International Financial Reporting Standard (IFRS) framework, materiality is an entity-specific form of relevance, based on both the magnitude and the nature of the items to which the information relates. Thus, the IFRS, developed for financial items, is not appropriate for most non-financial items in integrated reports that focus on value creation.

To the researcher's knowledge the literature is silent on how organisations relate materiality to value creation for the purposes of determining the content of an integrated report. This is probably due to the general lack of empirical studies on how organisations implement IR. The use of value creation criteria in materiality determination is a significant finding from this research.

8.3.2.2 Key Performance Indicators (KPIs)/strategy

The organisation's strategy has always been central to the integrated report, and materiality is inextricably linked to strategy (Lai et al., 2017). Some sample companies identified the relationship between strategy, KPIs and the materiality of non-financial information. An interviewee comments that the materiality of non-financial information relates to the strategy and KPIs of the company:

It is coming from our strategy. Materiality for non-financial things cannot be defined by any number, any quantitative thing. What happens is, if it is part of our strategy that has a material KPI to disclose. So, they decide the framework and if it is within that framework that becomes a material information to be reported in the integrated reporting framework. Very simply, we look at governance as part of our key strategy, for example, our insurance company is one of the best-governed companies in the country. So then, strategies in respect of ensuring our governance framework are part and parcel of our KPI management and when it comes to the presentation of the integrated reporting obviously, the governance becomes a key element. For example, look at our report we have a very high attention on governance framework, the governance reporting and how to establish further governance practices while doing our sustainable model (Interviewee D M02).

Further, the IAR of People's Leasing & Finance PLC (2016/17) illustrates some of the matters that the organisation considers material within the company's social and relationship capital, and that the company considers these matters as material since those actions are needed to achieve strategic objectives.

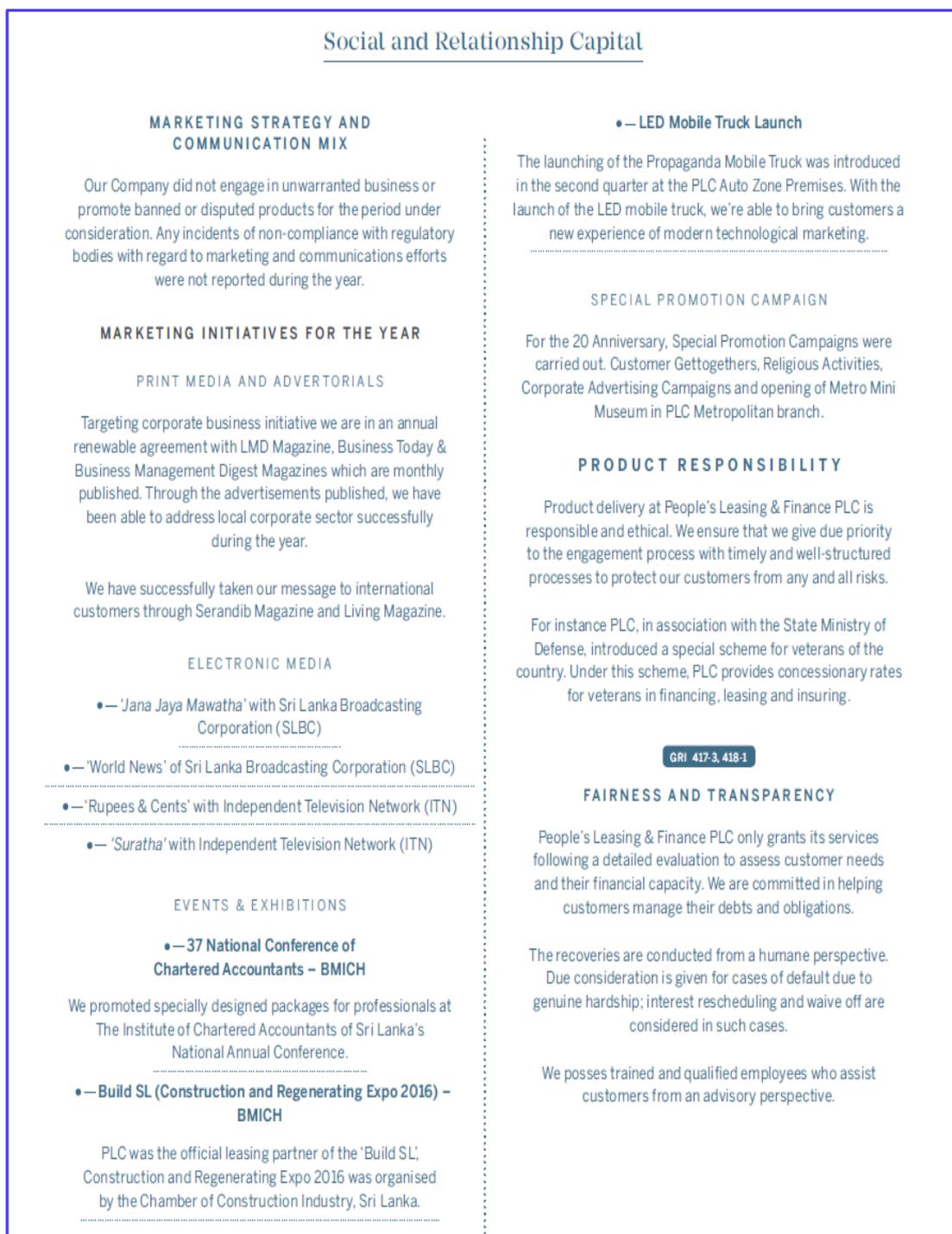


Figure 30: Social and Relationship Capital (Source: People's Leasing & Finance PLC, 2016/17, p. 108)

Embedding the materiality determination process into management processes can enhance the efficiency and effectiveness of decision-making and reporting. One interviewee clarifies the links between materiality, strategy, strategy formulation, and IR:

Materiality is coming through the strategy. The strategy is decided by everyone. CEO leading it and all the top management contribute towards the strategy of the bank. So, it's a combination of efforts coming through the strategy to the integrated reporting. At the end of the day the strategy should be linked to your integrated reporting otherwise the strategy can't be stand-alone or the reporting can't be stand-alone (Interviewee G M01).

The finding is that materiality is coming through the strategy: strategy and integrated reporting are linked together. In addition, reporting scope is decided by identifying the objectives of the materiality assessment, particularly internal and external matters that are most important to the stakeholders and the business. Further, the strategy is aligned with stakeholder expectations identified through stakeholder engagement.

The 2016/17 IAR of Citizens Development Business Finance PLC makes explicit the connection between sustainability and strategy of the organisation and how the strategy aligns to meet the expectations of stakeholders.

2.4.2.2 Report Scope

We define the scope by identifying the objectives of materiality assessment, in particular the internal and external issues that matter most to our business and our stakeholders. Since there is a strong connection between our sustainability commitment and our business strategy, we strive to align all aspects of our strategy with the expectations of our stakeholders.

Figure 31: Report Scope (Source: Citizens Development Business Finance PLC, 2016/17, p. 51)

People's Leasing & Finance PLC (2016/17) identifies: enhancing the brand position in untapped markets, consistent maintenance and improvement of international ratings, optimising group synergies and nurturing a knowledge culture within the organisation, as some of the important strategic aspects to stakeholders as well as to the organisation (See Figure 32). These factors are identified as material matters by considering the strategic importance of the items. The company presents some of the identified strategic priorities, their current level of achievement, the expected

level of achievement within the next three years, and the related strategies. In IR preparers' view, the meaning of materiality corresponds with the company strategy.

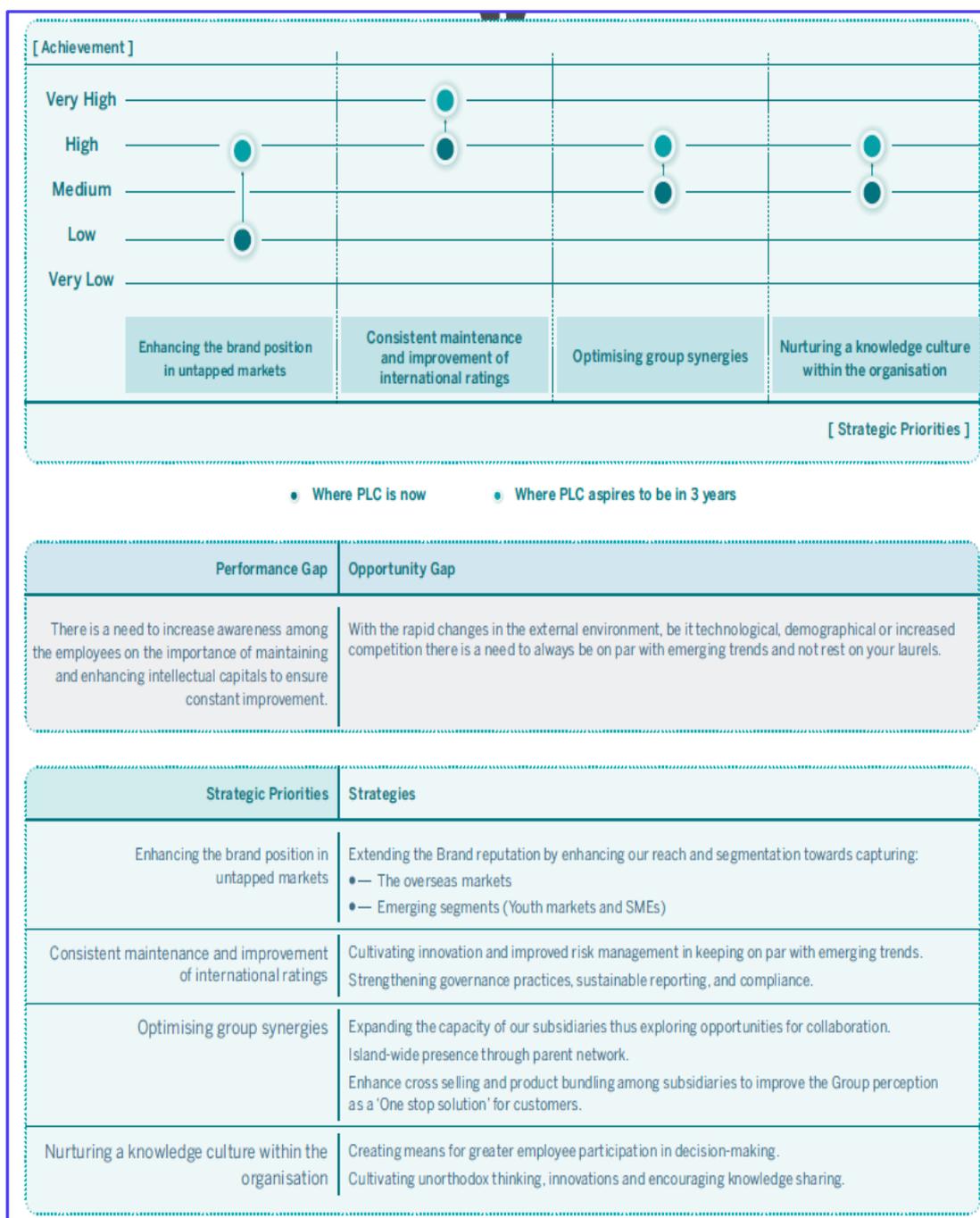


Figure 32: Intellectual Capital (Source: People's Leasing & Finance PLC, 2016/17, p. 78)

Materiality links with performance measures because un-measurable items do not identify as material matters. An interviewee described how materiality links with KPIs to ensure the measurability of non-financial information:

Materiality comes with KPIs because we need to measure the performance of each and every element that we take into consideration. It's kind of a performance measure that we are always looking at because if you are thinking about any particular thing if it cannot be measured properly, it won't be a material issue (Interviewee B M06).

The IAR of Diesel & Motor Engineering PLC (2016) shows that material matters are given due attention of the management and responses are established in the form of strategies. The effectiveness of those strategies closely monitors with respect to sustainability performance objectives. An extract from Diesel & Motor Engineering PLC, IAR (2016) illuminates how material aspects of non-financial information are measured against the sustainability performance objectives.

Material Stakeholder Issues and Their Status

Material matters identified through our stakeholder engagement process have been given due attention of the management and responses are established in the form of strategies or plans.

The effectiveness of those responses is closely monitored by the Sustainability Committee with respect to internal sustainability performance objectives to ensure that we address them adequately and on a timely basis.

Our responses and the input from stakeholder engagement may alter the status of those material issues identified in the last financial year. The following table explains the shift in the status of those material matters, where applicable, and our responses, and provides a link to detailed discussion conducted either in the annual report or in our corporate website, and gives the status of the sustainability performance objectives.

Status of Material Topics - 2017 vs 2016

	Material Aspect	Issues Raised by	Status	Possible Reason for the Shift in Status	Our Response
1	Emissions, Effluents and Waste	Society	❑	Not applicable	Our Environment Management System which was upgraded to ISO 14001:2015 during the year, is constantly working towards minimising emission levels and effluents. Continuous improvement in these areas are conducted and those are measured against the sustainability performance objective numbers 15 and 16. For more information refer pages 94 to 111 in the Environmental Impact Report.
2	Technical Education for Youth	Society	○	We have increased the monetised capital investment in technical education for youth by 77% compared to last year	We have increased our investments in technical education and expanded the number of opportunities provided to apprentices. For more information refer page 107 of the Social Impact Report.
3	Customer Health and Safety	Customer	○	During the year Group's Quality Management System was upgraded to ISO 9001:2015 covering the operations of all five business segments	Our ISO accredited Quality Management System ensures our products are of high quality. We will continue to strictly comply with health and safety aspects relating to our product portfolio. For more information refer page 70 of the Customer Capital Report.
4	Employee Training and Education	Employee	○	Average training hours per employee increased to 18 hours	Continuous training and development programmes conducted for employees improved this aspect. The achievement of Sustainability Performance Objective number 07 bears testimony for this improvement. For more information refer page 77 of the Human Capital Report.
5	Occupational Health and Safety	Employee	❑	Not applicable	Employee health and safety receives due importance and comes under the purview of the Head of Operational Compliance. Employee health and safety is covered in the Group's Occupational Health & Safety Policy. For more information refer page 78 of the Human Capital Report.
6	Procurement Practices for Local Suppliers	Local suppliers/ Subcontract workers	❑	Not applicable	Local suppliers should abide by the Group's Supplier Code. The success in this endeavour is measured using the sustainability performance objective number 10. For more information refer page 74 of the Business Partner Relationship Capital Report.

Figure 33: Material Stakeholder issues and their status (Source: Diesel & Motor Engineering PLC, 2016, p. 37)

Similarly, People’s Leasing & Finance PLC (2016/17) demonstrates the link between materiality assessment and strategy. They also link materiality assessment to their business model and their KPIs. During the ‘internal priorities’ of the materiality assessment process, the company weighs the matters against some of factors including strategy and the business model. In addition, the company uses KPIs to measure the progress of undertaken activities of material matters during ‘responding, monitoring and assessing’ the material matters (p. 50).



Figure 34: Materiality Assessment (Source: People’s Leasing & Finance PLC, 2016/17, p. 50)

These findings from the sample companies are consistent with the findings of Lai et al. (2017, p. 544) based on Assicurazioni Generali (one of the biggest insurance groups in the world and the top firm in Italy), that strategy determines IR materiality

content, such that a strategy basis defines ‘what IR deserves to be included in the integrated report’. Lai et al. (2017) consider materiality in the IR is inextricably linked to strategy, and the integrated report is conceived of as an instrument for communicating corporate strategy, as it cascades across the group (Lai et al., 2017). The extent to which integrated thinking underpins the materiality determination process, and is linked to board and management discussions, is also important (IIRC, 2015, p. 4)

Further, the findings indicate that the sample companies consider key performance indicators and strategy when they determine the materiality levels of non-financial information in their IARs. This is similar to the Stubbs and Higgins (2014) findings based on internal mechanisms mobilized by Australian early adopters of IR: companies are changing the materiality process by focusing on “fewer, more strategic issues rather than lots of issues that are, for example, covered by the GRI” (p.1083).

The sample companies assigned a pertinent function to the IR and aligned the definition of materiality with their business strategy. Thus, by giving materiality a strategy meaning, they satisfy the information demands of investors and stakeholders in the rapidly changing world. In addition, their IARs can satisfy the important need expressed by the board to reveal achievements from their companies’ strategy.

8.3.3 Judgement, benchmarking, and a combination of various methods

Judgement (Section 8.3.3.1), benchmarking (Section 8.3.3.2) or a combination of various methods (Section 8.3.3.3) are also used by the sample companies to support their selection of material matters to report in their IARs.

8.3.3.1 Judgement

The materiality threshold for inclusion in the integrated report demands an exercise of judgment to separate the “material” from the “immaterial” (Eccles & Krzus, 2014). Interviewees from most of the sample companies pointed out the use of judgment in making the materiality determination. For example, one interviewee comments:

We decide ok this incident is not the average, this is beyond, so, we should report. That is a judgmental thing (Interviewee F M12).

The findings indicate that professional judgment is deemed necessary as a good understanding of the operations and business of the company, and experience with the company enables the use of judgment for materiality determination of non-financial information. The interviewees elaborate:

Non-financial information is actually judgmental. To do that you have to have a very good idea about the company operations (Interviewee I M02).

In non-financial there is a certain level of subjectivity or what do you call it judgmental. I think a certain level of judgments has to be taken in but with the experience that we have we can boil down to that (Interviewee L M01).

Through experience only we feel these matters are material (Interviewee F M04).

However, no decision involving the use of accounting information can be made in a vacuum or by the consideration of a single variable. There appears to be the need for some sort of guide to support ‘judgement’. In one company, a sustainability committee responsible for making judgments on materiality decisions uses a mapping system to determine the material matters:

There is a mapping system. Once you do this mapping, there is no guideline that is needed. We have something called a sustainability committee. The sustainability committee has nothing other than making these judgments. You need some judgments when you plot it on this map. So, this sustainability committee is the one that is making the judgment (Interviewee C M01).

Figure 35, extracted from the IAR of Diesel & Motor Engineering PLC (2016), illustrates a mapping system used to identify material from non-financial information. The authorized committee of the company maps the matters under the scales of ‘high’, ‘medium’, and ‘low’ by using judgment:



Figure 35: Feedback Analysis (Source: Diesel & Motor Engineering PLC, 2016, p. 36)

Judgment needs to be applied in determining the information to disclose about material matters (IIRC and American Institute of Certified Public Accountants, 2013). Also, any lack of guidance to determine materiality could lead to an assessment of materiality purely on judgment (Bernstein, 1967), as materialized in financial information. Judgment is a vital part of any professional's work. In accounting, it plays an important role every step of the way (Bernstein, 1967), so it

is not unexpected to find judgement being used in materiality decisions by the sample companies.

However, the undefined concept of professional judgment in materiality determination for non-financial information can only result in a proliferation of loose standards and practices. Loose practice may undermine confidence in the IR. That is especially so when the presentation of non-financial information shows a substantial lack of uniformity. Greater uniformity is necessary for two major reasons: (1) because it facilitates comparability, and (2) it acts as a regulator of quality (Bernstein, 1967). Comparison is a vital analytical tool.

The extant literature indicates that there may be no easy rule to follow to determine materiality (Eccles & Krzus, 2014). There is no rule prescribing the frequency or a precise approach to the materiality determination process (IIRC, 2015). A factor's relevance must be weighted by its importance to the company. Judgment is applied in determining materiality (IIRC and American Institute of Certified Public Accountants, 2013). The exercise of judgment is needed to separate the "material" from the "immaterial" (Eccles & Krzus, 2014) as shown by the sample companies.

When compared with financial information, the lack of guidance and experience on assessing materiality in the IR context (Hanks, 2012) makes the materiality determination more challenging. Materiality determination in IR is infinitely more challenging because "importance" is difficult to translate into monetary terms (Steyn, 2014). On the other hand, the little guidance offered by the IIRC is based on principles, and allows for significant variation in the way companies may apply the materiality principle and develop their "materiality determination process" (Lai et al., 2017). Hence it is not surprising that the sampled companies followed the GRI guidelines rather than making their decisions on materiality with reference to the IIRC. "GRI is continuing to work with the IIRC with a shared vision for the evolution of corporate reporting, in which alignment and clarity of frameworks, standards and requirements will lead to improved efficiency and effectiveness in reporting. Platforms such as GRI's Corporate Leadership Group on integrated reporting are instrumental in shaping the future of corporate reporting, as they stimulate high-level peer learning, enrich existing discussions and provide innovative insights" (GRI, 2016, p. 3). For example, an important objective forming

the GRI Corporate Leadership Group on integrated reporting (CLGir) is to identify opportunities to leverage existing robust sustainability reporting practice for the purposes of ensuring meaningful integrated reporting including materiality matters (GRI, 2016).

Given vague or non-existent guides for the application of such an important concept, the result must be a wide variety of practice in an area where a reasonable degree of uniformity and comparability is essential (Bernstein, 1967). Bernstein (1967) argues that what is material and what is not cannot be left to the undefined realm of "judgment."

The literature and interview findings indicate that the dilemma posed by considerations of materiality in accounting, including materiality in integrated reporting, is not a simple one. Good judgment must receive guidance from clearly formulated standards and limits. The debate regarding which criteria are applied is useless if the resulting practice produces a great diversity of results under similar conditions. Benchmarking against other companies in the industry can provide some informal guidance.

8.3.3.2 Benchmarking

A company can use information reported by other organisations, preferably from the same industry. By looking at the information reported by other companies, some companies ascertain some measures of an acceptable level of materiality. Interviewees report how they use benchmarking to determine materiality levels:

I read the other reports of other parts of the world. I see we also have this function but I have not reported it. I read others' reports locally and I say ok this part is there, this part is there but the link is not there, something like that. So, that is how I decide on what to include and to improve the report (Interviewee D M03).

What we always do is we compare with our competitors and other good reports internationally and from those reports, we identify what they reported. We decide materially based on other reports actually. For example, we refer to South African good integrated reports (Interviewee I M02).

With a lack of guidance, organisations tend to copy the reporting strategies of peers in the industries they operate in (Robertson & Samy, 2015). Thus, it is observed

that the companies turned to other companies, in the same industry or not, to benchmark their techniques and reporting practices.

Findings reveal that benchmarking is not limited to companies in the same industry. Interviewees used ‘good’ IARs in any industry, locally and globally. They actively searched for different techniques to support their materiality decisions.

8.3.3.3 Combination of techniques

It is evident from the interviews and the IARs, that most companies use a combination of techniques to determine the materiality levels for non-financial information. Analysis of interviews and the IARs show the following combinations:

- investor requirements/ stakeholder analysis and relationship with KPIs/strategy;
- investor requirements/ stakeholder analysis and judgment;
- investor requirements/ stakeholder analysis, usefulness of information for decisions and impact on stakeholders;
- value addition/creation and judgment;
- value addition/creation, investor requirements/ stakeholder analysis, judgment and impact on stakeholders;
- value addition/creation, usefulness of information for decisions, judgment and impact on stakeholders;
- judgment and benchmarking.

In some instances, companies use a combination of two or more techniques in the materiality level determination process. Most of these methods are consistent with an IIRC criterion on materiality determination for non-financial information for identification and reporting of items that “substantively influence the assessments of the primary intended report users with regard to the organisation’s ability to create value over the short, medium and long-term” (IIRC, 2013d, p. 21).

In the context of integrated reporting, the materiality levels for non-financials appears even more difficult to apply than in financial settings. A few interviewees indicated that both IIRC and GRI guidelines are used to determine materiality levels for non-financial information. By contrast, most of the sample companies use the GRI guidelines to determine materiality levels for non-financial information in their IARs. The reason could be difficulties in establishing materiality for traditionally

‘non-financial’ factors (ACCA, 2012), as well as the availability of less guidance and experience on assessing materiality in the IR context (Hanks, 2012). Some interviewees suggested the idea of a regulatory framework for determining materiality levels in an IR context. Although materiality represents a ‘starting point’ for the IR preparation process (PwC, 2015a), the use of GRI guidance by most of the sample organisations to determine the materiality of non-financial information may hinder the expected benefits of IR anticipated by the IIRC. This could be one of the reasons for the increased length of the sample companies’ integrated annual reports (as discussed in Chapter 10) and their deviation from the conciseness principle.

The use of GRI guidelines by most of the sample companies to determine materiality levels for non-financial information gives an indication that there is considerably less guidance and experience in assessing materiality in the context of IR as argued by Hanks (2012). Though it is assigned a pertinent function to the IR and aligned to the definition of materiality with its business strategy, the use of GRI guidance by most of the sample organisations to determine the materiality of non-financial information could result in non-achievement of IIRC’s objectives.

It is doubtful whether the sample companies would be able to achieve the objective of materiality in integrated reporting, i.e. to generate a high degree of company transparency and accountability so as to facilitate access to reliable information and protect investors (Cohen & Karatzimas, 2015; Edgley, 2014). It is therefore recommended, as suggested by Bernstein (1967) for financial information, that a definite ‘framework’ be established, which, given similar circumstances, will help managers to arrive at meaningfully similar conclusions regarding questions of materiality in an IR perspective.

Since non-financial information seeks to capture a broader concept of value creation, and even if the impact of an event might be quantified, it is not possible to establish a unique threshold because an event may affect more than one form of capital (e.g. financial and non-financial). Therefore, use of a combination of different techniques could result in the best disclosure of non-financial information in IARs.

8.4 Conclusion

This chapter explored IR practicing Sri Lankan managers' perception on materiality levels of non-financial information, managers' awareness about the difficulty of determining materiality, and techniques used by IR practicing Sri Lankan PLCs to determine materiality levels. The IIRC anticipated that an emphasis on material matters would improve the quality of reporting and so enable more efficient and productive allocation of capital.

The findings provide evidence that IR practicing Sri Lankan PLCs employ different methodologies to determine materiality levels for non-financial information. The methodologies are based on stakeholder analysis, value creation, the relationship with strategy, KPIs and judgments, benchmarking, and any combination of techniques.

The interviewees recognise that materiality determination is complex because much of the non-financial information is unable to be quantified, and there is a need to identify the various intended report users and their decision-making needs. This requires a balancing between the various internal and external stakeholders of an organisation.

The interviewees consider value additions in capital and value added to society in their various dimensions. Some interviewees identified IR as value taken and value given as the actions of an organisation interacts with the world around it, not in a vacuum. The literature does not provide any advice on how organisations relate materiality to value creation for the purposes of determining the content of an integrated report. However, the interviewees offer some advice that could be utilised by other organisations embarking on the IR journey. They advise:

- IR preparers/implementers should have a good understanding of the operations and 'business' of the company, as this provides valuable experience that enables the use of judgment for the determination of materiality for non-financial information.
- There needs to be better and stronger engagement with stakeholders to understand their requirements of accountability, transparency and

information decision-usefulness needs to conduct better materiality determination of non-financial information.

- IR preparers benchmark other companies' techniques and reporting practices reviewing not only other companies in the same industry but also that of companies in other industries to provide better quality materiality disclosures.
- IR preparers use a combination of two or more techniques to aid the decision-making process in materiality determination.

The lack of guidelines and standards or a broadly accepted approach to materiality determination in non-financial information for IR appears to have both a strength and a potential weakness in its practice. It is a strength in that it enables organisations to communicate the specific information most relevant to the particular setting, thereby enhancing the non-financial information content of the reports. It is a weakness in that the resulting variation in reporting practices hinders comparison and benchmarking and creates uncertainty for those seeking to understand the new approach. The variation in reporting practices may undermine confidence in IR. This is especially so when, the presentation of non-financial information, practice as a whole shows a substantial lack of uniformity.

Some unintended consequences, causing deviation from the IIRC's objectives for IR, are observed. Most of the sample companies use their IAR as an image building reputational tool, and they tend to use GRI guidance, in preference to the IIRC Framework, to determine the materiality of non-financial information.

Further, since the size of the most of sample companies' IARs has increased it appears that most companies' materiality determination techniques are not achieving the conciseness principle (addressed in Chapter 10). The IARs of the sample companies show that some unimportant information for integrated report users is in some of the sample companies' IARs. This indicates that some of the sample companies do not practice the concept of materiality for non-financial information appropriately. It seems that stakeholders' problems of 'large volumes', 'information overload' and obfuscation of 'core issues' have not been addressed with the adoption of IR in the sample companies.

Overall, the interviewees demonstrate a positive and realistic attitude towards implementing IR. With a lack of guidelines and standards for materiality determination in non-financial information, the interviewees developed their own approaches. Eight techniques are identified and a combination of these techniques is most often used. These techniques may be usefully adopted by other companies attempting to improve their IARs. The wisdom and experience gained by the interviewees of the Sri Lankan sample companies may inform other organisations grappling with determining materiality levels for non-financial information.

CHAPTER 09

RISK MANAGEMENT OF FUTURE-ORIENTED DISCLOSURES

9.1 Introduction

This chapter addresses the research question “How does the management of Sri Lankan PLCs deal with the risk inherent in disclosing future-oriented predictions in integrated reports?” This chapter is structured into six sections. Following this introduction, Section 9.2 shares the interviewee’s perceptions of the risk of future oriented predictions in their integrated reports. Sections 9.3, 9.4, and 9.5 document the various strategies applied by the interviewees to mitigate the risk of those predictions not being accurate. Section 9.6 concludes the chapter.

9.2 Interviewees’ perception of risk in making predictions in integrated reports

The interviewees are aware of the risks of publishing predictions in the integrated annual reports (IARs). They indicate that they apply preventive and continuing measures to mitigate the risk of making predictions about the future that might not be achieved. Significantly, they indicate their fear and the need for reactive measures if predictions are not achieved. However, they are aware that future-oriented information is more uncertain than historical information and consequently inherently risky. This is illustrated by the statement:

If I make a prediction and get some poor person... to invest in our company, he may be risking his small savings, so we have to be careful. I do not predict financial bottom lines... if we do... our shareholders will hold us accountable. They may even sue me. I think there is a huge risk (Interviewee E M01).

It is found that interviewees are aware of risks associated with predictions and consider the consequences of disclosing future-oriented information. They stress that extra care is taken about what to disclose and what not to disclose. The overall finding from the 55 interviews indicates that managers consult with and seek approval from different levels of hierarchy within their companies because they fear lawsuits, which may arise from inaccurate disclosures. One interviewee states:

When it comes to predictions we, the senior team, discuss what we want to say and what we don't want to say. Identifying what we don't want to say is important (Interviewee E E01).

Interviewees' responses show their caution when there are significant risks and uncertainties associated with the provision of future-oriented information. They are concerned about threats to their competitive advantage. Several levels of approval are required to strengthen the probable achievability of predictions:

We deliberate before releasing sensitive information to the public - competition is very high... Several levels of approval are required before its release (Interviewee F M01).

Furthermore, the interviewees applied some strategies to mitigate the risks, for example, one strategy adopted by interviewees is to make explicit assumptions concerning organisational, environmental and economic factors used in providing the predictions. Thereby managers try to shield themselves from liabilities should the predictions prove incorrect. The interviewees provide some evidence:

We normally predict for two years based on certain assumptions. Assumptions include the economic situation of the country as well as the global economy. We describe our organisation's ability, distribution channels, and everything. We provide financial projections based on those assumptions. The CEO's review and Managing Director's statements are publicised annually; they give some clues about the future (Interviewee B M01).

An extract from the IARs of Citizens Development Business Finance PLC (2016/17), illustrates how future predictions are explained. The company explicitly describes the economic conditions of the economy and organisational environment including the management, the workforce, and aspirations of the board of directors (see Figure 36). The extract shows the awareness of top management about the risk of predictions in IARs and how they try to avoid being specific.

A Look into the Future

Sri Lanka's economic growth in the current year is not expected to increase beyond 5%, having been inhibited by the consequences of adverse weather conditions and various domestic challenges. However the restoration of the GSP Plus tariff concession and various initiatives being taken to attract FDIs are expected to increase investment and stimulate the economy to achieve higher rates of growth in the years to come.

As mentioned earlier in my report and in my previous report as well, the company needed the required space in the year under review, for the consolidation of its gains achieved over the last several years. We have since put in place a platform to create new capacity with which to achieve greater sustainable growth in profitability and shareholder wealth in the years ahead. I am optimistic that the ambitious targets set by management for itself to make CDB a bigger, better and stronger organisation, is achievable, given the commitment and dedication displayed by a dynamic management team and a multi talented workforce.

Your Board of Directors has an unwavering commitment towards good governance, regulatory compliance and the mitigation and management of strategic risks in its quest to foster a reputed brand that anchors everything we do.

Figure 36: Chairman's Message (Source: Citizens Development Business Finance PLC, 2016/17, p. 17)

A significant finding is that the interviewees' reluctance to provide predictions of future performance are at odds with the IIRC which noted that "uncertainty is not, however, a reason in itself to exclude such information" (IIRC, 2013e, p. 16). Projections are considered to be particularly useful for stakeholders in making informed decisions (Aljifri & Hussainey, 2007; Hussainey et al., 2003; Kasznik & Lev, 1995; Menicucci, 2013), however, the interviewees' reluctance and concerns work in opposition to this premise.

Still, IIRC (2013a) notes there are situations when organisations are not expected to disclose information, for example when disclosure might significantly harm their competitive advantages. Again, it is up to the managers to make a judgement to decide what could be significantly harmful to their company. To assist with their judgements or to mitigate the risk of disclosure of future oriented predictions in their IARs, the sampled companies applied several techniques. These are discussed in the following three sections (9.3, 9.4 and 9.5).

9.3 Accuracy, conservatism, and integration with financial predictions

Three strategies relate to the development of predictions reported in the IARs of the sample companies. The companies want to be as accurate as possible (Section 9.3.1), while being conservative (Section 9.3.2) and also integrate their forecasts with financial information (Section 9.3.3).

9.3.1 Accuracy

Druckman (as cited in Ernst & Young, 2015) explains that the IR framework guides directors to provide transparent, forward-looking information, but some fear litigation if that information proves to be incorrect.

The findings indicate that interviewees believe that in order to mitigate the risks associated with future-oriented disclosures, predictions should be as accurate as possible. The interviewees point out that they manage this by predicting possible scenarios and projecting associated realistic and achievable predictions. Additionally, they said that past results need to be accurate as these are instrumental in estimating future performance:

Each Department Head is responsible to provide actual and accurate financial information. ...To have reliable predictions: trustworthiness, completeness and the integrity of historical data is important. Projections rely on the accuracy of past data. To ensure the accuracy of historical data for the prediction basis, we have established proper internal control systems. Also, we demand that external data sources are true and verified before we use them to aid our future predictions. Management of the company will have a discussion... to guide the realistic measurement of the future and let each other comment...on the accuracy of the draft predictions (Interviewee A M01).

Most interviewees believe they are answerable for the predicted results if they are not achieved by the end of the next reporting period. Therefore, the interviewees attempt to ensure the predictions are attainable:

We want to give realistic predictions. Never to give false forecasts to satisfy others, which we can't justify to ourselves. We have critical discussions before releasing data. When we disclose targets, we have to make sure that they are likely to be attainable. We release only numbers that we feel are achievable because we have to answer to them (Interviewee B M02).

To increase the accuracy of predictions, some interviewees use techniques such as stress testing, financial modeling, budgeting, and probability calculations. In this way, they perceive that the risks associated with future disclosures are dealt with:

Managing the risk of financial predictions is done by conducting stress testing, financial modeling, budgeting etc. The possible results of various poor estimates for variables are calculated by inserting a range of possible values for key variables and observing the impacts (Interviewee B M04).

Interviewees also noted the importance of the endorsement of predictions from top management to ensure that the predictions are as accurate as possible. The employees involved in the forecasts become responsible for the achievement of those forecasts. All relevant parties must become involved in creating future-oriented information, to ensure the predictions are as accurate as possible:

We collectively discuss all the data projections. We get inputs from all interested parties, the: MD, CEO and Business Development Managers. We obtain the consent of each of them to any projections that are published (Interviewee B M05).

The need for accurate forecasting procedures appeared to be recognised by all the interviewees. Druckman (as cited in Ernst & Young, 2015) explains that directors fear litigation if the forward-looking information proves to be incorrect. Therefore, the sampled companies try to prepare information that is as accurate as reasonably possible, whilst being conservative in their estimations. What the companies do to ensure this accuracy is not discussed in the literature.

9.3.2 Conservatism

Some interviewees manage the risk of disclosing future-oriented information by being conservative in their estimations. In addition, some interviewees try to guard against the risk of uncertainties associated with future-oriented information by disclosing the information in a general manner, and without explanations:

They always go for more conservative decisions to ensure that we don't have much risk involved in the future direction of the company (Interviewee D E03).

We always disclose our approach in a broader sense in order to maintain the confidentiality of the same (Interviewee A M02).

When we give our outlook, we don't get into speculation. What we say is a very broad directional thing. This is because what you say could be right today but it could be wrong tomorrow. We don't disclose unless we are very sure it's going to go ahead (Interviewee E E01).

For example, Citizens Development Business Finance PLC (2016/17) provides a general explanation of the economic situation of the country, the chairman's aspirations and the board of directors' commitments. In Figure 36 (see page 25959), the Chairman's statement provides a generic explanation about the economic factors facing the country and the chairman's belief about the achievability of the set targets if some of the conditions are satisfied (see the circled text in the figure). The Chairman states "I am optimistictargetsachievable, given the commitment and dedication....."(p. 17). The indication of the achievability of the targets if the given conditions are satisfied shows the conservatism of predictions in the chairman's message.

HNB Assurance PLC (2016) provides information (relating to natural capital) showing the general goals and achievements of the company.

Input Capital	Strategic Focus	Goal for 2016	Progress In 2016	Goals for 2019
Natural Capital	Minimise Negative Impact to the Environment	Reduce Carbon Footprint Created	Saved 80 Trees, 8,247 l of Oil, 18,796 kWh Electricity, 149,334 l of Water, 14m ³ Land Fill and Reduced Green House Gas Emission by 4,669 kg	Continue to reduce carbon foot print Give back to mother nature as a member of Bio Diversity Sri Lanka

Figure 37: Our Progress Towards Sustainable Value Creation (Source: HNB Assurance PLC, 2016, p. 28)

The extract from HNB Assurance PLC (see Figure 37) provides an interesting example of disclosure. The Strategic focus and Goals for 2016 and 2019 are

expressed in general terms of ‘minimise’ and ‘reduce’ without specific targets, whilst the achievements are quantified. Yet the company appears to be careful not to provide comparative figures or quantified targets for any year. The report readers cannot ascertain if the company has achieved its targets or indeed, if it has any specific quantifiable targets to meet. The use of general terms such as ‘minimise’ and ‘reduce’ indicates the conservatism of the future oriented predictions.

