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The Integrated Reporting Journey and the Influence of Sustainability Reporting

Experiences and Practices from Sweden and Germany

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As the thesis title suggests, this research project has been a true journey. Several obstacles, that at times seemed insurmountable, appeared on the way and it was not always clear which paths to follow. Luckily, I was never alone on that journey and several people provided their invaluable guidance and support along the way. To all of them, I would like to express my greatest gratitude.

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Abstract

Integrated reporting is an approach to corporate reporting that seeks to integrate significant financial and non-financial information and demonstrate how they are connected to each other. By doing so, integrated reporting is expected to lead to integrated thinking and decision-making, reflecting how an organisation impacts and is impacted by the economic, social and environmental context in which it operates. The reporting approach is still in the early phases of development where knowledge relating to its implementation and the implications for reporting organisations is scarce. The aim of this thesis is to contribute to the knowledge of how integrated reporting fits into the existing corporate reporting landscape, how organisations apply integrated reporting in practice and how they are affected by taking this approach. The study investigates the interactions between integrated and sustainability reporting, including a comparison of relevant frameworks. It presents result from 17 interviews with company representatives and other experts involved in integrated reporting. Moreover, six integrated reports from Swedish and German companies are analysed. Findings highlight the importance of sustainability reporting for the integrated reporting process and suggest that integrated reporting might influence how sustainability information will be communicated in the future. The thesis uncovers different factors that motivate companies to move towards integrated reporting and outlines corresponding challenges. Integrated reporting is found to positively influence interdepartmental collaboration and to increase the mutual understanding between different corporate functions. The study shows that integrated reporting enables a better understanding of sustainability aspects throughout a company and supports the integration of sustainability considerations in discussions on corporate strategy. Analysed integrated reports are found to be very diverse and examples show different approaches of how integrated reporting can be applied. The insights might provide guidance on the way towards integrated reporting and can help companies to better assess the possible benefits and drawbacks of taking this approach.

Keywords: Corporate Reporting, Integrated Reporting, Sustainability, IIRC, GRI

Executive Summary

Current corporate reporting is criticised for spreading information over several disconnected publications and producing overly long and complex reports. Integrated reporting builds upon existing reporting practices, such as financial reporting, management commentary and sustainability reporting, and seeks to provide a concise communication about the significant financial and non-financial aspects, contributing to an organisation's value creation. Multiple disconnected publications should be replaced by a report that integrates economic, social and environmental aspects and demonstrates how they are connected to each other (Adams, 2015; IIRC, 2011b).

Besides providing more useful information, integrated reporting can also be seen as a management tool with the potential to influence how an organisation operates (Krzus, 2011). In order to produce an integrated report, an organisation needs to develop a good understanding of how it impacts and is impacted by the economic, social and environmental context in which it operates. Furthermore, it needs to uncover the interdependencies between financial and non-financial performance. The improved internal knowledge and quality of information generated in this process has the potential to lead to decision-making, reflecting the complexity of today's world more accurately. Consequently, integrated reporting can be seen as a driving force towards sustainable business strategies (Eccles & Krzus, 2010).

Integrated reporting as a reporting practice and a research topic is still young and knowledge, especially related to the implementation of the concept and its implications for reporting organisations, is scarce. Given the possibly far-reaching impacts for both corporate reporting and management, research in this field is strongly needed. It is particularly necessary to better understand the value, including positive and negative implications, of this novel reporting approach for the reporting organisation internally and for the different stakeholder groups with their diverse needs for information (Adams, 2015; Cheng, Green, Conradie, Konishi, & Romi, 2014).

The aim of this thesis is to contribute to the knowledge about integrated reporting, including how it fits into the existing corporate reporting landscape, how it is applied in practice and how companies are affected by taking this approach. The research aim is addressed by investigating how integrated reporting relates to and interacts with other corporate reporting practices, especially sustainability reporting. In addition to that, the study intends to capture how the integrated reporting journey is experienced by practitioners. By doing so, the emphasis is on the motivations, challenges and internal changes, including impacts on the understanding of sustainability aspects within a company, and possible implications for corporate strategy. Finally, the thesis intends to clarify what the output of the integrated reporting process, the integrated report, looks like in practice and if that is in line with the theoretical requirements put forward by the *International Integrated Reporting Council* (IIRC) through its *International Integrated Reporting Framework* (<IR> Framework). In line with the research aim and focusing on different aspects of integrated reporting, the research questions are defined as follows:

- RQ1: What is the relationship between integrated and sustainability reporting?
- RQ2: Why and how are companies working with integrated reporting and what are the internal challenges and impacts of taking this approach?
- RQ3: What do integrated reports look like in practice and how do they relate to the International Integrated Reporting Framework?

