Barriers to implementing integrated reporting: An contemporary academic perspective

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1 Introduction

This paper is motivated by the International Integrated Reporting Council's (IIRC) call for feedback from all stakeholders with knowledge of the International <IR> Framework, and specifically the enablers, incentives and barriers to its implementation (IIRC, 2017).

Feedback was particularly sought from those involved with the preparation of integrated reports, the providers of financial capital and other users of integrated reports (IIRC, 2017). Feedback from policy makers, regulators, standard setters, assurance providers and academics was also invited. The authors of this paper are academics. We have been researching integrated reporting practices since 2009, well before the creation of the IIRC, and we continue to research <IR> actively. This includes keeping tabs on contemporary <IR> academic literature.

The IIRC is in its breakthrough year (IIRC, 2015), and while many companies have adopted <IR>, regulated financial and voluntary corporate social responsibility reporting is still dominant <IR> (Dumay, 2016; Dumay *et al.*, 2016). Therefore, this call for feedback represents an excellent opportunity to explore the potential barriers that may be preventing companies from implementing <IR> in practice, through our eyes as academics (see Dumay *et al.*, 2015; Dumay *et al.*, 2016; Beck *et al.*, 2017; Dumay and Dai, forthcoming 2017; Bernardi and Stark, In Press) and through the eyes of other scholars.

2 Barriers to implementation

The call for feedback from the IIRC is rather comprehensive, and addressing each issue would be impractical in one paper. However, we assume that the questions posed by the IIRC were directed to a wide audience to capture a spectrum of opinions and expertise. As academics, our position should be balanced and critical, highlighting both the enablers and barriers to <IR> in practice. But, given the take-up of <IR> is lacking, we see more merit in focusing on the obstacles for these purposes. It is worth keeping in mind that several aspects of <IR> can act as a double-edged sword – as both an enabler and a barrier. Thus, in this paper, we strive to present a balanced view while emphasising the specific issues we feel must be rectified to advance <IR's> cause along with the areas that could potentially lead to its downfall.

2.1 What is integrated reporting?

The first issue is: What is <IR>? Our review finds that scholars and practitioners refer to three distinct models as "integrated reporting" (Tweedie and Martinov-Bennie, 2015; Dumay *et al.*, 2016; Feng *et al.*, 2017), but only one is the specific model proposed by the (IIRC, 2013). We argue that confusion about what <IR> is presents a barrier. And, when different versions of <IR> exist, it is difficult for practitioners to know which one they should use. Additionally, as outlined below, there are misconceptions about whether <IR> is a requirement of the King IV corporate governance guidelines and/or the listing requirements of the Johannesburg Stock Exchange. Such misconceptions also present a barrier because of South African companies, for example, are able to produce reports that comply with the substance of either the guidelines or the requirements, without complying with the <IR> Framework.

The first integrated reporting model was proposed by (Eccles and Krzus, 2010) in their book *One Report*. We present this model the first because Eccles and Krzus developed their ideas of integrated reporting before the International Integrated Reporting Committee was formed 2009i. Thus, the ideas the Committee used to develop their draft frameworks were, in part, influenced by the ideas Eccles and Krzus formulated, along with the recommendations in the King III Report. Eccles and Krzus (2010, p. 10) outline that integrated reporting within their *One Report* framework is much more than just combining financial and non-financial information into a periodic annual "paper", rather:

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

By contrast, the current <IR> Framework advocates a "periodic integrated report by an organization about value creation over time" and does not mention how <IR> would benefit from using the internet to allow users to perform their own analysis.

While *One Report* and <IR> have similar aims, it is apparent that <IR> will find penetrating the reporting regimes of major US companies challenging. US corporations and scholars appear to like the concept of an integrated report, but not necessarily the <IR> Framework through which it is implemented. Recent research by Adams (Forthcoming), who analyses ten publicly available integrated reports from large US companies, shows that only three companies mention the <IR> Framework in their integrated reports, and just one uses <IR's> six capitals as inputs for its business model. Conversely, only one company uses the term *One Report* in its report's title.