In an effort to reduce the risk of such disclosures, the interviewees demonstrate conservatism by making general statements about their future plans. They indicate that they prefer to provide disclosures of generic information rather than specific future-oriented information in their IARs:

We state our future business strategies. Within that, we identify what our core competencies are and what we need to focus on in the future. We talk about where we want to go from today. ... (Interviewee A M01).

Diesel & Motor Engineering PLC (2016), demonstrates the provision of non-specific future-oriented predictions (Figure 38). The extract from the Chairman/Managing Director Message, describes the economic situation of the country and some of the general strategies of the company. Further, the company explains some of the negative aspects applicable to the company (e.g. upward revision of the tariff) to mitigate the liability risks if predicted results are not achieved. In addition, the report mentions possible new projects in the country and the opportunity for the company to profit from those projects. Each of these disclosures (see the circled text in Figure 38) illustrate a conservative approach to making predictions.

Outlook

Our country is in a phase where aggressive investment plans are drawn by successive Governments. Therefore, we expect public and private sector investments to increase in the short and medium term. The significant investments we have been making in capacity building will position us well to ride this wave.

A short-term perspective indicates mixed fortunes. The upward revision of the tariff of small commercial vehicles during the third quarter is bound to hurt our top line and bottom line in the ensuing year, unless we see a reversal of this policy at least during the second quarter. However, counter strategies are in place to minimise the adverse impact of the tariff increase. We would also gladly welcome a favourable revision in the loan-to-value ratio in vehicle financing. The higher volumes planned in Mercedes-Benz Passenger and Commercial vehicles are expected to provide a boost to the vehicle sales segment.

Some key road construction projects are expected to take off during the year. This will provide an impetus to the Construction Machinery and Material Handling Segment, and also to the sales of heavy commercial vehicles. We have secured a fair share of work in the private sector construction segment and this should help the Building Technologies business to perform well. Additional revenue streams are expected from new investments in the Agriculture sector, including fertilizer. Overall, our budgets indicate an improved performance in the ensuing year.

Figure 38: Chairman/Managing Director's Message (Source: Diesel & Motor Engineering PLC, 2016, p. 11)

The interviewees suggest that providing qualitative information about their companies' strategies could reduce the risk of disclosure of future-orientated information as this approach avoids using numbers. They believe that disclosing quantitative information makes comparison easier for stakeholders and thereby increases the risk of non-achievements:

We give qualitative information on the strategies. ... We give the qualitative information like we hope to grow our branch network, we have these kinds of products, and we are planning to serve this kind of market, this kind of operation we are going to have in the future which will help. What information we give outsiders is a thing that we need to manage (Interviewee G M02).

The lack of specifics and lack of quantitative information is observed in the IAR of Softlogic Insurance PLC (2016). The company provides information about the company's potential, some of the systems, and future growth expectations without specific information. Further, without being specific, the company provides

uplifting general information about: key performance indicators, credentials of possibilities, positive notes about the insurance industry and the economy of the country, actions to strengthen the internal processes of the company, and the possibility of an extraordinary journey. Predictions are not quantified, but described as ‘... flight on an extraordinary journey...’ (see the circled text in Figure 39).

FUTURE OUTLOOK

Softlogic Life Insurance is poised at the optimum cutting-edge position in its history– boasting a robust Balance Sheet, strong operational efficiencies, prudent risk and governance framework, a growing customer base, facility to leverage on group synergies with parent, Softlogic Holdings, and a professional team of employees who are equally dedicated to sustaining the Company’s reputation as the most rapidly growing Insurance Company in Sri Lanka. All the key performance indicators are glowing green and the Company holds strong credentials in pioneering innovations, customer comfort and building long term relationships as the most trusted insurer in the country. Our systems and processes are primed for rapid growth and the segregations of operations we believe will further help us to differentiate on a strong customer oriented products and service platform. We have the right people positioned in the right functions and they will steer our business to profitability and ensure that we deliver our brand promise with consistency.

We are optimistic about the prospects for the insurance industry in the future

and believe that the macro economic situation too will be supportive of industry growth. The Company will continue to integrate its risk management process with its sustainability strategy through consistent tracking and reporting of key risk indicators on areas such as green-house gas emissions, talent attrition, third party claims, non-compliance and stakeholder concerns with regards to the Company’s operations. While maintaining the robust sustainability performance management framework, the Company will also work to ensure that sustainability and risk management practices are further entrenched across its significant value chain partners through the implementation of responsible sourcing practices, where practical and relevant. Our sustainability performance targets for each stakeholders have been illustrated under each capital reports.

Considering that all of the above factors are perfectly aligned, Softlogic Life is poised for flight on an extraordinary journey, further imbued with a strong sustainability commitment which gives the Company a focus and a common goal - insuring our beautiful world.

Figure 39: Future Outlook (Source: Softlogic Insurance PLC, 2016, p. 161)

Interviewees indicate that they prefer to make predictions to create an environment where they can meet expectations. They believe that risks are higher when matters are beyond their control:

We can forecast another 40 branches but we don't do that. ... If we want we can open another 40 branches but instead we say we have a big sales target, something like that. We want to be a very conservative entity, middle path (Interviewee B M01).

I think we can predict and we are predicting so that things are within our control. I won't make predictions that put me under pressure because the expectations are lifted outside of my control... (Interviewee E M01).

It appears that interviewees are attempting to manage the risk of disclosing future-oriented information by being conservative. The findings indicate that in addition to being conservative with predictions, managers adopt a strategy of linking the forecasts with causes (internal or external) to mitigate the risk of liability arising from the uncertainties of their forecasts. The interviewees apply some strategies to ensure conservatism to reduce the risk of disclosure of predictions. These strategies include: disclosure of predictions in a broad manner, explaining aspirations (without specific forecasts), not providing quantified targets, and making very general statements.

A study by Frost (1996) found that US firms' forward-looking disclosure practices are relatively conservative and that forward-looking disclosures of Japanese firms are less informative when compared with France, Germany, and the UK. The study finds that US forecast horizons are shorter; managers delayed releasing forecasts to decrease the probability of making an incorrect forecast that might lead to increased legal risk. Two decades later, the 1996 findings by Frost are reinforced in this study's interview findings. Interviewees' responses indicate apprehensions that disclosure of specific future-orientated information might increase the risks associated with those disclosures. Those risks are mainly expressed in terms of not being able to meet the forecasts.

Baginski et al. (2004) claim many managers voluntarily disclose their earnings forecasts to stakeholders without explanations (or attributions). They suggest that explanations may be seen as "potentially important information to investors who engage in strategic analysis of financial statement information" (Baginski et al., 2004), p. 2) whereby these "attributions convey management's assessments of the links between internal and external factors and profitability forecasts" (ibid). This hints that the forecasts could have potential to disclose competitive advantage

information that could be to their disadvantage when trading in a competitive business environment. Some of the interviewees mention being concerned about the risk of losing a competitive advantage as a result of providing forecasts. Consequently, they tend to provide future-orientated disclosures in a generalised way. This is a significant issue, as IR usefulness can diminish when managers use conservatism in making predictions as a strategy to reduce risk. The reports are not likely to present the best reflection of the future direction of the companies.

9.3.3 Integration with financials

The findings show that the interviewees believe there is strong integration of financial predictions and non-financial predictions and that these together mitigate the risk of not achieving the predicted results. Some interviewees expressed the importance of integration:

I think both financial and non-financial predictions are integrated in our reports. For example, the non-financial activities that we do inside the organisation directly, or indirectly, affect the financial prediction. Say we predict that by 2020 our workforce will be 2500. We don't just make a prediction like that. It has to affect our financial objectives too (Interviewee C M02).

Our financial predictions are based on the non-financial predictions. The non-financial predictions are made by analysing the industry, seeing the future opportunities and the threats, also taking into account the capabilities of our management. We focus on the non-financial aspects and then drill down to the financial aspects of the company. If you don't manage the non-financial predictions, you will automatically fall behind with the financial predictions (Interviewee D E03).

What we do is we keep the financial predictions in mind and work hard to achieve the non-financials predictions. So, that the financial predictions are the results of non-financial predictions (Interviewee D M03).

Some interviewees claim they can achieve predictions of financial outcomes by integrating them with non-financial predictions. Accordingly, they try to reduce the risk of predictions not being achieved by linking financial and non-financial predictions. In other words, they are moderating their predictions by checking that the outcomes of their social, economic and governance goals are in line with their financial goals. IR differs from many earlier systems of preparing business information for stakeholders because it was designed to allow the integration of

both financial and other relevant information. Apart from the acknowledgement by Lawrence et al. (2012) regarding the need for balancing, the literature is silent on this aspect.

9.4 Strategic plans, risk management processes and non-achievement of plans

This section reveals how the sampled companies incorporate their strategic plans into the IAR (Section 9.4.1). Further, it highlights the importance they place on having a risk management process (Section 9.4.2), and to report non-achievements (Section 9.4.3).

9.4.1 Incorporation in Strategic plans

The IR framework requires that a strategic plan identifies, and helps achieve, the desired future of a company (IIRC, 2013e). Interviewees comment on the place of the IAR within the strategic plan:

Futuristic predictions are part of our corporate strategy. Each corporate strategy should be linked to our various value drivers, various predictions. ... Therefore, we closely monitor those things. It is a part of our corporate strategy... (Interviewee D M01).

Our strategic plan requires managers discuss its contents in order to agree on the accuracy of the draft predictions. All the projections and the underlying assumptions are documented within the strategic plan (Interviewee A M01).

Softlogic Insurance PLC (2016) provides an example of predictions in the strategic plan. Their predictions are included in the ‘2017 Priorities’. For example, Figure 40 shows that Softlogic Insurance PLC plans expansion of the branch network by another 30 locations. The company wants to ensure the achievement of the plan, and to mitigate the risk of non-achievement. The other priorities seem to be generic in nature but are included in the strategy.

Our Strategy Delivery 2016 and 2017 Plans
 We continued to make steady progress against strategies and priorities for 2017.

Strategic Objective	Key Initiatives Target for 2016	Progress 2016	2017 Priorities
Embed customer and client centricity	<ul style="list-style-type: none"> Expand our footprint to increase convenience and accessibility Providing unmatched value added services Provide greater convenience Launch of new products to fulfill customer needs effectively 	<ul style="list-style-type: none"> Expanded branch network by adding 06 new branches Launch of several innovative value added services such as Doctor at Door step, Medicine at door step etc Introduced 1 new product Revamp "LifeUp" mobile app Continue to train employees to provide first-class service by launch of one day claim settlement service 	<ul style="list-style-type: none"> Expand branch network by another 30 locations Continue to engage with research activities to find more value propositions Facilitate and improve product development capabilities to serve customer needs effectively Provide personalized service to customers Enhance employee skills by continuous training to provide unmatched customer service

Figure 40: Strategy and Resource Allocation (Source: Softlogic Insurance PLC, 2016, p. 55)

Some interviewees signal that incorporating future oriented predictions into the strategic plan helps to achieve them, thereby minimising the risk of predictions not being met. Organisations implementing IR are expected to make predictions about the future and disclose them in an IAR. Further, the IIRC (2013e) indicates that the primary purpose of IR is to explain to providers of financial capital how value is planned to be created over the short, medium and long-term, thus IR's scope extends into the future. In particular, the IIRC (2013e) provides the challenging question to integrated report preparers: "Where does the organisation want to go and how does it get there?" The answers to this question would be expected to be found in the strategic plan.

Celik et al. (2006) argue that management is the best source of information about the direction in which it intends to lead the company.

... an important driver of the opportunities and risk a company will face.

... even though a company may not achieve its plan, understanding the general direction of the company is helpful [to users], ...

... [the plans] usually depend on key assumptions about factors or conditions that must be present for the plans to be successful (p.200,201).

Management involvement, co-ordination and integration of plans is critical to the success of the enterprise and ensuring the predictions are realistic and fulfilled. Managers should be aware of the key assumptions and conditions and how these factors affect the risks inherent in predictions.

Since strategic plans are based on predictions, it is natural that the strategic plans should be part and parcel of developing the content of an integrated report. Perhaps this is implicit in the IIRC's Framework. However, the interviewees appear to emphasise that the predictions should not be made in a vacuum, separate from the organisation's strategic plans. If there is not an alignment with the strategic plan, then predicted results are not likely to be achieved. This point is not made explicit in the IR literature.

9.4.2 Risk management processes

Risk management is an important dimension of good governance, as well as a control tool to aid the achievement of strategic objectives (Woods, 2009). Enhancing risk management processes is also identified as way to reduce the risks in IR. It is evident from the interviewee discussions that the sample companies have developed enhanced risk management processes to increase attention to the risk factors and are using them more often to mitigate the risks of predictions.

...if management thinks that there is a certain risk element involved in this particular prediction, they refer it to the Integrated Risk Management Department (Interviewee F M01).

...we have a separate integrated risk management department in the bank and that department is actually looking at all the risks that the bank has (Interviewee F M02).

This type of process is illustrated by HNB Assurance PLC (2016). The company indicates the identified opportunities, risks involved, and responses to risks including 'Refining the risk-based pricing model to offer a better value proposition to "preferred classes of motor business" to mitigate the risks of the stated opportunities. In addition, the company provides some examples for enhanced risk management processes in 'Risk and Opportunities Driving Competitive Strategy'

(see Figure 41). For example, Figure 41 mentions refining a ‘risk based pricing model’ to offer a better value proposition, as a way to realise the opportunities and mitigate the risks (see the circled text).

Opportunities	Risks	Our Response
Economy and Interest Rates		
Growth in middle class income earning population creates a market for personal and health insurance products	Interest rate volatilities affect the demand for Life Insurance products as well as investment income earned. It will also affect the liability value due to the new risk based valuation model adopted in compliance with the regulations of our regulator. This will have an adverse effect on the top line as well as the bottom line of the Company and also the solvency.	Strengthen our distribution network to capture new market opportunities Offer new products to meet changing customer needs Sound investment management practices in place to mitigate risks related to investments and investment income
Growth in infrastructure and construction industry creates market opportunities for General Insurance	Increased taxes on vehicles, depreciating Rupee and limits on leasing business deters new vehicle registrations, increase spare part costs resulting in higher claims costs	Refining the risk based pricing model to offer a better value proposition to preferred classes of Motor business
Technology		
Digital advancements creates opportunities to tap new sales and service channels	The customer needs and expectations becomes sophisticated with increasingly technologically sophisticated population Technological use affects the pricing and business model New technologies pose both positive and negative effects on data privacy and protection	HNBA offered e-life, an four step insurance product Centralised the motor underwriting process to provide improved efficiency and offer a better service to customers Introducing performance dashboards to improve efficiency of business processes Systems and processes in place to mitigate cyber security threats
Regulations		
New Risk Based Capital model enables us to strengthen solvency and increase customer confidence and enhance the relationship built with them	High costs related to implementation of new regulations Limited access to expertise knowledge	Develop our processes to cater the new RBC requirements Offer training opportunities to employees on regulatory environment Working with consultant Actuaries experienced with the Risk Based Capital model Building capabilities of the internal actuarial team to adopt the model smoothly Assessment of impact of capital adequacy ratio on key investment, product and expense decisions

Figure 41: Risk and opportunities Driving Competitive Strategy (Source: HNB Assurance PLC, 2016, p. 25)

Figure 42 illustrates how Citizens Development Business Finance PLC (2016/17) reports their company's integrated risk management process. It provides a framework and a methodology to identify and assess risks and implement appropriate measures; to create an awareness on implications of risk management on day-to-day, operational and strategic planning; and to develop an appropriate risk management culture. The company provides a Three Line Defence Model application to the risk of future-oriented predictions in its IARs.

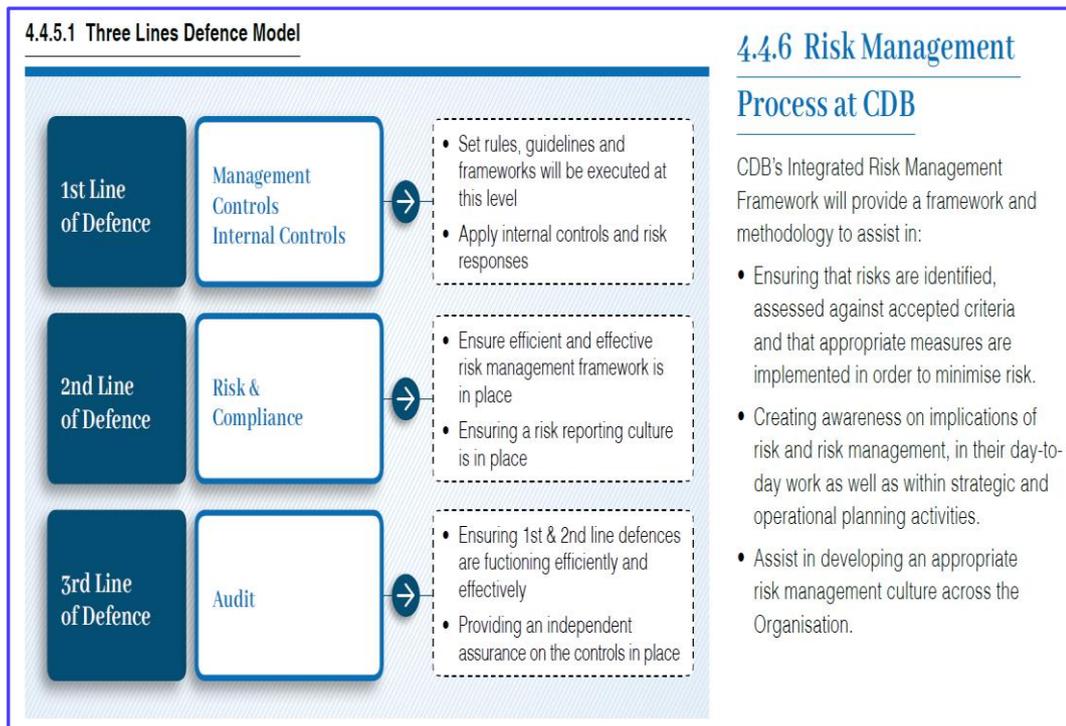


Figure 42: Risk Report – Three Line Defence Model (Source: Citizens Development Business Finance PLC, 2016/17, p. 202)

Most interviewees indicated that the identification of key risk indicators is important. One strategy was to increase the frequency of monitoring:

To manage the risk of non-financial predictions, we need to have financial data. This will be done by allocating key risk indicators. ... With the introduction of IR, predictions etc., the attention to risk indicators and frequency of monitoring have increased (Interviewee B M04).

Some interviewees indicated the use of strategies that involve the employment of special internal risk assessment procedures to measure the risks of disclosure of future-oriented information:

...we understood that our valued stakeholders require more than the financial numbers without compromising confidentiality. We have internal risk assessment procedure and we evaluate futuristic information based on our internal process and parameters... (Interviewee A M02).

...for all the relevant risk identification including the risk of predictions we have a process. The group management committee identifies all the risks... if the organisation does not address the risk that's a failure, a major failure. So, whatever the action taken against the future risk, the risk of prediction, we publish in the report (Interviewee C E01).

All the interviewees indicate that their companies have risk management departments. Some of the companies have named the departments as 'the integrated risk management department'. Most of the interviewees agreed that the risk management department is an important aspect of managing risk including the risk of making and disclosing future oriented predictions. The differences that involvement in IR has made for these companies' risk management processes are an increase in the frequency of monitoring, and the introduction of special internal risk assessment procedures to mitigate the risk of making predictions.

Risk management departments identify risks, come up with strategies to address the risks, and execute those strategies with support from fellow employees. Woods (2009) explains that risk management is an important dimension of good governance, as well as a control tool to aid the achievement of strategic objectives "within the boundaries of a specified risk appetite" (p. 73). This view is shared by Mikes (2009) who writes: "the importance of making risk management 'count' is perhaps the most agreed upon lesson that industry actors are taking from the current credit crisis" (p. 19). Gendron et al. (2016) argue there must be risk management credibility within corporate boardrooms where uncertainty must be restrained or reduced where possible. The sampled companies appear to be aware of these issues.

The involvement of risk management committees at different levels in the sample companies evidence that actions and decision making within the companies are coordinated to encourage a consensus on the types of disclosures to be provided. The findings show that interviewees, although they were interviewed individually, have reached 'a common understanding' concerning their company's strategic actions regarding the level of risk they are prepared to take in the provision of future-oriented information. This level is often very low.

Implementing IR in organisations requires the development of new accounting and management processes (Adams, 2015). Disclosure of future-oriented information also requires new management processes, techniques or sometimes accelerations and modifications to the existing processes to mitigate risks of such disclosure. Business risk is traditionally measured in money terms and if companies start to predict the future, the probable emphasis in the marketplace will be on the financial forecasts. Most of the interviewees concentrate on describing risks of financial predictions and say little about any forecasts concerning future carbon dioxide emissions, or broader societal development issues. However, Lodhia (2015) asserts that a mere focus on economic issues or limited attention to social and environmental issues will not lead to effective integrated reporting. Regardless of risk inherent in making predictions, further development in these areas is a necessary part of the improvement of IARs.

Woods (2009) explains that risk management is an important dimension of good governance, as well as a control tool to aid the achievement of strategic objectives “within the boundaries of a specified risk appetite” (p. 73). This view is shared by Mikes (2009) who writes: “the importance of making risk management ‘count’ is perhaps the most agreed upon lesson that industry actors are taking from the current credit crisis” (p. 19). Gendron et al. (2016) argue there must be risk management credibility within corporate boardrooms where uncertainty must be restrained or reduced where possible. The sample companies appear to be aware of these issues, and further, they practise strategies to cover the eventuality of non-achievement of predicted results.

9.4.3 Reporting non-achievements

The interviewees indicated that strategies are adopted to explain and fully disclose any non-achievement of predicted results. All the interviewees emphasised that they disclose if forecasts are not achieved in the next period’s IARs. The strategy adopted by interviewees is to disclose non-achievements in the next period’s IARs and to also provide this information at the company’s Annual General Meeting (AGM):

We have been transparent to the shareholders as well as all the stakeholders. We disclose what was predicted and what the achievement was. We clearly mention what is the level expected and what we have achieved and for the deficit, we clearly mention the reasons, what are causes which have affected for us not to achieve those predictions (Interviewee F M05).

If the predictions go wrong, we do disclose in the report and we discuss at the AGM (Interviewee F M03).

One interviewee shares how they disclose non-achievements with additional information in an action plan:

We disclose major failures, non-achievements, and things and with the action plan as to how this will be addressed the next year (Interviewee C E01).

Mercantile Investments and Finance PLC (2015/16) discloses the company's post-tax profit target and the achieved level for the financial year 2015/16. According to the report the financial year 2015/16 was not as good as predicted. The company had not achieved the targets so the major reasons for non-achievement needed to be explained. For example, Mercantile Investments and Finance PLC (Figure 43) exhibits targets and achievements for pre-tax and post-tax profits. The organisation did not achieve the targets (see circled text 01), and provides reasons namely; the decrease in profitability because of the lower core margins endured because of the repricing effect resulting from the persistent rise in interest rates, and revenue generated relatively slower paced than the cost escalation that took place due to expanding operations (see circled text 02).

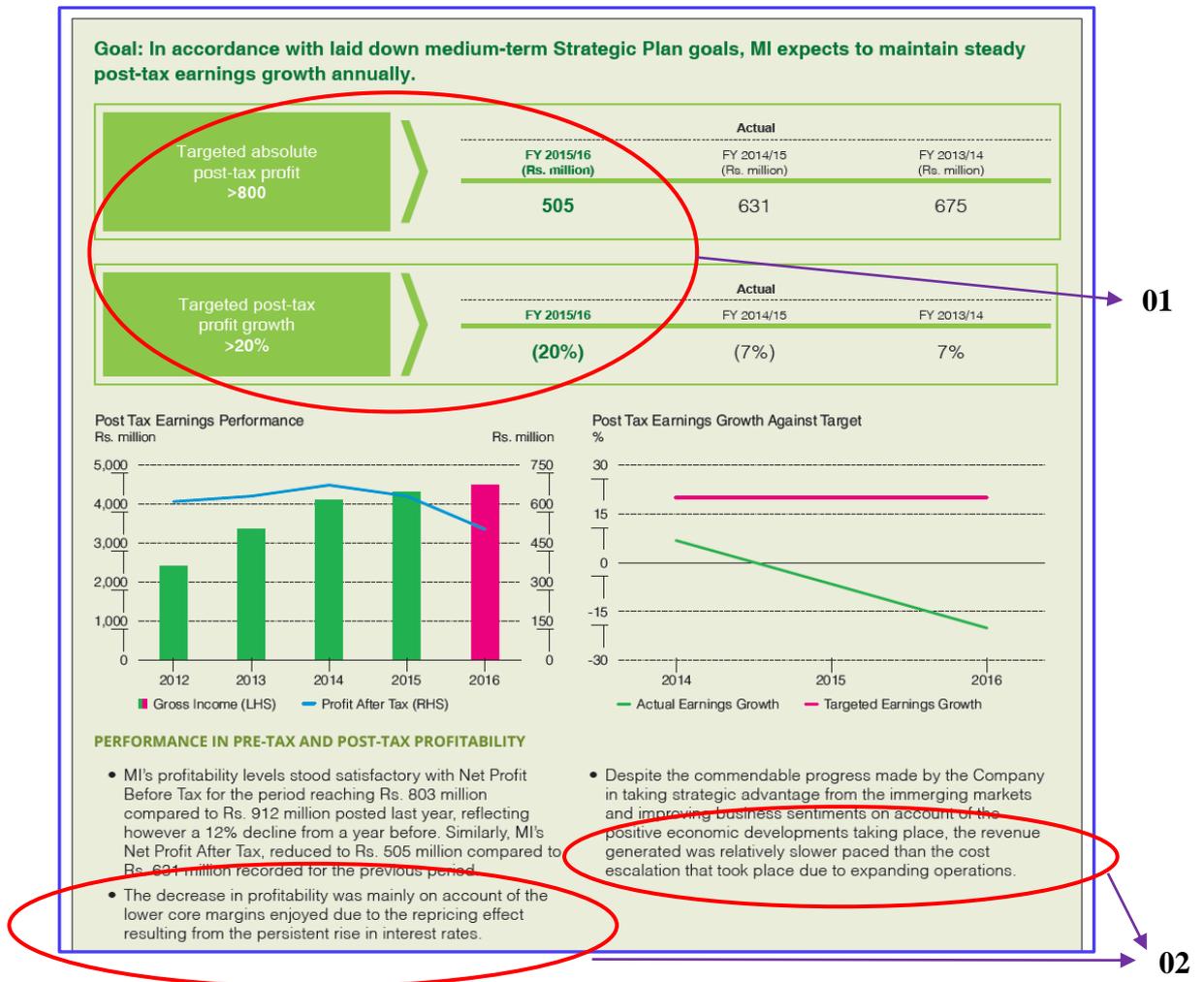


Figure 43: Management Discussion and Analysis – KPI: Profitability Performance (Source: Mercantile Investments and Finance PLC, 2015/16, p. 92)

A key finding was that disclosure of non-achievements appears to be a new practice that has emerged with the adoption of IR in the Sri Lankan context. Such disclosure is not specified in the IR guidelines:

With the integrated reporting, what we did was we started revealing our achievement as well as non-achievements. We disclose what went wrong and how it happened, but I think earlier we were not openly discussing it. For example, we disclose 'Reduce Carbon Footprint Created' to achieve in 2016. We disclosed the achievements through 2016 integrated annual reports; SavedElectricity, Water, ... Reduced Green House Gas Emission. Further, we disclose non-achievements as well (Interviewee D E02).

HNB Assurance PLC (2016) provides a table for their IAR readers to view the progress of the company, including their non-achievements (see the circled text in Figure 44):

OUR PROGRESS TOWARDS SUSTAINABLE VALUE CREATION				
Input Capital	Strategic Focus	Goal for 2016	Progress in 2016	Goals for 2019
Human Capital	Create a Place Where You Can Shine	Reduce Employee Turnover Below 15%	Employee Turnover - 16%	Secure a position as one of Sri Lanka's best employers

Figure 44: Our Progress Towards Sustainable Value Creation (Source: HNB Assurance PLC, 2016, p. 28)

The question that arises is, why would managers choose to disclose non-achievements in their IARs when there is a high risk of creating a negative perception of the company's performance? The interviewees in this study explain that their strategy is to assure their stakeholders that they are confident of achieving the goals in future by overcoming any identified barriers.

We disclose how far we have achieved it during the year and if there is a fall behind or if there is a gap what is the reason for non-achievement and also we give them information as to what we are going to do in the future to ensure that gap does not exist. Even though there is a negative perception that is being created we disclose the non-achievement of predictions. ... (Interviewee D E03).

Although the literature advocates that organisations should disclose the good and the bad (Adams & Simnett, 2011), it does not discuss if or how an organisation should disclose their non-achievements. This research reveals that this is a new practice in disclosure following the adoption of IR. Thus, an interesting strategy exists whereby managers choose to provide explanations of their non-achievements for the previous period. This suggests as a new method of mitigating the risk of unmet predictions in IR.

IR practicing companies disclose future-orientated information with the purpose of enabling informed decisions by stakeholders. According to Hillson (2009), risk is uncertainty that, if it occurs, will affect achievement of objectives. Thus, future-oriented information carries significant uncertainties. This suggests strong incentives for management to make their best efforts to achieve their companies'

goals. Interviewees are well aware of the risks involved in making predictions. They apply some measures to mitigate the risk of non-achievement. However, most of these measures cause them to deviate from the IIRC objectives of disclosing future-oriented information in integrated reports and hinder the usefulness of information for informed decisions by stakeholders.

9.5 Performance Monitoring

It was found that the sample companies adopted a multi-faceted approach to improve their monitoring of performance so that predictions of future performance might be met. The monitoring processes have been strengthened, for example:

Operational units within the Company always follow up the smoothness of the operational processes in order to provide better due care of the business and the predictions than ever before. We have weekly management meetings. In these meetings, we discuss how progress on our predicted targets is going. If there are problems, we decide how best to address them. Within these meetings, any remedial action required is agreed (Interviewee A M01).

We don't wait till the year-end for feedback. It's not a quarterly monitoring process, it's not a monthly monitoring process. We have a daily monitoring process. There are no surprises at the end of the year (Interviewee A M04).

The extract from Mercantile Investments and Finance PLC (2015/16, p. 199) shows how it reports 'close performance monitoring' as a strategy to achieve goals and continuous periodic performance reviews to achieve targets. The company explains its performance monitoring process (see Figure 45). It states that future predictions will be achieved through close performance monitoring. Further, under the "Future strategy" heading, it states that performance reviews to evaluate deviations and remedial actions for unfavourable deviations will be conducted at specified intervals.

Business area focused upon	Key goals	Quantifiable targets	Future strategy
Generating Economic Sustainability Value	<ul style="list-style-type: none"> Creating economic value for the benefit of investors, finance industry and Sri Lankan economy as a whole 	<ul style="list-style-type: none"> Growth in Net profit after tax: > 10% Growing Economic Value Added: >5% Growth in value addition: > 5% 	<p>Generating robust profits annually</p> <p>Through a close performance monitoring process, the Board, Corporate Management and all staff will be expected to stay committed to set targets and goals based on the Board approved strategic plan.</p> <p>Weekly, monthly, quarterly and annual performance reviews will be carried out to assess continued efforts, so that any deviations could be identified early and resolved promptly. Optimistic KPI's set for future in terms of revenue generation, profits, asset growth etc. will form the base for evaluation and performance monitoring.</p>
Generating Social Sustainability Value	<ul style="list-style-type: none"> Widening MI's positive impact to society moving beyond the sphere of commercial profit 	<ul style="list-style-type: none"> Increasing staff welfare cost: >10% per annum Non-profit making social related projects: > 12 projects a year 	<p>Bringing MI's financial solutions to those deserving</p> <p>By widening our presence and broad-basing financial solutions, over the next three years we hope to widen our social impact in terms of bringing forth greater opportunity for those in need of funding which will pave the way communities to be transformed and enriched.</p> <p>Fulfilling other basic societal needs</p> <p>The Sustainability Governance Committee is expected to expand its focus on supporting the poor and the lesser privileged, identifying their necessities and seeing means of providing them as best as possible.</p> <p>Looking after employee welfare</p> <p>In improving staff welfare, the Management will hope to proceed on providing a separate staff canteen area and plan to construct a larger area for employee vehicle parking.</p>

Figure 45: Future Outlook (Source: Mercantile Investments and Finance PLC, 2015/16, p. 199)

The interviewees emphasised that they do not want variances and that they want to achieve the goals and targets. They noted that they were aware of the risks related to non-achievement. The interviewees wanted regular monitoring to track progress and make changes when necessary. Some interviewees suggest an accelerated action strategy is necessary:

We don't want to have any variances. There is managing risk in all financial or non-financial predictions, so we have to keep continuous monitoring processes. If there are changes required, we instigate them immediately. I see acceleration in this process after the introduction of IR into the company (Interviewee B M05).

To support performance monitoring activities, interviewees sought to introduce several measurement techniques to assess the accomplishment of financial, and non-financial predictions. An interviewee states:

We use concepts like triple bottom line, and balanced scorecard, to monitor performance. ... It's a senior management board level monitoring mechanism (Interviewee D M02).

Interviewees also mentioned the use of the Balanced Scorecard (BSC) concept to appraise the performance of financial and non-financial KPIs. Four perspectives of

the BSC (Financial, Customer, Internal Business, and Learning and Growth) were used to ensure that predictions are achieved. For example, Mercantile Investments and Finance PLC expects that using BSC will: align business activities to the vision and strategy of the organisation, improve internal and external communication, monitor organisation performance against strategic goals, and achieve predictions through breakthrough improvements in critical areas. This is illustrated by Mercantile Investments and Finance PLC (2015/16, pp.69, 91):

<p>STRATEGY DEVELOPMENT, EXECUTION AND REVIEW</p> <p>Through the initiation of the Board, the second phase of the strategic planning process commenced in 2015 with the preparation of the second medium-term strategic plan. The Board approved strategic plan remains applicable for three years, commencing this financial period 2015/16, up until 31 March 2018. The Board adopted an effective formal process that started by identifying the corporate objectives/goals and thereafter, obtaining support of the Directors, Corporate Management and other Senior Officers in devising a suitable strategy under the 'Strategy Development' phase.</p>	<p>Thereafter, targets were developed on an overall basis and later the respective departments finalised their sub departmental targets, even drilling down cluster wise and officer-wise for core business divisions. This included both financial and non-financial Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs), in keeping to the Balanced Score Card technique.</p>
--	--

Figure 46: Journey in Strategy Development and Execution (Source: Mercantile Investments and Finance PLC, 2015/16, p. 69)

KPI SUMMARY			
Measurement	Last FY 2014/15	Now FY 2015/16	Expected FY 2016/17
Financial Perspective			
Revenue growth			
• Interest income growth (%)	7	4	>20
• Fee and other income growth (%)	(33)	26	<20
• Total revenue growth (%)	5	5	>15
Operating cost-to-income ratio (%)	53	61	>20
Operating income (Rs. million)	2,043	2,402	>3,000
Return on average asset ratio (%)	2.43	1.62	>2
Profit after tax (Rs. million)	631	505	>800
Value added (Rs. million)	4,400	4,592	>5,500
Customer Perspective			
Number of branches	19	24	>30
Number of new customers % of total customers:			
• Deposits (%)	20	2	>25
• Lending (%)	53	62	>25
On time delivery of service ratio in lending (%)	80	80	>80
Provincial customer reach (Nos.)	06 Provinces	07 Provinces	09 Provinces
Internal Business Perspective			
Employees			
Number of employees			
• Executive and above	247	333	>350
• Clerical staff	341	405	>400
Welfare and training cost per employee (Rs.)	62,080	24,044	>25,000
Employees below 40 years (%)	79	85	78-80
Workforce gender diversity male:female	5:1	4:1	5:1

Figure 47: KPI Summary (Source: Mercantile Investments and Finance PLC, 2015/16, p. 91)

Further, the need for close monitoring of changes in the external environment was recognised by interviewees:

There can be external events, like tax changes, which can affect our predictions. We have no control over them, but it is important how we respond to them. Through the board and sub-committees, we keep a close watch on the external environment changes. We judge how these will affect the company's predictions. So, we keep a watch list and see how that affects the business predictions. We take extra care with future predictions (Interviewee D M03).

It was found that many sample companies set up committees charged with monitoring the risks associated with published objectives and predictions:

We have various committees; assets and liability management committee, risk management committee, and credit management committee. All committees are looking into various aspects of risks. We mitigate risks and achieve our objectives and predictions. Now we meet very regularly and we discuss the possible issues, risk areas and then we make decisions to overcome those issues of risk (Interviewee F M02).

We have set up about four to five sub-committees. So, all are looking at the operations closely with the targets and particularly the risk management committee who try to identify the risk involved with the strategic plan and predictions (interviewee DM 03).

The extract from HNB Assurance PLC (Figure 48) provides an example of use of committees and units for risk monitoring. The company has set its risk management objectives with the purpose of achieving its objectives: establish a culture of “no surprises” and avoid losses greater than expected, develop and disseminate tools to allow line managers to foresee, evaluate, and measure risks in a manner which facilitates improved decision making, enhance returns, sustainable earnings, growth and shareholder value via more effective use of capital and risk mitigation. From Figure 48, HNB Assurance PLC (2016), it was seen that the company uses its committees and units: Risk and Compliance Department, Internal Auditors, Risk Management Committee, Audit Committee, the Board, and the Board Integrated Risk Management Committee of the parent company; to mitigate risks and assist with achieving the goals of the company:

RISK MONITORING		
<p>Key Risk Indicators</p> <p>The Group/Company has Identified Key Risk Indicators (KRIs) on all major risks faced by the Group/Company. All Identified KRIs were monitored on a continuous basis and the results are reported at the Risk Management Committee meetings.</p>	<p>Monitoring by the Risk Management Committee</p> <p>The Risk Management Committee reviews the main risks faced by the Group/Company and discusses the actions taken to mitigate those risks. The Risk Management Committee also reviews the KRIs prepared. Further, the Risk Management Committee monitors the action taken by the Group/Company on the changes to applicable regulations, changes to reinsurers' ratings, risks arising from external events, compliance checklists, etc. During the year the Committee started meeting every month considering the challenges faced by the Group/Company.</p>	<p>Monitoring by the Board</p> <p>The Board reviews the KRIs on a quarterly basis. In addition the minutes of the Risk Management Committee meetings, the Audit Committee meetings are also tabled at the Board for review by all Directors. A report on the Group's compliance activities with the applicable rules and regulations is reviewed by the Board on a monthly basis.</p>
<p>Monitoring by the Risk and Compliance Department</p> <p>The Risk Register Includes the risk management actions taken by the Group/Company for all Identified risks. As a matter of routine, a follow-up on the Risk Register is carried out by the Risk and Compliance Department in order to ensure that all agreed actions have been implemented and also to update the risk profile of the Group/Company to suit the changing environment.</p>	<p>Monitoring by the Audit Committee</p> <p>The minutes of the Risk Management Committee meetings are reviewed by the Audit Committee. Further, the Audit Committee reviews all Internal Audit Reports and Management Letters Issued by Internal and External Auditors. The Audit Committee also communicates with the Risk Management Committee on areas where the attention of the Risk Management Committee is deemed necessary.</p>	<p>Monitoring by the Board Integrated Risk Management Committee of Hatton National Bank PLC</p> <p>During the year, the Group/Company continued to report to the 'Board Integrated Risk Management Committee' (BIRMC) of Hatton National Bank PLC (HNB), the parent Company. Accordingly, four reports providing details of the Group's risk management activities: summary of the financial results, KRIs, and the details of the high risks faced by the Group/Company and the risk mitigation steps taken on those identified risks were submitted to the said committee.</p>
<p>Monitoring by Internal Auditors</p> <p>Internal Auditors have developed their Internal audit plan to ensure that all controls identified in the Risk Register are effectively implemented. Therefore, any control lapses identified during audits are reported in their audit reports which are tabled at Audit Committee meetings.</p>		

Figure 48: Risk Management – Risk Monitoring (Source:HNB Assurance PLC, 2016, pp. 96-97)

Interviewees believe that when information is stated in numbers, it is relatively easy to manage:

All the predictions in some form finally convert into figures. ... That is a measurable objective... Our company is a process driven company. We have parameters to change rather than going on an individual motivation monitoring basis. So, all structures are aligned to achieve the predictions (Interviewee A M04).