To answer the research questions, different data sources have been utilised and several methods for data collection and analysis have been applied. A comprehensive literature review, focusing on the current discourse and thinking behind integrated reporting and the interactions with other corporate reporting practises, was conducted. This included a comparison of the <IR> Framework and the GRI G4 guidelines, the most commonly used guidelines for sustainability reporting (GRI, n.d.-b). In addition to that, multiple interviews with experts from different industries and professions, all involved in integrated reporting, have been conducted and analysed. Moreover, six integrated reports from German and Swedish companies have been reviewed and analysed, considering the criteria proposed by the <IR> Framework.

The findings, generated through answering the research questions, provide a comprehensive overview of different aspects of integrated reporting. Regarding RQ1, addressing the relationship between integrated and sustainability reporting, it was found that sustainability reporting provides an important basis for the integrated reporting process. It contributes methods and data that are crucial for the preparation of an integrated report. Especially the methods to measure impacts and outcomes of business activities in the social and environmental dimension, but also approaches to stakeholder engagement, are already practiced by companies through sustainability reporting. These practices are also important organisational skills for integrated reporting. Regarding the actual reports, the thesis shows that integrated and sustainability reports serve different purposes and different aspects are seen as material for disclosure in these publications. Sustainability reports seek to provide detailed information regarding a company's economic, social and environmental impacts for a broad audience, while integrated reports are more focused on communicating, primarily to providers of financial capital, the material financial and non-financial factors, contributing to value creation. While the materiality definitions of GRI G4 and the <IR> Framework seem only compatible to some extent, GRI's increased focus on materiality for sustainability reporting was mentioned as helpful for the integrated reporting process by interviewees. The consideration of both the <IR> Framework and GRI G4 guidelines in one report might require practitioners to find their own approaches to define which information to include in the corresponding publication.

Considering the impact of integrated reporting on the disclosure of sustainability related information, the findings suggest that detailed sustainability reporting on social, environmental and economic impacts will not become obsolete. Findings show that several stakeholder groups will most likely continue to demand detailed sustainability information in the future. On the other hand however, integrated reporting might impact the format of how this information is presented. The research supports the assumption, that if more companies embrace integrated reporting, a separate sustainability report might be replaced by relevant sustainability disclosure in annual reports, plus more detailed sustainability information available through sources such as the corporate website. Another possible scenario is the use of the Internet to present integrated reports in an interactive way, which enables the readers to choose on their own, which level of detail they want to get into.

RQ2 focuses on the experiences practitioners are making with integrated reporting. Experts have been chosen from companies practicing integrated reporting. Other experts for example from professional service organisations have also been interviewed to enable a broad perspective on integrated reporting.

First, findings from the interviews with company representatives are summarised, followed by insights generated through interviews with other experts.

- Interviewees emphasised the importance of materiality, conciseness and connectivity between information as central characteristics of an integrated report. In general, an integrated report was described as a holistic presentation of a company, including all the significant financial and non-financial aspects.

- As key motivation for integrated reporting, interviewees mentioned the intention to align reporting practices with the integrated strategy or the integrated approach of managing a company. Moving towards integrated reporting should enable a holistic communication with stakeholders about all the relevant financial and non-financial aspects related to the business.

- Other motivating factors were seen in the possibility of improving management processes, avoiding overlaps between annual and sustainability reports, or underlining the organisation's stance on sustainability.

- The practical implementation of integrated reporting was enabled through interdisciplinary teams. The teams were most commonly made up of personnel from different departments, such as finance, investor relations or sustainability.

- The interdepartmental collaboration was reported as challenging but also as highly rewarding by the interviewees. Other challenges were seen in aligning different reporting strands in terms of timing or finding an appropriate structure to manage and present the multitude of information in an integrated way.

- Internal benefits were very consistently seen in improved collaboration, a better mutual understanding between departments and a more holistic view on the different parts of a company.