The second version of the integrated reporting "model", as espoused in the King II and King III Reports, was issued by the Institute of Directors in Southern Africa (IDSA) (2009). However, King III recommends integrated reporting on an "apply or explain" basis. Therefore, listed South African companies should follow all the recommendations of King III. Additionally, King III is essentially a policy on corporate governance, not a specific reporting framework. In fact, "integrated reporting and disclosure" is the ninth of nine "Governance Elements" that fall under the "comply or explain" regime of King III, and these Governance Elements outline what should be included in an integrated report (IDSA, 2009, pp. 48-49). Notably, King III was implemented in 2009, well before the formation of the International Integrated Reporting Committee, which only later became the IIRC as we know it today.

Hence, when King III refers to integrated reporting, they are not referring to <IR> as specifically set out by the IIRC. King III emphasises "financial and sustainability performance" (IDSA, 2009, p. 48), whereas the IIRC specifies "financial stability and sustainability" (IIRC, (2013, p. 2). Additionally, shortly after the publication of the <IR> Framework, the IDSA issued a practice note to clarify the difference between it and Recommendation 9 of the King III Report, and "provide guidance on reconciling the two documents" (IDSA, 2014, p. 3). As the practice note highlights, the main difference is that "King III recommends a stakeholder inclusive approach to governance, which is also evidenced in the Companies Act", while the <IR> Framework "is geared towards the primary purpose of the report being to explain to providers of financial capital how an organisation creates value over time". Thus, while an <IR> could potentially include other stakeholders and still satisfy the King III recommendations, they are essentially different documents with different purposes. A King III integrated report embraces corporate governance from an all inclusive stakeholder perspective; the <IR> Framework advocates an investor perspective.

The most recent version of integrated reporting is the model outlined in the <IR> Framework (IIRC, 2013). According to the IIRC (2016a), the <IR> Framework is now an integral part of the new King IV corporate governance guidelines (IoDSA, 2016). However, as with the King III Report, using the current <IR> Framework is not a requirement. The Integrated Reporting Committee of South Africa has only endorsed the <IR> Framework as "good practice on how to prepare an integrated report", but it is the substance of the report, referred to as an "outcomes-based approach", that is important, not its form (IoDSA, 2016, p. 7). The outcomes-based approach determines that companies in South Africa may prepare an integrated report in any form they choose as long as they demonstrate compliance with all of the King IV principles, and this does not explicitly demand or necessitate the <IR> Framework.

Similarly, there is a widely held misconception that an integrated report complying with the current <IR> Framework is a listing requirement of the Johannesburg Stock Exchange (JSE). In fact, the JSE only issued a "Guidance Letter" about integrated reporting (27 June, 2013) when the <IR> Draft Framework was in effect. The letter "applauds the work of the International Integrated Reporting Council" but "In conclusion, the JSE wishes to advise Issuers that the production of an Integrated Report is not a mandatory principle from a Requirements perspective and neither is the application and compliance with the Draft Framework." (JSE, 2016, p. 445)

While, these misconceptions may enable adoption of the <IR> Framework, neither the King IV corporate governance guidelines nor the JSE Listing requirements mandate the issue of an integrated report that complies with the <IR> Framework, and this presents a barrier in the South African regulatory environment.

2.2 IIRC as a victim of regulatory capture

Another barrier to implementing the <IR> Framework is the appearance that it is largely controlled by the accounting profession and multinational enterprises in what Flower (2015, p. 1) refers to as "regulatory capture". Flower's argument is supported by Reuter and Messner (2015, p. 375) who revealed that submission letters received by the IIRC during the consultation period for developing the current guidelines mainly came from report preparers (21.1%) and accounting and sustainability professionals (32.9%), with little input from standard setters (7.5%). Thus, the evidence shows the substantial influence of business and the professions.

Although Flower (2015) article traces the early history of the IIRC, it seems little has changed in terms of the IIRC's composition or the influence the accounting profession and multinational enterprises hold. For example, the IIRC's website lists its three breakthrough partners as the Association of Chartered Certified Accountants (ACCA), the Chartered Institute of Management Accountants (CIMA), and International Federation of Accountants (IFAC), which firmly reinforces Flower's (2015) argument. Similarly, the IIRC symbolises a veritable "who's who" of the accounting profession, with more than a dozen professional accounting organisations represented, including the Big Four accounting firms and mid-tier firms such as Grant Thornton. There is no doubt that the accounting profession continues to be the major influence in the development of <IR>.