They argued that such systems are probably the most important mechanisms to aid the provision of future-oriented information because they motivate employees to achieve given targets:

Predictions are broken down into small components and handed right down to the lower levels and then the performance management system is such that each employee's performance, including top management, is measured against those objectives... all our salary increments, bonuses, even promotions everything is linked to those goals and objectives. So, that's why we ensure that they are achieved (Interviewee D M01).

The interviewees indicate that the incorporation of prediction responsibilities in employees' key performance indicators (KPIs) is consistent with a performance-based culture and can, therefore, lead to the achievement of predictions:

...some of the predictions are brought in to the KPI's of the staff. Mostly when it is KPI driven the achievement of those predictions is also driven by those KPI. ... So, as a result, the level of achieving the predictions is looked after throughout the year (Interviewee F M05).

We have a performance-based culture. ... Whenever the management wants to get things done they inculcate them into KPIs. Predictions are therefore incorporated into the KPIs of individuals (Interviewee F M01).

While some interviewees consider this approach could be detrimental to IR initiatives, many interviewees support it:

All financial predictions are done in a systematic manner, we know where we want to be in 2020 and we know how much we have to do and what we have to do to go there. ... We encourage them to come to the same platform and walk with us to achieve our predictions (Interviewee B M02).

Some interviewees believe that employees generally perform better when they are made responsible for risk, and achieving predictions:

Financial predictions are not merely the responsibility of the risk manager, many employees in the organisation must take care of the risks inherent in predictions; they must become the risk owners in particular areas (Interviewee B M06).

The starting point when it comes to forecasting in integrated reporting is each manager, then there is a General Manager, there are Group Management Committee members, they take the responsibility for predictions (Interviewee C M01).

The interviewees generally accepted that the responsibilities for risk are best held by those employees making the predictions. Although the need for regular monitoring meetings was accepted by most interviewees, it appears some interviewees sometimes felt uncomfortable when the achievement of historic

predictions became too narrow a driver of management effort to encourage the best of broad management practices. This finding signals a potential problem for IR systems, as managers attempt to look ahead.

Power (2009), provides a viewpoint on risk management, that seems to be shared by the sampled companies, when he states:

Prescriptively, organisations should seek to identify all material risks to their objectives and sub-objectives, design controls and mitigations which produce a residual risk consistent with a target risk appetite, and monitor this entire process, making feedback adjustments as necessary.

The literature is relatively silent on advocating performance monitoring as a strategy for dealing with the uncertainties relating to predictions made in integrated reports. However, there is a cautionary note in the early literature from Gahin (1967), who argues that if the risk is defined as “the chance of loss” (p. 123) then the strategy managers should tighten the controls and monitor processes relating to the risks to deal with this ‘chance of loss’. The findings from the Sri Lankan companies provide support for the establishment of and improvements in performance management monitoring systems.

9.6 Conclusion

This chapter explored the sample company interviewees’ perceptions about how they manage the risks inherent in disclosing future oriented predictions. The interviewees reveal that they use several different strategies, varying from ‘providing generic information’ to considering ‘mitigation strategies in the internal systems’ of the sample companies. Interviewees stressed the importance of making accurate, realistic and reasonable predictions and incorporating these predictions in the companies’ strategic planning process. Risks are further managed by tightened regular/continuous monitoring processes by operational units, as well as by involving established risk management committees to apply their enhanced processes. Additionally, prediction disclosures are linked to the performance management system, thereby ensuring individual responsibility for the achievement of targets.

The analysis of the interview data and IARs show a careful weighing of alternatives regarding the future-oriented information disclosures they are prepared to provide

in an IAR. The risk culture of their companies is developing through strategies that identify what information should be provided, such that risks are mitigated. The interviewees' decision making in weighing alternatives and deciding which and how much future-oriented information to provide is linked with outcomes. One outcome, perhaps not envisaged by the IIRC, was that interviewees are reluctant to deal with the consequences of providing predictions they suspect would be difficult to fulfil. It seems the interviewees are more prepared to understate future performance predictions than to disclose growth potential sought by management.

The sample Sri Lankan companies expect to disclose future-oriented information in IARs while mitigating the risks associated with such disclosures. The interviewees are fully aware of and concerned about the risk of disclosing future-oriented information in IARs. The interviewees are reluctant to disclose future-oriented information, because of the risks involved. They accept that significant risk is an inevitable consequence of implementing IR. However, the interviewees seemed prepared only to make predictions for which they had carefully evaluated the risks. One of their strategies to reduce the likelihood of a negative outcome is to be conservative in predictions, possibly rendering the disclosure less useful.

Interviewees within the sampled companies indicate the need for transparency with the non-achievement of predictions. Disclosure of the level of achievement, and the non-achievement, of predictions appears to be an additional disclosure that the companies have adopted as a strategy to reduce the risk of litigation from stakeholders. Disclosing non-achievements appears to be a new trend for companies preparing integrated reports. This finding is significant for IR researchers and policy writers.

The findings suggest that the provision of future-oriented information carries significant inherent risk that directors, executives, and managers need to manage carefully by way of strategies such as: not to overstate future outcomes, not to provide sensitive information to competitors, as well as to maintain a risk monitoring process. In addition, they need to be able to identify the risks involved in prediction disclosures and develop strategies to address these risks. The differences that involvement in IR has made for these companies' risk management processes are an increase in the frequency of monitoring, and the introduction of

special internal risk assessment procedures to mitigate the risk of inaccurate predictions.

Interviewees of sample companies do not like the risk related to making predictions, they are concerned about the potential inaccuracy of predictions and believe predictions should be conservative. Their responses indicated that they are more concerned about reducing any risk associated with providing future-oriented information than with the usefulness of the information provided.

These findings raise a number of contentious issues relating to the behaviours and mind-sets of those preparing the predictions. The companies are able to develop a number of strategies for risk management or reduction. However, a risk aversion culture in the companies appears as an unintended consequence of IR that could reduce the usefulness of integrated reports. The usefulness of disclosing future-oriented information is hindered because of the strategies applied by the interviewees to mitigate the risk of predictions.

CHAPTER 10

BENEFITS FOLLOWING IR ADOPTION

10.1 Introduction

This chapter discusses the benefits achieved by the sample companies following their adoption of IR. Three key themes relating to benefits are identified from the interview transcripts. The themes are: external reporting, internal processes, and the internal culture of the sample companies. Eight benefits were found within the three themes. To gain deeper insights, information was also extracted from the integrated annual reports (IARs) of the sample companies. The perceptions of the interviewees and the individual company IARs are assessed and compared with benefits foreseen by the IIRC and the literature.

The findings of the chapter consist of differing views as different companies in different industries have achieved the benefits at different degrees. While some of the expected benefits have been achieved largely by some of the sample companies, some benefits have achieved to a lesser extent by a few sample companies. Overall, the sample companies experienced improvements in the recognition of the company, and the quality of information, reporting, and accounting reports. However, only a few companies experienced improvements in strategic planning, business and information process development, internal integrated culture and communication at a lesser degree.

The chapter has five sections. Section 10.2 explains the benefits relating to external reporting, Section 10.3 describes achieved benefits of the internal processes, and Section 10.4 provides information about benefits to the internal culture of the sample companies. Section 10.5 concludes the chapter.

10.2 External Reporting

External reporting aspects of IR benefits the sample companies in three ways. It helps to provide a holistic picture of the organisation (Section 10.2.1), improves recognition/image of the organisation (Section 10.2.2), and improves the quality of information, reporting, and accounting reports (Section 10.2.3).

10.2.1 A holistic picture

Companies representing five industries (Insurance, Banking, Financial Services, Industrial Engineering, and Diversified Holdings) have improved their external reporting. The interviewees explain they report on all types of capitals, products and services and relationships with stakeholders with the purpose of providing a holistic view:

If you take this year's report of ours, it very clearly says intellectual capital, the human capital, the relationship capital. We report on financial value, our products and service portfolios, how we build relationships with our principals, how we serve customers, how we make employees happy, then our interest towards the society and the environment (Interviewee C M02).

This comment also reflects the findings from the analysis of sample companies' IARs. For example, Diesel & Motor Engineering PLC (2016/17), under the heading 'Capital report', identifies four types of capital (monetised, relationship, human, and intellectual) and provides a Capital management/Capital building model for each type of capital (Figure 49).

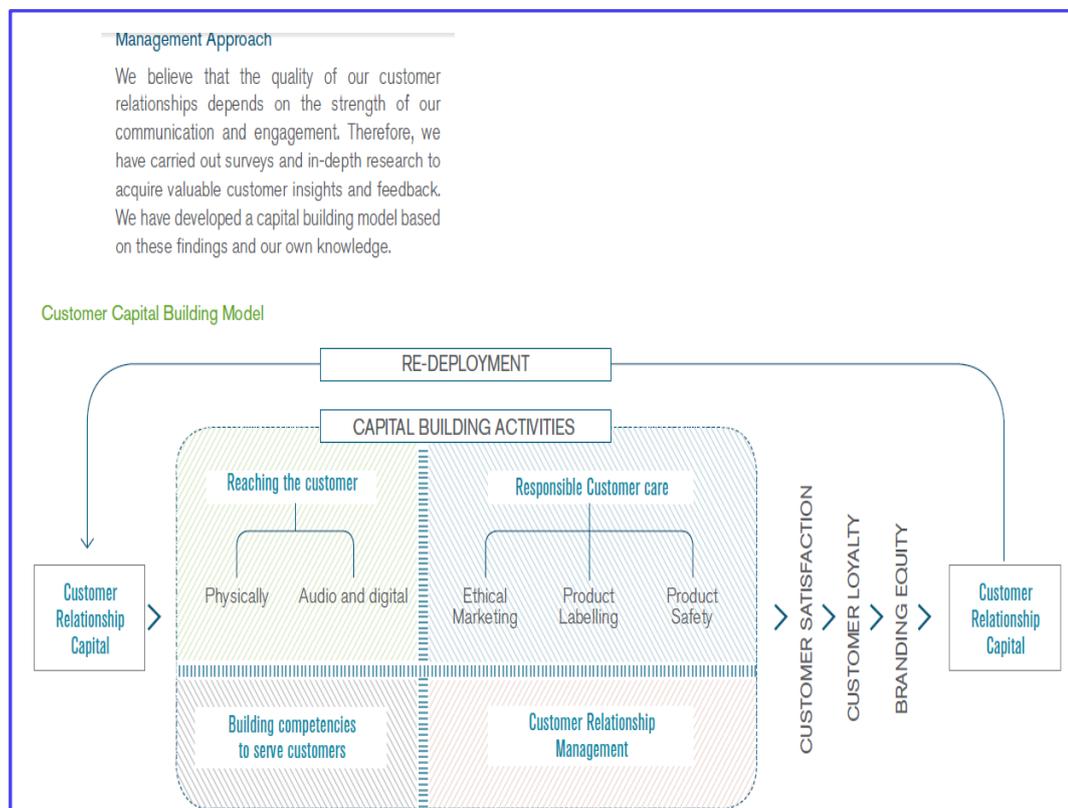


Figure 49: Customer Capital Building (Source: Diesel & Motor Engineering PLC, 2016, p. 68)

Further, the IAR explains the method of maintaining relationships with customers and business partners, achieving better alignment of reported information with investor needs, the availability of more accurate non-financial information for data vendors, and greater engagement with stakeholders. Prior to introducing IR, Diesel & Motor Engineering PLC only identified financial capital and provided little information about maintaining relationships with business partners.

The interviewees are of the view that IR has helped them to look at everything in a holistic manner, and that leads to developments within the company:

After implementing IR, we started reporting the holistic view. In our decision-making process 'holistic view concept' helps the development because you take a decision by looking at all the areas. For example, when we are developing a product, customer service concerns, risk management concerns, environmental concerns, all those concerns are considered. This development happened due to the adoption of IR (Interviewee B M05).

For example, the 2016/17 IAR of Citizens Development Business Finance PLC discloses full information about customer concerns under the heading 'Stakeholder Engagement', addresses risk management concerns under the heading 'Risk Report' and reports on environmental concerns under 'Environment Management':

We manage risks across the organisation in order to ensure CDB creates value to its stakeholders. Our business strategy is set going in line with our enterprise risk management strategy and the risk appetite which is set at the Board level. Board appointed risk management committee operates with the objective of creating awareness about the effectiveness and appropriateness of the risk management strategies put in to place by the top management.

Extract 1: Risk Report (Source: Citizens Development Business Finance PLC, IAR, 2016/17, p.195)

An extract titled 'Risks and Uncertainties vs Responses', where the company explains strategic objectives, risk events, outcomes, risk indicators and its response, is shown in Figure 50.

4.4.2 Risks and Uncertainties vs Responses

Strategic Objective	Risk Event	Outcomes	Risk Indicators	Our Response
To minimise the concentration on vehicle backed facilities and to diversify into other loan segments	High concentration on vehicle backed loans	Increasing concentration risk	Product mix	Strategically minimise the high concentration of vehicle backed facilities and focus on other loan segments
				Focused on property backed, personal loans and gold loans
				We could bring down the concentration that we had on vehicle loans from 99% to about 80% level (monthly disbursements)
To boost collections and to minimise the non-performing loans	Decrease in collections Increase in non-performing loans	Decreasing collections will lead to deteriorating asset quality which will ultimately lead to increase in impairment charges thus result in low profits	Non-performing loans ratio	Frequently monitor collection baskets
			Collection ratio	Outsourcing monitoring of above 12 months arrears facilities
			Infection ratio	Drive the strategies in place to boost collections Carryout frequent analysis on individual impairments
To maintain adequate margins	Inability to meet Profitability targets	Low Profits	Net interest margin	To have optimum pricing of lending products efficiently and effectively
			Cost to income ratio	Focus on high yielding segments like gold loans
			Overheads to revenue ratio	To maintain the right balance in the asset composition/liability composition

Figure 50: Risks and Uncertainties vs Responses (Source: Citizens Development Business Finance PLC, 2016/17, p. 198)

It appears that Citizens Development Business Finance PLC tries to provide a holistic view by disclosing all concerns which they deem to be important to stakeholder decisions. The company’s first IAR (2012/13) had information about risk and risk management spread throughout the report and the information provided was not comprehensive. In contrast, in the latest IAR (2016/17) all the information for risk and risk management has been placed under one heading, ‘Risk Report’. In addition, the number of pages of the Risk Report has increased from 13 for the 2012/13 IAR to 25 pages in the 2016/17 IAR.

The IIRC (2013e) anticipates that an Integrated Report should answer the question: “What are the specific risks and opportunities that affect the company’s ability to create value over the short, medium and long-term, and how is the company dealing with them?” (p.27). Citizens Development Business Finance PLC appears to meet this requirement by disclosing relevant information, including mitigation strategies, under the heading ‘Our Response’.

Through a perusal of sample Sri Lankan PLCs IARs, it was found that all the companies in five industries improved their provision of a holistic view of most of the matters in their IARs. A few interviewees and the content of the IARs show that the holistic view concept appears to have been incorporated into their decision-making processes. These interviewees now report all the types of activities that are important to value creation including the business model, all or most of the types of capitals, products and services and all stakeholder engagements. However, some interviewees doubt whether the reported information in the reports is better aligned with investor needs:

For me as an employee who is away from Finance, it was a bit difficult, a bit confusing. If I were to look at the annual report to get a certain set of data I would have to go through the entire report rather than certain sections of the report to get the whole picture. The data collection is a bit difficult and some others, I know who use the annual report also found it difficult (Interviewee F M06).

Importantly, all the twelve sample companies have improved reporting relating to the benefits of enhanced risk management, and a greater engagement with investors and other stakeholders. Therefore, they have met the expectations set by the IIRC (2011). In line with the Simnett and Huggins (2015) study, by taking a holistic view of financial and non-financial dimensions of value in commercial, social and environmental contexts, the sample companies have the potential to attain a better understanding of value drivers and how these drivers contribute to the achievement of strategic goals and value creation. IR aims to provide comprehensive disclosure of a company's finances, governance, strategy, and prospects while reflecting the commercial, environmental and social context in which it operates (Dobkowski-Joy & Brockland, 2013). Thus, the sample companies seem to have benefited by gaining a better understanding of the value of their business through a holistic view of their companies.

10.2.2 Improved recognition

A good reputation is a valuable asset for an organisation. The interview transcripts and IARs show an improved recognition of companies representing four industries (Insurance, Financial Services, Industrial Engineering, and Diversified Holdings). Interviewees' comments and an analysis of IARs shows that all the companies appear to have achieved greater engagement with investors and other stakeholders.

For example, Softlogic Insurance PLC in its IAR (2016) includes ‘improve the brand name’ as one of its strategies for 2019. In the same report, it identifies ‘winning key accolades from recognised institutions’ as a key-value driver/objective in achieving improved recognition. One interviewee expresses how IR has helped the company to improve its public profile:

How people look at our company, the perception that the other people had and how they think about the company have been changed dramatically because of IR. For example, people have started talking about the things that we have done for the society, the things that we have been doing and the impacts of those. After implementing IR, we have passed so many information that was not available for them previously. Even certain investors, they were surprised to invest, I have participated in discussions. John Keells Holdings PLC The perception that we have developed by adopting and reporting would have been the most valuable assets (Interviewee B M05).

The interviewees believe value creation is easy if a company could attract the best stakeholders. According to one interviewee, improved recognition for the company attracted the best stakeholders including employees, customers and suppliers:

All is made transparent and we are able to attract the right employees because they know this organisation. Everything is becoming open, transparent and we are attracting the best, the employee, customer, supplier to investors. We are able to better inform them all the things through integrated reporting. For example, our customers understand us better. They know how our things are manufactured because there is more disclosure, there is more disclosure on the manufacturing process, there is more disclosure about the SMEs that we are involving in our manufacturing (Interviewee E M01).

For example, the 2016/17 IAR extract taken from John Keells Holdings PLC explains how it improved transparency and better informed stakeholders through IR:

The Group engages with its significant stakeholders (e.g. customers; institutional investors, fund managers, analysts, leaders, multilateral lenders; society, media, pressure groups, NGOs, environmental groups; community; employees; business partners, principals, suppliers; government, government institutions and departments; legal and regulatory bodies; industry peers and competitors) through formal and informal consultations, participation, negotiations, communication, mandatory and voluntary disclosures, certification, and accreditation. The various methods of engagement - (e.g. IARs, disclosures and reviews; road shows, trade fairs and field visits; one-

on-one meetings, discussion forums, progress reviews; customer satisfaction surveys; phone calls, e-mail, written communication, websites, etc.) and frequency of engagement (e.g. Annually, bi-annually, quarterly, monthly, regularly, and ongoing).

Extract 2: Materiality and Stakeholder Relationship (Source: John Keells Holdings PLC, IAR, 2016/17, p.94-95)

Through the methods of engagement mentioned above, John Keells Holdings PLC has disclosed information to investors in a transparent manner. Accordingly the company perceives that these methods help to select the right employees, customers, and suppliers. Before producing IARs, the company neither identified all the significant stakeholders nor disclosed information about their engagement with stakeholders.

The sample companies use IARs as a marketing tool to improve recognition. An interviewee shares:

We use our annual reports as a marketing tool. Integrated reporting helped us to improve recognition. For example, we received positive responses in terms of our annual reports from the majority of shareholders at the AGMs. In terms of marketing and showcasing our company, it delivered the benefits we sought (Interviewee D M01).

Another important benefit that the integrated report preparers expect is winning awards for their reports and improving their reputation. The Chartered Accountants of Sri Lanka (CASL) and the Certified Management Accountants (CMA) of Sri Lanka organise award ceremonies for the best IARs in Sri Lanka. Interviewees strongly believe that winning national and international awards for IARs improves their companies' image and recognition and lowers reputational risk. One interviewee explains:

We won many awards because of integrated reporting adoption. That is the main benefit I see for this company. For the integrated annual report, we have won several international awards plus the CASL awards (Interviewee A E02).

The adoption of IR and the creation of quality reports is rewarded with awards, nationally and internationally. For example, Softlogic Insurance PLC (2016) won the Bronze award for the *Overall Excellence in Integrated Reporting and Insurance Sector* at the Annual Report Awards 2015, presented by CASL. Also, it achieved *Excellence in Integrated Reporting Awards* organised by the Certified Management

Accountants (CMA) of Sri Lanka for ranking among the top ten companies in Sri Lanka. At the forefront of Sri Lanka's insurance industry, Softlogic Insurance PLC, has also won awards and accolades at the *2013 Vision Awards* organised by the League of American Communication Professionals in their Annual Report competition. This 2013 competition featured entries from 25 countries and 1,000 companies globally.

Softlogic Insurance PLC 2013 IAR won various categories: Silver Award for excellence in reporting in the insurance industry, was amongst the Top 80 annual reports in the entire Asia Pacific region, and the *Most Improved Annual Report* in the Asia Pacific region (DailyFT, Monday, 21 July 2014). These awards were won after introducing IR.

Further, the adoption of IR improves the quality of IARs leading to winning some national and international awards, resulting in improved recognition:

With the introduction of IR, we won the best sustainability reporting Asia award and for the very first time, we won CSR reporting award by Chartered Accountants of Sri Lanka and sustainability awards second runner-up in the banking category. This recognition gives us a lot of mileage for the image building of the bank and ultimately pass the message to our stakeholders that this is a very responsible bank and doing business in a very transparent manner and again under CSR point of view very caring bank (Interviewee H E04).

In the same vein, winning national and international awards guarantees an improvement in the corporate image of the sample companies:

Last year we won the LACP (League of American Certified Professionals) awards, we were well within the top 20 companies and then we won the ARC award and we were the best Sri Lankan company in providing the annual report. We were the best Sri Lankan integrated report, non-traditional report. The previous year we were the runners-up in integrated reports. Likewise, we have achieved so many things on the recognition side and with that recognition, I think the corporate image and the public image has changed a lot (Interviewee B M02).

The adoption of IR appears to have built a good perception of the sample companies by stakeholders. It suggests that IR led to improvement in recognition and thus the sample companies are able to attract the best stakeholders. While IR helps to

improve organisational performance and some interviewees appreciate the purpose of IR, some interviewees criticize the purpose it is used for:

I think integrated reporting is a good concept and this should not be limited to a report. It should be implemented throughout the company, so there should be proper guidance on that. We should communicate to all the employees about what are the benefits of this, what we can achieve by adopting integrated reporting. I think here in this company we are doing it for the purpose of award-winning actually, so it should not be limited to winning awards. (Interviewee A E02).

Integrated reporting is not only ceremonial or to get the award on reporting or to be presenting some launching or kind of things in our company but throughout all the departments are very supportive in planning things, in institutionalizing things so that really is a motivation (Interviewee I E02).

CASL introduced awards for the best IARs to improve IR in Sri Lankan companies. However, winning awards and improving recognition should not be the main reason for adopting IR:

The thing is integrated reporting in Sri Lankan context comes with the annual report competition mainly (Interviewee A M01).

The interviewees indicate that companies have improved their perception by adopting IR. This is similar to the findings from Steyn's 2014 study of listed South African companies, that a major reason for compiling integrated reports is to advance corporate reputation. Further, as indicated by Steyn (2014), interviewees of this study also view IR as a vehicle for legitimising corporate activities.

The interview findings also confirm the benefits found in prior studies. Firstly, the IR gives rise largely of transparency regarding a company's impact on, and commitment to, the social, ecological and governance environments resulting from lowering reputation risk (Simnett & Huggins, 2015). Secondly, the transition to IR has enabled the sample companies to better differentiate themselves from their competitors and other organisations (Lodhia, 2015), and to improve their corporate reputations (Adams, 2015; Steyn, 2014). Thirdly, the interviewees reported benefits from IR similar to those reported from a study of South African listed companies, who were found to attach value to the IR process primarily from the perspective of

their corporate reputation, investor needs and stakeholder engagement and relations (Steyn, 2014).

Some of the sample companies use IARs a marketing tool to build their image. The literature mentions a concern about the accountability of this use. There are arguably weak accountability issues if IR is used as an image-building, reputational tool (Silvestri et al., 2017; Stubbs & Higgins, 2015; Veltri & Bronzetti, 2014). The issue that arises may lead to significantly less ‘real’ responsiveness on their accountability, transparency and decision usefulness for stakeholders (Stubbs & Higgins, 2015). If the main purpose of IR is image building or improving reputation, it is questionable if the key objective of IR, enhancing accountability and stewardship with respect to the board base of six kinds of capital, or ‘capitals’, and promote understanding of their interdependencies (Busco, 2014), can be achieved. The use of IR at a strong accountability level, implies more responsiveness on the part of organisations toward stakeholders (Stubbs & Higgins, 2015).

10.2.3 Improved quality

The findings from the interviews and IARs analysis show that through the provision of quality information, reporting, and accounting reports, the companies representing five industries (Insurance, Banking, Financial Services, Industrial Engineering, and Diversified Holdings) achieved, to differing degrees, a better alignment of reported information with investor needs and the availability of more accurate non-financial information for data vendors. However, no evidence was found that the companies achieved higher levels of trust with key stakeholders, except for one company in the insurance industry.

The companies provide evidence of improvements in both the quality of information, and in the structure of their Integrated Annual Reports. For example, financial and non-financial aspects of reporting including input, processes, and output have improved:

Our reporting has drastically improved because we are now looking at the overall picture, not only the financials, non-financials. When you say non-financials, it brings the capitals into your report also. Including the capitals, how you provide, how your input is processed and the output is derived is clearly explained through the integrated report (Interviewee G M01).

From a review of the Nations Trust Bank PLC’s 2016 Integrated Annual Report, it appears that both the report and the report structure have significantly improved. The company provided information on the business model, strategy, value addition and trade-offs in company’s capital inputs, and value creation against the six capitals (financial, manufactured, human, social and relationship, intellectual and natural capital). This information was not available in the last traditional annual report of 2013. Figure 51 provides non-financial information about the company’s strategy.

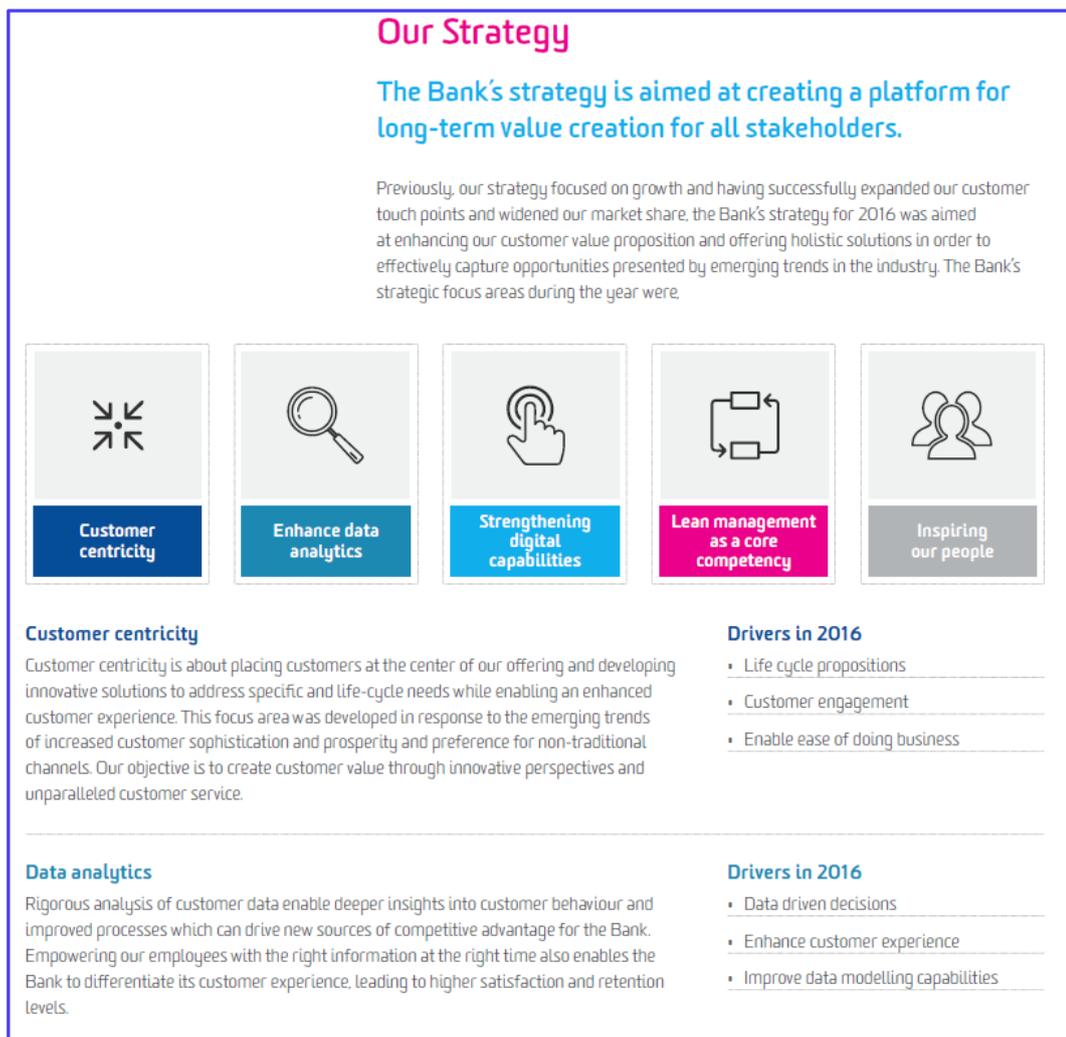


Figure 51: Our Strategy (Source: Nations Trust Bank PLC, 2016, p. 72)

The findings indicate interviewees believed that the IARs allowed for quicker decision making by stakeholders by reducing the number of pages of the IARs and increasing the quality of the report:

We did integrated reporting to increase the readability of the report and quality of the information, so stakeholders can make the decision more quickly. That's the reason we reduced the number of pages and gave as much quality information. That also has been achieved. We believe we are on a good journey, we achieved these objectives, we give the value, and clearly represent our value creation story to our stakeholders. I think we have achieved (Interviewee C E01).

However, a perusal of the IARs of the 12 companies found that only four companies were able to reduce the number of pages in their reports. For eight companies, the number of pages in the IAR has increased. This suggests that rather than providing succinct information in IRs, combining all reporting (financial and non-financial) into one (integrated) report, produces longer reports. This raises issues with regard to the IR guidelines for concise reports.

However, the interviewees emphasise that in spite of the lengthier reports, the structure of their IARs has improved. Integrated reporting has helped to better conceptualize the companies' activities to allow management and stakeholders to look at the business in a new way. Further, with more integrated thinking company managers consciously try and do certain things.

With integrated reporting, there is an improvement in structure, the way that we do it and how we conceptualize everything. There is an improvement in that manner and it also helps us to think and consciously do certain things (Interviewee C M02).

For example, Diesel & Motor Engineering PLC (2016/2017) demonstrates a clear link between each heading of their report. The value creation model depicts the entire value creation story of the company in a simple, easily understandable, and attractive way. The model also illustrates aspiration, purpose, inputs (different types of capitals: monetised; human; relationship – customers and business partners; and intellectual capital), business domain (warehousing, customer engagement, solution mapping, engineering, delivery, aftercare, support services, sourcing), business segments (vehicle sales, vehicles after services, marketing and distribution, construction and material handling equipment, electromechanical, biomedical and

marine engineering), performance, conformance, outputs, outcome and impacts. Each of the above elements in the value creation model is shown with the corresponding page number in the report for easy reference (see Figure 52).

Also, the structure of the whole report has improved by adding new headings (e.g. Capitals report, Strategy, Basis of resource allocation) and providing more insights in some areas (for example stakeholder engagement and material issues, business report, impact management report). This new structure makes for easier reading and a better understanding of the business with a clear and total picture of the company. The traditional annual reports of Diesel & Motor Engineering PLC, (before adopting IR) did not include readability features such as the links between headings.

The interviewee below commented that IR has helped them improve the quality of reporting and that investor attractiveness has improved:

I have got a lot of feedback from investors saying that they have more quality information to review our company's performance and can be captured easily when it comes to our reports compared to other reports. I have seen over the last few years with most investors especially the unit trust and fund-based investors who are coming here have highlighted their happiness with quality of our reporting (Interviewee D M02).

For example, the IAR of a sample company reported that institutional shareholding increased from 77.57 per cent in 2013 to 79.43 per cent at the end of the 2016 financial year. The reason for the increase could be increased trust in the quality of information provided through IARs, enabling institutional investors easily and accurately assess the company.

Another finding was that the report and its structure was improved by eliminating the repetition of information. An interviewee explains how they reduced the number of pages from 292 in the traditional annual report in 2013 to 268 pages for the first IAR in 2014:

We have a concise way compared to what we had previously. Duplication of information, repetition is cut down to a great extent through IR (Interviewee G M02).

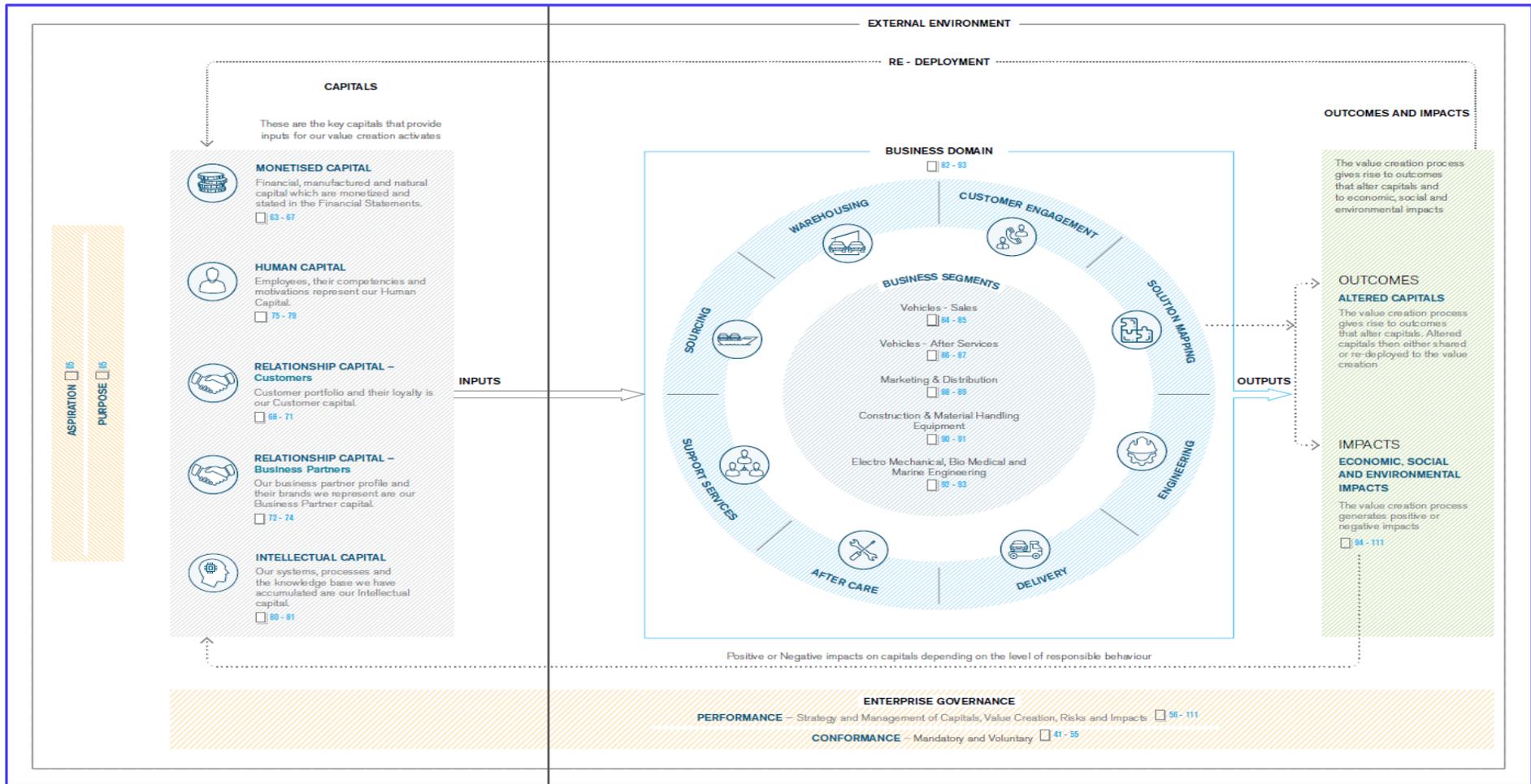


Figure 52: Value Creation Model (Source: Diesel & Motor Engineering PLC, 2016, pp. 30-31)

For example, the traditional annual report before introducing IR (F/Y 2013) of Nations Trust Bank PLC shows many repetitions. Information about the same matters (figures relating to profitability, loans and advances, total assets, income, deposits, and some earnings-related ratios) were presented under several headings in the report. The same figure and descriptions were presented under the headings 'Financial highlights', 'Highlights', 'Chairman's message', 'CEO's review', 'Management discussion and analysis', 'Our journey' and 'Financial review'. In some instances, the same set of descriptions were provided in the 'Chairman's message', 'CEO's review', 'Management discussion and analysis', and 'Financial review'. For example, industry information, information about the economy of the country, exchange rate information, global economic information. However, in the latest IAR (of Nations Trust Bank PLC, 2016) repetition has been reduced by carefully evaluating the content of the report.