- Impacts on the understanding of sustainability aspects and corresponding influences for corporate strategy were confirmed to some extent by interviewees. Based on the findings, integrated reporting can be described as fostering a better understanding of sustainability aspects and supporting the integration of sustainability consideration in the discussion on corporate strategy.

Other experts gave additional insights regarding specific aspects of integrated reporting. These experts highlighted the importance of top management support to successfully implement integrated reporting. The assurance of integrated reports, which is frequently debated in the current discourse on integrated reporting, was not seen as problematic by these experts. It was highlighted that practices used to assure sustainability and financial information could also be used on integrated reports. On the other hand, it was seen as difficult to assure whether a company was following the <IR> Framework or not. This can be explained through the principle-based nature of the Framework, which leaves a lot of room for the reporting organisations to customise their report. One interviewee addressed the upcoming EU directive on non-financial reporting and highlighted that integrated reporting might get a new dynamic in the future. Companies, affected by the directive, might directly move towards integrated reporting, without preparing separate sustainability reports first, as many of the companies, considered for this study, did.

Regarding the nature and characteristics of integrated reports, as addressed by RQ3, findings demonstrate diverse ways of what integrated reports can look like in practice. The course of the research project made clear that it can hardly be said what integrated reports look like in general.

Every analysed report was unique and every organisation chose a different approach. Next to the differences between the reports, some overarching similarities, for example the reliance on GRI guidelines to prepare some of the content, could still be identified. The selected reports were found to be in line with the <IR> Framework to some extent, while a great potential to adapt reporting to the proposed guiding principles and content elements exists.

- Reports showed basic elements such as the management report, financial statement or a section on governance. Financial information was prepared according to IFRS and country specific requirements, non-financial information was prepared according to GRI and other guidelines, in all cases. Financial and non-financial information was assured separately, while non-financial information most often received limited assurance, in two cases reasonable assurance.

- Five reports were seen as a merger of the annual and sustainability report, while one report was found to be a standalone integrated report, separate from the company's annual report.

- Sustainability related disclosure was integrated into the management reports, while some reports provided additional, detailed ESG information in the back of the publication.

- Disclosure on the business model was found to be poorly aligned with the <IR> Framework. A clear presentation of inputs and outcomes was not found in most reports.

- Most reports presented a detailed discussion of risks and opportunities related to financial, economic, social and environmental aspects.

- All reports discussed the relevance of sustainability for their corporate strategy and presented both financial and non-financial strategic goals and targets.

- All reports provided a comprehensive presentation of financial and non-financial performance, relying on GRI, IFRS and other frameworks. Performance summaries including financial and non-financial information were presented in all reports to some extent.

- Most reports identified key stakeholders and discussed stakeholder engagement activities. The materiality determination process, which included stakeholder engagement to some extent, was found to follow GRI guidelines in many cases.

- Specific examples demonstrating the connectivity between financial and non-financial performance were found in two reports.

Through analysing the reports and working with the <IR> Framework, it became clear that the quality of an integrated report depends on how well internal processes follow an integrated approach. The move towards integrated reporting therefore requires the focus on internal organisational processes first. The integrated report can be seen as consequence of these internal changes. Nevertheless, the interviewees agreed that practicing integrated reporting improves internal processes, which confirms the reinforcing relationship between integrated reporting and an integrated way of thinking and managing a company.

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Abbreviations

A4S	The Prince's Accounting for Sustainability Project
CDP	Carbon Disclosure Project
ESG	Environmental, social and governance
FAR	Swedish association for accountants, auditors and consultants
GRI	Global Reporting Initiative
HR	Human resources
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IRC of South Africa	Integrated Reporting Committee of South Africa
King III	King Code of Governance Principles for South Africa 2009
LCA	Life-cycle assessment
NGO	Non-governmental organisation
R&D	Research and development
<IR> Framework	The International Integrated Reporting Framework issued by the IIRC

1 Introduction

1.1 Background and Problem Definition

"The world has changed – reporting must too" (IIRC, 2011b, p. 4). With these words the International Integrated Reporting Council (IIRC) called for the creation of an integrated approach to corporate reporting. This approach is expected to both shape corporate reporting and thinking to better reflect the multidimensionality and connectivity of today's globalised world (Adams, 2015; Krzus, 2011).