One of Flower's (2015, p. 1) major criticisms of <IR> and the IIRC is that, despite its founding principle to promote sustainability in accounting, the release of the <IR> Framework in 2013 abandoned sustainability accounting, and this has subsequently become another barrier to <IR> implementation. Flower's view was initially outlined by Milne and Gray (2013, p. 20) who argued "the IIRC's discussion paper, Towards Integrated Reporting is a masterpiece of obfuscation and avoidance of any recognition of the prior 40 years of research and experimentation" and "despite its claims for sustainable development and sustainability, it is exclusively investor focused and it has virtually nothing—and certainly nothing substantive—to say about either accountability or sustainability". That lack of engagement with sustainability accounting has distanced scholars and report preparers concerned with social and environmental sustainability. Thus, it is not surprising that the GRI and other corporate social responsibly and sustainability reporting frameworks (e.g. United Nations Global Compact (UNGC), 2009) still dominate the corporate reporting landscape (Dumay, 2016).

While the present <IR> Framework has not changed, the formation of the "Corporate Reporting Dialogue" in January 2017 shows signs that the IIRC is attempting to address the gap between reporting on economic sustainability for investors and accounting for social and environmental sustainability. The objective of the dialogue is to "respond to market calls for greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements" and involves sustainability reporting-focused organisations such as the Global Reporting Initiative, the Climate Disclosure Standards Board, and the Sustainability

Accounting Standards Board. However, given the reputation that <IR> already has for being driven by the accounting profession and for wanting to become "the corporate reporting norm" (IIRC, 2013, p. 4), a radical rethink and a successful re-positioning strategy would be needed to satisfy critics that <IR> is truly concerned with social and environmental sustainability as much as it is concerned with "financial stability and sustainability" (IIRC, 2013, p. 2).

2.3 Vague definitions

One of the advantages and subsequent disadvantages of implementing <IR> is that two of its prime concepts, integrated thinking and value creation, have vague definitions. An advantage of definitions that require professional judgement and allow for interpretation is that they can be adapted by organisations to suit their needs. However, because these concepts are vague, they also present a barrier to implementing the <IR> Framework because how they can or should be implemented is not clear.

2.3.1 Integrated thinking

The IIRC defines integrated thinking as "the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term" (IIRC, 2013, p. 33). However, if we take that definition literally, it requires managers and employees to understand a matrix of considerations that combines each of the six capitals and each functional unit within an organisation. This may be somewhat comprehensible to very senior management with a deep understanding of the organisation developed over a long term, but it is unlikely that many other employees could conceptualise integrated thinking using this definition. Thus, the concept can appear vague or may not be completely understood.

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

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

2.3.2 Value Creation

Another vague concept is that of value creation because it is "usually presented as a simple, strategically relevant and all-embracing concept" (Bourguignon, 2005, p. 353). After all, who could argue that the main objective of a company is to create economic value (Friedman, 1970)? However, the IIRC (2013) defines value creation as "the process that results in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs". Yet, when you consider operationalizing this definition, it is vague and arguably does not make sense. For example, if a company takes cocoa beans (natural capital) produced with the help of poor farmers and their children (human and social capital) on the farms of the Ivory Coast (natural capital) that are fertilised with chemicals (manufactured capital) and then the beans are transformed with other ingredients into chocolate (natural and manufactured capital) which is then sold (business model) to create a profit (financial capital) (Food Empowerment Project, 2016), how does this equate to value creation? Moreover, is it acceptable that human, social and natural capital are depleted to create manufactured and financial capital? In the end, if natural, social and human capital resources are depleted, then even financial capital is no longer sustainable.

Reconciling what constitutes value is another barrier to implementing the <IR> Framework. Put simply, requiring all organisations who report on value creation to clearly identify all of their "increases, decreases or transformations of the capitals caused by the organization's business activities and outputs" demands full disclosure of not just value creation, but also the value destruction that companies cause. This is one of the reasons why so few companies even bother to report on the six capitals. Furthermore, identifying and reporting the six capitals might not be a trivial issue, also given the definition of the capitals do not seem to be entirely clear. Also, what the trade-off is and how to measure it is not clear as well. For example, the website corporateregister.com, as of April 2017, is classifying the integrated reports registered with them at one of two levels:

- Level 1: The IIRC and / or the <IR> Framework are referenced in the report.

- Level 2: The IIRC and / or the <IR> Framework are referenced in the report, and the report includes information about at least two of the capitals as defined in the Framework.