Some interviewees had requests from shareholders for lengthier annual reports with the assumption that such reports carry more information and value. This is contradictory to the concept of conciseness in IR. For example:

In Sri Lankan context, mostly our shareholders, the tendency would be to look at the size of the report, look at the first page and see how big the report is, they think the bigger reports carry more information, more value. That is a misconception and they look at the cover also. If you have an attractive cover, they think it's a good report but it may not be (Interviewee I M03).

Some interviewees indicated that white-washing everything and reporting only the positive aspects obstructs the expected benefits of IR. However, some interviewees report with alarm that this is happening in some companies:

..., you should not just white-wash everything in the organisation and ensure that you give actually true picture out into the world of what's happening within the organisation. In my observation, we disclose a lot of things but there are still things that we do not disclose because we don't want to take the risk of our investors getting really worried about the company. Those are the things that can be improved (Interviewee D E03).

Some interviewees feel that they practiced some of the aspects of IR before its introduction, and accordingly, do not see the benefits of IR.

It's not the integrated reporting that has changed our way of reporting. We have been reporting the strategy and the future focus and all that. We have been reporting and we are still doing that. It's not because of integrated reporting, nothing has changed because of integrated reporting (Interviewee F M03).

Some managers perceive IR as just as a newer method of reporting. They do not consider it as important as strategy formulation, nor foresee that it adds value to the company:

Maximum up to the middle management level participate in the strategy formulation. However, I should say how it is reported is not their concern. Integrated reporting may be adding some value to all these things and putting all these things together in one document (Interviewee A M04).

The findings from interviews and analysis of the IARs provide evidence that the sample companies have achieved a substantial number of expected benefits, especially from an external reporting perspective. It was found that the sample companies achieved benefits at varying degrees through better alignment of reported information with investor needs and the availability of more accurate non-financial information.

Under traditional reporting there was a gap between the information reported by companies and the information investors needed to assess business prospects and value (ACCA, 2011c; KPMG, 2012b). Therefore, through IR, improvements are expected to the report and report structure. Most interviewees experienced these improvements in their company IARs. However, longer reports (for most of the sample companies) following the introduction of IR could deter users and create a barrier to providing decision-useful information to stakeholders (Wild & van Staden, 2013). Further, the companies producing longer, more extensive reporting, are deviating from the IIRC guiding principle of conciseness for integrated reports (Abeysekera, 2013; Atkins & Maroun, 2015). There is a contradictory finding in the Sri Lankan context where some interviewees report that their shareholders perceive lengthier reports to provide more valuable information.

IR should assist companies in overcoming the limitations of traditional annual reports such as complexity, short-termism, shortage of non-financial information and sustainability reports, as well as low reliability, distrust by investors, and

disconnection with financial performance (Fasan, 2013; Silvestri et al., 2017). A study of the sample companies' reports demonstrates that reporting has improved, and the focus has extended to non-financials. Reader-friendliness and quality of the information appears to have improved and the number of pages in the reports of four of the sample companies has decreased. The integrated reports should be concise and inclusive of all stakeholders (Abeysekera, 2013; Atkins & Maroun, 2015). However, most of the sample companies give little attention to the "Future Outlook" (as discussed in Chapter 9). IR should focus on conciseness, strategic relevance and future orientation (IIRC, 2013a). It was found that the sample companies only provided general information and ignored specific measures. This finding is similar to that of Wild and van Staden (2013). It suggests that the Sri Lankan companies have room for improvement in providing quality information.

IR creates an opportunity to enhance transparency (Potter et al., 2013) and to deliver an honest representation of performance – good and bad (Adams & Simnett, 2011). Overall, the sample companies' IARs show an improvement in the quality of information, at different degrees; but none are close to perfection. However, an increase in the size of the report for most of the sample companies seems at odds with the IR principle of conciseness. This implies a failure in the application of materiality for non-financial information. Longer reports do not suggest better quality in the IR environment (Wild & van Staden, 2013). IR is expected to be a concise, stand-alone communication about value creation over different time frames (Busco et al., 2013a). However, the IR guiding principle of conciseness has not been achieved by most of the sample companies. Thus, they are deviating from the IIRC's objective of preparing user-friendly reports.

IR commonly relates to external reporting practices - to disclose an organisation's value creation story in a meaningful way. However, the rise of IR practice is mainly driven by internal needs of organisations (Dumay et al., 2017). As pointed out by Solstice Sustainability Works Inc (2005), "there does not appear to be a significant external demand for integrated reporting" (p.2) and "the main drivers are likely to be internal", as IR "can be helpful in building an internal understanding of and support for sustainability" (ibid).

10.3 Internal Processes

The internal processes of the sample companies implementing IR were improved in three ways, through strengthening strategic planning, improving business processes, and developing the information process.

10.3.1 Strategic planning support

The findings show that interviewees believe that IR helps them improve the process of strategic planning in their companies, at least from some aspects and to some extent. The findings from the interviewees and perusal of IARs suggest that through the process of strategic planning, all the companies have improved risk management, and improved disclosure about the strategy of their companies.

However, better resource allocation decisions, including cost reductions, have been achieved only by few companies representing five industries (Insurance, Financial Services, Industrial Engineering, Diversified Holdings, and Telecommunications). Further, only a few companies from four industries (Insurance, Financial Services, Diversified Holdings, and Telecommunications) presented improved identification of opportunities, and they too have produced limited information about the identification of opportunities.

The companies achieve benefits from improving their strategic focus:

Integrated reporting helps us identify our risk and opportunities. If you look at our annual report, we have a separate chapter on risk. In addition, it helps the top management to be more collaborative with senior management in the setting of goals and targets (Interviewee C M03).

Nevertheless, the findings show that the other aspects e.g. goal setting and opportunity identification are reached by few of the companies and at a low level. There is room for considerable improvement in these aspects.

Diesel & Motor Engineering PLC (2016/17), in its ‘risk management’ section explains the method they apply to manage risk and opportunities. Their group management committee (GMC) examines situations, processes and possible events that could expose the company to situations that could seriously reduce earnings, threaten its sustenance, impair its liquidity or lead to legal, regulatory or

reputational risks. The company explains the risk management framework by including all the measures they apply to mitigate and control their risk. Additionally, their 2016 IAR lists all the identified risks, the relevant risk mitigation actions and change in risk profile over the last five years.

Risk Mitigation
The table below shows the risks identified, with the relevant risk mitigation actions and the change in risk profile.

	Category/ Segment Affected	Risk Statement	Risk Mitigation	Change in Risk Profile				
				2016/17	2015/16	2014/15	2013/14	2012/13
01	Monetised Capital	Negative impact on the Group's cost of funding due to the increment in interest rate	<ul style="list-style-type: none"> Ensuring a proper mix of short and long term borrowings Maintain an appropriate combination of fixed and floating rate borrowings 	●	●	●	●	●
02	Monetised Capital	Unavailability of sufficient working capital, negatively affecting the smooth functioning of day-to-day operations of the Group	<ul style="list-style-type: none"> The finance and treasury functions ensure that banking facilities are in place to cover its forecasted cash needs for a period of at least twelve months The Group maintains a desired mixture of cash and cash equivalents Adequate banking facilities are in place to support operations 	●	●	●	●	●
03	Monetised Capital	Damages resulting from natural disasters such as fire and floods	<ul style="list-style-type: none"> Preventive safety measures are taken to minimise potential injuries to people and damage to property in case of fire or floods The Group's disaster recovery plan ensures smooth functioning of operations in the event of a natural disaster Indemnity provided by insurance policies 	●	●	●	●	●
04	Customer Relationship Capital	Loss of customers and resulting impact on business due to dissatisfied customers	<ul style="list-style-type: none"> Availability of ISO 9001:2015 accredited Quality Management System Dedicated unit for Customer Relationship Management Continuous training for employees on customer care and aftercare Inclusion of customer care and customer satisfaction index in employees' and business unit objectives <p>A detailed narrative on delivering value to customers is available under Relationship Capital- Customer from pages 68 to 71</p>	●	●	●	●	●

- Extensive monitoring and management required
- Considerable monitoring and management required
- Moderate monitoring and management required.

Figure 53: Risk Management (Source: Diesel & Motor Engineering PLC, 2016, p. 58)

Before IR adoption, the last traditional annual report of Diesel & Motor Engineering PLC (2009/2010) did not explain the risk management and mitigation process in any detail. Also, they did not discuss any change in risk profile over the previous years.

Interviewees noted that mapping all the aspects of a business into the strategic plan improves the strategic focus of a company. It was found that IR enhances strategic focus on both financial and non-financial performance:

What we did this year was, when we were preparing our next three-year strategic plan, we looked at the elements of the integrated reporting, for example, the business analysis, the inputs, the capital inputs, the outputs, and the outcomes. All those aspects were mapped out into the strategic plan and brought in various dimensions. Of course, as a business, we had done it before integrated reporting but integrated reporting made it possible for us to visualize the whole business itself in an integrated manner. IR helped us to come up with a much-focused strategic plan, which is not biased only towards profit maximisation. That aspect has been broad-based to go into aspects of governance, risk management, sustainability, social value, and internal workforce management. All those aspects have now been touched on very thoroughly rather than being biased towards how we can improve our core lines of business. We have been able to think broadly (Interviewee L M01).

An illustration of this strategic focus disclosure has been extracted from the 2015/16 IAR of Mercantile Investments and Finance PLC (see Figure 54). The company's IAR describes the importance of each key element of the business model. For example, the key strategies are explained for each type of capital (financial, manufactured, intellectual, human, social, and natural). In addition, actions and outcomes/outputs/value creation are described alongside each type of general strategy of the company. Key strategic imperatives are explained by considering the company's capital management process.

Core Business Divisions Operational Review

2

KEY STRATEGIC IMPERATIVE - LENDING BUSINESS STRATEGY

LENDING BUSINESS HIGHLIGHTS FY 2015/16

- Maintained sound lending growth by sustaining steady monthly lending volumes.
- Intensified marketing communication activity, including Branding. Recruited a number of sales and marketing officers to boost sales.
- Established additional branches/service centres to widen MI's presence and cater to a much larger audience.
- Expanded the Microfinance Unit to proceed ahead on an aggressive marketing drive. A total of 15 Branches were fully equipped with resources to handle microfinance business, under the supervision of the Micro unit.
- Improved internal processes to speed up processing time of credit disbursement and ensured efficiency and accuracy of operations by seeking greater ICT support.

COMBINED LENDING VOLUME MAXIMISATION WITH THE NEED TO MAINTAIN OPTIMAL YIELDS

- In driving MI's core business of lending forward, the credit and marketing divisional staff remained aggressive, thereby attracting new customers and managed to also sustain repeat business.
- Lending volumes were kept at desired levels, whilst ensuring an optimal product mix was maintained that generated satisfactory average yields, which nevertheless remained behind anticipated.
- In keeping to MI's strategic prerogatives of business growth, the Management continued to broad base its lending activities across targeted segments, increasing presence and service potential further, similar to the last few years.
- In striving for targeted spreads, MI ensured not to compromise on asset quality, considering the witnessed decline in credit repayments across the industry.

TARGETING VIABLE CUSTOMER SEGMENTS

- In deciding target markets and devising lending strategy, the Management analysed potential market segments available for MI and then identified the suitable product mix to cater to varying needs of borrowers.
- Market segmentation was used as an imperative strategic tool to support the Company in gaining further ground in MI's lending business. This is considering the growing diversity in the Sri Lankan financial markets and changes arising among specific sectors and other economic shifts, technology advancement and social changes.
- Based on these identified market segments, it was proposed to strive for an optimal lending product mix for the next three years, including this financial period as means of diversifying business risk, improve volumes and maintain anticipated yields amidst rising competition.

Figure 54: Core Business Divisions Operational Review – Key Strategic Imperative – Lending Business Strategy (Source: Mercantile Investments and Finance PLC, 2015/16, p. 73)

Furthermore, the IAR of Mercantile Investments and Finance PLC, provides information about the strategy implemented last year and the outlook for each type of strategic imperative. Explanations about broad-based key strategies are given for the areas of lending, recoveries, deposit, treasury management, expansion, ICT, technology-based intellectual capital management, knowledge management,

sustainability management, relationship management, and cost management. This type of reporting shows the development of the strategic focus of the company.

The interviewees indicated that IR supports proper documentation and performance monitoring for most of the sample companies. Specifically, they explain that IR helps to develop formal procedures, proper monitoring and appropriate focus within a company. Accordingly, strategic focus is improved:

As a company, we did not have a proper formal procedure to follow strategies, whether they have implemented correctly or not. With the concept of integrated reporting, we now have proper documentation and all the management discuss the status and monitor at each level to check KPIs and the strategies are implemented properly or not. Another main change is now we have a focus. Our minds are linked to our vision, all the employees are linked to that vision, and their minds have changed. We know how we can do efficiently than previously (Interviewee A M01).

The latest IAR (2016) of Softlogic Insurance PLC, provides detailed information about its competitive strategy and the most recent top strategic risks and actions for the company (see Figure 55). The company also discloses management of strategic risks, implementation of strategies, company strategy by the year 2019 with key value drivers/objectives and performance evaluation. In contrast, the annual reports before adopting IR (e.g. the 2012 annual report) did not provide information about the strategy, strategic aspects or provide a performance evaluation of the company.

Sustainability as an Integral Part of Our Business Strategy	Table: The most recent top strategic risks	
	Risk	Actions
<p>We proactively embed sustainability thinking and sustainable business practices at every level of our business. We believe that our most important contribution to sustainable development is to operate an effective, efficient and profitable Company. By providing responsible access to insurance products, we enable individuals to improve their quality of life and enhance their financial security. The very nature of our business positions us to help our customers and stakeholders manage social and environmental challenges and invest for the future, which in turn contributes to the viability and sustainable growth of the economy. The success of our customers, clients and stakeholders guarantees future business, which underpins our sustainability.</p> <p>Management of Strategic Risks</p> <p>The risks which prevent us achieving strategy as well as the wide range of mitigating actions and strategies which are deployed are incorporated in various sections of this integrated report as well as in the risk management disclosures included in the annual financial statements. The most recent top strategic risks are summarised in the table.</p>	Optimal leveraging of the businesses due to inefficient business processes and inappropriate IT architecture	<ul style="list-style-type: none"> • Investments in IT-enabled multi-channel and customer flexibility solutions. • Risk management processes and business continuity plan. • Strengthen IT governance processes.
	Ability to sustain innovative and cost effective product development and distribution capabilities	<ul style="list-style-type: none"> • Continued focus on innovative product and service design – significant investment in design capability. • The group is able to draw insights that directly benefit our customers through improved data management.
	Ability to retain and attract staff in critical leadership and technical positions	<ul style="list-style-type: none"> • Various initiatives taken to be the employer of choice for the scarce talent. • Succession planning is a specific requirement of the executive committee.
	Meeting of investment return objectives	<ul style="list-style-type: none"> • Performance Governance structure in place to monitor performance and take corrective action as necessary.
	Ability to adopt innovative techniques and to pursue new ideas	<ul style="list-style-type: none"> • Various initiatives are planned, some of which are referred to in our 2017 strategic objectives.
	Appropriately responding to regulatory and environmental changes	<ul style="list-style-type: none"> • The Company strategy has been formulated to ensure the alignment to the changing regulatory environment. Regulatory compliance is monitored to by the board and executive committee.
	Realisation of growth initiatives and supporting business plans	<ul style="list-style-type: none"> • Strategy focuses on growth supported by a new operating model which is designed to increase focus and improve alignment of opportunities to be leveraged.

Figure 55: The most recent top strategic risks (Source:Softlogic Insurance PLC, 2016, p. 68)

Softlogic Insurance PLC in its 2016 IAR also discloses details about the competitive strategy of the company. According to their report, Softlogic Insurance PLC claims to continue to operate its competitive strategy as the “best value provider”, where they stake out a middle ground between pursuing a differentiation advantage and low-cost advantage and between appealing to a broad market as a niche offering. Further, the company writes that they seek to serve mass value-

conscious buyers for a ‘good to great’ service at an economical price by synergizing group advantage (since this company is one company of a group of companies) and personalizing customer engagement at a reasonable price (by maximising customer perceived value).

Moreover, the 2016 IAR of Softlogic Insurance PLC, indicates that its strategy represents a consistent and considerable level of integrated thinking, which continues to deepen as they implement the strategy within the company. The company writes that this process has required that each of the company’s business units to align their strategies and plans to the company’s purpose, vision, and values. They report that this re-orientation is driving a greater integration between its business units and key functions such as risk, compliance, internal audit, advocacy, and sustainability, which are fundamental to defend their legitimacy and for their stakeholders to trust them.

The overall findings from interviewees indicated that IR has helped to develop much more focused strategic plans for the companies. IR has also helped to identify risks and opportunities as well as identify and map all the aspects (including inputs, capitals, outputs, and outcomes) of business into the strategic plan in an integrated manner. The findings also indicate while IR encouraged employees to achieve the vision of the company, IR has also made performance monitoring tighter. Some companies appear to have achieved the benefits of better resource allocation decisions, enhanced risk management and better identification of opportunities. However, overall there is still considerable room for IR improvement as only a few sample companies have achieved significant improvements.

Interviewees indicated that the support of top management is important to the successful implementation and production of quality IARs. A few interviewees are not happy about the management perception of IR:

We have to change the management's perception about integrated reporting and why we do it, it's not only for awards, it has other benefits. It's useless to talk about all that if they don't get the importance of IR. It's useless to do only for awards, it's a waste of time, there are other benefits. They are the people who drive the company, should understand it. (Interviewee A M03).

The interviewees commented that top management should understand the significance of IR. It should not only be used as a tool to win awards: many more benefits should accrue to a company if the essence of IR was fully accepted by everyone, including top management in an organisation.

The interviewees' comments indicated that IR are not prepared in the same way as traditional reports, i.e. at the year-end by the finance team. However, some interviewees consider that the process is not functioning as expected:

IR should not be only a post-evaluation, there should be an ongoing monitoring mechanism with the help of all functions. That is not happening at the moment. There is no proper monitoring mechanism because what we do is at the year-end we see whether the KPIs are achieved or not and then we report (Interviewee D E02).

It was found that sometimes managers do not foresee the importance of IR because of their lack of knowledge about IR:

Actually, integration of activities happens not because of integrated reporting, it is happening through the corporate planning process. Of course, reporting is a part of corporate planning process but its everything brought together through the corporate plan (Interviewee F M10).

However, if managers see IR as a very minor area of the business and merely as another reporting exercise then the achievement of the benefits for strategic planning could not be possible:

Actually, strategy formulation and objective setting and the operation KPI setting, in my opinion, has nothing to do with integrated reporting. Those are key business structures of the organisation. Integrated reporting is reporting, this is in a report form. Those are two different things. We have not done our strategies or our performance, KPI indicators focussing on integrated reporting. It's a very, very minor area of the total business. This is just to report it and show people how we do (Interviewee A M04).

IR requires planning and coordination across business areas (Stubbs & Higgins, 2014). In IR, goals of a company are disclosed to stakeholders through integrated reports. Therefore, collaboration among top management is essential in goal setting and achieving the set goals. The IIRC Integrated Reporting Pilot Programme participants reported improved focus and awareness of senior management around the issues of long-term sustainability, more informed decision-making taking sustainability issues into account, as well as the better articulation of the strategy and business model (IIRC, 2013c). This was experienced to a degree by a few of the sample companies in this study. Most of the sample companies' top management perception and support were not in favour of IR in their companies. The findings indicated that the top management of most of the sample companies did not see the importance and the potential of IR.

The findings indicate that only a few sample companies have achieved improvements at a lower level in connections between departments, increased focus and awareness of the senior management, and better articulation of the strategy and business model. IR facilitates integrated thinking within a company (Adams & Simnett, 2011) and the IIRC (2012b) reports the pilot program participants achieved improved connections between departments leading to integrated thinking, improved internal processes leading to a better understanding of the business, increased focus and awareness of the senior management, better articulation of the strategy and business model, and created value for stakeholders. However, only some of the sample companies experienced this at a lower level, and even then not fully.

IR provides a basis for companies to explain their value creation more effectively to the capital markets (KPMG, 2012b), by providing stakeholders with additional information to help them make more informed decisions about the companies and

their long-term prospects. Though it is expected that IR improves decisions about the effective allocation of scarce resources (Eccles & Krzus, 2010a; Frías-Aceituno et al., 2013), better resource allocation decisions have been achieved by only a few of the sample companies.

IR should help companies reconsider new prospects, choices and risks (Eccles & Krzus, 2010a), and provide transparency and insight into the future and strategic direction of a company. World Business Council for Sustainable Development (2014) research based on South African companies finds that IR should be a key management tool to improve performance. IR is part of the ongoing dialogue companies should have with stakeholders, and it should be the outcome of an internal integrated thinking process at Board and Management level. But, some of the interviewees in this study expressed reservations about the knowledge and commitment of management towards IR.

Though it is anticipated that good management practice will increase efficiency and improve resource allocation and thereby help to create a sustainable society (Dumitru et al., 2013), it is doubtful if IR can drive organisational change and create long-term sustainability (McNally et al., 2017) for the sample companies. This is similar to “push logic” (Stubbs & Higgins, 2014) for driving the new report format where the IR in the sample companies is being imposed on existing structures with no or little consideration for how it can be used to improve proactivity, accountability and sustainability performance as was the case in Adams & Frost’s (2008) study.

The overall finding here is that IR has helped to develop much more focused strategic plans for a few of the sample companies or at least they started disclosing more information about their strategic plans. The focused strategic plans have helped these sample companies to identify risks and map all the aspects (including inputs, capitals, outputs, and outcomes) of business into the strategic plan in an integrated manner.

10.3.2 Business process improvement

The interviewees of the sample companies and the disclosures in their IARs indicate that they achieved business process improvement in varying degrees, from different

perspectives. The findings show that the sample companies representing all industries achieved greater engagement with investors and other stakeholders. A few companies representing three industries (Insurance, Financial Services, and Industrial Engineering), improved performance monitoring and appraisal of their companies and improvements in other aspects of business processes.

Interviewees indicated that business process developments takes place in several ways. Some perceive that improvements in internal processes lead to growth in productivity and sustainability:

Business processes are integrated not only for the reporting purpose but for the businesses as well (Interviewee H E04).

For each department, we have KPIs. With the integrated reporting, we monitor those KPIs in a very formal way whether these KPIs are achieved or we just missed that one or not. As a result, our productivity, sustainability, wastage aspects have improved (Interviewee A M01).

Some interviewees identify career progression as one of the important aspects of process improvements in human capital. Softlogic Insurance PLC (2016, p.108) explains how career progression is enhanced:

... the company fosters a strong performance driven culture by making the talent pool scale up in their career progression as well as ensure that all employees of the company undergo regular appraisal.

According to the above company's IAR (2016), the performance review process is based on the balanced scorecard method where employees are evaluated against four key performance indicators. They indicate that this process is said to ensure constant dialogue and seeks to assist in continuous improvements in performance where performance objectives/goals are set and shared with the employees to maintain a fair evaluation process.

In addition, the company's IAR (2016) illustrates the objectives of performance evaluation. According to their IAR (2016) employee goals are specific and realistic with regard to their job function. The main aim of performance evaluations is to measure and improve the performance of the staff, base rewards on their performance grading and to increase their future potential and value to the company. Disclosure also includes providing feedback, understanding training

needs, identifying poor performers and guiding them towards enhancing performance, and clarifying job roles and responsibilities.

Softlogic Insurance PLC (2016) also provides details of the improvements in productivity, sustainability, and wastage. For example, they highlight changes in different aspects of performance, for instance, return on equity increased from 44.8 per cent in 2015 to 48.1 per cent in 2016. The company provides detailed information about the sustainability aspects and waste management under natural capital. This section explains their areas of focus such as, waste management, water management, internal policy for value creation, driving eco-efficient business for value creation, as well as energy use and efficiency (see Figure 56).

Waste Management
Waste management and management of paper consumption were prioritized in the same vein as the previous year. Compared to 2016, we boosted our savings of greenhouse gas emissions over 260% by partnering with Neptune Recycles Private Ltd.

Our paper waste managing partner, Neptune Recycles, shreds our waste papers in an environmentally friendly manner, which not only saves natural resources, but also assists our company in securely disposing our company's confidential documents. We do not incur costs regarding waste disposal, emission treatment and remediation cost, since none of the third parties charge a fee for the services provided.

Figure 56: Waste Management (Source: Softlogic Insurance PLC, 2016, p. 153)

None of the information about career progression, performance evaluation, improvements in productivity, sustainability, and waste management were disclosed in Softlogic Insurance PLC's last traditional annual report (2012).

It was found that some sample companies experienced changes to their processes, even at department level, in that departments are responsible for reporting what

they are doing and are answerable to the shareholders. As a result, work patterns and operations have developed, as one interviewee explains:

When departments know that they have to report it at the end and when they know that they are responsible for it, and shareholders especially see it and at the annual general meeting they ask questions. Therefore, obviously, the process of doing that operation improved. We see it now but not 100%, at least the work patterns and operations now happen in a more structured way (Interviewee D E02).

To illustrate this process changes, a review of the 2016 IAR of HNB Assurance PLC shows that this company provides information about policies and procedures. The company appears to have taken numerous steps to strengthen the internal control environment as evidenced by a number of criteria, including: adopting and implementing policies and procedures such as a risk management policy, compliance policy, investment policy, anti-money laundering policy, manual of financial authority, code of ethics, procurement policy, and procedures, etc. to give directions to management to build a strong control environment, as well as developing procedure manuals and guidelines to ensure that policies “trickle down” to lower levels of the structure.

Further, HNB Assurance PLC in their 2016 IAR provides full details of guidelines on complaints-handling by insurers and brokers, good practices in conducting inquiries on insurance agents, guidelines on conducting investigations on insurance claims, and directions to submit policy documents to the insurance board of Sri Lanka. The company also describes the comprehensive performance management system is in place to ensure that the overall corporate objectives trickle down to individual employee objectives in their respective fields.

Additionally, HNB Assurance PLC reveals their relationship with stakeholders and provides details about the stakeholder engagement process. According to their IAR, the company believes constant engagement with their business partners is vital to maintaining healthy relationships (see Figure 57). Reporting in this way enables HNB Assurance PLC to show appreciation of its stakeholders’ concerns and to respond to their needs effectively. This suggests a strengthening in the company’s relationship with their stakeholders. The annual reports produced by this company

before IR adoption did not provide information about most of the above. The IR therefore has helped to improve business processes and reporting.

Stakeholder Group	Purpose of Engagement	Mode of Engagement	Frequency of Engagement					Stakeholder Concerns and Expectations	Our Strategic Response	
			Continuous	Monthly	Quarterly	Bi-Annually	Annually			
Shareholders & Investors	Raise concerns	Annual General Meeting					✓	Clarifications about Financial / Operational Ratios	Shareholder suggestions taken into account in providing financial/ operational information in Annual Report	
							✓	Convenience of attending AGM	AGM is scheduled considering shareholder requests made at former AGMs.	
		Access to Chairperson/ Chief Executive Officer/ Board Secretary via email/letter/ telephone	✓					Information about the Company in languages other than English	The Chairperson's message, Chief Executive Officer's Review and the Key Financial Statements are provided in Sinhala and Tamil languages along with the Annual Report on request of shareholders.	
Customers	Customer assistance	Online help-desk	✓					Assistance for claim intimation and information on products and policies	A state-of the-art Customer Service Centre and 24/7 helpline each for Life and General businesses	
	Identify insurance needs and providing high level of service	Branch network and customer service centre	✓					Act as customer touch points offering products and continued services	Branch network was expanded to 58 branches to improve convenience and the service of the Customer Service Centre is strengthened to provide better service levels.	
	Product awareness	Propaganda vehicle travelling island-wide creating product awareness	✓					Innovative and comprehensive range of products to cover all insurance needs	Continuously engage in product development	
	Improve customer loyalty and interaction	Interactive trilingual corporate website, Facebook page and Android applications		✓					Easy access to information	Maintain consistent service levels and training front line staff to provide better customer service
			Web inquiries	✓						
	Customer satisfaction survey		✓					Aligning customer needs with the services of the Company	Incorporate the findings into the strategies developed	

Figure 57: Our Stakeholders (Source: HNB Assurance PLC, 2016, pp. 13-15)

Interviewees believe that integration of financial and non-financial information requires changes to existing processes and procedures. If IR is to succeed, a company has to move from the traditional way of doing things:

The objective of IR is integrating things. Integration is happening now. In the past, it was very divisional oriented. Integration has been established to a greater extent and in addition to that we have gone to the next level of even performance management is now looking at the integrated approach, not only looking at one side. We are using that thinking to develop the business as well. With this, process development also has to happen because if you are up to keeping your information to a certain level, obviously, you can't live with the traditional things, you have to change and that change is happening. It has happened to a great extent (Interviewee D M02).

The 2016 IAR of HNB Assurance PLC provides details about how they integrate the performance management system of the company. According to the extract of their IAR, it appears that a comprehensive performance management system is in place to ensure that the overall corporate objectives trickle down to individual employee objectives in their respective fields:

MONITORING PROGRESS AS PER THE CORPORATE PLAN
Performance objectives, budgets, relevant policies and procedures are regularly monitored and all managers are held responsible for the accomplishment of the objectives and component/s of the budget assigned to him and his team. They are required to scrutinise the progress and report on the same to their superiors. Systematic mid-year appraisals are carried out to ensure the objectives assigned to each employee are on track to being met.

Figure 58: Group Performance Governance – Monitoring Process as per the Corporate Plan (Source: HNB Assurance PLC, 2016, p. 90)

The 2016 IAR of HNB Assurance PLC also discloses how employees performance levels are measured against the performance objectives assigned to each individual through a fair and transparent appraisal process. According to their disclosures, the performance appraisal system focuses on various aspects including, but not limited to, the achievement of objectives, personal growth and the improvement of competencies. The performance appraisal cycle comprises year-end and mid-year

performance appraisals. The mid-year appraisal is conducted to review progress in the achievement of objectives and targets set, and to provide feedback for improvement. The year-end appraisal focuses on evaluating employees against the achievement of the set targets and objectives, and their personal growth. The results determine promotions, increments, and bonuses. Further, the company points out no discrimination is made based on gender, religion, race, political ideology or any other socioeconomic facet. They inform readers that increments, bonuses, and promotions are purely based on the level of performance exhibited during the year. The Human Resources and Remuneration Committee reviews the promotions and increments proposed by the management and recommend to the Board.

Additionally, HNB Assurance PLC (2016) outlines that recognizing the untiring efforts of their cadre is vital in maintaining a motivated workforce. Hence, they recognize and reward exceptional performance through different means, such as a ‘Chairman’s Award’, sales conventions and other awards ceremonies, foreign tours and other monetary and non-monetary benefits. The company reported that during the year, ten outstanding employees were awarded the ‘Chairman’s Award for Excellence’, the most prestigious award one could receive during his/her years of service with the company.

Developing future leaders to take up managerial roles is indicated as an important aspect of the HNB Assurance PLC’s human capital development model. They write that future leaders are identified via the company’s performance management scheme, and identified employees are constantly empowered and mentored to assume future leadership positions. For example,

‘ ...during the year 2016, the top management of the company experienced a major change in its composition, with the appointment of new EXCO members. This was done with the intention of creating a strong team of future leaders who could take the company to greater heights (HNB Assurance PLC, IAR (2016) p.132)

Developing a dialogue with key internal and external stakeholders helps to ensure that companies continue to focus on the most pertinent issues, identify opportunities for innovation and growth, and build public trust. However, it would appear from the findings that most of the sample companies’ process improvements are yet to

occur. Organisation-wide participation is important to the success of IR; however, it is yet to be accomplished by most of the sample companies:

The process improvement and thinking will take some time because the focus is only from the finance department people, not from the others (Interviewee F M01).

Some interviewees mention that a narrow focus on merely reporting within a company does not result in process developments. Continuing with old practices under a new 'IR' may not result in achieving potential benefits:

There is no implementation of such processes in our company. We are only doing it for the reporting purposes. I think all the employees should be aware of this process and implementation should happen. It is merely a function of Finance division, just producing the report. Actually, I don't see the integration within the company (Interviewee A E02).

Therefore, if managers cannot understand the potential benefits of IR and if they fail to visualize the changes required for the implementation of IR, a question remains about the purpose of introducing IR. One interviewee expresses reservations:

There is no real demand for us to do any major changes to our processes at the moment. More than IR, we give preference to more governance and we want to see that we become a very compliant bank and we don't want to deviate from practices. I can't see real benefits by following IR within the bank (Interviewee F M02).

Some interviewees even suggested that the usefulness of the IAR is limited. They perceive that stakeholders do not value the IAR, placing more emphasis on the financial statements. This view is supported by McNally et al. (2017) who write that in the absence of or with the minimum of integrated thinking, application of codes of best practice and governance do not automatically result in high-quality IR.

Implementation of IR is described as an organisational change, and not an event in itself (KPMG, 2011a). Companies that produce some form of IR (combined or integrated) change their processes and structures (Stubbs & Higgins, 2014). The decision to prepare the first IR is expected to lead to changes in decision-making processes, informal and formal communication processes, as well as materiality and

broader corporate risk identification processes (Adams, 2015). A few sample companies achieved benefits in process improvements - to some extent – as changes are being made to their processes. The process improvements are similar to the progress reported by Stubbs and Higgins (2014), who find incremental changes to processes and structures of the Australian early adopters of IR. The findings indicate that the monitoring processes of some of sample companies have been improved and, while processes have not been perfected, at least work patterns and operations happen in a more structured way and process development is still happening. As found by Stubbs and Higgins (2014), this study did not uncover transformative change, but rather incremental changes to processes and structures. However, process improvements are not evident in all the sample companies.

IR has a broader focus. It is said to facilitate integrated thinking, provide forward-looking information (Adams & Simnett, 2011), improve decisions on effective allocation of scarce resources (Eccles & Krzus, 2010a; Frías-Aceituno et al., 2013), and make appropriate forms of stakeholder engagement (Eccles & Serafeim, 2014). IR provides a basis for companies to explain their value creation more effectively to the capital markets (KPMG, 2012b), and is a good management practice that will increase efficiency (Dumitru et al., 2013). A key finding is that most of the sampled companies were not able to realise the full potential of adopting IR, especially in aspects of business process improvement.

10.3.3 Information process development

Of six industries, companies representing five industries (Insurance, Banking, Financial Services, Industrial Engineering and Diversified Holdings) improved their information processes. However, the telecommunication company did not acknowledge any improved information process developments. The analysis of IARs and findings from the interview transcripts show that most companies achieved better alignment of reported information with investor needs, availability of more accurate non-financial information for data vendors, and greater engagement with investors and other stakeholders.

Some interviewees indicated that well-developed information processes are crucial for any type of reporting within an organisation. To give an integrated holistic view, a company needs to have an advanced or streamlined information process:

Previously we would have reported only the compulsory requirements.....now we report the full information to stakeholders. That is the reason we streamlined all the data collection processes with the introduction of IR (C E01).

Obtaining assurance from a third party can enhance the output from the information processes and encourage further development. An independent assurance provider for non-financial reporting, DNV GL Business Assurance Lanka (Private) Limited, issued an assurance statement for the non-financial sections of the latest IAR of a sample company. The assurance statement assures the accuracy and comparability of the information presented by Diesel & Motor Engineering PLC in their IAR (2016/2017), as well as the quality of the company's underlying data management systems (see the circled text in Figure 59).

<p>Observations</p> <p>Without affecting our assurance opinion, we also provide the following observations. We have evaluated the Report's adherence to the following principles on a scale of 'Good', 'Acceptable' and 'Needs Improvement':</p> <p>Materiality</p> <p><i>The process of determining the issues that is most relevant to an organization and its stakeholders.</i></p> <p>Material topics were identified for reporting based on inputs from its engagement with internal and external stakeholders. The materiality determination process included a stakeholder engagement survey, an analysis of feedback from the survey, and assessment of stakeholder concerns by the Group Management Committee. The process prioritises and fairly explains material topics based on stakeholder engagement surveys, and these are fairly brought out within the Report. In our opinion, the level at which the Report adheres to this principle is 'Good'.</p> <p>Inclusivity</p> <p><i>The participation of stakeholders in developing and achieving an accountable and strategic response to Sustainability.</i></p> <p>DIMO has established and undertaken a formal and independent stakeholder engagement process to understand and identify sustainability issues and concerns of its key stakeholder groups, and these concerns are assessed by the Group Management Committee and the Board. The outcome of stakeholder engagement is fairly brought out in the Report. In our opinion, the level at which the Report adheres to this principle is 'Good'.</p> <p>Responsiveness</p> <p><i>The extent to which an organization responds to stakeholder issues.</i></p> <p>The Report brings out how the Company monitors and responds to key concerns raised by its stakeholders on identified material issues, and its responses in terms of policies,</p>	<p>the sustainability context. Further, the Report could bring out strategies and changes in management systems wherever achievements and shortfalls were identified with respect to previous commitments, to further strengthen its responsiveness. In our opinion, the level at which the Report adheres to this principle is 'Acceptable'.</p> <p>Reliability</p> <p><i>The accuracy and comparability of information presented in the report, as well as the quality of underlying data management systems.</i></p> <p>The majority of data and information verified at Head Office and at sample operational sites we visited were found to be fairly accurate. Some of the data inaccuracies identified during the verification process were found to be attributable to transcription, interpretation and aggregation errors and the errors have been corrected. Hence in accordance with the AA1000AS (2008) requirements for a Type 2, moderate level assurance engagement, we conclude that sustainability data and information presented in the Report is reliable and acceptable. In our opinion, the level at which the Report adheres to this principle is 'Good'.</p> <p>Specific Evaluation of the Information on Sustainability Performance</p> <p>We consider the methodology and processes for gathering information developed by DIMO for its sustainability performance reporting to be appropriate, and the qualitative and quantitative data included in the Report was found to be identifiable and traceable; the personnel responsible were able to demonstrate the origin and interpretation of the data and its reliability. We observed that the Report presents a faithful description of the reported sustainability activities for the reporting period.</p> <p>Sustainability Context</p> <p><i>Representation of the organization's performance in relation to broader concepts of sustainability.</i></p> <p>The Report has attempted to capture the sustainability context through the disclosures</p>
---	---

Figure 59: Independent Assurance Statement on Non-Financial Reporting (Source: Diesel & Motor Engineering PLC, 2016, p. 176)

The interviewees' responses indicate the following steps that need to be taken to develop the information processes: providing senior management with enhanced support, taking steps to ensure the accuracy of the information and introducing procedures to capture all the activities of their companies. This is illustrated by an interviewee:

Senior management is taking more responsibility for the information that they give out to the annual report. The accuracy of the information all are being checked and the processes have been placed in a way that the entire activity, all the activities are captured properly and they are tested properly when they report to the annual report (Interviewee D E02).