If companies were using the <IR> Framework to report on value creation as intended by the IIRC, one would expect to see the majority of reports classified a Level 2. Sadly, 866 reports are classified as Level 1, and only 560 reports are classified as Level 2. The majority of the reports that refer to the <IR> Framework lack both form and substance when it comes to reporting on value creation, which is the entire purpose of an integrated report under the <IR> Framework. One might surmise that disclosing the substance of the how a firm transforms the six capitals into outputs creates a barrier because disclosing value creation also requires the firm to disclose value destruction. While the promise of extra financial capital is a desirable outcome, there is no guarantee that human, social and relational, intellectual, manufactured or natural capital will be created, and it is more likely that the net balance of these capitals will be negative.

2.4 <IR> for providers of financial capital

Given the IIRC primarily aims to improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital, it is worth considering the evidence of whether an integrated report seems to provide such information. Several studies have investigated the impact of implementing integrated reporting on an 'apply or explain' basis in South Africa. Some of the studies concern capital market outcomes of integrated reporting in general, as opposed to the effectiveness of using the IIRC's Framework.

Zhou *et al.* (2017) study the effectiveness of the IIRC's framework and find that analysts' forecast errors are reduced the more a company's reports align with the <IR> Framework, and that, for some firms, this results in a reduction in the cost of equity capital. Additionally, in a value relevance framework, Lee and Yeo (2016) find evidence of a relationship between the degree of integration of the integrated report and market value, the relationship being stronger for firms with higher degrees of organisational complexity and with higher external financing need. (Bernardi and Stark, In Press) "... provide some support for those who advocate the virtues of integrated reporting" in general. They study the impact of the adoption of mandatory integrated reporting in South Africa, but at a time when no framework for integrated reporting existed. They find that the higher the disclosure levels of environmental, social and governance activities, the more integrated reporting increases analyst forecast accuracy.

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

Overall, the South African evidence suggests that integrated reporting in general, and the <IR> Framework in particular, produce capital market outcomes consistent with improvements in the information environment. By way of contrast, however, Abhayawansa et al. (2016) examine whether integrated reporting is achieving its intended purpose by attaining international sell-side analysts' views on the decision-usefulness of integrated reporting using practice theory. Abhayawansa et al. (2016) find that analysts are largely unaware of integrated reporting by the companies they cover and are disinterested in the information integrated reports offer. Their analysis reveals that integrated reports do not provide the information generally required by the sampled analysts in sufficient detail and format. Further, using an international sample of companies, Maniora (2015) casts doubt on whether the <IR> reporting framework is superior to other frameworks for their sample of firms in terms of whether the use of <IR> is associated with higher financial and ESG performance ratings. The <IR> Framework is suggested to be "a more cohesive and efficient approach to corporate reporting" (IIRC, 2013, p. 2). Obviously, if there is no real benefit for companies to switch to <IR>, this presents another barrier to implementing the <IR> Framework in practice.

The above outlines that there are two competing views on the usefulness of integrated reporting in general and the IIRC's <IR> Framework. The South African perspective suggests the information provided is useful and, further, is perceived to be so by at least one group of significant users. Research in other countries suggests otherwise. Given the different histories, cultures and legal environments in place in South Africa versus other countries, perhaps these differences also represent impediments to the implementation of the IIRC's Framework.

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

2.5 Lack of regulation

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

Perhaps more devastating to <IR's> implementation is evidence that even in South Africa, where integrated reporting has its philosophical and epistemological origins, integrated reporting has not yet penetrated to a stage where all companies are following the <IR> Framework. For example, searching the corporateregister.com database for "South Africa" and <IR> returns 23 Level 1 reports issued by 10 companies and only 11 Level 2 reports issued by 6 companies. Additionally, our analysis of the <IR> Examples Database in Table I shows only 494 organisations have published integrated reports since 2013, and of these only 160 are from Africa. There are over 350 companies listed on the JSE, and several reports in the database are from organisations, not companies, adding further weight to this argument. Additionally, while some reports are classified at Level 2, most of those fail to comprehensively use the complete <IR> Framework. Recent research by the ACCA finds that, from a sample of reports by 41 companies participating in the IIRC's <IR> Business Network, "21 of the 41 reports reviewed were clearly identified as integrated reports, while three stated that they follow the principles of the Framework; without being called integrated reports. Seventeen organisations had not explicitly implemented Integrated Reporting" (Chen and Perrin, 2017, p. 7).