HNB Assurance PLC shares how their work patterns, operations, and systems have improved in their 2016 IAR. They claim to have effective systems to secure the integrity of information, internal controls, information security, business continuity and risk management. According to their IAR, such systems are continuously monitored by management, internal and external auditors, and at times by independent experts, to ensure they function smoothly. Further, the IAR provides information about the internal controls the company uses.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Company, as well as for enhancing the system of internal controls in response to changes in the business environment or regulatory guidelines. This process is put in place for the year and is reviewed periodically by the Board through its Audit and Risk Management Committees, supported by the Internal Auditors. The Board, with the assistance of its Sub-Committees, reviewed deficiencies identified in internal controls during the year and has taken appropriate actions to improve the control environment.

Figure 60: Strategy Review Committee Report (Source: HNB Assurance PLC, 2016, p. 196)

Interview findings indicate that information processes have been developed in order to ensure all information is collected on time rather than waiting until the year-end:

We have been able to streamline the information gathering process of the company. Earlier we adopted a more reactive approach where we find the information at the year-end and then report but then, later on, we ensure that each division has a monitoring mechanism for information and then come up with the information (Interviewee D M01).

Some companies, to improve information processes, assign responsibility to individuals and gather information periodically, without waiting to collect the information near the year-end:

Information gathering process improved a lot. For every branch, we have now appointed a responsible officer. Therefore, we send information requests to them periodically, review and we get an interim report from them. They now report really well (Interviewee I M02).

For instance, HNB Assurance PLC (2016) discloses how they ensure the credibility of information and information systems of the company. The information presented in their IAR is compiled by gathering data from all relevant departments. Several information systems supported the process, and the information in the report has been verified by several committees.

ENSURING CREDIBILITY

The information presented in this report has been compiled by gathering data from all relevant departments of the organisation.

The financial information system Oracle EBS is used to obtain financial information, while the core system TCS Bancs is used as the main source of information related to insurance activities. All information related to human resources is obtained via the HRIS system. Data calculation methodologies used in this report are similar to those used in the Integrated Annual Report of 2015, which is our most recent Annual Report, and no material restatements of non-financial data were made during the period under review. Information contained in this report has been verified as applicable by:

- Board of Directors
- Audit Committee
- Other Sub-Committees of the Board
- Group Executive Committee

Constant measures have been taken to ensure the credibility of information provided in this report.

Figure 61: Ensuring Credibility Figure (Source: HNB Assurance PLC, 2016, p. 4)

People's Leasing & Finance PLC (2016/2017) presents a '*Directors' Statement on Internal Control Over Financial Reporting*' to ensure the credibility of information systems and information gathering process of the company. They write that the Board of Directors is responsible for the adequacy and effectiveness of the internal control mechanism in place and an ongoing process is established for identifying, evaluating and managing the significant risks faced by the company. The board regularly reviews Internal Control over financial reporting, as well as non-financial information, to ensure the credibility of information systems and gathering processes.

The Board is of the view that the system of Internal Control over Financial Reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of Financial Reporting and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures pertaining to Internal Control over Financial Reporting. The management is in the process of continuous enhancing the documentation of the system of Internal Control over Financial Reporting. In assessing the Internal Control System over Financial Reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn are being observed and checked by the Internal Audit Department of the Company for suitability of the design and implementation effectiveness, on an ongoing basis.

Figure 62: Directors' Statement on Internal Control Over Financial Reporting (Source: People's Leasing & Finance PLC, 2016/17, p. 273)

People's Leasing & Finance PLC also writes that the financial reporting system of the company has been designed to provide reasonable assurance of the reliability of financial reporting and the preparation of financial statements.

However, some interviewees believe that the IR adoption decision has not been communicated properly or explained adequately to the departments within the company. As a result, data collection is not easy and information systems have not developed as anticipated. Interviewees argue that in the absence of a proper

information system or a management information system, the company may face great difficulties in producing a quality IAR:

IR is not being practiced on a daily basis in our organisation; in terms of a report, yes it comes out. At first, I think top management was not aware of what integrated reporting was but after the first report, after we won awards and got some recognition, then they supported a lot. Now the top management is in support of the integrated reporting but still, the communication is not going very well because other departments don't know, they don't know the benefits of, what it is, why we are doing this. They think it's just a responsibility of the Finance Department. It's not being communicated properly, so it's hard to get work done from other departments (Interviewee A E01).

Our company does not have very solid management information systems. If you are talking about IT systems, we don't have much IT systems that support integrated reporting. We don't get any help from the IT systems to produce any of the information that we produce. We cannot see improvements in information systems (Interviewee D E03).

Overall the findings indicate that the information processes of most of the sample companies have been streamlined and developed as a result of IR, to a certain degree, and at least enough to collect necessary information to produce the integrated reports. Findings in this area indicate that measures were taken to ensure activities are captured and the information is accurate. Further, it was found that the on-time collection of relevant information is supported by the introduction of IR rather than waiting until the year-end. In addition, interviewees noted that strategies such as increasing other departments' participation, assigning responsibility to each department, and appointing a responsible officer in each branch were used to improve the information processes.

A rapid move towards IR implementation will require companies re-examine their reporting structures and require new IT system investment to provide for the non-financial aspects of IR (Hampton, 2012). As the relevant information processes are revamped to capture information for IR, their efficiency and effectiveness are also expected to improve significantly (Simnett & Huggins, 2015), which is expected to lead to higher quality and more comprehensive and timely information (Eccles et al., 2010). This has achieved to some extent by all of the sample companies, except one.

10.4 Internal Culture

Internal culture is expected to change as companies implement IR. IR helps to create an integrated corporate culture and improves overall communication. This has been achieved by few sample companies, but only to a lesser extent.

10.4.1 Integrated corporate culture

The interview findings and analysis of IARs reveal that companies representing four industries (Insurance, Banking, Financial Services, and Industrial Engineering) achieved greater collaboration across the different functions within their companies.

IR facilitates integrated thinking within an organisation (Adams & Simnett, 2011). The IIRC pilot program participants achieved improved connections between departments leading to integrated thinking (IIRC, 2012b). Findings indicate that the Sri Lankan companies are starting to reap these benefits. Previously, the IARs of the sample companies were a product of finance or accounting departments. Now IARs result from contributions from all staff:

Earlier the Finance Department produced it, today the integrated annual report has become a product of everyone, all of us contribute to it (Interviewee F M10).

A finding of this study was that as a result of IR, employees better understand the overall strategy of the business rather than just individual or divisional goals. The interviewees' experience was that the operational, middle and top management engagement in the whole business process improved:

As far as the employees are concerned, they are now engaged in this whole process, at least at middle and senior management level. They have a better understanding of the company's total strategy and their individual responsibilities in that big mission. People now understand the business as a total strategy rather than understanding on individual subgoals or objectives which fall under each division. We can very clearly see that change (Interviewee A M04).

Softlogic Insurance PLC (2016, p. 55) explain how they engage employees in the company's strategy formulation (Figure 63). Further, their IAR (p. 61) provides information about their employee engagement mechanism (Figure 64).

Strategic Objective	Key Initiatives Target for 2016	Progress 2016	2017 Priorities
Inspire and motivate our people	<ul style="list-style-type: none"> Encourage employee participation in corporate strategy and planning process 	<ul style="list-style-type: none"> Employees were provided opportunities to participate in planning and strategy sessions 	<ul style="list-style-type: none"> Further encourage employees in participating in the company strategy and planning process

Figure 63: Our Strategy Delivery 2016 and 2017 Plans (Source: Softlogic Insurance PLC, 2016, p. 55)

Key expectations/ commitments	Response strategies	Method of engagement	Level of engagement	Frequency	Topic and concerns
<ul style="list-style-type: none"> Build ownership by engaging employees in our business strategies 	<ul style="list-style-type: none"> Build ownership by engaging employees in our business 	Management meeting	Consult	Weekly	Review business performance

Figure 64: Stakeholder Engagement Mechanism – Employees (Source: Softlogic Insurance PLC, 2016, p. 61)

Additionally, Softlogic Insurance PLC explains the employee communication process of the company. The company promotes and creates a workplace where employees views are given due consideration during the decision-making process and are well informed of the company’s decisions. The company’s employee engagement is shown to be driven by leadership, effective rewards, culture, and values that support performance and development.

Findings indicate that the endorsement of ownership of the IR increases the responsibility towards it. The increased participation of all departments in the IAR is seen to increase the quality of the report:

I think people feel the annual report is their product. The ownership of the annual report is greater than when it was published purely by the Finance Division. I see during the last three to four years there is a great involvement by the other departments in doing IR (Interviewee F M10).

The findings indicate that increasing employee (including top management) participation is an indication of the success of IR in some of the sample companies. As recounted by one interviewee:

We were able to get the support of people, we were able to change the mindset of at least some level of people and we were able to get our top management to think about this concept. We have another achievement that we were able to get our strategies aligned with this concept (Interviewee I M01).

Companies consider that they create value to society and the environment through their decisions, products and services, and activities as explained below:

With the introduction of IR, employees focus has been changed. Views of departmental heads on the annual report, the information requirements and the work that they should do to process this integrated report, has been changed over time. For example, new products development, those products should give some value to the society, their focus on that aspect not only developing a product but also giving some value to the society (Interviewee B M03).

The Board of Directors of Citizens Development Business Finance PLC (Figure 65), delivers a statement indicating integrated thinking within the company.



Figure 65: Our Fourth Integrated Report (Source: Citizens Development Business Finance PLC, 2016/17, p. 4)

Findings reveal that IR facilitates team cohesiveness through caring about and sharing information within each company. An interviewee states:

IR has enabled team cohesiveness of the organisation. It's not merely giving information but also to care about it. For example, even employees are sharing the guidelines or what they have seen or what they have heard in terms of the annual reports with finance team (Interviewee B M06).

One director includes his views in the IAR about integrating the activities of employees (human capital) of the company and its importance to achieving

organisational objectives (Citizens Development Business Finance PLC, 2015/2016, p. 66).

“Our business premise of ‘Strategy bets on people to succeed’. During the year, we integrated our processes gearing them to promote a culture of learning, collaboration, diversity, personal development and close interaction further. **These initiatives will certainly be even more relevant in engaging with the new generation of employees now entering the workforce. As happy employees lead the Company to happy customers which in return makes our shareholders happy!**”

Figure 66: Human Capital (Source: Citizens Development Business Finance PLC, 2016/17, p. 66)

With the introduction of IR, the perception of top management in the some of the sample companies has changed as evidenced by the quote below:

More importantly, top management thinking or perception has been changed drastically from merely conducting operations or driving the operations to the extreme of thinking about stakeholders, their expectations and how we should drive our current business operations to achieve the stakeholder expectations. We feel that change in their thinking or perception is very beneficial to the organisation (Interviewee A M02).

According to Softlogic Insurance PLC (2016, p. 52) stakeholder engagement starts from the strategy, and the strategy represents the company’s commitment to the stakeholders (Figure 67).

<p>How We Define Our Business and Strategy</p> <p>“Our strategy represents our commitment to the country and to the shared future that we intend to create for our customers, our people and all our stakeholders.”</p>	<p>Further, we ensure continuity to counter the disruption that take place when a tragic event occurs on the path of daily life for individuals, families, businesses, organizations and communities.</p>
--	---

Figure 67: Strategy and Resource Allocation - Overview and Update on Strategy Session (Source: Softlogic Insurance PLC, 2016, p. 52)

Further, the 2016 IAR of Softlogic Insurance PLC discloses information about stakeholder engagement and how the company should drive current business operations to achieve stakeholder expectations. According to the report, all stakeholders would relate to the company through being concerned with its

performance in one or more aspects such as economic, social and environmental. The company reports that its relationships with all stakeholders impacts directly and indirectly on its business activities and reputation. Stakeholders' expectations and needs, which emerge from the engagement process, help the company refine its services to ensure that the company delivers sustainable value.

Additionally, the company explains that effective management of relationships with stakeholders is crucial to resolving issues. By using their influence, stakeholders hold the key to the environment in which the company operates and its subsequent financial and operating performance. The report explains how the company builds trust with stakeholders, aided by understanding their viewpoints and motivations. Information relating to key expectations/ commitments, response strategies, method of engagement, level of engagement, frequency, topic and concerns for all the stakeholders are explained in a tabular manner in the 'stakeholder engagement' section (Softlogic Insurance PLC, 2016, p.60).

 Customers					
Key expectations/ commitments	Response strategies	Method of engagement	Level of engagement	Frequency	Topic and concerns
<ul style="list-style-type: none"> Enhancing accessibility to our services to all segments in society in all districts and provinces. Adequate lead time between placing orders for goods / services and delivery date. Satisfaction New products to meet the evolving needs 	<ul style="list-style-type: none"> Customer Care Centre Systematic upgrading of customer centers to provide better service Operational dashboard 	Customer satisfaction survey	Consult	As necessary	Service quality
		Daily interactions at customer centers	Involve	Regularly	Customer complaints/ suggestions
		One-to-one meetings	Consult	As necessary	Customer relations
		Direct customer feedback	Consult	On a regular basis	Dispute resolution
		Media campaigns/ advertisements	Remain passive	On a regular basis	Awareness
		Website information updates	Remain passive	On a regular basis	Product information
		Life Up App	Involve	As necessary	Policy related matters

Figure 68: Stakeholder Engagement Mechanism – Customers (Source: Softlogic Insurance PLC, 2016, p. 60)

The traditional reports of this company before producing IARs did not disclose any clear information about stakeholder engagement or the importance of stakeholder

engagement to the company. Little information about stakeholders was made available through traditional annual reports.

Though participation of all the departments' employees is expected, some interviewees comment that employee involvement is limited and sometimes limited to 'top management' level or only to employees of the 'finance department.' Thus, the culture of the company has not changed:

We can see very top management level involvement only. Probably we can get the involvement of the levels downwards but for that, they also have to have a proper understanding of the total process and what the IR is. Ideally, it is good to get everybody's involvement but if they don't understand it there is no point in taking their input and wasting time (Interviewee C M02).

Interviewees emphasise that if there is no proper communication among the departments and no understanding of the IR; it is going to be just a year-end task and only the responsibility of the 'finance department'. If the main purpose is winning awards for the report, then the company will not be able to achieve the expected benefits of IR. Some interviewees explain at length:

There are a few areas to be looked into. One is communication with other departments and making them understand the process of the preparation of the annual report and the importance of IR. Changing the structure to what we do in the last two months of the year to prepare annual report has to be spread over the twelve months and it should be a process which begins from January to the very end. It should not be the responsibility of the Finance Division only (Interviewee D E02).

On the other hand, the information that we report on the annual report should not only be a document that we present for an award competition and win an award and put our name on the paper. That idea should be incorporated in the people who approve the report because sometimes they just see it as if we do it we would be able to win an award. That is the thinking process but it should not be like that. The report has to be a cooperative effort of the company otherwise we will only be reporting on aspects from our perspective, it won't be a collective perspective that we are presenting (Interviewee D E02).

Other departments' participation in IR is very less. Getting their support is really difficult. It's not their duty, that's how they say (Interviewee A E01).

Therefore, the success of IR in a company requires making all divisions and employees aware of the concept. Importantly, organisation-wide participation is

also imperative to the achievement of the concept. However, some interviewees do not observe those features and therefore achievement of foreseen benefits may be doubtful:

We did not communicate with the other departments that we are adopting IR. That was not communicated because they are not simply bothered if you put it that way. It's just an annual report for them. It's just another report for them for which they have to give information. They were not well educated on that. So, what we did was we said we need this information please give us. Honestly, if employees of other divisions are on the annual report committee then they will at least come for meetings otherwise their participation is very minimal. Once we complete the report, in the reviewing level they come and support us other than that there is no participation, one reason is basically it's not an objective of theirs, nobody has told them to contribute and we are not expecting their co-operation as well (Interviewee D E02).

Subsequently, it was found that where involvement by all divisions and ownership of IR concepts is lacking, the expected integration of firm culture is unlikely to be achieved. Findings of this section are consistent with World Business Council for Sustainable Development (2014) conclusions on investors' view on the value of IRs. IR should be the outcome of an internal integrated thinking process at Board and Management level. With the introduction of IR, it is more likely that management will recognize the significance of integrating non-financial concerns into business strategies (Simnett & Huggins, 2015). Moreover, these strategies can be communicated to employees to raise awareness at the operational level, which will facilitate a higher degree of collaboration and engagement (Adams & Simnett, 2011). IR requires and brings about integrated thinking and can lead to improvement in performance throughout an organisation (IIRC, 2013b). As the World Business Council for Sustainable Development (2014) comments, IR is a journey for the entire company and integrated thinking is the key to successful IR.

IR facilitates integrated thinking within an organisation (Adams & Simnett, 2011). The IIRC pilot program participants reported improved connections between departments leading to integrated thinking: improved internal processes leading to a better understanding of the business, increased focus and awareness of senior management, better articulation of the strategy and business model, and, creating value for stakeholders (IIRC, 2012b). The IIRC IR Framework (IIRC, 2013e) recognizes that value is not generated by or within a company alone but is

influenced by the external environment which provides the context within which the company operates and is created through relationships with others.

IR necessitates management responsibility throughout the company since environmental, social and governance matters affect core business (ACCA, 2011a). IR should be a key management tool to improve performance - the quality of IRs is a clue to the quality of leadership. It is a strategic means of communication, not a reporting burden. IR is part of the ongoing dialogue companies should have with stakeholders, it should be the outcome of an internal integrated thinking process at Board and Management level (World Business Council for Sustainable Development, 2014).

Integrated thinking, integrated culture, and participation of all levels employees are important factors for the success of IR. For a few sample companies the introduction of IR has led to increasing employee participation with the preparation of IARs and 'greater collaboration across different functions within the organisation' (IIRC, 2011). IARs have now become a product for everyone to become involved with in a few of the sample companies. The feeling of ownership of IARs has increased. Employees' thinking has changed to integrated thinking, which has helped to increase team cohesiveness. Employees now look to total strategy rather than just individual or divisional goals. Top management support and thinking have changed in favour of IR for a few of the companies representing four of the six (Insurance, Banking, Financial Services, and Industrial Engineering) industries.

However, interviewees stress that employees' thinking has not changed to integrated thinking to the expected level. Only a few companies evidenced an increased team cohesiveness. Whilst top management support and thinking has changed in favor of IR in the some of the sample companies, it appears that time and education is needed for integrating thinking to spread to all employees. Roberts (2011) argues for the optimistic expectations of the breakdown of operational and reporting silos, leading to improved systems and processes. However, it was found that the sample companies experienced less development in integrated thinking. Feng et al. (2017) suggest that an advantage of integrated thinking is that there is an evolving acceptance of it within the practice of the organisation. Further, Merchant and Van der Stede (2007) argue that issues arise when translating the

concept of integrated thinking into practice because it requires changes in behaviour, which is arguably a form of management control known as a cultural control. This translation from integrated thinking to behavioural change was lacking in the sample companies. Dumay and Dai (2017) argue for integrated thinking to work as anticipated by the IIRC, it must replace some of the existing organisational cultures, because not doing so allows the status quo to remain. However, strong organisational cultures are not readily or easily replaced, especially if associated with an organisation's past success (Dumay et al., 2017). The new reporting framework of most of the sample companies has not resulted in a radical change to managers' mindsets at all levels. There was no complete internalisation of the need to link non-financial and financial issues to ensure sustainability as suggested by Stubbs and Higgins (2014) and Brown and Dillard (2014). As a result, the sample companies have not developed sustainability management systems to support a clear strategic focus on sustainability performance backed by detailed action plans (Eccles et al., 2014).

10.4.2 Improved Communication

The interviewees of the sample companies demonstrate that external communication (communication with stakeholders) has improved to a great extent and that internal communication (communication among units within the organisation) has marginally improved, as a result of the introduction of IR.

Through improved communication within companies representing five industries (Insurance, Banking, Financial Services, Industrial Engineering, and Diversified Holdings), better alignment of reported information with investor needs and availability of more accurate non-financial information for data vendors was achieved. A few of the sample companies representing four industries (Insurance, Banking, Financial Services, and Industrial Engineering) also achieved, to a certain extent, greater collaboration across different functions within the organisation.

Integrated reports provide much more information than traditional financial reports. Traditional reports did not discuss strategies, objectives and the future at length. The interviewees explain that IR link with inputs, outputs, and outcomes, and consequently, communication improves as illustrated by the quote below:

When I compare the previous annual reports and this integrated report, there is much more information than the previous reports because previously we didn't talk about the strategies, the objectives, and about the future. I think it provides better communication than the previous reports because we have to link from the inputs, we are giving the outputs. I think that is the main purpose of the integrated reporting (Interviewee A E02).

The interviewees are of the view that transparency and conciseness make a report more meaningful and therefore, communication becomes more effective:

We have improved our transparency, we have made our reporting more meaningful because if you look at our report a few years ago, it ran into maybe 300 pages but now it's half that size and much more meaningful. Therefore, communication is much more effective, we start from our business model (Interviewee C M01).

For example, there were 234 pages in the first IAR (2010/11) of Diesel & Motor Engineering PLC, however, the number of pages decreased to 181 in the 2016/17 IAR. However, the number of pages of IARs for most of the sample companies increased after the introduction of IR. Some companies exceeded 400 pages in their latest IARs, while only two companies managed to produce reports with fewer than 200 pages. This could be due to increased disclosure of financial and non-financial information. Therefore, conciseness was not achieved by most of the sample companies.

The findings indicate that IR has helped to improve joint efforts and cohesiveness of business units, understanding among business units, and business processes of the sample companies. An example of how IR helped to improve communication within a company is commented on:

After introducing IR, one thing you can see is joint efforts of all the business units. That cohesiveness has been tremendous. The understanding between business units, process improvements have taken place. There are processes, no duplication in generating information. We don't have to go here and there to collect information. Now units are ready to give information. That's a direct benefit of IR (Interviewee H E04).

Sampath Bank PLC (2016), highlights how they encourage teamwork within the company. According to the 'Chairman's Message' of the company, they 'encourage and promote teamwork in all aspects of behavior' and 'employees now have a deeper understanding of the bank's strategy'. The company writes that this has

paved the way for a more productive work culture that relies on delegated authority, effective decision-making and greater accountability at all levels of the business. The new team-based performance incentive scheme implemented in 2016 is just one example of how innovation is improving the sustainability of the company's workforce (Sampath Bank PLC, 2016).

This point is reiterated in the Managing Director's review,

... central to this was the rollout of the team-based performance incentive scheme, which we hope will inspire a new breed of employees.I am indeed happy to note that following the introduction of the scheme, a notable increase in employee morale was also observed (Sampath Bank PLC, IAR 2016, p.42).

According to their IAR, a 'Team-Based Performance Bonus Scheme' was introduced to emphasize a performance-based culture that would lead to improved productivity at all levels of the business. Under the scheme, the SBUs (Strategic Business Units) are assigned with SMART objectives along with KPIs (Key Performance Indicators) that serve as the collective deliverables for the year (Sampath Bank PLC, 2016).

After the introduction of IR, the external communication of the companies became much more effective. With internal communication, joint efforts, and understanding among business units improved. For a few companies, business processes are integrated for both business and reporting purposes. It is evident from the interviewees' comments and IARs that the sample companies have achieved most of the expected benefits from an external reporting perspective. However, internal process developments and internal culture developments have taken place in a very few companies and at a lower level. The companies foresee the opportunity of further development including the improvements in internal benefits.

For internal communication to be successful, all employees should be aware of IR and its expectations. Sometimes, it has become a responsibility of just the Finance and Accounting team:

Everybody within the organisation should be made aware of what IR means and what is expected of the relevant section and how it should be handled because without having a clear knowledge about what is expected it is going to be very difficult. In my understanding, at present, it became purely Finance and Accounting people's task. All those people who are getting involved in this exercise need to be made aware of the requirements and given clear guidelines (Interviewee F M14).

If managers do not have an understanding of the advantages of IR or do not believe in them and if they consider the IR as just a document which is going to be compiled once a year, the benefits of IR could be lost. For example:

In our organisation, I don't think that IR help has helped to break down communication barriers between teams and leads to better-connected departments. That's not currently happening here (Interviewee A E01).

IR adds some value but it's not the key channel of achieving improvements in communication. As an example, the total management team meets once a month. The senior management team, heads of divisions meets once a week. We discuss all these things, we know where we are, where we have gone wrong, what we have to improve on, the management team reports. So, whether this integrated reporting thing is there or not that is happening. So, I don't think there is much of a contribution we can achieve through the document which is going to be compiled once a year. So, maybe this contributes something to that but we can't leave ok this will bring those miracles to us. No, I don't think (Interviewee A M04).

The success of IR requires proper education of all the departments and employees about the concept. However, some interviewees comment that they were not informed that the company is practicing IR and provide KPI information as this is a good strategy to incorporate all the responsibilities of employees in the KPIs. Because of this ignorance, however, the success of IR is doubtful:

We never communicated anything from the integrated reporting perspective, I mean nothing we have communicated saying look here you have to do this because of the integrated reporting. All the time if they are doing something what we said is this is something you have to do with your process or this is something compelling for the organisation, so you have to do this. Otherwise, they think this is something to do with the Finance Department, they are just giving us the responsibility to do their job. That will create that kind of mindset. So, we made sure that nothing will happen like that. If we want something, we got from them asking some information but other than that, we made sure that if we have key performance indicators or whatever to have all the indicators under KPIs of the relevant departments (Interviewee B M02).

Though IR is expected to break down communication barriers within a company, some interviewees do not believe that the IR can improve internal communication, or could only improve internal communication to a certain level. Their view is that only the finance department is involved in the entire IR process and other departments' perspectives are not counted:

I don't think an integrated reporting can break those communication barriers. Not 100% but to an extent, it will help for everyone to understand the importance of each function (Interviewee C M02).

I don't think there is a huge shift in communication in the company because of integrated reporting (Interviewee D M03).

Improvement in the communication between teams has not happened here. My view is if one division is aware of all activities that are happening around and that division is capable of handling the writing down the entire process on their own. All that information is available in the Finance Division itself. So, we have an idea what to write and what is available and that is true we have to get the views of everyone. I see it from the financial point of view but a person from the Life department will see it in a different point of view. That thought is not counted in, that process is still not structured in that manner. I think that is something we have to adopt in the future, the participation of all. For the moment, we don't have that cross-functional participation in the preparation of the report (Interviewee D E02).

Only a few of the sample companies indicate improvements in internal communications because these have not been developed as expected. Therefore, it is difficult to believe that the internal processes of the sample companies have improved greatly following the adoption of IR. Improvements in internal communication are inferior to how the IIRC IR Pilot Programme participants experienced the connection between departments and improved focus and

awareness of senior management (IIRC, 2013c). Therefore, it is suggested that organisations need a revolution in employee thinking and participation, along with the development of an infrastructure to accomplish the full potential of IR.

IR provides stakeholders additional information to help them make more informed decisions about companies and their long-term prospects (Ernst & Young, 2013b). It merges short term and long-term thinking, strategy and governance, and numbers and figures (van Bommel & Rinaldi, 2014). By recognizing six different forms of capitals and their interconnections, IR develops a framework and creates an opportunity for reporting all the types of capital developments that have not been considered by GAAP reporting (Potter et al., 2013).

An IR can offer a concise, stand-alone communication about how a company's strategy, governance, performance, and prospects lead to the creation of value over the short, medium, and long-term (Busco et al., 2013a). The reported information becomes better aligned with investor needs (IIRC, 2011). Stubbs and Higgins (2014) observed an incremental change in the broadening of constituencies involved in the reporting process, through cross-functional teams, and attempts to move away from siloed thinking and structures. Most of these improvements were not experienced by the interviewees in this study.

10.5 Conclusion

Though some interviewees' perceptions are not positive, most of the interviewees value the importance and the benefits of IR. The sample companies introduced IR with the expectation of achieving benefits including improvements in reporting and developments of their internal processes.

IR has helped companies to provide a holistic picture by reporting all the types of activities that are important to value creation including the business model, all or most of the types of capitals, products and services and all the stakeholders. The interviewees and the content of the IARs demonstrate that a holistic view has been incorporated into decision-making processes, but only in a few companies. Some of the sample companies have won national and international awards for their IR reports. They saw winning awards as improving the recognition/image of the company. It was found that some of the companies use IARs as a marketing tool to

build their image. The adoption of IR has improved the perception of the sample companies. IR has led to improvement in recognition but could lead to a weak accountability view because IR could be seen primarily as an image-building or a reputational tool. Most of the sample companies appear to introduce IR with the 'weak accountability' view.

Engagement with stakeholders has been improved, however, no evidence has been found in support of higher levels of trust of key stakeholders, except in one company. Only a few sample companies report achieving benefits they expected (as discussed in Chapter 6) from better resource allocation decisions, better identification of opportunities; an integrated corporate culture, and greater collaboration across different functions within the company.

This research ascertains that only some of the expected benefits have been achieved for the Sri Lankan PLCs. As the three dimensions of external reporting, internal processes and internal culture, intertwine to provide a holistic picture, it is noticed that improvements in one area also affect improvements in other areas. Overall, the sample companies experienced improvements:

- In the recognition of the company, and the quality of information, reporting, and accounting reports.

Only a few companies experienced improvements:

- In strategic planning, business and information process development; and
- In an internal integrated culture and communication.

Although IR requires and brings about integrated thinking, enabling a better understanding of the factors that materially affect a company's ability to create value over time, and lead to behavioural changes and improvement in performance throughout a company (IIRC, 2013b); these aspects have not been achieved by most of the sample companies in this study. The perception of managers who practice IR in the companies is a central factor that essentially supports achievement of the expected benefits. This thesis finds that one of the most important factors for the success of IR is top management support, however interviewees in this study found this factor lacking. All of the interviewees of the sample companies are confident that they can achieve all the expected benefits in the future. Further, they identify that they still have room for development.

CHAPTER 11

CONCLUSIONS, RECOMMENDATIONS AND CRITICAL REFLECTIONS

11.1 Introduction

This chapter summarises the findings of this study. Section 11.2 provides an overview of the research background, questions and approach taken in this study. Section 11.3 presents the key findings. Section 11.4 explains the contribution of the thesis. Section 11.5 outlines the implications for policy and practice. Section 11.6 describes the limitations of the study. Section 11.7 recommends future research directions.

11.2 Research background, questions, and approach

IR is a new and developing concept (Steyn, 2014; Stubbs & Higgins, 2014). There is a paucity of research in IR (Simnett & Huggins, 2015) and available research has been limited to theoretical investigations and stand-alone case studies (Jensen & Berg, 2012; Stubbs & Higgins, 2014). In addition, empirical research has focused mainly on market and investor reactions to IR (Velte & Stawinoga, 2016) and “the vast majority of IR research do not research practice ... or engage practitioners” (Dumay et al., 2016, p. 11).

This research investigates the introduction of Integrated Reporting (IR) by Public Listed Companies (PLCs) in a developing country. The setting for this research is Sri Lanka, an open market economy with a population of over 20 million. The country has a well-developed accounting infrastructure including the Registrar of Companies, the Securities and Exchange Commission of Sri Lanka (government regulatory bodies), the Colombo Stock Exchange, and the Institute of Chartered Accountants of Sri Lanka (CASL). CASL, the professional accounting body, has delegated powers from the Government relating to registration of accountants and auditors. CASL also works with other governing bodies in the development and dissemination of reporting standards for PLCs.

At the time data was collected for this research (2015) there were 294 listed PLCs. There is no legal requirement to produce IARs in Sri Lanka. By June 2014, 16 companies were producing integrated annual reports (IARs).

The small number of companies producing IARs in Sri Lanka, raised several questions about the reasons for adoption and the challenges that these companies may face during implementation. The literature pointed out that a lack of guidance may be a challenge for early adopters (Stubbs & Higgins, 2014). At the start of this research, it was also noted that there was a lack of empirical studies on IR implementation, and none relating to developing countries or Sri Lanka. Recent studies by Dumay et al. (2017) and McNally et al. (2017) addressed some aspects of challenges in the preparation of integrated reports.

Prior studies on integrated reporting raised issues about materiality level determination (Hanks, 2012) disclosure and risk issues related to future-oriented predictions (Aljifri & Hussainey, 2007; Mathuva, 2012; Menicucci, 2013) and benefits achieved following IR adoption (Steyn, 2014; van Bommel & Rinaldi, 2014; Velte & Stawinoga, 2016).

This research aims to provide a better understanding of integrated reporting and the challenges that preparers face in the adoption and implementation of IR. The research also aims to address the research issues identified in prior IR studies. Five research questions were posed:

1. Why did the sample of Sri Lankan Public Listed Companies (PLCs) adopt IR?
2. What challenges are faced by Sri Lankan PLCs during the implementation of IR in their companies?
3. How are materiality levels determined for the non-financial information in the IARs of Sri Lankan PLCs?
4. How does the management of Sri Lankan PLCs deal with the risk inherent in future-oriented predictions?
5. Has the management of Sri Lankan PLCs achieved the expected benefits of adopting IR?

A qualitative methodological approach was adopted to answer the research questions. Of the 16 PLCs who were practicing IR at different levels at the time of the start of the study in Sri Lanka, 12 companies were willing to allow their executives to participate in the research. Purposive sampling was used to select employees from the Sri Lankan PLCs for semi-structured interviews. Semi-structured interviews were conducted with 55 managers who were involved in the IR processes of the sample companies to obtain their views and experiences of the different aspects of IR practice. The annual reports (ARs) before IR adoption and IARs after IR adoption of the sample companies were examined and used to identify the developments in the reports and to support the interviewees' arguments about the different aspects of IR practices of the sample companies. Qualitative data obtained through interviews were analysed thematically. NVivo software was used to organise and manage the qualitative data.

To examine "Why did Sri Lankan PLCs decide to adopt IR?" an institutional theory approach, institutional isomorphism and the concept of institutional entrepreneurs was used to describe and analyse how external and internal forces drive Sri Lankan PLCs to implement IR. Institutional theory is one of the most dominant theoretical perspectives in organisational analysis (Lounsbury, 2008) and is increasingly being applied in accounting research (Abernethy & Chua, 1996; Bebbington et al., 2009; de Villiers & Alexander, 2014; Dillard et al., 2004; Sharma et al., 2010, 2014; Tsamenyi et al., 2006). Notably, some scholars have used institutional theory to draw useful insights into the adoption of IR (Higgins et al., 2014; Jensen & Berg, 2012; Wild & van Staden, 2013).

11.3 Findings

This thesis provides insightful evidence of the progress of the adoption of IR in Sri Lanka. CASL, the accountancy profession body, (normative isomorphism) has taken leadership to promote IR among PLCs by issuing an IR implementation guide and applying different strategies such as awards for the best-IARs, roundtable discussions, and the influence of its members to promote the IR reporting regime. The IIRC and its supporting organisations (coercive isomorphism), as well as auditors and accounting and auditing staff of Sri Lankan companies who are members of CASL, also play a vital role (normative isomorphism) promoting IR

among the sample companies. It was found that annual report design companies who are used by companies to prepare their year-end reports also influence the IR adoption decision. An institutional entrepreneur enabled IR in a sample company, which indirectly influenced the other companies' IR adoption decision.

IR is not compulsory in Sri Lanka. Even though CASL, as the accounting and auditing authority of the country, exercises regulatory pressure for listed companies to prepare IARs, only around 5 per cent of listed companies have taken up the IR challenge. Therefore, two regulatory forces are suggested to accelerate the IR diffusion among other companies in the country: regulatory actions (from the national securities regulator - the Securities and Exchange Commission of Sri Lanka - SECSL), and listing requirements - as the South African JSE IR requirement (from the authority to listing rules - Colombo Stock Exchange - CSE). The collaboration of two authorities above with CASL is suggested for a smooth implementation, functioning and investigation of IR requirements.

The interviewees indicated several challenges and these are broadly classified as: challenges applying the IIRC guidelines, experience as IARs preparers, and internal mechanism problems during IR implementation stage. It was also evident that the lack of knowledge of IR affected smooth implementation, proper functioning and the production of quality reports during the initial years of implementing this type of reporting. Interviewees emphasised that the non-availability of proper guidance and knowledge could diminish the quality of IARs. Additionally, the consequences of a lack of employee understanding of the IR concept resulted in issues in gathering relevant information where there were poor links between financial and non-financial information. These findings highlight implementation difficulties, employee frustration, and poor quality IARs which impact upon decisions by other companies in Sri Lanka to adopt IR.

The interview findings also highlighted that the sample companies embarked on their 'integrated reporting journey' without a fully developed accounting and internal management infrastructure. The companies did not have an awareness of the extent of changes to information systems necessary for adopting the IIRC's Framework to develop and produce integrated reports. In addition, interviewees did not have experience with extensive reporting on multiple types of capitals. The

interviewees encountered difficulties in producing a concise report while adhering to all the IR requirements. These implementation challenges hindered the successful implementation of IR which subsequently impacted upon the quality of the IARs. This suggests more broadly that the sample companies as first movers of IR in the Sri Lankan context were not achieving the standard of reporting that meets the aims of the IIRC. However, it could be argued that starting with minimum directives, guidelines and facing challenges were important to actually change employee behavior and organisational processes in order to achieve further developments in IR for the companies wanting to engage in integrated thinking to improve their company's future outlook and directions.

The findings suggest that the provision of future-oriented information in IARs carries significant inherent risks that directors, executives, and managers had to identify and manage by way of strategies. The interviewees were fully aware of and concerned about the risk of disclosing future-oriented information in IARs. The interviewees indicated that they were reluctant to disclose future-oriented information, because of the risks and uncertainties involved with such predictions and disclosures. This important finding raises a number of contentious issues relating to the behaviours and mindsets of those preparing these predictions. Interviewees indicate that they were able to develop a number of strategies for managing and mitigating risks. These strategies are listed under seven themes. The sample companies are concerned with predictions to accurate as possible. Another strategy to reduce the likelihood of a negative outcome is to be conservative in predictions. Integration of financial predictions with non-financial predictions is also applied. Another strategy is to incorporate predictions in the companies' strategic planning process. The differences that involvement in IR has made for these organisations' risk management processes are an increase in the frequency of monitoring, and the introduction of special internal risk assessment procedures to mitigate the risk of predictions. However, these strategies appear to have developed a risk averse culture. This is a significant concern as it is an unintended consequence of IR that could reduce the usefulness of integrated reports. A key finding is that interviewees discuss the importance of disclosing non-achievements of predictions through their IARs. This is a new strategy for companies preparing IARs to protect themselves against unhappy stakeholders who might decide to

litigate against the companies not achieving their predictions. This significant finding suggests that the IIRC and regulatory authorities need to consider how integrated reports might not actually be providing useful information if the preparers are risk averse and choose not to provide proper information about the future.