Table I: Companies listed on the <IR> Examples Database

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

Source: <IR> Examples Database as at 29 April 2017[ii]

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

Adams (Forthcoming) identifies further barriers to entry from a US context to the debate. The current regulatory regime in the US requires companies to issue a 10-K report that includes an analysis of company operations, risks and financial performance, which broadly mirrors the <IR> Framework’s principles and elements. Thus, the <IR> Framework does not significantly depart from current regulated corporate reporting practice, and any foray into using it would not fundamentally change practices “that are already subject to an extensive and well-established reporting environment”. As shown in Table I, the current take up of <IR> is minuscule when considered in terms of the US, the world’s largest capital market, and its thousands of listed companies.

Australia also has well-established corporate governance reporting frameworks (ASX Corporate Governance Council (ASX CGC), 2014) that require extensive disclosures on an “if not, why not” approach. While the ASX CGC does not prescribe <IR>, a company in Australia, as in South Africa, can produce a report complying with the <IR> Framework to satisfy some elements of the corporate governance framework. However, the challenge is in aligning specific corporate governance principles to an integrated report because the content elements of the <IR> Framework do not neatly correlate to the ASX CGC guidelines.

Arguably, the greatest opportunity for regulatory promotion of the <IR> Framework is offered in the European Union (EU). The European Directive on the disclosure of non-financial and diversity information (2014/95/EU) – largely based on the UK Companies act 2006 - will come into effect for about 6000 companies in the 2017 financial year with the first reports expected in 2018. As with the Australian ASX CGC guidelines, the EU directive does not prescribe using a particular framework. However, the main architect of the EU Directive is Richard Howitt, who, as a member of the European Parliament, championed the Directive and is largely seen as the person responsible for driving its establishment.

In September 2016, the IIRC announced Richard Howitt would take over as CEO from Paul Druckman, who had launched the <IR> initiative back in 2011 would be replaced by Richard Howitt (IIRC, 2016b). Howitt has been in the European Parliament for 22 years. He knows EU law and policy-making processes like few others and has all the connections and influence to push for a more explicit recognition of the <IR> Framework in the EU. His political and activist profile is very different from his predecessor, Paul Druckman, a former software entrepreneur and past president of ICAEW. In essence, Howitt is perfectly positioned to use his influence to have the <IR> Framework recommended as one of the reporting frameworks that can be used to comply with the EU Directive (Monciardini et al., 2016).

The key advisory company, Frank Bold, who has been involved in the legislative process and the European Commission Expert Group on Non-financial Reporting, already lists the <IR> Framework as one of seven reporting frameworks that companies can consult when preparing their report to comply with the Directive (Frank Bold, 2017). Hence, there is already some acceptance of the <IR> Framework, but the challenge will be how to correlate the content required by the EU with the content elements of the <IR> Framework because, again, they are not currently aligned.

2.6 Rhetorical diffusion

The last barrier to implementing the <IR> Framework offered in this paper is based on Green's (2004) theory of rhetorical diffusion. Green (2004, p. 661) proposes, "a managerial practice for which the diffusion process follows a rhetorical sequence that starts with pathos, moves to logos, and ends with ethos will have a rapid rate of initial adoption, a broad diffusion and a slow abandonment". To understand <IR> and its claimed benefits, emerging research by two of the authors of this paper examines the rhetoric used by the IIRC to promote <IR>. Rhetoric carries some negative connotations, but we argue for and support its use because new ideas need rhetoric to promote and establish them as worthwhile practices to explore. The findings of this research show that the IIRC's rhetorical strategy to promote <IR> started with ethos, then moved to pathos, then logos, and finally returned to ethos.

Initially, ethos-based rhetoric attempted to convince the <IR> audience that the IIRC's work is necessary, good and desirable, and, as such, the IIRC should be perceived as legitimate. Young (1995, p. 174) outlines that gaining legitimacy and convincing users of the propriety and need for their work allowed the IIRC, as a self-proclaimed standard-setter, to shape and define <IR> as a new accounting practice – a strategy typical of standard-setters and accounting regulators attempting to introduce change into accounting practice (Young, 1995; Durocher *et al.*, 2007).