The study found that matters of materiality levels for non-financial information are discussed and determined at top management meetings or at strategy meetings. Interviewees indicate that importance and accountability were considerations for the materiality decision. The sample companies' IARs evidence a notable development in materiality disclosures where stakeholder engagement is seen to be an important element of the materiality decision. The interviewees view materiality level determination as a challenging task. They indicated that lack of guidance and experience in assessing materiality in the IR context made the materiality determination more challenging. Most of the sample companies use the GRI guidelines to determine materiality levels in their IAR. This different set of guidelines may hinder the expected benefits of IR. The sample companies also employ different methodologies to determine materiality levels for non-financial information. Interviewees indicate that they implicitly or explicitly appear to follow the guidance contained in the literature. Judgment, benchmarking or a combination of various methods was found to be used. The findings also indicate that strategy determines IR materiality content such that the strategy identifies 'what information deserves to be included in the IAR'.

Many Sri Lankan companies appear to have taken a "wait and see approach" to IR. However, as the early movers on IR, the sample companies have achieved a substantial number of expected benefits, particularly from external reporting perspectives. Accordingly, the reputations of the companies have improved resulting in lower reputational risk. The sample companies appear to have achieved benefits at varying degrees from: better alignment of reported information with investor needs, availability of more accurate non-financial information, enhanced risk management, greater engagement with investors and other stakeholders, and lower reputational risk. Interviewees indicate that engagement with stakeholders

has been improved, however, little evidence has been found in support of higher levels of trust with key stakeholders.

From interviewees' discussions, only a few sample companies have achieved the benefits of: better resource allocation decisions, better identification of opportunities, an integrated corporate culture, and greater collaboration across different functions within the company. Further, it was found the IR guiding principle of conciseness has not been achieved by the sample companies. In addition, internal communications have not developed much although this issue has been identified as being very important to the improvements in internal processes. This leads to the finding that the internal processes of the sample companies have not improved significantly following the adoption of IR. Interviewees of the sample companies demonstrate from their responses a lack of development in integrated thinking. It appeared that the sample companies were quick to adopt the IIRC's Framework and issued IARs to their stakeholders without the corresponding changes to their sustainability management and accounting systems.

These sample companies have started the IR journey and have faced implementation challenges and difficulties. Interviewees and IARs indicate that the IIRC expected benefits were achieved to some extent. Interviewees indicate that they are in the process of improving other areas to improve their integrated reporting.

Feedback provided by the interviewees as to where integrated reporting has taken their companies in a developing country context should serve as an example to other PLCs in Sri Lanka and to companies in other countries. This new reporting regime provides integrated thinking through the whole organisation so that better information is provided to stakeholders.

11.4 Contribution of the study

This thesis makes a contribution to knowledge and the Integrated Reporting research literature. The contributions are methodological, theoretical and practical.

11.4.1 Methodological contribution

The thesis makes a methodological contribution to the integrated reporting research literature through its adoption of an interpretative paradigm that sought to explain the IR phenomenon within its social construct. The thesis used the semi-structured interview research method to explain how the IR phenomenon was socially understood and constructed by the interviewees who participated in this research. The methodological contribution of this study involved face-to-face interviews with 55 representatives from 12 PLCs in Sri Lanka. Significant empirical evidence was collected about the challenges and benefits of IR adoption in a developing country. Another methodological contribution involved perusal of annual reports and integrated annual reports to extract information to provide evidence and to substantiate comments provided by interviewees.

11.4.2 Theoretical contribution

This research extends existing knowledge of influences on the IR adoption decision by companies and the expectations about possible benefits to be gained through adopting IR. The adoption of IR, benefits, and practices have not previously been explored in depth. There is a paucity of research literature in IR context, particularly empirical research. This thesis adds significantly to the research literature by documenting new findings based on empirical research relating to:

- the challenges encountered during the implementation of IR;
- the risks of reporting future-oriented predictions;
- the challenges of determining materiality levels for non-financial information and methods of determination; and
- the extent of realisation of expected benefits.

Further, it reveals strategies undertaken by sampled companies to mitigate/reduce risks related to future oriented predictions. These practices provide practical guidance for companies implementing IR.

The thesis contributes to theory by ascertaining the influence of institutional isomorphism and institutional entrepreneurs on the IR adoption decision by the Sri Lankan sample companies. This thesis contributes to the literature by adopting an

institutional theoretical lens to analyse the interview findings to develop a better understanding of why companies chose to adopt integrated reporting practices.

This research indicates that mimetic isomorphism is just one of the factors driving early adoption, in contrast to the finding of Wild and van Staden (2013), who consider that mimetic isomorphism drives the early uptake of IR. This research uses and confirms the three forms of isomorphism (coercive, memetic and normative) as significant factors impacting upon the IR adoption decision by the sample of Sri Lankan companies. The influence of Annual Report Design companies on the IR adoption decision by the Sri Lankan companies illustrates normative isomorphism. This finding that Annual Report Design companies have an influence on IR adoption decisions has not been identified in the current literature.

The concept of institutional entrepreneurs was also raised as an influence in this study as face-to-face interviews allowed the researcher to identify clearly how the interviewees displayed the characteristics of such entrepreneurs. Out of the 55 interviewees approached for this study, one clear example of institutional entrepreneurship was identified. This interviewee portrayed himself as a path-creating/path-changing individual and introduced IR into the company even before the IIRC introduced the consultation draft of the international IR Framework. Creating and changing new institutions requires institutional work on the part of a wide range of actors, both those with the resources and skills to act as entrepreneurs and those whose role is to support or facilitate the entrepreneur's endeavours (Clemens, 1993; Greenwood et al., 2002; Holm, 1995; Leblebici et al., 1991; Oakes et al., 1998). The interviewee demonstrated that he had the knowledge and ability to allocate resources required to facilitate change, i.e. to bring integrated reporting into his company.

The identification of influences on the IR adoption decision is important to policymakers and regulators who may want to speed up the adoption of IR among the other PLCs in Sri Lanka as well as in other countries. Several expected benefits of adopting IR are identified when using an institutional theory lens.

The IIRC and its supporting organisations exerted coercive pressure on the sample companies' IR adoption decision. One Sri Lankan company participated in the IIRC

pilot programme and won the Gold Medal for the best IAR at the CASL annual report awards ceremony for several years. This IIRC pilot programme participant's report and their achievements influenced other Sri Lankan companies to introduce IR into their own companies. Other Sri Lankan companies felt that the IIRC pilot programme company had developed its IR process to a higher level.

It became apparent that stakeholders of Sri Lankan companies can influence or coerce Sri Lankan companies to adopt IR. Interviewees indicate that their most important stakeholders influenced their decision to adopt IR, and so they changed their practice and produced IARs in response to stakeholder pressure. This evidence of coercive isomorphism possibly stems from resource dependence concerns. Coercive isomorphism also is found to stem from shareholders. The pressure from large institutional shareholders in equities stimulates IR implementation among the sample companies.

Mimetic isomorphism stems from competitors and the best practices of other Sri Lankan companies that have adopted IR. The voluntary adoption of IR in Sri Lanka compelled companies to emulate the "best practices" of other leading firms, nationally and internationally. The Sri Lankan company that had participated in the IIRC pilot programme influenced other companies to also adopt IR. Thus, the sample companies try to copy or improve upon other organisations' best practices in order to obtain a competitive advantage in terms of "legitimacy". Competition is one reason for the sample companies to adopt IR.

The normative isomorphism influencing the sample companies to adopt IR stems from CASL, accounting firms, auditors and annual report design companies. As the accounting and auditing standard-setting body for the whole country, CASL introduces and updates accounting and auditing standards in keeping with those international requirements which are applicable to Sri Lankan companies. As the key provider of resources for reporting and auditing matters in the country, CASL has had a great deal of influence in encouraging Sri Lankan companies to adopt IR.

The big accounting firms in Sri Lanka also appear to be influential actors who exert normative pressure on the adoption of IR in companies. Their persuasion ranged from 'urging', which suggests some pressure, to 'helping'. Annual report design

companies also provide considerable impetus for the sample companies to introduce IR. Their directions and advice influenced some of the Sri Lankan companies to implement IR. The role of the annual reports design companies in the IR adoption decision is not mentioned in the extant literature on isomorphism.

The interviewees reported that they had expectations that following IR implementation they would receive many benefits, including: a holistic picture, user-friendly accounting reports and information, a concise report, improved recognition/image of the organisation, improved quality of information and reports, show the real picture, avoid duplication, support strategic planning, introduce a holistic approach towards all stakeholders, consider all elements of value creation, support process improvement, and create an integrated corporate culture. Most of these expected benefits arose through the coercive pressure of the IIRC, its supporting organisations and normative pressure of CASL.

Although there is no legal requirement to produce IARs in Sri Lanka, the Sri Lankan companies were persuaded to adopt IR in line with other local and global organisations that are embracing IR due to the influence of the IIRC. All three forms of isomorphism are observed and found through the analysis of interview findings. All three forms are seen to act collectively to influence the decision by the sample companies to adopt IR.

11.4.3 Practical contribution

The findings of this thesis make a valuable contribution to the work of regulators such as the IIRC and CASL who may be considering revising its IR guidelines and framework. Additionally, the findings of implementation challenges, managing risk of future-oriented predictions and materiality level determination provides useful insights to the IIRC and CASL in planning for a review of existing IR guides and to identify changing or new requirements for potential new IR adopters. Countries where IR has not yet been adopted, or not fully implemented, could benefit from the experience and wisdom gained from IR adoption by the Sri Lankan sample companies. In addition, regulators can understand companies' initial requirements and needs and plan training and other supportive programmes.

11.4.3.1 Implementation challenges

This thesis identified the challenges of IR implementation encountered by the interviewees. As early movers of IR, the sample companies faced several challenges during the IR implementation period. There were no adequate guidelines for early IR adopters. The sample companies had difficulties in understanding and reporting the concepts and requirements of the IIRC Framework. Preparing IARs by following the IIRC Framework was a challenging task. During the early periods, there was little assistance available. Non-availability of sector-specific guidelines was an issue for some of the sample companies. They had no template or standardized way of reporting. They faced a lack of international IARs for benchmarking, and lack of IR training. The sample companies faced difficulties in identifying different processes and components and in structuring the reports. In addition, they faced difficulties in identifying different processes and components of the business model. Explaining the different types of capitals, how these are interconnected and link to strategy was not successful due to inadequate knowledge about the concepts of IR. Companies experienced difficulty in achieving connectivity between non-financial indicators and financial results. The production of a concise report was a challenge when they attempted to comply with all the requirements of the IIRC Framework.

There were several challenges from employees' perspectives because of a lack of knowledge and expertise, the need to change employees mindset in favour of IR, obtaining the support of the top management and the workload for employees. Some of the employees were confused about IR and IIRC guidelines. Unavailability of a contact person to talk to and get information about the issues during IR implementation was a concern. Some employees of the sample companies did not want to introduce IR into their organisations. They did not have an understanding of the importance or advantages of IR. Some of them considered IR a waste of time. Silo thinking was a barrier to changing employees' mind-set. Changing the mind-set of employees of non-finance departments was difficult since they did not consider reporting was their responsibility.

Silo thinking made it difficult for some of the sample companies to come up with a cohesive effort for on-time delivery of the IAR. With the introduction of IR, the

workload of employees in the finance division has increased. Some companies encountered a lack of awareness by top management about the IR concept and its importance.

Lack of proper information systems, lack of proper communication and coordination among different business units, and a lack of support from other divisions were internal mechanism challenges during IR implementation. The sample companies faced difficulties obtaining data due to lack of a proper mechanism to capture the data. They experienced challenges in making non-finance divisions collect information for IR, obtaining useful and quality data, obtaining information to give a holistic picture, in capturing negative aspects, data collection throughout the year, and effectively coordinating information from many functions across the company.

Due to newness, lack of experience, lack of research and lack of clarity in IR guidance, the knowledge the first movers had about IR, including implementation and practical requirements, was limited. They needed support and assistance but did not find it available.

The findings on these challenges encountered by IR adopters suggest that if the IIRC and other regulatory bodies in their respective countries need to be more involved in providing guidance and support to companies that are interested but undecided as to whether they should take on the challenges posed by adopting this reporting framework.

11.4.3.2 Materiality levels determination

The IIRC and other regulators, such as stock exchanges and regulators tasked with investor protection, may be interested to read that managers are aware of the challenges of determining materiality levels for non-financial information. However, they are willing to manage the challenge by considering its positive impact and obtain competitive advantage. The use of a competitive edge strategy as a determinant for materiality level decisions for non-financial information is a new finding in the IR literature. The findings indicate the need for further development of guidelines for non-financial information materiality levels in IR. In addition, regulators, such as the IIRC, investor protection bodies, and stock

exchanges will be interested in the impediments to materiality level determination and the methods companies are implementing, because these bodies are more interested in promoting the disclosure of non-financial information in order to inform and protect investors than to have integrated reporting seen as a 'brand' making tool.

The interviewees view materiality level determination as being important. Yet, it is not an easy task. When compared with financial information, they have less guidance and experience in assessing materiality in the IR context. But they are willing to tackle the challenge by considering its positive impact on the brand of the company and ability to use as a marketing tool to obtain a competitive advantage. However, this implies weak accountability (Stubbs & Higgins, 2015), indicating a less than desirable responsiveness of the sample companies toward stakeholders. It is not intended by IIRC that IR become an image-building, reputational tool.

This research is one of the first of very few studies to focus empirically on the materiality levels determination process for non-financial information in integrated reports. Further, it extends the exploration of techniques that IR practicing companies use to determine materiality levels for non-financial information in integrated reports. For example, usefulness of information for decisions, and impact on stakeholders are used but these techniques are not mentioned in the current literature. The literature is silent on how organisations relate materiality to value creation for the purposes of determining the content of an integrated report. This research provides significant empirical evidence of the use of value creation criteria in materiality determination. In addition, the use of a combination of techniques to determine materiality in IR context is an addition to the literature.

Therefore, the results of this study will be of interest to managers and consultants considering techniques to use to determine which non-financial information to disclose in integrated reports, and for new companies planning to adopt IR. Researchers may also use findings to develop their theoretical thinking, potentially leading to further research projects regarding companies' materiality level of non-financial information related solutions. It is found that most of the sample companies use GRI guidelines to determine materiality levels. However, the GRI guidelines are not developed for use with IR. This finding is important for regulators

and policy makers who encourage IR practicing companies to use IIRC materiality guidelines for their materiality decisions.

11.4.3.3 The risk inherent in predictions

This study is one of the first to investigate managers' awareness and perceptions of the risk involved in making predictions. Moreover, this is the first research to focus on the risk management strategies that companies use to reduce the level of risk of the disclosure of future-oriented information in an IR context. The issue of how IR practicing companies manage the risk inherent in making predictions and disclosure is an interesting one, yet there appears to be no empirical evidence around this issue.

Analysis of the interview data and IARs show managers carefully weighing alternatives regarding the future-oriented information disclosures they are 'prepared' to provide in an integrated annual report. Interviewees indicated that they are developing the risk culture of their companies through strategies that identify what information should be provided, such that risks are mitigated. Managers' decision making in weighing alternatives and deciding which and how much future-oriented information to provide is linked to outcomes. One significant and concerning outcome, perhaps not envisaged by the IIRC, was that managers are reluctant to deal with the consequences of providing predictions they suspect would be difficult to achieve. In fact, the interviewees are more prepared to understate future performance predictions than to disclose growth potential sought by management. This risk strategy to reduce the likelihood of a negative outcome is to be conservative in predictions. However, IR usefulness could diminish when managers use conservatism in making predictions as a strategy to reduce risk.

The interviewees also indicated that strategies have been adopted to explain and fully disclose any non-achievements of predictions through their IARs. This disclosure of non-achievements appears to be a new practice that has emerged with the adoption of IR by Sri Lankan companies. This practice has not been noted in any in prior IR studies.

The sample companies were often reluctant to disclose future-oriented information, and most of the predictions are generic in nature. This is a concerning finding and indicates that there is a need for a more forward-looking reporting model (Atkins et

al., 2015; PwC, 2015b) which measures outcomes and provides a perspective on future performance (McNally et al., 2017). Otherwise these predictions of future performance will be at odds with the IIRC expectations of providing useful information for informed decisions by stakeholders.

11.4.3.4 Achievement of expected benefits of adopting IR

The sample companies have achieved a substantial number of expected benefits, especially from external reporting perspectives. The companies achieved the benefits in varying degrees, some more than others. Interviewees shared that they achieved: better alignment of reported information with investor needs, availability of more accurate non-financial information for data vendors, enhanced risk management, greater engagement with investors and other stakeholders, and lower reputational risk. Engagement with stakeholders has been improved, however, no evidence, except from one company, was found to support the argument that higher levels of trust with key stakeholders was achieved. Only a few sample companies have achieved the benefits of better resource allocation decisions, better identification of opportunities, created an integrated corporate culture, and enjoyed a greater collaboration across different functions within the company.

However, except for greater engagement with stakeholders and improvements in performance monitoring, only a few companies indicated improvements in other aspects of internal processes. Internal communications have not developed much. Therefore, it is difficult to believe that the internal processes of the sample companies have improved greatly following the adoption of IR.

A few sample companies demonstrate that the introduction of IR has led to increased employee participation in the preparation of IARs. In those companies, integrated annual reports have now become a product of most of the divisions of the company. However, employees' thinking has not changed to integrated thinking at the expected level.

The sample companies experience a low level of development in integrated thinking, despite the optimistic expectations of the breakdown of operational and reporting silos leading to improved systems and processes (Roberts, 2011). The change in management control known as a cultural control (Merchant & Van der Stede, 2007),

which is required for integrated thinking, is lacking in the sample companies. The new reporting framework has not resulted in a radical in change managers' mind-sets in all levels for most of the sample companies. The sample companies were quick to adopt the IIRC's framework and issued a new type of report to their stakeholders but without the corresponding changes to the sustainability management and accounting systems (McNally et al., 2017), creating a missing link between the reporting and the organisations' internal mechanisms. This latter point is crucial if the implementation of integrated reporting is to become successful for the company.

11.5 Implications and critical reflections for policy and practice

The findings of this study have several practical and policy implications for regulators such as the IIRC, CASL, stock exchanges, investor protection bodies, managers of IR practicing companies, and those companies who are thinking of adopting IR.

11.5.1 Implications for managers of IR practicing companies, and future IR managers of other companies

This thesis provides an awareness and an encouragement to companies to implement IR by showing empirical evidence of benefits from IR implementation. The findings of this study will provide insights about why some companies had not achieved some of the expected benefits as indicated by the IIRC. These insights can help companies introduce strategies to address the issues preventing the expected benefits from IR implementation. This thesis provides insights to the challenges that the interviewees faced during the IR implementation. Therefore, companies who are thinking of introducing IR will benefit from having an understanding of what challenges they might encounter and how to address them. They will appreciate that there are prior requirements for IR and can prepare systems and infrastructure ready for the new IR reporting journey. The sample companies provide important information about materiality level determination for non-financial information that IR preparers also have concerns about. This study appears to be one of the first to focus on risk management strategies that managers use in relation to predictions. The findings of this study will be of interest to both

managers and consultants, illustrating how others navigate a path between the need to disclose future oriented information and the risks involved in making such predictions.

11.5.2 Implications for regulators

IR is not mandatory for Sri Lankan companies. Even though there is regulatory pressure for listed Sri Lankan companies to prepare IARs, by the start of this study only 16 out of the 294 listed companies had taken up the challenge. The voluntary nature of market forces can result in a slow progress of IR adoption (Eccles & Serafeim, 2011a). This thesis advocates two regulatory forces to accelerate IR adoption among the Sri Lankan companies: regulatory actions (from national securities regulator, the Securities and Exchange Commission of Sri Lanka - SECSL) and listing requirements (from the authority to listing rules - Colombo Stock Exchange - CSE). For an example of listing requirements, the South Africa JSE IR requirements might be used as a model. Otherwise, “the IIRC’s proposals will have little impact on corporate reporting practice, because of their lack of force” (Flower, 2014, p. 1), and diffusion of IR among Sri Lankan (or any other) companies could be slow or negligible. In the absence of regulatory actions, prior studies on IR indicate that it is difficult to expect that companies would readily adopt IR practices in order to bring about system level sustainability reforms (McNally et al., 2017). Also, the regulatory actions are particularly important to help companies produce harmonised reports, which can improve the ability to compare corporate financial and non-financial results (Eccles & Serafeim, 2011a).

The interview findings indicate that CASL exerts considerable pressure on companies to adopt IR and is the institution driving IR in Sri Lanka. CASL should combine with regulatory forces (the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange) and introduce a mechanism to require the production of integrated annual reports (or at least require companies to explain why they do not produce IARs) in order to maintain their public listing.

Interviewees indicated that the IIRC pilot programme participating company provides motivation for IR among Sri Lankan companies. Sri Lankan companies that provide IARs should be encouraged to become role models for other companies

to adopt IR. CASL and other regulatory bodies could provide a structure for this to happen.

Universities and professional institutions who educate accountants will need to play a more active role in this regard, ensuring that students who are the future accountants are made aware of IR, interconnections between financial and non-financial information and sustainability performance, proactivity measures, and by introducing IR course units into accounting and finance related syllabuses.

11.5.3 Implications for the IIRC, CASL, and other reporting authorities

The findings of this thesis have several implications for the IIRC, CASL and reporting authorities in other countries. The findings indicate that the IR Framework, its components, and linkage between different indicators are not adequate (or not adequately explained) and unclear for early/new IR implementers. The interviewees felt the IIRC can consider introducing or re-formulating additional materials or additions to the existing IR Framework and materials. They suggested that the IIRC should re-visit their guidelines to make them more helpful for those implementing IR for the first time.

The findings also provide evidence that the employees of Sri Lankan companies do not possess adequate knowledge of IR. This has caused implementation challenges, issues in practicing IR and low-quality IAR. The interviewees suggest that the IIRC and CASL should take practical steps to provide education and training to employees, especially the accounting and finance-related employees, to raise their awareness and knowledge about practices and implementation.

A consequence of lack of proper education on IR and training providers has caused the slower adoption of IR among companies in Sri Lanka. Interviewees suggested that additional training be provided to enable an organisation's personnel to understand fully IR reporting obligations and how these can impact on management control systems and accounting infrastructure. A recommendation from interviewees was that the IIRC and CASL should consider introducing more training opportunities and IR trainers within the country.

Interviewees also felt that the IR practising companies should have access to a contact person who possesses adequate knowledge about IR to obtain clarification when preparing IR, especially during the first implementation period. They suggested that the IIRC and CASL introduce contact person(s) to help companies to solve their practical IR issues. There needs to be more structured guidance provided and a ‘call-centre’ or ‘buddy system’ to assist first-time implementers. Further, first movers can be helped by having answers to Frequently Asked Questions (FAQs) specific to implementation and implementation issues.

Though several expected benefits are achieved, some aspects of the IR have not been developed. For example, most of the expected benefits and provision of future-oriented information have not improved for the sample companies as expected by the IIRC. These issues carry various implications for the IIRC and CASL. These authorities need to take action to provide solutions to potential issues that organisations can face in trying to implement IR.

11.6 Limitations of this thesis

The possible limitation of this research is the small number of companies included in the study and its single-country focus. However, this research can preclude the generalisation of the results by focussing instead on providing unique insights and contributions to theory, knowledge, practice and policy makers. While this study was conducted in a developing country, it has broad implications for other settings, because it can be argued that these Sri Lankan listed company managers face similar risks and conditions to those in other jurisdictions, as these managers were fully aware of IR implementation and the practical concerns of IR.

A further limitation of this research is that broader groups of stakeholders’ viewpoints were not explored in this study. The selected interviewees were managers where the majority were CASL members. This may have provided bias in the findings with regards to ‘best practices: IR’ that are already promoted by CASL.

11.7 Recommendations for future research

Future research can be aimed at overcoming the limitations of the current study through the consideration of conducting a questionnaire survey with a larger number of companies, a broader range of industries and country comparisons. Further, the action research method where a researcher spends time with IR preparers would provide more meaningful and real insights in to the complexities of preparing integrated reports. Researchers may use this study's findings to develop their theoretical thinking on IR, potentially leading to further research projects regarding integrated reporting.

Future topics could include:

- The issues related to the application of IIRC guiding principles with regards to consistency and comparability of integrated reports;
- Stakeholders' (other than managers and employees) judgments about the extent of developments and user-friendliness of integrated reports including the extent to which IR have met the stakeholders' information needs;
- Measuring and evaluating whether the IIRC expected benefits of integrated reporting do eventuate into actual benefits for larger number of companies/organisations implementing this form of reporting;
- Comparative studies between developed and developing countries to identify differences between implementation requirements and issues in providing quality integrated reports;
- Research on how much/little attention is being placed on including integrated reporting in the tertiary level education sector. Future graduates can bring significant changes to the reporting environment.

All these areas lead to future research prospects for integrated reporting.

REFERENCES

- Abernethy, M. A., & Chua, W. F. (1996). A field study of control system “redesign”: The impact of institutional processes on strategic choice. *Contemporary Accounting Research*, 13(2), 569-606.
- Abeyssekera, I. (2013). A template for integrated reporting. *Journal of Intellectual Capital*, 14(2), 227-245.
- ACCA. (2011a). *Adoption of integrated reporting by the ASX 50*. Retrieved from <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/sustainability-reporting/tech-tp-air2.pdf>
- ACCA. (2011b). *The integrated imperative, accountancy futures, the age of integration, a new dawn for corporate reporting?* Retrieved from <http://integratedreporting.org/wp-content/uploads/2011/03/acca1.pdf>
- ACCA. (2011c). *Integrated reporting: The future of corporate accounting? Roundtable discussion*. Retrieved from <https://www.scribd.com/document/78131579/Integrated-Reporting-ACCA>
- ACCA. (2012). *Integrated reporting: The influence of King III on social, ethical and environmental reporting*. Retrieved from <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/integrated-reporting/tech-tp-iirsa.pdf>
- ACCA. (2014). *Sustainability matters, ACCA policy paper*. Retrieved from <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/sustainability-reporting/tech-tp-smapp.pdf>
- ACCA. (2017). *Insights into integrated reporting - Challenges and best practice responses*. Retrieved from http://www.accaglobal.com/content/dam/ACCA_Global/Technical/integrate/pi-insights-into-ir.pdf
- Accounting-for-sustainability. (2012). *Future proofed decision making - Integrating environmental and social factors into strategy, finance and operations*. Retrieved from <https://www.accountingforsustainability.org/content/dam/a4s/corporate/home/KnowledgeHub/Future%20proofed%20decision%20making.pdf.downloadasset.pdf>
- Adams, C. A. (2004). The ethical, social and environmental reporting-Performance portrayal gap. *Accounting, Auditing & Accountability Journal*, 17(5), 731-757.
- Adams, C. A. (2015). The international integrated reporting council: A call to action. *Critical Perspectives on Accounting*, 27, 23-28.
- Adams, C. A., & Frost, G. R. (2008). Integrating sustainability reporting into management practices. *Accounting Forum*, 32(4), 288-302.

- Adams, S., Fries, J., & Simnett, R. (2011). The journey toward integrated reporting. *Accountants Digest*, 558, 1-41.
- Adams, S., & Simnett, R. (2011). Integrated reporting: An opportunity for Australia's not-for-profit sector. *Australian Accounting Review*, 21(3), 292-301.
- Ahrens, T., Becker, A., Burns, J., Chapman, C. S., Granlund, M., Habersam, M., . . . Mennicken, A. (2008). The future of interpretive accounting research—A polyphonic debate. *Critical Perspectives on Accounting*, 19(6), 840-866.
- Ahrens, T., & Chapman, C. S. (2006). Doing qualitative field research in management accounting: Positioning data to contribute to theory. *Accounting, Organizations and Society*, 31(8), 819-841.
- Ahrens, T., & Dent, J. F. (1998). Accounting and organizations: Realizing the richness of field research. *Journal of Management Accounting Research*, 10, 1-39.
- Al-Htaybat, K., & von Alberti-Alhtaybat, L. (2018). Integrated thinking leading to integrated reporting: Case study insights from a global player. *Accounting, Auditing & Accountability Journal*, 31(5), 1435-1460.
- Al-Omari, A. M. (2010). The institutional framework of financial reporting in Jordan. *European Journal of Economics, Finance and Administrative Sciences*, 22(1), 32-50.
- Albu, N., Nicolae Albu, C., Bunea, S., Artemisa Calu, D., & Madalina Girbina, M. (2011). A story about IAS/IFRS implementation in Romania. *Journal of Accounting in Emerging Economies*, 1(1), 76-100.
- Aljifri, K., & Hussainey, K. (2007). The determinants of forward-looking information in annual reports of UAE companies. *Managerial Auditing Journal*, 22(9), 881-894.
- Amir, E., & Lev, B. (1996). Value-relevance of nonfinancial information: The wireless communications industry. *Journal of Accounting and Economics*, 22(1), 3-30.
- Anderson, R. H. (1998). Regulating corporate annual reports in Australia. *Business and Economic History*, 27(2), 522-535.
- Atkinson, P., & Coffey, A. (2004). Analysing documentary realities. In D. Silverman (Ed.), *Qualitative research: Theory, method and practice* (2nd ed.). London, England: Sage Publications.
- Atkins, J., Atkins, B. C., Thomson, I., & Maroun, W. (2015). “Good” news from nowhere: Imagining utopian sustainable accounting. *Accounting, Auditing & Accountability Journal*, 28(5), 651-670.

- Atkins, J., & Maroun, W. (2015). Integrated reporting in South Africa in 2012: Perspectives from South African institutional investors. *Meditari Accountancy Research*, 23(2), 197-221.
- Attride-Stirling, J. (2001). Thematic networks: An analytic tool for qualitative research. *Qualitative Research*, 1(3), 385-405.
- Auerbach, C., & Silverstein, L. B. (2003). *Qualitative data: An introduction to coding and analysis*. New York: New York University press.
- Ayuso, S., Ángel Rodríguez, M., García-Castro, R., & Ángel Ariño, M. (2011). Does stakeholder engagement promote sustainable innovation orientation? *Industrial Management & Data Systems*, 111(9), 1399-1417.
- Azam, S. M. Z., Warraich, K. M., & Awan, S. H. (2011). One report: Bringing change in corporate reporting through integration of financial and non-financial performance disclosure. *International Journal of Accounting & Financial Reporting*, 1(1), 50-71.
- Babbie, E. (2015). *The practice of social research*. Boston, MA: Cengage Learning.
- Baginski, S. P., Hassell, J. M., & Kimbrough, M. D. (2004). Why do managers explain their earnings forecasts? *Journal of Accounting Research*, 42(1), 1-29.
- Bailey, B. C., & Peck, S. I. (2013). Boardroom strategic decision-making style: Understanding the antecedents. *Corporate Governance: An International Review*, 21(2), 131-146.
- Baker, C. R., & Hayes, R. (2004). Reflecting form over substance: The case of Enron Corp. *Critical Perspectives on Accounting*, 15(6), 767-785.
- Bandeira, A. M., & Pinto, T. (2013). Sustainability reporting and financial reporting: The relevance of an integrated reporting approach. In H. E. Muga & K. D. Thomas (Eds.), *Cases on the diffusion and adoption of sustainable development practices*. Retrieved from <http://recipp.ipp.pt/bitstream/10400.22/3325/1/IGI%20-%20Bandeira%20%26%20Pinto%20-%202013.pdf>
- Banking Act, No. 30 of 1988, Sri Lanka.
- Barone, E., Ranamagar, N., & Solomon, J. F. (2013). A Habermasian model of stakeholder (non) engagement and corporate (ir) responsibility reporting. *Accounting Forum*, 37(3), 163-181.
- Barriball, L., & While, A. (1994). Collecting Data using a semi-structured interview: A discussion paper. *Journal of Advanced Nursing*, 19(2), 328-335.
- Battilana, J. (2006). Agency and institutions: The enabling role of individuals' social position. *Organization*, 13(5), 653-676.

- Baxter, J., & Chua, W. F. (2003). Alternative management accounting research: Whence and whither. *Accounting, Organizations and Society*, 28(2), 97-126.
- Beattie, V. (2000). The future of corporate reporting: A review article. *Irish Accounting Review*, 7(1), 1-36.
- Bebbington, J. (2001). Sustainable development: A review of the international development, business and accounting literature. *Accounting Forum*, 25(2), 128-157.
- Bebbington, J., & Gray, R. (2001). An account of sustainability: Failure, success and a reconceptualization. *Critical Perspectives on Accounting*, 12(5), 557-588.
- Bebbington, J., Higgins, C., & Frame, B. (2009). Initiating sustainable development reporting: Evidence from New Zealand. *Accounting, Auditing & Accountability Journal*, 22(4), 588-625.
- Bernstein, L. A. (1967). The concept of materiality. *The Accounting Review*, 42(1), 86-95.
- Bhattacharyya, A. K. (2013). *Integrated reporting: Concept capital*. Retrieved from http://www.business-standard.com/article/opinion/integrated-reporting-concept-capital-113051200514_1.html
- Bowen, G. A. (2009). Document analysis as a qualitative research method. *Qualitative Research Journal*, 9(2), 27-40.
- Boyatzis, R. E. (1998). *Transforming qualitative information: Thematic analysis and code development*. Thousand Oaks, CA: Sage Publications.
- Braa, K., & Vidgen, R. (1999). Interpretation, intervention, and reduction in the organizational laboratory: A framework for in-context information system research. *Accounting, Management and Information Technologies*, 9(1), 25-47.
- Brammer, S., Jackson, G., & Matten, D. (2012). Corporate social responsibility and institutional theory: New perspectives on private governance. *Socio-Economic Review*, 10(1), 3-28.
- Braun, V., & Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology*, 3(2), 77-101.
- Braun, V., & Clarke, V. (2013). *Successful qualitative research: A practical guide for beginners*. London, England: Sage Publications.
- Brignall, S., & Modell, S. (2000). An institutional perspective on performance measurement and management in the 'new public sector'. *Management Accounting Research*, 11(3), 281-306.

- Brown, H. S., De Jong, M., & Lessidrenska, T. (2009). The rise of the Global Reporting Initiative: A case of institutional entrepreneurship. *Environmental Politics*, 18(2), 182-200.
- Brown, H. S., de Jong, M., & Levy, D. L. (2009). Building institutions based on information disclosure: Lessons from GRI's sustainability reporting. *Journal of Cleaner Production*, 17(6), 571-580.
- Brown, J., & Dillard, J. (2014). Integrated reporting: On the need for broadening out and opening up. *Accounting, Auditing & Accountability Journal*, 27(7), 1120-1156.
- Brown, J., & Fraser, M. (2006). Approaches and perspectives in social and environmental accounting: An overview of the conceptual landscape. *Business Strategy and the Environment*, 15(2), 103-117.
- Bruno, K., & Karliner, J. (2002). The UN's global compact, corporate accountability and the Johannesburg earth summit. *Development*, 45(3), 33-38.
- Bryman, A. (2004). *Social research methods*. New York, NY: Oxford University Press.
- Bryman, A. (2012). *Social research methods* (4th ed.). Oxford, England: Oxford University Press.
- Bryman, A., & Bell, E. (2003). *Business research methods*. Oxford, England: Oxford University Press.
- Buhr, N., Gray, R., & Milne, M. J. (2014). Histories, rationales, voluntary standards and future prospects for sustainability reporting. In J. Unerman, Bebbington, J. and O' Dwyer, B. (Ed.), *Sustainability accounting and accountability* (pp. 51-71). London, England: Routledge.
- Bui, B., & de Villiers, C. (2014). *Accountants creating institutions and effecting field-level change in the carbon economy*. Paper presented at the AFAANZ Conference, Auckland, New Zealand.
- Bujaki, M. L., Zéghal, D., & Bozec, R. (1999). *The disclosure of future oriented information in annual reports of Canadian corporations*. Ottawa, Canada: University of Ottawa.
- Burns, J., & Scapens, R. W. (2000). Conceptualizing management accounting change: An institutional framework. *Management Accounting Research*, 11(1), 3-25.
- Burrell, G., & Morgan, G. (1979). *Sociological paradigms and organisational analysis: Elements of the sociology of corporate life*. London, England: Heinemann.

- Burton, I. (1987). Report on reports: Our common future: The world commission on environment and development. *Environment: Science and Policy for Sustainable Development*, 29(5), 25-29.
- Busco, C. (2014). Integrated reporting from concept to practice. *Accountancy Ireland*, 46(2), 32 - 34.
- Busco, C., Frigo, M. L., Quattrone, P., & Riccaboni, A. (2013a). Redefining corporate accountability through integrated reporting. *Strategic Finance*, 95(2), 33-41.
- Busco, C., Frigo, M. L., Quattrone, P., & Riccaboni, A. (2013b). Towards integrated reporting: Concepts, elements and principles. In C. Busco, M. L. Frigo, A. Riccaboni & P. Quattrone (Eds.), *Integrated reporting concepts and cases that redefine corporate accountability* (pp. 3-18). Cham, Switzerland: Springer International Publishing.
- Business Directory. (n.d.). *Silo mentality*. Retrieved from <http://www.businessdictionary.com/definition/silo-mentality.html>
- Campbell, J. L. (2006). Institutional analysis and the paradox of corporate social responsibility. *American Behavioral Scientist*, 49(7), 925-938.
- Campbell, J. L. (2007). Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility. *Academy of Management Review*, 32(3), 946-967.
- Carels, C., Maroun, W., & Padia, N. (2013). Integrated reporting in the South African mining sector. *Corporate Ownership & Control*, 11(1), 947-961.
- Carpenter, V. L., & Feroz, E. H. (2001). Institutional theory and accounting rule choice: An analysis of four US state governments' decisions to adopt generally accepted accounting principles. *Accounting, Organizations and Society*, 26(7), 565-596.
- Carroll, A., & Buchholtz, A. (2014). *Business and society: Ethics, sustainability, and stakeholder management* (9th ed.). Mason, OH: South Western Cengage Learning.
- Carter, S. M., & Little, M. (2007). Justifying knowledge, justifying method, taking action: Epistemologies, methodologies, and methods in qualitative research. *Qualitative Health Research*, 17(10), 1316-1328.
- CASL. (2015). *A preparer's guide to integrated corporate reporting*. Colombo, Sri Lanka: Author.
- CASL. (2016). *Annual reports awards*. Retrieved from https://www.casrilanka.com/casl/index.php?option=com_content&view=article&id=2168%3Aca-sri-lanka-kicks-off-registrations-for-prestigious-52nd-annual-report-awards-competition&catid=3%3Amember-news&Itemid=212&lang=en

- CASL. (2018). *Integrated reporting*. Retrieved from https://www.casrilanka.com/casl/index.php?option=com_content&view=article&id=2194&Itemid=478&lang=en
- Celik, O., Ecer, A., & Karabacak, H. (2006). Disclosure of forward looking information: Evidence from listed companies on Istanbul Stock Exchange (ISE). *Investment Management and Financial Innovations*, 3(2), 197-216.
- Central Bank of Sri Lanka. (2013). *Annual report*. Colombo, Sri Lanka: Author
- Central Bank of Sri Lanka. (2014). *Economic and social statistics of Sri Lanka 2014*. Colombo, Sri Lanka: Author
- Central Bank of Sri Lanka. (2016). *Annual report*. Retrieved from http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/efr/annual_report/ar2016/english/content.htm
- Chandrakumara, A., & Budhwar, P. S. (2005). Doing business in Sri Lanka. *Thunderbird International Business Review*, 47(1), 95-120.
- Cheng, M., Green, W., Conradie, P., Konishi, N., & Romi, A. (2014). The international integrated reporting framework: Key issues and future research opportunities. *Journal of International Financial Management & Accounting*, 25(1), 90-119.
- Chopra, S., & Meindl, P. (2007). *Supply chain management: Strategy, planning & operation* (3rd ed.). Upper Saddle River, NJ: Springer.
- Choudhuri, A., & Chakraborty, J. (2009). An insight into sustainability reporting. *The Icfai Journal of Management Research*, 8(4), 46-53.
- Christofi, A., Christofi, P., & Sisaye, S. (2012). Corporate sustainability: Historical development and reporting practices. *Management Research Review*, 35(2), 157-172.
- Chua, W. F. (1986a). Radical developments in accounting thought. *Accounting Review*, 61(4), 601-632.
- Chua, W. F. (1986b). Theoretical constructions of and by the real. *Accounting, Organizations and Society*, 11(6), 583-598.
- Chua, W. F., & Mahama, H. (2007). The effect of network ties on accounting controls in a supply alliance: Field study evidence. *Contemporary Accounting Research*, 24(1), 47-86.
- Churet, C., & Eccles, R. G. (2014). Integrated reporting, quality of management, and financial performance. *Journal of Applied Corporate Finance*, 26(1), 56-64.
- Citizens Development Business Finance PLC. (2016/17). *IAR*. Colombo, Sri Lanka: Author.

- Claessens, S., & Fan, J. P. (2002). Corporate governance in Asia: A survey. *International Review of Finance*, 3(2), 71-103.
- Clemens, E. S. (1993). Organizational repertoires and institutional change: Women's groups and the transformation of US politics, 1890-1920. *American Journal of Sociology*, 98(4), 755-798.
- Clements-Hunt, P., & Lehrman, L. (2012). Finding the longitude, from maskelyne and harrison to perera and clements-hunt: A social review of UNEP FI's financial stability and systemic risk: Lenses and clocks. *Journal of Environmental Investing*, 3(2), 68-73.
- Climate Disclosure Standards Board, Global Reporting Initiative, International Accounting Standards Board, International Integrated Reporting Council, International Organization for Standardization, Sustainability Accounting Standards Board, & CDP. (2016). *Statement of common principles of materiality of the corporate reporting dialogue*. Retrieved from <https://corporatereportingdialogue.com/wp-content/uploads/2016/03/Statement-of-Common-Principles-of-Materiality1.pdf>
- Cohen, S., & Karatzimas, S. (2015). Tracing the future of reporting in the public sector: Introducing integrated popular reporting. *International Journal of Public Sector Management*, 28(6), 449-460.
- Colceag, F., Caraiani, C., Dascalu, C., Lungu, C. I., & Guse, R. G. (2010, June). *Conceptual modeling of sustainable performance related to social and environmental accounting*. Paper presented at the Accounting and Management Information Systems, Bucharest, Romania
- Collier, P. M. (2001). The power of accounting: A field study of local financial management in a police force. *Management Accounting Research*, 12(4), 465-486.
- Collis, J., & Hussey, R. (2003). *Business research: A practical guide for undergraduate and postgraduate students* (2nd ed.). New York, NY: Palgrave Macmillan.
- Collis, J., & Hussey, R. (2009). *Business research: A practical guide for undergraduate & postgraduate students* (3rd ed.). Basingstoke, England: Palgrave Macmillan.
- Colombo Stock Exchange. (2014). *Colombo stock exchange listing rules*. Colombo, Sri Lanka.
- Commercial Bank of Ceylon PLC. (2016). *IAR*. Colombo, Sri Lanka: Author.
- Coomaraswamy, A. K. (1956). *Mediaeval sinhalese art*. New York, NY: Pantheon Books.

- Cooper, S. M., & Owen, D. L. (2007). Corporate social reporting and stakeholder accountability: The missing link. *Accounting, Organizations and Society*, 32(7), 649-667.
- Corbin, J., & Strauss, A. (2008). *Basics of qualitative research: Techniques and procedures for developing grounded theory*. Thousand Oaks, CA: Sage Publications.
- Corporate Reporting Dialogue. (2016). *Statement of common principles of materiality of the corporate reporting dialogue*. Retrieved from <http://corporatereportingdialogue.com/wp-content/uploads/2016/03/Statement-of-Common-Principles-of-Materiality1.pdf>
- Creswell, J. W. (1994). *Research design: Qualitative & quantitative approaches*. Thousand Oaks, CA: Sage Publications.
- Creswell, J. W. (1998). *Qualitative inquiry and research design: Choosing among five traditions*. Thousand Oaks, CA: Sage Publications.
- Creswell, J. W. (2003). *Research design: Qualitative, quantitative, and mixed methods approaches* London, England: Sage Publications.
- Creswell, J. W. (2014). *Research design: Qualitative, quantitative, and mixed methods approaches* (4th ed.). Thousand Oaks, CA: Sage Publications.
- Crotty, M. (1998). *The foundations of social research: Meaning and perspective in the research process*. St Leonards, Australia: Allen & Unwin.
- Crowther, D. (2000). Corporate reporting, stakeholders and the Internet: Mapping the new corporate landscape. *Urban Studies*, 37(10), 1837-1848.
- Crowther, D. (2002). *A social critique of corporate reporting: A semiotic analysis of corporate financial and environmental reporting*. London, England: Routledge.
- Curran, J., & Blackburn, R. A. (2001). *Researching the small enterprise*. Thousand Oaks, CA: Sage Publications.
- da Silva Monteiro, S. M., & Aibar-Guzmán, B. (2010). Determinants of environmental disclosure in the annual reports of large companies operating in Portugal. *Corporate Social Responsibility and Environmental Management*, 17(4), 185-204.
- Dacin, M. T., Goodstein, J., & Scott, W. R. (2002). Institutional theory and institutional change: Introduction to the special research forum. *Academy of Management Journal*, 45(1), 45-56.
- Dambrin, C., Lambert, C., & Sponem, S. (2007). Control and change: Analysing the process of institutionalisation. *Management Accounting Research*, 18(2), 172-208.

- Dande, H. (2013). Integrated reporting: A better strategy. *Rexjournal*(4), 104-110.
- Dascălu, C., Caraiani, C., Gușe, R. G., Lungu, C. I., & Colceag, F. (2012). Environmental-oriented management strategy. *African Journal of Business Management*, 6(18), 5829-5839.
- de Villiers, C., & Alexander, D. (2014). The institutionalisation of corporate social responsibility reporting. *The British Accounting Review*, 46(2), 198-212.
- de Villiers, C., Low, M., & Samkin, G. (2014). The institutionalisation of mining company sustainability disclosures. *Journal of Cleaner Production*, 84, 51-58.
- de Villiers, C., Rinaldi, L., & Unerman, J. (2014). Integrated reporting: Insights, gaps and an agenda for future research. *Accounting, Auditing & Accountability Journal*, 27(7), 1042-1067.
- de Villiers, C., & van Staden, C. J. (2010). Shareholders' requirements for corporate environmental disclosures: A cross country comparison. *The British Accounting Review*, 42(4), 227-240.
- de Villiers, C., & van Staden, C. J. (2011). Where firms choose to disclose voluntary environmental information. *Journal of Accounting and Public Policy*, 30(6), 504-525.
- Deegan, C. (2002). Introduction: The legitimising effect of social and environmental disclosures—a theoretical foundation. *Accounting, Auditing & Accountability Journal*, 15(3), 282-311.
- Deegan, C. (2009). *Financial accounting theory* (3rd ed.). North Ryde, Australia: McGraw-Hill Education.
- Deegan, C., Rankin, M., & Voght, P. (2000). Firms' disclosure reactions to major social incidents: Australian evidence. *Accounting Forum*, 24(1), 101-130.
- Deegan, C. M., & Samkin, G. (2013). *New Zealand financial accounting* (6th ed.). North Ryde, Australia: McGraw-Hill.
- Déjean, F., Gond, J.-P., & Leca, B. (2004). Measuring the unmeasured: An institutional entrepreneur strategy in an emerging industry. *Human Relations*, 57(6), 741-764.
- Deloitte. (2010). *Conceptual framework for financial reporting 2010*. Retrieved from www.iasplus.com/en/standards/other/framework
- Deloitte. (2011). *Integrated reporting: A better view?* Retrieved from http://www.deloitte.com/assets/Dcom-Lebanon/Local%20Assets/Documents/ERS/dttl_Deloitte_Integrated_Reporting_a_better_view_Sep_2011.2.pdf

- Deloitte. (2012). *Integrated reporting: Navigating your way to a truly Integrated report*. Retrieved from http://www.deloitte.com/assets/Dcom-SouthAfrica/Local%20Assets/Documents/integrated_reporting_2.pdf
- Denzin, N. K. (2017). *The research act: A theoretical introduction to sociological methods*. New York, NY: Routledge.
- Denzin, N. K., & Lincoln, Y. S. (2000). Introduction: The discipline and practice of qualitative research. In N. K. Denzin & Y. S. Lincoln (Eds.), *Handbook of qualitative research* (3rd ed.). Thousand Oaks, CA: Sage Publications.
- Diesel & Motor Engineering PLC. (2016). *IAR*. Colombo, Sri Lanka: Author.
- Dillard, J. F., Rigsby, J. T., & Goodman, C. (2004). The making and remaking of organization context: Duality and the institutionalization process. *Accounting, Auditing & Accountability Journal*, 17(4), 506-542.
- DiMaggio, P. J. (1988). Interest and agency in institutional theory. In L. G. Zucker (Ed.), *Institutional patterns and organizations: Culture and environment*. Cambridge, MA: Ballinger.
- DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 147-160.
- DiMaggio, P. J., & Powell, W. W. (1991). *The new institutionalism in organizational analysis*. Chicago, IL: University of Chicago Press.
- Dixon-Woods, M., & Fitzpatrick, R. (2001). Qualitative research in systematic reviews. *BMJ Clinical Research*, 323(7316), 765-766.
- Dobkowski-Joy, A., & Brockland, B. (2013). *Innovation and experimentation in the merging of ESG and financial disclosure*. Retrieved from http://framework-llc.com/wp-content/uploads/2013/03/FrameworkLLC_StateOfIR_Rev0313.pdf
- Doody, O., & Noonan, M. (2013). Preparing and conducting interviews to collect data. *Nurse Researcher*, 20(5), 28-32.
- Dorado, S. (2005). Institutional entrepreneurship, partaking, and convening. *Organization Studies*, 26(3), 385-414.
- Douglas, A., Doris, J., & Johnson, B. (2004). Corporate social reporting in Irish financial institutions. *The TQM Magazine*, 16(6), 387-395.
- Dumay, J., Bernardi, C., Guthrie, J., & Demartini, P. (2016). Integrated reporting: A structured literature review. *Accounting Forum*, 40(3), 166-185.
- Dumay, J., Bernardi, C., Guthrie, J., & La Torre, M. (2017). Barriers to implementing the international integrated reporting framework: A contemporary academic perspective. *Meditari Accountancy Research*, 25(4), 461-480.

- Dumay, J., & Dai, T. (2017). Integrated thinking as a cultural control? *Meditari Accountancy Research*, 25(4), 574-604.
- Dumitru, M., Glăvan, M. E., Gorgan, C., & Florentin Dumitru, V. (2013). International integrated reporting framework: A case study in the software industry. *Annales Universitatis Apulensis-Series Oeconomica*, 15(1), 24-39.
- Easterby-Smith, M., Thorpe, R., & Lowe, A. (2002). *Management Research: An Introduction* (2nd ed.). London, England: Sage Publications.
- Eccles, R., & Armbruster, K. (2011). Two disruptive ideas combined: Integrated reporting in the cloud. *IESE Insight*, 8, 13-20.
- Eccles, R., Cheng, B., & Saltzman, D. (2010). *The landscape of integrated reporting: Reflections and next steps*. Cambridge, MA: Harvard Business School.
- Eccles, R. G., Herz, R. H., Keegan, E. M., & Phillips, D. M. (2002). *The valuereporting revolution: Moving beyond the earnings game*. New York, NY: John Wiley & Sons.
- Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organizational processes and performance. *Management Science*, 60(11), 2835-2857.
- Eccles, R. G., & Krzus, M. P. (2010a). Integrated reporting for a sustainable strategy. *Financial Executive*, 26(2), 28-32.
- Eccles, R. G., & Krzus, M. P. (2010b). *One report: Integrated reporting for a sustainable strategy*. Hoboken, NJ: John Wiley & Sons.
- Eccles, R. G., & Krzus, M. P. (2014). *The integrated reporting movement: Meaning, momentum, motives, and materiality*. Hoboken, NJ: John Wiley & Sons.
- Eccles, R. G., Krzus, M. P., & Watson, L. A. (2012). *Integrated reporting requires integrated assurance*. Retrieved from <http://www.financepractitioner.com/auditing-best-practice/integrated-reporting-requires-integrated-assurance?full>
- Eccles, R. G., & Serafeim, G. (2011a). Accelerating the adoption of integrated reporting. Retrieved from https://papers.ssrn.com/Sol3/papers.cfm?abstract_id=1910965
- Eccles, R. G., & Serafeim, G. (2011b). *Leading and lagging countries in contributing to a sustainable society*. Retrieved from <https://hbswk.hbs.edu/item/leading-and-lagging-countries-in-contributing-to-a-sustainable-society>

- Eccles, R. G., & Serafeim, G. (2014). *Corporate and integrated reporting: A functional perspective*. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2388716
- Edgley, C. (2014). A genealogy of accounting materiality. *Critical Perspectives on Accounting*, 25(3), 255-271.
- Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of Management Review*, 14(4), 532-550.
- Eisenstadt, S. N. (1980). Cultural orientations, institutional entrepreneurs, and social change: Comparative analysis of traditional civilizations. *American Journal of Sociology*, 85(4), 840-869.
- Elkington, J. (2004). Enter the triple bottom line. In A. Henriques & J. Richardson (Eds.), *The triple bottom line: Does it all add up* (pp. 1-16). London, England: Routledge.
- Ernst & Young. (2013a). *The concept of 'materiality' in integrated reporting*. Retrieved from [http://www.ey.com/Publication/vwLUAssets/The_concept_of_materiality_in_Integrated_Reporting_-_July_2013/\\$FILE/EY-the-concept-of-materiality-in-integrated-reporting-july-2013.pdf](http://www.ey.com/Publication/vwLUAssets/The_concept_of_materiality_in_Integrated_Reporting_-_July_2013/$FILE/EY-the-concept-of-materiality-in-integrated-reporting-july-2013.pdf)
- Ernst & Young. (2013b). *Integrated reporting communicating sustainable value creation*. Retrieved from [http://www.ey.com/Publication/vwLUAssets/Integrated_reporting_-_Communicating_sustainable_value_creation/\\$FILE/EY-Integrated-Reporting.pdf](http://www.ey.com/Publication/vwLUAssets/Integrated_reporting_-_Communicating_sustainable_value_creation/$FILE/EY-Integrated-Reporting.pdf)
- Ernst & Young. (2014). *Tomorrow's investment rules*. Retrieved from [http://www.ey.com/Publication/vwLUAssets/EY-tomorrows-investment-rules-2/\\$FILE/EY-tomorrows-investment-rules-2.0.pdf](http://www.ey.com/Publication/vwLUAssets/EY-tomorrows-investment-rules-2/$FILE/EY-tomorrows-investment-rules-2.0.pdf)
- Ernst & Young. (2015, April). Integrated reporting: What issues are companies encountering? *EY Building a Better Working World*(9), 4-7.
- Etzion, D., & Ferraro, F. (2010). The role of analogy in the institutionalization of sustainability reporting. *Organization Science*, 21(5), 1092-1107.
- European Commission. (2000). *Communication from the commission to the council and the European parliament- financial reporting strategy: The way forward*. Retrieved from <http://eur-lex.europa.eu/legal-content/EN/ALL/;jsessionid=RcmLTYJpqLnRBp1CgFJGdQ3dWbwk2vDQZTIYQ41nh3GQrR5Mx1GB!1770240370?uri=CELEX:52000DC0359#text>
- European Parliament. (2006). *Directive 2006/46/EC*. Retrieved from <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32006L0046>

- Eurosif. (2009). *Public comment on the principles for periodic disclosure by listed entities: Consultation report*. Retrieved from <http://www.eurosif.org/policy/positions>
- Everett, J., & Neu, D. (2000). Ecological modernization and the limits of environmental accounting? *Accounting Forum*, 24(1), 5-29.
- Ezzamel, M., Robson, K., Stapleton, P., & McLean, C. (2007). Discourse and institutional change: 'Giving accounts' and accountability. *Management Accounting Research*, 18(2), 150-171.
- Farris, P. W., Bendle, N. T., Pfeifer, P. E., & Reibstein, D. J. (2010). *Marketing metrics: The definitive guide to measuring marketing performance* (2nd ed.). Upper Saddle River, NJ: Pearson Education.
- Fasan, M. (2013). Annual reports, sustainability reports and integrated reports: Trends in corporate disclosure. In C. Busco, M. L. Frigo, A. Riccaboni & P. Quattrone (Eds.), *Integrated reporting - Concepts and cases that redefine corporate accountability* (pp. 41-57). Dordrecht, Holland: Springer.
- Feng, T., Cummings, L., & Tweedie, D. (2017). Exploring integrated thinking in integrated reporting: An exploratory study in Australia. *Journal of Intellectual Capital*, 18(2), 330-353.
- Field, L., Lowry, M., & Shu, S. (2005). Does disclosure deter or trigger litigation? *Journal of Accounting and Economics*, 39(3), 487-507.
- Fifka, M. S. (2013). Corporate responsibility reporting and its determinants in comparative perspective: A review of the empirical literature and a meta-analysis. *Business Strategy and the Environment*, 22(1), 1-35.
- Fijałkowska, J., & Sobczyk, M. (2013). Integrated reporting as a cross-border communication tool for business-a fad or a sign of times? *Journal of Intercultural Management*, 5(4), 35-47.
- Fligstein, N. (1997). Social skill and institutional theory. *American Behavioral Scientist*, 40(4), 397-405.
- Flower, J. (2014). The international integrated reporting council: A story of failure. *Critical Perspectives on Accounting*, 27, 1-17.
- Fortanier, F., Kolk, A., & Pinkse, J. (2011). Harmonization in CSR reporting. *Management International Review*, 51(5), 665.
- Freeman, R. E., & Velamuri, S. R. (2008). *A new approach to CSR: Company stakeholder responsibility*. Retrieved from <https://ssrn.com/abstract=1186223> or <http://dx.doi.org/10.2139/ssrn.1186223>

- Frías-Aceituno, J., Rodríguez-Ariza, L., & García-Sánchez, I. (2013). Is integrated reporting determined by a country's legal system? An exploratory study. *Journal of Cleaner Production*, 44, 45-55.
- Frias-Aceituno, J. V., Rodríguez-Ariza, L., & Garcia-Sánchez, I. M. (2014). Explanatory factors of integrated sustainability and financial reporting. *Business Strategy and the Environment*, 23(1), 56-72.
- Friedland, R., & Alford, R. R. (1991). Bringing society back in: Symbols, practices and institutional contradictions. In W.W.Powell & P.J.DiMaggio (Eds.), *The new institutionalism in organizational analysis*. Chicago, IL: University of Chicago Press.
- Frost, C. A. (1996). *Characteristics and information value of corporate disclosures of forward-looking information in global equity markets*. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=10161
- Frostenson, M., Helin, S., & Sandström, J. (2012, September). *Sustainability reporting as negotiated storytelling*. Paper presented at the EBEN Annual Conference, Barcelona, Spain
- Fui-Hoon Nah, F., Lee-Shang Lau, J., & Kuang, J. (2001). Critical factors for successful implementation of enterprise systems. *Business Process Management Journal*, 7(3), 285-296.
- Gahin, F. S. (1967). A theory of pure risk management in the business firm. *The Journal of Risk and Insurance*, 34(1), 121-129.
- García-Sánchez, I.-M., Rodríguez-Ariza, L., & Frías-Aceituno, J.-V. (2013). The cultural system and integrated reporting. *International Business Review*, 22(5), 828-838.
- Garner, R., & Scott, G. M. (2013). *Doing qualitative research: Designs, methods, and techniques*. Upper Saddle River, NJ: Pearson Education.
- Garud, R., Hardy, C., & Maguire, S. (2007). Institutional entrepreneurship as embedded agency: An introduction to the special issue. *Organization Studies*, 28(7), 957-969.
- Garud, R., Jain, S., & Kumaraswamy, A. (2002). Institutional entrepreneurship in the sponsorship of common technological standards: The case of Sun Microsystems and Java. *Academy of Management Journal*, 45(1), 196-214.
- Garud, R., & Karnøe, P. (2001). Path creation as a process of mindful deviation. In R. Garud & P. Karnøe (Eds.), *Path dependence and creation* (pp. 1-40). Mahwah, NJ: Lawrence Erlbaum Associates.
- Garud, R., & Karnøe, P. (2003). Bricolage versus breakthrough: Distributed and embedded agency in technology entrepreneurship. *Research Policy*, 32(2), 277-300.

- Gendron, Y., & Barrett, M. (2004). Professionalization in action: Accountants' attempt at building a network of support for the web trust seal of assurance. *Contemporary Accounting Research*, 21(3), 563-602.
- Gendron, Y., Brivot, M., & Guénin-Paracini, H. (2016). The construction of risk management credibility within corporate boardrooms. *European Accounting Review*, 25(3), 549-578.
- Gibassier, D., Rodrigue, M., & Arjaliès, D.-L. (2018). “Integrated reporting is like God: No one has met Him, but everybody talks about Him” The power of myths in the adoption of management innovations. *Accounting, Auditing & Accountability Journal*, 31(5), 1349-1380.
- Gibbs, G. (2007). *Analyzing qualitative data*. Los Angeles, CA: Sage Publications.
- Golafshani, N. (2003). Understanding reliability and validity in qualitative research. *The Qualitative Report*, 8(4), 597-606.
- Government of Sri Lanka. (1978). *Constitution of the Democratic Socialist Republic of Sri Lanka*. Colombo, Sri Lanka: Author.
- Graham, J. R., Harvey, C. R., & Rajgopal, S. (2005). The economic implications of corporate financial reporting. *Journal of Accounting and Economics*, 40(1), 3-73.
- Gray, R. (1994). Corporate reporting for sustainable development: Accounting for sustainability in 2000 AD. *Environmental Values*, 3(1), 17-45.
- Gray, R., Kouhy, R., & Lavers, S. (1995). Corporate social and environmental reporting: A review of the literature and a longitudinal study of UK disclosure. *Accounting, Auditing & Accountability Journal*, 8(2), 47-77.
- Gray, R., & Milne, M. (2002). Sustainability reporting: Who's kidding whom? *Chartered Accountants Journal of New Zealand*, 81(6), 66-70.
- Gray, R., Owen, D., & Maunders, K. (1988). Corporate social reporting: Emerging trends in accountability and the social contract. *Accounting, Auditing & Accountability Journal*, 1(1), 6-20.
- Greenwood, M. (2007). Stakeholder engagement: Beyond the myth of corporate responsibility. *Journal of Business Ethics*, 74(4), 315-327.
- Greenwood, R., & Hinings, C. R. (1996). Understanding radical organizational change: Bringing together the old and the new institutionalism. *Academy of Management Review*, 21(4), 1022-1054.
- Greenwood, R., & Suddaby, R. (2006). Institutional entrepreneurship in mature fields: The big five accounting firms. *Academy of Management Journal*, 49(1), 27-48.

- Greenwood, R., Suddaby, R., & Hinings, C. R. (2002). Theorizing change: The role of professional associations in the transformation of institutionalized fields. *Academy of Management Journal*, 45(1), 58-80.
- GRI. (2014). *G4 Sustainability reporting guidelines*. Retrieved from <https://www.globalreporting.org/reporting/g4/Pages/default.aspx>
- GRI. (2016). *Forging a path to integrated reporting*. Retrieved from https://www.globalreporting.org/resource/library/GRI-CLG_IntegratedReporting.pdf
- Guba, E. G., & Lincoln, Y. S. (1994). Competing paradigm in qualitative research. In N. Denzin & Y. Lincoln (Eds.), *Handbook of qualitative research* (16th ed., pp. 163-194). Thousand Oak, CA: Sage Publications.
- Guba, E. G., & Lincoln, Y. S. (1998). Paradigmatic controversies, contradictions, and emerging confluences. In N. Denzin & Y. Lincoln (Eds.), *The landscape of qualitative research* (3rd ed., pp. 255-286). Thousand Oaks, CA: Sage.
- Gunarathne, N., & Senaratne, S. (2017). Diffusion of integrated reporting in an emerging south asian (SAARC) nation. *Managerial Auditing Journal*, 32(4/5)
- Guthrie, J., & Parker, L. D. (1989). Corporate social reporting: A rebuttal of legitimacy theory. *Accounting and Business Research*, 19(76), 343-352.
- Guthrie, J., & Parker, L. D. (1990). Corporate social disclosure practice: A comparative international analysis. *Advances in Public Interest Accounting*, 3, 159-175.
- Hampton, R. (2012). Brace yourself: More regulatory changes. *Accountancy SA*, 14, 22-23.
- Hanks, J. (2012). Addressing the challenge of materiality: More than just compliance. *Accountancy SA*, 14, 18-21.
- Harvey, L. J., & Myers, M. D. (1995). Scholarship and practice: The contribution of ethnographic research methods to bridging the gap. *Information Technology & People*, 8(3), 13-27.
- Healy, P. M., & Palepu, K. G. (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting and Economics*, 31(1), 405-440.
- Hermanowicz, J. C. (2002). The great interview: 25 strategies for studying people in bed. *Qualitative Sociology*, 25(4), 479-499.
- Hesse-Biber, S. N., & Leavy, P. (2011). *The practice of qualitative research* (2nd ed.). Los Angeles: Sage Publications.

- Higgins, C., Stubbs, W., & Love, T. (2014). Walking the talk (s): Organisational narratives of integrated reporting. *Accounting, Auditing & Accountability Journal*, 27(7), 1090-1119.
- Hillson, D. (2009). *Managing risk in projects*. Farnham, England: Gower Publishing.
- Hines, R. D. (1989). The sociopolitical paradigm in financial accounting research. *Accounting, Auditing & Accountability Journal*, 2(1), 52-75.
- Hirsch, P. M., & Lounsbury, M. (1997). Ending the family quarrel toward a reconciliation of “old” and “new” institutionalisms. *American Behavioral Scientist*, 40(4), 406-418.
- HNB Assurance PLC. (2016). *IAR*. Colombo, Sri Lanka: Author.
- Hoffman, A. J. (1999). Institutional evolution and change: Environmentalism and the US chemical industry. *Academy of Management Journal*, 42(4), 351-371.
- Holland, C. P., Light, B., & Gibson, N. (1999). A critical success factors model for enterprise resource planning implementation. In J. Pries-Heje, C. Ciborra, K. Kautz, J. Volar, E. Christiansen, D. Avison & C. Heje (Eds.), *Proceedings of the 7th European conference on information systems*. (pp. 273-287). Copenhagen, Denmark: Copenhagen Business School.
- Holm, P. (1995). The dynamics of institutionalization: Transformation processes in Norwegian fisheries. *Administrative Science Quarterly*, 40(3), 398-422.
- Hopper, T., & Major, M. (2007). Extending institutional analysis through theoretical triangulation: Regulation and activity-based costing in Portuguese telecommunications. *European Accounting Review*, 16(1), 59-97.
- Hopper, T., & Powell, A. (1985). Making sense of research into the organizational and social aspects of management accounting: A review of its underlying assumptions. *Journal of Management Studies*, 22(5), 429-465.
- Hopwood, A. G., Unerman, J., & Fries, J. (2010). *Accounting for sustainability: Practical insights*. London, United Kingdom: Earthscan.
- Humphrey, C., & Scapens, R. W. (1996). Methodological themes - Theories and case studies of organizational accounting practices: Limitation or liberation? *Accounting, Auditing & Accountability Journal*, 9(4), 86-106.
- Hussainey, K., Schleicher, T., & Walker, M. (2003). Undertaking large-scale disclosure studies when AIMR-FAF ratings are not available: The case of prices leading earnings. *Accounting and Business Research*, 33(4), 275-294.
- Hussey, J., & Hussey, R. (1997). *Business research: A practical guide for undergraduate and postgraduate students*. London, England: Macmillan.

- Hutton, A. (2004). Beyond financial reporting: An integrated approach to disclosure. *Journal of Applied Corporate Finance*, 16(4), 8-16.
- IIRC. (2011). *Towards integrated reporting: Communicating value in the 21st century*. Retrieved from http://integratedreporting.org/wp-content/uploads/2011/09/IR-Discussion-Paper-2011_spreads.pdf
- IIRC. (2012a). *Businesses believe integrated reporting helps to break down silos*. Retrieved from <http://www.theiirc.org/2012/11/12/press-release-businesses-believe-integrated-reporting-helps-to-break-down-silos/>
- IIRC. (2012b). *Understanding transformation: Building the business case for integrated reporting*. Retrieved from <http://integratedreporting.org/wp-content/uploads/2012/11/BUILDING-THE-BUSINESS-CASE-FOR-INTEGRATED-REPORTING.pdf>
- IIRC. (2013a). *Basis for conclusions - International <IR> framework*. Retrieved from <http://www.theiirc.org/>
- IIRC. (2013b). *Business and investors explore the sustainability perspective of integrated reporting – IIRC pilot programme year book 2013*. Retrieved from <http://www.theiirc.org/>
- IIRC. (2013c). *Business and investors explore the sustainability perspective of integrated reporting: IIRC pilot programme year book 2013*. Retrieved from http://integratedreporting.org/wp-content/uploads/2013/12/IIRC-PP-Yearbook-2013_PDF4_PAGES.pdf
- IIRC. (2013d). *Consultation draft of the international <IR> framework*. Retrieved from <http://www.theiirc.org/>
- IIRC. (2013e). *The international <IR> framework. International Integrated Reporting Committee*. Retrieved from <http://www.theiirc.org/>
- IIRC. (2014). *IIRC Welcomes South Africa's endorsement of the international integrated reporting framework*. Retrieved from <https://integratedreporting.org/news/iirc-welcomes-south-africas-endorsement-of-the-international-integrated-reporting-framework/>
- IIRC. (2015). *Materiality in <IR>: Guidance for the preparation of integrated reports*. Retrieved from https://integratedreporting.org/wp-content/uploads/2015/11/1315_MaterialityinIR_Doc_4a_Interactive.pdf
- IIRC. (2018). *When? Advocate for global adoption*. Retrieved from <http://integratedreporting.org/when-advocate-for-global-adoption/>
- IIRC & American Institute of Certified Public Accountants. (2013). *Materiality: Background paper for <IR>, International Integrated Reporting Committee*. Retrieved from <http://integratedreporting.org/wp-content/uploads/2013/03/IR-Background-Paper-Materiality.pdf>

- IIRC and American Institute of Certified Public Accountants. (2013). *Materiality: Background paper for <IR>*. Retrieved from <http://integratedreporting.org/wp-content/uploads/2013/03/IR-Background-Paper-Materiality.pdf>
- Institute of Chartered Accountants of Sri Lanka. (2014). *Accounting Standards*. Retrieved from https://casrilanka.com/casl/index.php?option=com_content&view=article&id=235&Itemid=339&lang=en
- Institute of Directors. (2011). *Code for responsible investing in South Africa - 2011*. Retrieved from http://c.ymcdn.com/sites/www.iodsa.co.za/resource/resmgr/crisa/crisa_19_july_2011.pdf
- Integrated Reporting Council of South Africa. (2011). *Framework for integrated reporting and the integrated report: Discussion paper*. Retrieved from <http://www.sustainabilitysa.org/Portals/0/IRC%20of%20SA%20Integrated%20Reporting%20Guide%20Jan%2011.pdf>
- International Association for Accounting Education and Research, Association of Chartered Certified Accountants, & International Integrated Reporting Council. (2016). *Factors affecting preparers' and auditors' judgements about materiality and conciseness in integrated reporting*. Retrieved from <http://integratedreporting.org/wp-content/uploads/2016/08/pi-materiality-conciseness-ir-FINAL.pdf>
- International Monetary Fund. (2008). *Sri Lanka: Report on the observance of standards and codes for anti-money laundering and combating the financing of terrorism and mutual evaluation report on anti-money laundering and combating the financing of terrorism*. Retrieved from <https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Sri-Lanka-Report-on-the-Observance-of-Standards-and-Codes-for-Anti-Money-Laundering-and-21602>
- Ioannou, I., & Serafeim, G. (2015). The impact of corporate social responsibility on investment recommendations: Analysts' perceptions and shifting institutional logics. *Strategic Management Journal*, 36(1), 1053-1081.
- Irvine, H. (2008). The global institutionalization of financial reporting: The case of the United Arab Emirates. *Accounting Forum*, 32(2), 125-142.
- Irvine, H., & Gaffikin, M. (2006). Getting in, getting on and getting out: Reflections on a qualitative research project. *Accounting, Auditing & Accountability Journal*, 19(1), 115-145.
- Jackson, G., & Apostolakou, A. (2010). Corporate social responsibility in Western Europe: An institutional mirror or substitute? *Journal of Business Ethics*, 94(3), 371-394.
- Jenner, B., Flick, U., von Kardoff, E., & Steinke, I. (2004). *A companion to qualitative research*. London, England: Sage.

- Jennings, P. D., & Zandbergen, P. A. (1995). Ecologically sustainable organizations: An institutional approach. *Academy of Management Review*, 20(4), 1015-1052.
- Jensen, J. C., & Berg, N. (2012). Determinants of traditional sustainability reporting versus integrated reporting. An institutionalist approach. *Business Strategy and the Environment*, 21(5), 299-316.
- John Keells Holdings PLC. (2016/17). *IAR*. Colombo, Sri Lanka: Author.
- Johnson, M. F., Kasznik, R., & Nelson, K. K. (2001). The impact of securities litigation reform on the disclosure of forward-looking information by high technology firms. *Journal of Accounting Research*, 39(2), 297-327.
- Jones, M., & Diment, K. (2010). *The CAQDA paradox: A divergence between research method and analytical tool*. Paper presented at the 2nd International Workshop on Computer-Aided Qualitative Research, Utrecht, The Netherlands.
- Judge, W., Li, S., & Pinsker, R. (2010). National adoption of international accounting standards: An institutional perspective. *Corporate Governance: An International Review*, 18(3), 161-174.
- Kamal Hassan, M. (2008). The development of accounting regulations in Egypt: Legitimizing the international accounting standards. *Managerial Auditing Journal*, 23(5), 467-484.
- Kaplan, B., & Maxwell, J. A. (2005). Qualitative research methods for evaluating computer information systems. In J. G. Anderson & C. Aydin (Eds.), *Evaluating the organizational impact of healthcare information systems* (2nd ed., pp. 30-55). Los Angeles, CA: Springer Science & Business Media.
- Kasznik, R., & Lev, B. (1995). To warn or not to warn: Management disclosures in the face of an earnings surprise. *Accounting Review*, 70(1), 113-134.
- Khan, F. R., Munir, K. A., & Willmott, H. (2007). A dark side of institutional entrepreneurship: Soccer balls, child labour and postcolonial impoverishment. *Organization Studies*, 28(7), 1055-1077.
- Kholeif, A. (2010). A new institutional analysis of IFRS. In S. Uddin & M. Tsamenyi (Eds.), *Research in accounting in emerging economies* (10th ed., pp. 29-55). London, England: Emerald Group Publishing.
- King, M. (2016). *Comments on: Integrated reporting*. Paper presented at the GARI conference, Henley on Thames, England.
- King, M. E. (2009). *King Report on corporate governance for South Africa 2009*. Retrieved from <http://african.ipapercms.dk/IOD/KINGIII/kingiiiireport/>
- King, M. E. (2011). *Framework for integrated reporting and the integrated report: A discussion paper*. Retrieved from <http://www.sustainailitysa.org>

- Kleine, A., & Von Hauff, M. (2009). Sustainability-driven implementation of corporate social responsibility: Application of the integrative sustainability triangle. *Journal of Business Ethics*, 85(3), 517-533.
- Kolk, A. (2010). Trajectories of sustainability reporting by MNCs. *Journal of World Business*, 45(4), 367-374.
- Kostova, T., & Roth, K. (2002). Adoption of an organizational practice by subsidiaries of multinational corporations: Institutional and relational effects. *Academy of Management Journal*, 45(1), 215-233.
- KPMG. (2008). *KPMG international survey of corporate responsibility reporting 2008*. Retrieved from http://s3.amazonaws.com/zanran_storage/www.kpmg.bg/ContentPages/45691987.pdf
- KPMG. (2011a). *Integrated reporting: Performance insight through better business reporting*. Retrieved from <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/road-to-integrated-reporting.pdf>
- KPMG. (2011b). *KPMG international survey of corporate responsibility reporting 2011*. Retrieved from <http://www.econsense.de/sites/all/files/Survey-corporate-responsibility-reporting-2011.pdf>
- KPMG. (2012a). *Carrots and sticks: Promoting transparency and sustainability: An update on trends in voluntary and mandatory approaches to sustainability reporting*. Retrieved from <https://www.globalreporting.org/resourcelibrary/Carrots-And-Sticks-Promoting-Transparency-And-Sustainability.pdf>
- KPMG. (2012b). *Integrated reporting: Performance insight through better business reporting*. Retrieved from <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/integrated-reporting/Documents/integrated-reporting-issue-2.pdf>
- KPMG. (2013). *The KPMG survey of corporate responsibility reporting 2013*. Retrieved from <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/kpmg-survey-of-corporate-responsibility-reporting-2013.pdf>
- Kvale, S. (2007). *Doing interviews*. Los Angeles, CA: Sage Publications.
- Lai, A., Melloni, G., & Stacchezzini, R. (2013, June). *Why do companies adopt an integrated report? First insights into a legitimacy theory explanation*. Paper presented at the IV Financial Reporting Workshop, Rome, Italy.
- Lai, A., Melloni, G., & Stacchezzini, R. (2017). What does materiality mean to integrated reporting preparers? An empirical exploration. *Meditari Accountancy Research*, 25(4), 533-552.