Then, rhetorical appeals to pathos were used in an attempt to engender change and promote the idea that changing corporate reporting is the right thing to do. Pathos appeals to emotions, and this rhetoric urged managers to adopt <IR>, emphasising the social value of <IR> through dramatic messages. <IR> was presented as the solution to concerns that financial accounting, as it is currently constructed, is failing to meet the needs of financial capital providers and "should be the next step in the evolution of corporate reporting" (IIRC, 2013, p. 2). Analogies and metaphors liken <IR> to the life-cycle of butterflies in two reports prepared by Black Sun, a PR company engaged by the IIRC to promote research into <IR>'s benefits (Black Sun, 2012; Blesner, 2014). Thus, positive emotional rhetoric portrays the change process associated with <IR> as a metamorphosis and underpins the idea that <IR> is a journey that takes time and is worthwhile.

Logos was used as the next rhetorical appeal to address technical issues concerning IR and lend rationality to <IR>. However, our analysis found several unsound and questionable arguments in Black Sun's research (Black Sun, 2012; Blesner, 2014). In particular, their claims were based on a biased sample of current <IR> supporters and report preparers, rather than an unbiased sampling of corporate report preparers. This strategy aims to create a common rationality within report preparers; however, the logic was transparent and easily seen as biased. Thus, it may potentially harm the argument put forward by the IIRC to report preparers, rather than support it.

The final stage of promotion relies again on ethos. The assumed authority the IIRC has gained in the initial stages of <IR> is reinforced through deterministic, imperative and self-referential rhetoric and leveraged to affirm <IR> as the corporate reporting norm. Further, the opinions and viewpoints of eminent international organisations and regulators are extensively used to demonstrate support for the IIRC and <IR>. Such use of third-party authorities enhances the IIRC's legitimacy and authority, further demonstrating its work as desirable and proper. Through support from external institutions, the IIRC aims to demonstrate and increase its legitimacy to maintain authority, a typical goal of standard-setters (Young, 1995, p. 173). In contrast to Green (2004), in the case of <IR>, the IIRC insert arguments based on ethos, before attempting to insert arguments based on logos, and then return to ethos.

Arguably, the IIRC's rhetoric is persuasive, but not convincing. It is grounded on too few sound and rational arguments and the evidence presented in this paper supports this view. As outlined above, there is some support for arguing that integrated reporting in general and the <IR> Framework can improve the information environment for capital market participants. Nevertheless, there is also evidence that such improvements in the information environment are not necessarily universal and that <IR> is not a superior reporting framework when seen as an extension of current ESG reporting practices. The use of questionable logos also causes us concern.

3 Conclusion

Throughout this paper, we use two terms that most scholars and practitioners seem to use synonymously, when in fact, they can mean different things to different people. As exemplified in the "What is integrated reporting?" there are at least three different versions of integrated reporting based on Eccles and Krzus' (2010) One Report, The King III Report Recommendation 9 (IoDSA, 2009), and the International <IR> Framework (IIRC, 2013). Additionally, any organisation can issue a report combining financial and non-financial information and call it an integrated report without following any of the above three forms of integrated reporting. Arguably, the King III version is supplanted by the King IV guidance to incorporate the current <IR> Framework. However, the King III version is still relevant because this potentially applied to integrated reports emanating from South Africa prior to, and companies may still choose to follow this format despite the publication of King IV in late 2016. Thus, there needs to be more clarification on what integrated reporting is according to the current <IR> Framework.

The challenge and potential barriers for <IR> are that it is now at a stage in its breakthrough period that requires it to find new and compelling evidence that it can live up the rhetoric and benefits it espouses. Otherwise, it may suffer becoming the next corporate reporting fad or fashion that was lauded as a good idea and yet failed to live up to its promises.

4 References

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[i] The following organizations had representatives at the meeting: ACCA, AccountAbility, APG All Pensions Group, European Laboratory on Valuing Non-Financial Performance, Global Reporting Initiative, Grant Thornton, Harvard University, KPMG, PricewaterhouseCoopers, Railpen, SustainAbility, The Prince's Accounting for Sustainability Forum, UN Environment Programme Finance Initiative, UN Global Compact, and UN Green Economy Initiative.

[ii] (http://examples.integratedreporting.org/reporters?start=A&page=1)