- Lai, A., Melloni, G., & Stacchezzini, R. (2018). Integrated reporting and narrative accountability: The role of preparers. *Accounting, Auditing & Accountability Journal*, 31(5), 1380-1405.
- Laughlin, R. (1995). Empirical research in accounting: Alternative approaches and a case for “middle-range” thinking. *Accounting, Auditing & Accountability Journal*, 8(1), 63-87.
- Lawrence, S. R., Davey, H. B., & Low, M. C. (2012). *Accounting at work in business, government and society* (5th ed.). Auckland, New Zealand: Pearson Education New Zealand.
- Lawrence, T. B. (1999). Institutional strategy. *Journal of Management*, 25(2), 161-187.
- Lawrence, T. B., & Phillips, N. (2004). From Moby Dick to Free Willy: Macro-cultural discourse and institutional entrepreneurship in emerging institutional fields. *Organization*, 11(5), 689-711.
- Lawrence, T. B., & Suddaby, R. (2006). Institutions and institutional work. In S. R. Clegg, C. Hardy, T. Lawrence & W. R. Nord (Eds.), *The SAGE handbook of organization studies* (pp. 215 - 254). London, England: Sage.
- Leblebici, H., Salancik, G. R., Copay, A., & King, T. (1991). Institutional change and the transformation of interorganizational fields: An organizational history of the US radio broadcasting industry. *Administrative Science Quarterly*, 36(3), 333-363.
- Lee, B., & Humphrey, C. (2006). More than a numbers game: Qualitative research in accounting. *Management Decision*, 44(2), 180-197.
- Lee, K.-W., & Yeo, G. H.-H. (2016). The association between integrated reporting and firm valuation. *Review of Quantitative Finance and Accounting*, 47(4), 1221-1250.
- Lewis-Beck, M. S., Bryman, A., & Liao, T. F. (2004). *The Sage encyclopedia of social science research methods*. Thousand Oaks, CA: Sage.
- Lichtman, M. (2013). *Qualitative research in education: A user's guide*. Thousand Oaks, CA: SAGE Publications.
- Lincoln, Y. S., & Guba, E. G. (1985). *Naturalistic inquiry*. Beverly Hills, CA: Sage Publications.
- Littleton, A. C. (1933). *Accounting evolution to 1900*. New York, NY: American Institute Publishing Company.
- Livesey, S. M., & Kearins, K. (2002). Transparent and caring corporations? A study of sustainability reports by The Body Shop and Royal Dutch/Shell. *Organization & Environment*, 15(3), 233-258.

- Llewellyn, S. (1993). Working in hermeneutic circles in management accounting research: Some implications and applications. *Management Accounting Research*, 4(3), 231-249.
- Lodhia, S. (2015). Exploring the transition to integrated reporting through a practice lens: An Australian customer owned bank perspective. *Journal of Business Ethics*, 129(3), 585-598.
- Lounsbury, M. (2008). Institutional rationality and practice variation: New directions in the institutional analysis of practice. *Accounting, Organizations and Society*, 33(4), 349-361.
- Lukka, K. (2007). Management accounting change and stability: Loosely coupled rules and routines in action. *Management Accounting Research*, 18(1), 76-101.
- Maguire, S., Hardy, C., & Lawrence, T. B. (2004). Institutional entrepreneurship in emerging fields: HIV/AIDS treatment advocacy in Canada. *Academy of Management Journal*, 47(5), 657-679.
- Martinez, R. J., & Dacin, M. T. (1999). Efficiency motives and normative forces: Combining transactions costs and institutional logic. *Journal of Management*, 25(1), 75-96.
- Mathews, M. R. (2004). Developing a matrix approach to categorise the social and environmental accounting research literature. *Qualitative Research in Accounting & Management*, 1(1), 30-45.
- Mathuva, D. (2012). The determinants of forward-looking disclosures in interim reports for non-financial firms: Evidence from a developing country. *International Journal of Accounting and Financial Reporting*, 2(2), 125-141.
- Matten, D., & Moon, J. (2008). "Implicit" and "explicit" CSR: A conceptual framework for a comparative understanding of corporate social responsibility. *Academy of Management Review*, 33(2), 404-424.
- Maxwell, J. A. (1998). Designing a qualitative study. In L. Bickman & D. Rog (Eds.), *Handbook of applied social research methods* (pp. 69-100). Thousand Oaks, CA: Sage Publications.
- McCracken, G. D. (1988). *The long interview*. Newbury Park, CA: Sage Publications.
- McNally, M.-A., Cerbone, D., & Maroun, W. (2017). Exploring the challenges of preparing an integrated report. *Meditari Accountancy Research*, 25(4), 481-504.
- McNally, M.-A., & Maroun, W. (2018). It is not always bad news: Illustrating the potential of integrated reporting using a case study in the eco-tourism industry. *Accounting, Auditing & Accountability Journal*, 31(5), 1319-1348.

- Mealer, M., & Jones, J. (2014). Methodological and ethical issues related to qualitative telephone interviews on sensitive topics. *Nurse Researcher*, 21(4), 32-37.
- Menicucci, E. (2013). The determinants of forward-looking information in management commentary: Evidence from Italian listed companies. *International Business Research*, 6(5), 30.
- Mercantile Investments and Finance PLC. (2015/16). *IAR*. Colombo, Sri Lanka: Author.
- Merchant, K. A., & Van der Stede, W. A. (2007). *Management control systems: Performance measurement, evaluation and incentives*. Englewood Cliffs, NJ: Pearson Education.
- Meyer, J., & Rowan, B. (1991). Institutional organizations: Formal structure as myth and ceremony. In P. J. DiMaggio & W. W. Powell (Eds.), *The new institutionalism in organizational analysis*. Chicago, IL: University of Chicago Press.
- Meyer, J. W., & Rowan, B. (1977). Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology*, 83(2), 340-363.
- Mikes, A. (2009). Risk management and calculative cultures. *Management Accounting Research*, 20(1), 18-40.
- Miles, M. B., & Huberman, A. M. (1994). *Qualitative data analysis: An expanded sourcebook* (2nd ed.). Thousand Oaks, CA: Sage Publications.
- Miles, M. B., Huberman, A. M., & Saldana, J. (2014). *Qualitative data analysis: A method sourcebook*. Los Angeles, CA: Sage Publications.
- Milne, M. J., & Patten, D. M. (2002). Securing organizational legitimacy: an experimental decision case examining the impact of environmental disclosures. *Accounting, Auditing & Accountability Journal*, 15(3), 372-405.
- Milne, M. J., Tregidga, H., & Walton, S. (2009). Words not actions! The ideological role of sustainable development reporting. *Accounting, Auditing & Accountability Journal*, 22(8), 1211-1257.
- Ministry of Defence Sri Lanka. (2009). *LTTE defeated; Sri Lanka liberated from terror*. Retrieved from http://www.defence.lk/new.asp?fname=20090518_10
- Mio, C., & Fasan, M. (2014). *The determinants of materiality disclosure in integrated corporate reporting* (Working paper 9/2014). Retrieved from <https://ideas.repec.org/p/vnm/wpdman/80.html>

- Mizruchi, M. S., & Fein, L. C. (1999). The social construction of organizational knowledge: A study of the uses of coercive, mimetic, and normative isomorphism. *Administrative Science Quarterly*, 44(4), 653-683.
- Modell, S. (2002). Institutional perspectives on cost allocations: Integration and extension. *European Accounting Review*, 11(4), 653-679.
- Moll, J., Burns, J., & Major, M. (2006). Institutional theory. In Z. Hoque (Ed.), *Methodological issues in accounting research: Theories, methods and issues* (pp. 183-205). London, England: Spiramus Press.
- Monciardini, D. (2011). Good business? The struggles for regulating ESG disclosure. *Oñati Socio-Legal Series*, 2(3), 1-23.
- Morgan, G., Campbell, J., Crouch, C., Pedersen, O. K., & Whitley, R. (2010). Introduction. In G. Morgan, J. Campbell, C. Crouch, O. K. Pedersen & R. Whitley (Eds.), *The Oxford handbook of comparative institutional analysis* (pp. 1-14): Oxford, England: Oxford University Press.
- Morgan, G., & Smircich, L. (1980). The case for qualitative research. *Academy of Management Review*, 5(4), 491-500.
- Morros, J. (2016). The integrated reporting: A presentation of the current state of art and aspects of integrated reporting that need further development. *Intangible Capital*, 12(1), 336-356.
- Mutch, A. (2007). Reflexivity and the institutional entrepreneur: A historical exploration. *Organization Studies*, 28(7), 1123-1140.
- Muthuri, J. N., & Gilbert, V. (2011). An institutional analysis of corporate social responsibility in Kenya. *Journal of Business Ethics*, 98(3), 467-483.
- Myers, M. D. (2013). *Qualitative research in business and management*. London, England: Sage.
- Myers, M. D., & Avison, D. (2002). *Qualitative research in information systems: A reader*. London, England: Sage.
- Nagar, V., Nanda, D., & Wysocki, P. (2003). Discretionary disclosure and stock-based incentives. *Journal of Accounting and Economics*, 34(1), 283-309.
- Nanayakkara, G. (1984). Some behavioural orientations of Sri Lankan managers. *Proceedings of the annual session of the Sri Lankan Association for Advancement of Science*. Colombo, Sri Lanka: Sri Lanka Association for the Advancement of Science.
- Nanayakkara, G. (1993, June). *The negative leader: An analysis of Sri Lankan cases*. Paper presented at the Management Studies Conference, Colombo, Sri Lanka.
- Nations Trust Bank PLC. (2016). *IAR*. Colombo, Sri Lanka: Author.

- Neuman, W. L. (2006). *Social research methods: Qualitative and quantitative approaches*. Boston, MA: Pearson/Allyn and Bacon.
- Oakes, L. S., Townley, B., & Cooper, D. J. (1998). Business planning as pedagogy: Language and control in a changing institutional field. *Administrative Science Quarterly*, 257-292.
- Oates, T. (2009). Jigsaw must be complete. *Integrated Reporting: Future Supplement*, 1, 12-15.
- Oliver, C. (1991). Strategic responses to institutional processes. *Academy of Management Review*, 16(1), 145-179.
- Oliver, C. (1992). The antecedents of deinstitutionalization. *Organization Studies*, 13(4), 563-588.
- Owen, D., Gray, R., & Bebbington, J. (1997). Green accounting: Cosmetic irrelevance or radical agenda for change? *Asia-Pacific Journal of Accounting*, 4(2), 175-198.
- Owen, G. (2013). Integrated reporting: A review of developments and their implications for the accounting curriculum. *Accounting Education*, 22(4), 340-356.
- Owen, W. F. (1984). Interpretive themes in relational communication. *Quarterly Journal of Speech*, 70(3), 274-287.
- Parker, L. D. (2008). Interpreting interpretive accounting research. *Critical Perspectives on Accounting*, 19(6), 909-914.
- Securities Council Act No. 36 of 1987 (Sri Lanka).
- Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 (Sri Lanka).
- Patton, M. Q. (1987). *How to use qualitative methods in evaluation*. Newbury Park, CA: Sage Publications.
- Patton, M. Q. (1990). *Qualitative evaluation and research methods*. Newbury Park, CA: Sage Publications.
- Patton, M. Q. (2005). *Qualitative research*. Thousand Oaks, CA: John Wiley & Sons.
- Patton, M. Q. (2015). *Qualitative research & evaluation methods: Integrating theory and practice*. Thousand Oaks, CA: SAGE Publications.
- People's Leasing & Finance PLC. (2016/17). *IAR*. Colobmo, Sri Lanka: Author.
- Perez, F., & Sanchez, L. E. (2009). Assessing the evolution of sustainability reporting in the mining sector. *Environmental Management*, 43(6), 949-961.

- Petsonk, C. A. (1989). Role of the United Nations environment programme (UNEP) in the development of international environmental law. *American University Journal of International Law and Policy*, 5(2), 351-391.
- Phillips, D., Watson, L., & Willis, M. (2011). Benefits of comprehensive integrated reporting: By standardizing disparate information sources, financial executive can eliminate the narrow perspectives of the elephant and the blind man parable - and "see" beyond merely information silos or reports. *Financial Executive*, 27(2), 26-31.
- Potter, B., Singh, P. J., & York, J. (2013, July). *Corporate social investment through integrated reporting: Critical issues*. Paper presented at the Asia Pacific Interdisciplinary Research in Accounting Conference, Kobe, Japan.
- Powell, E. T., & Renner, M. (2003). *Analyzing qualitative data*. Retrieved from http://betterevaluation.org/resources/guides/analyzing_qualitative_data
- Power, M. (2009). The risk management of nothing. *Accounting, Organizations and Society*, 34(6), 849-855.
- Prasad, A., & Prasad, P. (2002). The coming of age of interpretive organizational research. *Organizational Research Methods*, 5(1), 4-11.
- Prasad, P. (2005). *Crafting qualitative research: Working in the post-positivist traditions*. Armonk, NY: Routledge.
- PwC. (2012). *Integrated reporting: The future of corporate reporting*. Retrieved from https://www.pwc.de/de/rechnungslegung/assets/integrated_reporting.pdf
- PwC. (2015a). *Implementing integrated reporting*. Retrieved from www.pwc.com/gx/en/audit-services/publications/assets/pwc-ir-practical-guide.pdf
- PwC. (2015b). *Integrated reporting: Where to next?* Retrieved from <https://www.pwc.co.za/en/assets/pdf/integrated-reporting-survey-2015.pdf>
- Rao, H., Morrill, C., & Zald, M. N. (2000). Power plays: How social movements and collective action create new organizational forms. *Research in Organizational Behavior*, 22, 237-281.
- Redclift, M. (1989). The environmental consequences of Latin America's agricultural development: Some thoughts on the Brundtland Commission report. *World Development*, 17(3), 365-377.
- Rensburg, R., & Botha, E. (2014). Is integrated reporting the silver bullet of financial communication? A stakeholder perspective from South Africa. *Public Relations Review*, 40(2), 144-152.
- Reuter, M., & Messner, M. (2015). Lobbying on the integrated reporting framework: An analysis of comment letters to the 2011 discussion paper

of the IIRC. *Accounting, Auditing & Accountability Journal*, 28(3), 365-402.

Richards, L. (1999). *Using NVivo in qualitative research*. London, England: Sage Publications.

Rinaldi, L., Unerman, J., & de Villiers, C. (2018). Evaluating the integrated reporting journey: Insights, gaps and agendas for future research. *Accounting, Auditing & Accountability Journal*, 31(5), 1294-1318.

Roberts, L. (2011). Integrated reporting: The status quo. *Accountancy SA, December 2011*, 11-12.

Robertson, F. A., & Samy, M. (2015). Factors affecting the diffusion of integrated reporting: A UK FTSE 100 perspective. *Sustainability Accounting, Management and Policy Journal*, 6(2), 190-223.

Robson, C. (1993). *Real world research: A resource for social scientists and practitioner-researchers*. Oxford, England: Blackwell.

Rossouw, R. (2010). King III integrated report: Why it's crucial to plan ahead? *Keeping Good Companies*, 62(9), 537-538.

Roulston, K. (2001). Data analysis and 'theorizing as ideology'. *Qualitative Research*, 1(3), 279-302.

Rowbottom, N., & Locke, J. (2013, July). *The emergence of integrated reporting*. Paper presented at the Seventh Asia Pacific Interdisciplinary Research in Accounting, Kobe, Japan.

Rowley, J. (2012). Conducting research interviews. *Management Research Review*, 35(3/4), 260-271.

Rubin, H. J., & Rubin, I. (2005). *Qualitative interviewing: The art of hearing data* (2nd ed.). Thousand Oaks, CA: Sage Publications.

Rubin, H. J., & Rubin, I. S. (1995). *Qualitative Interviewing: The art of hearing data*. Thousand Oaks, CA: Sage Publications.

Rubin, H. J., & Rubin, I. S. (2011). *Qualitative interviewing: The art of hearing data* (3rd ed.). Thousand Oaks, CA: Sage Publications.

Ruth, J. A., & York, A. (2004). Framing information to enhance corporate reputation: The impact of message source, information type, and reference point. *Journal of Business Research*, 57(1), 14-20.

Ryan, B., Scapens, R. W., & Theobald, M. (2002). *Research method and methodology in finance and accounting* (2nd ed.). London, England: Thomson.

Sampath Bank PLC. (2016). *IAR*. Colombo, Sri Lanka: Author.

- Sandberg, J. (2005). How do we justify knowledge produced within interpretive approaches? *Organizational Research Methods*, 8(1), 41-68.
- Sarantakos, S. (2013). *Social research* (4th ed.). Basingstoke, England: Palgrave Macmillan.
- Saunders, M., Lewis, P., & Thornhill, A. (2009). *Research methods for business students* (5th ed.). Harlow, England: Prentice Hall.
- Scapens, R. W. (2006). Understanding management accounting practices: A personal journey. *The British Accounting Review*, 38(1), 1-30.
- Schaltegger, S. (2012). Sustainability reporting beyond rhetoric: Linking strategy, accounting and communication. In S. Jones & J. Ratnatunga (Eds.), *Contemporary issues in sustainability accounting, assurance and reporting* (pp. 183-195). Bingley, United Kingdom: Emerald Group Publishing Limited.
- Schaltegger, S., Bennett, M., & Burritt, R. (2006a). *Sustainability accounting and reporting*. Dordrecht, Netherland: Springer.
- Schaltegger, S., Bennett, M., & Burritt, R. (2006b). Sustainability accounting and reporting: Development, linkages and reflection - An Introduction. In S. Schaltegger, M. Bennett & R. Burritt (Eds.), *Sustainability accounting and reporting* (21st ed., pp. 1-33). Dordrecht, The Netherlands: Springer.
- Schaltegger, S., & Burritt, R. (2006). Corporate sustainability accounting: A catchphrase for compliant corporations or a business decision support for sustainability leaders? In S. Schaltegger, M. Bennett & R. Burritt (Eds.), *Sustainability accounting and reporting* (pp. 37-59). Dordrecht, The Netherlands: Springer.
- Scott, W. R. (1987). The adolescence of institutional theory. *Administrative Science Quarterly*, 32(4), 493-511.
- Scott, W. R. (1995). *Institutions and organizations*. Thousand Oaks, CA: Sage Publications.
- Scott, W. R. (2008). *Institutions and organizations : Ideas and interests* (3rd ed.). Los Angeles, CA: Sage Publications.
- Securities and Exchange Commission of Sri Lanka. (2001). *SEC rules - 2001*. Colombo, Sri Lanka: Author.
- Securities and Exchange Commission of Sri Lanka. (2008). *SEC guidelines*. Colombo, Sri Lanka: Author.
- Sharma, U., Lawrence, S., & Lowe, A. (2010). Institutional contradiction and management control innovation: A field study of total quality management practices in a privatized telecommunication company. *Management Accounting Research*, 21(4), 251-264.

- Sharma, U., Lawrence, S., & Lowe, A. (2014). Accountants as institutional entrepreneurs: Changing routines in a telecommunications company. *Qualitative Research in Accounting & Management*, 11(3), 190-214.
- Short, H., Keasey, K., Wright, M., & Hull, A. (1999). Corporate governance: From accountability to enterprise. *Accounting and Business Research*, 29(4), 337-352.
- Silverman, D. (1997). *Qualitative research: Theory, method and practice*. London, England: Sage Publications.
- Silverman, D. (2011). *Interpreting qualitative data*. London, England: Sage Publications.
- Silverman, D. (2013). *Doing qualitative research: A practical handbook*. Thousand Oaks, CA: SAGE Publications.
- Silvestri, A., Veltri, S., Venturelli, A., & Petruzzelli, S. (2017). A research template to evaluate the degree of accountability of integrated reporting. A case study. *Meditari Accountancy Research*, 25(4), 675-704.
- Simnett, R., & Huggins, A. L. (2015). Integrated reporting and assurance: Where can research add value? *Sustainability Accounting, Management and Policy Journal*, 6(1), 29-53.
- Singhvi, S. S., & Desai, H. B. (1971). An empirical analysis of the quality of corporate financial disclosure. *The Accounting Review*, 46(1), 129-138.
- Snow, D. A., & Benford, R. D. (1992). Master frames and cycles of protest. In A. D. Morris & C. M. Mueller (Eds.), *Frontiers in social movement theory* (pp. 133 - 155). New Haven, CT: Yale University Press.
- Softlogic Insurance PLC. (2016). *IAR*. Colombo, Sri Lanka: Author.
- Solomon, J., & Maroun, W. (2012). *Integrated reporting: The influence of king iii on social, ethical and environmental reporting*. Retrieved from <https://research-repository.st-andrews.ac.uk/bitstream/handle/10023/3749/ACCA-2012-Integrated-Reporting.pdf?sequence=1&isAllowed=y>
- Solomon, J. F., Solomon, A., Joseph, N. L., & Norton, S. D. (2013). Impression management, myth creation and fabrication in private social and environmental reporting: Insights from Erving Goffman. *Accounting, Organizations and Society*, 38(3), 195-213.
- Solstice Sustainability Works Inc. (2005). *Integrated reporting: Issues and implications for reporters*. Retrieved from <https://www.vancity.com/SharedContent/documents/IntegratedReporting.pdf>.

- Sotorrió, L. L., & Sánchez, J. L. F. (2008). Corporate social responsibility of the most highly reputed European and North American firms. *Journal of Business Ethics*, 82(2), 379-390.
- Sri Lanka Telecom PLC. (2016). *IAR*. Colombo, Sri Lanka: Author.
- Stake, R. E. (1995). *The art of case study research*. Thousand Oaks, CA: Sage Publications.
- Stenbacka, C. (2001). Qualitative research requires quality concepts of its own. *Management Decision*, 39(7), 551-556.
- Steward, J. (1994). An interpretive approach to validity. In K. Carter & M. Presnell (Eds.), *Interpretive approaches to interpersonal communication*. (pp. 45-82). Albany, NY: State University of New York Press.
- Steyn, M. (2014). Organisational benefits and implementation challenges of mandatory integrated reporting: Perspectives of senior executives at South African listed companies. *Sustainability Accounting, Management and Policy Journal*, 5(4), 476-503.
- Strauss, A., & Corbin, J. (1998). *Basics of qualitative research: Procedures and techniques for developing grounded theory*: Thousand Oaks, CA: Sage.
- Street, D. L., & Gray, S. J. (2002). Factors influencing the extent of corporate compliance with International Accounting Standards: Summary of a research monograph. *Journal of International Accounting, Auditing and Taxation*, 11(1), 51-76.
- Stubbs, W., & Higgins, C. (2014). Integrated reporting and internal mechanisms of change. *Accounting, Auditing & Accountability Journal*, 27(7), 1068-1089.
- Stubbs, W., & Higgins, C. (2015). Stakeholders' perspectives on the role of regulatory reform in integrated reporting. *Journal of Business Ethics*, 147(3), 483-508.
- Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20(3), 571-610.
- Suddaby, R., & Greenwood, R. (2005). Rhetorical strategies of legitimacy. *Administrative Science Quarterly*, 50(1), 35-67.
- Tapscott, D. (2010). Foreword. In R. Eccles & M. P. Krzus (Eds.), *One report: Integrated reporting for a sustainable strategy*. Hoboken, NJ: John Wiley & Sons.
- Thiagarajan, A., & Baul, U. (2014). Value reporting and integrated reporting in the era of intellectual capital. *IJCEM International Journal of Computational Engineering & Management*, 17(1), 42-56.

- Thomas, A. P. (1989). The effects of organisational culture on choices of accounting methods. *Accounting and Business Research*, 19(76), 363-378.
- Tolbert, P. S., & Zucker, L. G. (1983). Institutional sources of change in the formal structure of organizations: The diffusion of civil service reform, 1880-1935. *Administrative Science Quarterly*, 28(1), 22-39.
- Touron, P. (2005). The adoption of US GAAP by French firms before the creation of the International Accounting Standard Committee: An institutional explanation. *Critical Perspectives on Accounting*, 16(6), 851-873.
- Tsamenyi, M., Cullen, J., & González, J. M. G. (2006). Changes in accounting and financial information system in a Spanish electricity company: A new institutional theory analysis. *Management Accounting Research*, 17(4), 409-432.
- Unerman, J. (2000). Methodological issues-reflections on quantification in corporate social reporting content analysis. *Accounting, Auditing & Accountability Journal*, 13(5), 667-681.
- Unerman, J., Bebbington, J., & O'Dwyer, B. (2007). *Sustainability accounting and accountability*. Abingdon, England: Routledge.
- Unerman, J., & Bennett, M. (2004). Increased stakeholder dialogue and the internet: Towards greater corporate accountability or reinforcing capitalist hegemony? *Accounting, Organizations and Society*, 29(7), 685-707.
- Unerman, J., & Zappettini, F. (2014). Incorporating materiality considerations into analyses of absence from sustainability reporting. *Social and Environmental Accountability Journal*, 34(3), 172-186.
- Union Assurance PLC. (2016). *IAR*. Colombo, Sri Lanka: Author.
- United Nations. (2012). *Rio+20 The future we want: Outcome document adopted at Rio+20*. Retrieved from <http://www.un.org/en/sustainablefuture/>
- United Nations World Commission on Environment and Development. (1987). *Report of the world commission on environment and development: Our common future*. Retrieved from <http://www.un-documents.net/our-common-future.pdf>
- van Bommel, K., & Rinaldi, L. (2014). Towards a legitimate compromise?: An exploration of integrated reporting in the Netherlands. *Accounting, Auditing & Accountability Journal*, 27(7), 1157-1189.
- Van Zyl, A. S. (2013). Sustainability and integrated reporting in the South African corporate sector. *Journal of Sustainability Management*, 1(1), 19-42.
- Velte, P., & Stawinoga, M. (2016). Integrated reporting: The current state of empirical research, limitations and future research implications. *Journal of Management Control*, 28(3), 1-46. <http://doi.org/10.1007/s00187-016-0235-4>.

- Veltri, S., & Bronzetti, G. (2014). Intellectual capital reporting in the Italian nonprofit sector. An image-building or an accountability tool? In E. Costa, L. Parker & M. Andreus (Eds.), *Accountability and social accounting for social and non-profit organizations* (pp. 251-278). London, England: Emerald Group Publishing.
- Vesty, G. M., Ren, C., & Ji, S. (2018). Integrated reporting as a test of worth: A conversation with the chairman of an integrated reporting pilot organisation. *Accounting, Auditing & Accountability Journal*, 31(5), 1406-1434.
- Visser, W., Matten, D., Pohl, M., & Tolhurst, N. (2007). *The A to Z of corporate social responsibility: A complete reference guide to concepts, codes and organisations*. Chichester, England: John Wiley & Sons.
- Watson, A. (2012). Integrated reporting: General impressions. *Ernst & Young's Excellence in Integrated Reporting Awards*. Retrieved from [http://www.ey.com/Publication/vwLUAssets/Excellence_in_Integrated_Reporting_Awards_2012/\\$FILE/120830%20Excellence.indd.pdf](http://www.ey.com/Publication/vwLUAssets/Excellence_in_Integrated_Reporting_Awards_2012/$FILE/120830%20Excellence.indd.pdf)
- White, A. (2010). The five capitals of integrated reporting: Toward a holistic architecture for corporate disclosure. In R. G. Eccles, B. Cheng & D. Saltman (Eds.), *The landscape of integrated reporting* Cambridge, MA: Harvard Business School.
- Wild, S., & van Staden, C. (2013). *Integrated reporting: Initial analysis of early reporters—An institutional theory approach*. Paper presented at the 7th Asia Pacific Interdisciplinary Accounting Research Conference., Kobe, Japan
- Willmott, H. C. (1983). Paradigms for accounting research: Critical reflections on Tomkins and Groves' "everyday accountant and researching his reality". *Accounting, Organizations and Society*, 8(4), 389-405.
- Wolcott, H. F. (1994). *Transforming qualitative data: Description, analysis, and interpretation*. Thousand Oaks, CA: Sage.
- Woods, M. (2009). A contingency theory perspective on the risk management control system within Birmingham City Council. *Management Accounting Research*, 20(1), 69-81.
- World Business Council for Sustainable Development. (2014). *Integrated reporting in South Africa: From concept to practice*. Retrieved from <http://integratedreporting.org/resource/integrated-reporting-in-south-africa-from-concept-to-practice/>
- Yapa, P. W. S., & Perera, M. H. B. (2005). Accounting environment in Sri Lanka. In S. M. Saudagaran (Ed.), *Asian accounting handbook: A user's guide to the accounting environment in 16 countries* (pp. 769-808). Singapore: Thomson Learning.

- Yapa, P. W. S., Ukwatte Jalathge, S. L., & Siriwardhane, P. (2017). The professionalisation of auditing in less developed countries: The case of Sri Lanka. *Managerial Auditing Journal*, 32(4/5), 500-523.
- Yin, R. K. (2003). *Case study research: Design and methods*. Thousand Oaks, CA: Sage publications.
- Yin, R. K. (2009). *Case study research: Design and methods* (4th ed.). Thousand Oaks, CA: Sage publications.
- Zahir-ul-Hassan, M. K., & Vosselman, E. G. J. (2010). *Institutional entrepreneurship in the social construction of accounting control*. Nijmegen, Holland: Nijmegen Center for Economics, Radboud Universiteit Nijmegen
- Zorn, T. E., & Ruccio, S. E. (1998). The use of communication to motivate college sales teams. *Journal of Business Communication*, 35(4), 468-499.

Appendix A – Semi Structured Interview Questions

Integrated Reporting at Sri Lankan PLCs

Semi- structured Interview Guide

Research question/ subject	Investigative questions
*Can you explain your role in xxx PLC?	
1. Interviewees understanding and driving force/s of IR	1.1 How do you see the importance of IR in your organisation? 1.2 Who did initiate IR at your company? 1.3 Who/ what does drive the IR process in the Company?
2. Why did the company decide to adopt IR? Has the management of the company received the expected benefits of adopting IR?	2.1 Have you identified problems which existed when the company was using its' previous accounting systems? 2.2 Why did your company decide to adopt IR? 2.3 What were the expected benefits of adopting IR? 2.4 Do you think that the potential benefits of IR are achievable? 2.5 What types of changes/ improvements have taken place as a result of introducing IR into the company? 2.6 What is your view on introducing IR in to the company?
3. What processes are involved in the adoption of IR and what challenges	3.1 How difficult was it to shift to IR from previous reporting practice? 3.2 What types of efforts/processes were involved in the adoption of IR?

<p>are faced by the company in the implementation of IIRC guidelines?</p>	<p>3.3 Can you highlight challenges you have seen or faced during your adoption of IR and the IIRC guidelines?</p> <p>3.4 What would you say are the current challenges for IR in your company?</p>
<p>4.</p> <p>To what extent is the integrated reporting process of the company truly integrated and to what extent is it embedded in the management control systems of the company?</p>	<p>4.1 How does the IR process function in your company?</p> <p>4.2 How do/does you/your department participate in the IR process of the company?</p> <p>4.3 How do employees of other departments participate in the IR process of the company?</p> <p>4.4 Do you think that IR helps to breakdown silos between teams and leads to better connected departments?</p> <p>4.5 How do you see the integration of the IR at the company? To what extent it is integrated?</p>
<p>5.</p> <p>How does the management of the company deal with the risk inherent with future oriented predictions?</p>	<p>5.1 How do you participate in decisions about future oriented significant corporate predictions in the company?</p> <p>5.2 How does the management of the company deal with the risks inherent in future oriented predictions and disclosure?</p> <p>5.3 How do managing the risk of financial predictions and disclosure defer from managing the risk of non-financial predictions and disclosure in the company?</p> <p>5.4 What actions does the company/management take if future oriented predictions are not achieved?</p>

<p>6.</p> <p>How are the materiality levels determined for the non-financial information in the Integrated Reports of the company?</p>	<p>6.1 How do you determine the materiality levels of the non-financial information in the Integrated Reports?</p> <p>6.2 Why do you apply ‘the above method’ to determine the materiality levels?</p> <p>6.3 Who participates in the materiality level determination for non-financial information in your company?</p> <p>6.4 Why do ‘they’ participate in the materiality level determination?</p> <p>6.5 What does the materiality definition for non-financial information focus on?</p> <p>6.6 What types of guidance are available within your company for the implementation of materiality levels for non- financial information?</p>
<p>7.</p> <p>Overall</p>	<p>7.1 Overall, do you believe that, to date, your company has achieved the expected benefits of adopting IR?</p>

Appendix B: Covering Letter

Dear Sir/Madam,

Seeking permission to interview employees of the XXX PLC for PhD study

I am a lecturer attached to the Department of Accountancy, University of Kelaniya, and currently pursuing PhD studies at the University of Waikato, New Zealand. The selected research area for my PhD is Integrated Reporting. I did focus my PhD studies on the topic “**Integrated Reporting (IR) in Sri Lankan context.**”

Since XXX PLC is successfully practicing the Integrated Reporting, I would like to select your company for my PhD project (with your approval).

I hope to obtain the necessary information for my study from XXX PLC by conducting several interviews. My study is undertaken under the ethical guidance of ‘The University of Waikato’. Neither myself, nor my supervisors in New Zealand, will disclose any information from my research to any external parties without the permission of your company. However, I hope that the company will generally welcome the good publicity that will emanate from my accounts of how XXX PLC is addressing any problems arising from, and reaping the benefits of, Integrated Reporting. The collection of data will be done through interviews.

For my study I will be seeking information on:

- a) Why/how the decision to implement <IR> at XXX PLC was made.
- b) The benefits/problems that have resulted from the adoption of <IR> at XXX PLC.
- c) The future plans for the use of <IR> at XXX PLC.

I would greatly appreciate your permission to interview some of the employees at the XXX PLC for my PhD project. In return, I believe I will be able to provide useful reports for Union Assurance PLC on the process of Integrated Reporting developments there. I will be pleased to discuss with you how I might be able to provide outputs which are of direct value to management.

Please feel free to contact me if you would need more information about the interview/research. My contact number is XXX XXX XXX.

Thank you

Kind regards

.....

Lakshan Attanayake

PhD student/ Waikato Management School

The University of Waikato/New Zealand.

Senior Lecturer/Department of Accountancy

Faculty of Commerce and Management Studies

University of Kelaniya.

Appendix C – Participant information sheet

Participant Information Sheet

Waikato Management School

Te Raupapa



THE UNIVERSITY OF
WAIKATO
Te Whare Wānanga o Waikato

Project Title

Integrated Reporting in Sri Lankan Public Listed Companies

Purpose

This study is a part of my PhD research programme, undertaken at the Department of Accounting, Waikato Management School, The University of Waikato. This research will investigate the practical application of the new reporting regime, employing Integrated Reporting (IR), at the Sri Lankan corporations. Through this research, I will identify the benefits derived, and challenges faced, in the implementation of the International Integrated Reporting Council (IIRC) guidelines. This will involve:

- a) the provision of a description of the integrated reporting processes
- b) comment on the risks associated with predictions about the future
- c) comment on the nature and extent of the non-financial disclosure of information in integrated reports
- d) a determination of the materiality of non-financial information.

What will you have to do and how long will it take?

A face to face interview will be conducted between you and the researcher, with the approval of the senior management at your corporation. The duration of the interview will be 45-60 minutes. A semi-structured questionnaire will be used to

provide the focus of the interview. The interviewer will take notes during the interview, and the whole discussion will be recorded.

What will happen to the information collected?

All collected data (voice and written) will be available only to the researcher and his academic supervisors. Copies of the data will be kept securely by the researcher. The data will be fed into the computer system for analysis, but the anonymity of all data will remain total. Real names of participants will not be used in research reports or publications. The researcher will make use of some interview data in quotations within his thesis, but never in a way that might allow the source of the quotation to be identified. All collected data will be destroyed once the research is completed. The outcome of the research may be presented in academic conferences and published in academic journals.

Declaration to participants

When you participate in the interview, you will have the right to refuse to answer any particular question. You may request explanations concerning any matter which arises. You will have the right to access the summary of the findings of the research when it is completed. Finally, you have the right to withdraw the data provided by you within 3 weeks of the interview.

If you have any questions or concerns about the project, either now or in the future, please contact either:

Researcher:

Lakshan Attanayake

Department of Accounting

Waikato Management School

University of Waikato

Private Bag 3105, Hamilton, New Zealand

Email Address: ila1@students.waikato.ac.nz

Mobile: +64 211 674 412 Office: +64 7838 4466 (Ext: 6307)

Or

Chief supervisor:

Associate Professor Martin Kelly

Department of Accounting

Waikato Management School

The University of Waikato

kelly@waikato.ac.nz

Office: +64 838 4466 ext. 8653

Appendix D – Consent Form for Participants

Consent Form for Participants

Waikato Management School

Te Raupapa



THE UNIVERSITY OF
WAIKATO
Te Whare Wānanga o Waikato

Integrated Reporting in Sri Lankan Public Listed Companies

Consent Form for Participants

I have read the Information Sheet for Participants for this study and have had the details of the study explained to me. My questions about the study have been answered to my satisfaction, and I understand that I may ask further questions at any time.

I also understand that I am free to withdraw from the study at any time, or to decline to answer any particular questions in the study. Finally, I have the right to withdraw the data provided by me within 3 weeks of the interview. I agree to provide information to the researcher under the conditions of confidentiality set out on the Information Sheet.

I agree to participate in this study under the conditions set out in the Information Sheet form.

Signed: _____

Name: _____

Date: _____

Researcher's Name and contact information:

Attanayake Mudiyanseelage Ishara Lakshan

Department of Accounting

Waikato Management School

The University of Waikato

lla1@students.waikato.ac.nz

Mobile: +64 211674412

Supervisor's Name and contact information:

Associate Professor Martin Kelly

Department of Accounting

Waikato Management School

The University of Waikato

kelly@waikato.ac.nz

+64 838 4466 ext. 8653