Corporate reporting is influenced by the expectations and information needs of multiple stakeholders and governed through a variety of national and international rules and guidelines (Müller & Stawinoga, 2015). In light of the 2008 financial crisis and global environmental and social challenges, companies are increasingly required to demonstrate transparency and accountability not only regarding their economic impact but also in relation to the wider environmental and societal implications of their business activities (Krzus, 2011; Müller & Stawinoga, 2015).

The growing information requirements from different sides of society caused an increase in different kinds of mandatory or voluntary corporate reports. To demonstrate their accountability for the economic, social and environmental impacts on society, many companies nowadays publish voluntary sustainability reports, next to their financial disclosure (Freidank & Hinze, 2015). An often mentioned weakness of current reporting practices is that the multitude of different reports are produced and presented separately from each other and do not show the complex interdependencies between the information covered (Freidank & Hinze, 2015; Krzus, 2011). Separate sustainability reports for example, often "fail to connect environmental, social and governance issues to business strategy and financial performance" (Krzus, 2011, p. 274). Moreover, the abundance and complexity of information included in separate publications, makes it difficult for the audience to easily find relevant information (Fasan, 2013; Freidank & Hinze, 2015).

Considering the shortcomings of current corporate reporting practices, the IIRC was founded in 2010, with the aim to develop an internationally accepted approach to integrated reporting (IIRC, 2011b). This reporting approach builds on existing corporate reporting practices and intends to bring "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, 2011b, p. 2). It should provide a holistic picture of an organisation to stakeholders, showing how both financial and non-financial aspects are connected and how they contribute to the creation of value over time (Krzus, 2011). To facilitate the uptake of integrated reporting, the IIRC developed the *International Integrated Reporting Framework*, also referred to as the <IR> Framework, which was published in December 2013 (IIRC, 2013f).

Aside from providing more useful information, integrated reporting can also be seen as a management tool with the potential to influence how a company operates (Krzus, 2011). In order to produce an integrated report, an organisation needs to develop a good understanding of how it impacts and is impacted by the economic, social and environmental context in which it operates. Furthermore, it needs to uncover the interdependencies between financial and non-financial performance. The improved internal knowledge and quality of information generated in this process, has the potential to lead to decision-making that reflect the complexity of today's world more accurately. In consequence, integrated reporting could be a driving force towards sustainable business strategies (Eccles & Krzus, 2010). Indeed, first studies show that integrated reporting leads to a higher focus on sustainability aspects among management and may help embed environmental, social and governance (ESG) issues in corporate strategy (akzente & HGB, 2012; Black Sun, 2012)

Integrated reporting as a reporting practice and a research topic is still young and knowledge, related to the implementation of the concept and its implications for reporting organisations, is scarce. However, the international attention integrated reporting is getting, is increasing and the IIRC aspires to make integrated reporting the new reporting norm (IIRC, 2013e, 2013f). Given the far-reaching impacts for corporate reporting and management, this development might entail, research in this field is strongly needed. It is necessary to uncover the value this novel reporting approach might have, both for the reporting organisation and for recipients of corporate disclosure. More specifically, research is needed to better understand both the impacts integrated reporting might have on processes within organisations and the positive and negative implications for the different stakeholder groups with their diverse needs for information. Knowledge about these aspects can be helpful to shape this upcoming reporting practice in a way, favourable for both organisations and their stakeholders.

Adams (2015) and other scholars call for research on integrated reporting and outline some possible venues for researchers to take. These venues touch upon the processes involved in preparing an integrated report, including impacts on internal communication and decision-making. Moreover, the quality of the actual integrated reports and how they connect economic, social and environmental issues is outlined as a possible area for research. In addition to that, the implications for sustainability reporting practices and the relationship between different reporting frameworks are also highlighted (Adams, 2015; Cheng et al., 2014). The latter two aspects relate to the fact the integrated reporting and especially the <IR> Framework enters a reporting landscape with a multitude of voluntary and mandatory guidelines and framework. Kajüter (2015) points out that integrated reporting is both complementary to and competing with other frameworks and guidelines. Its success and acceptance depends on how well the concept can be aligned with existing corporate reporting practices. Sustainability reporting for example, governed by the guidelines issues by the Global Reporting Initiative (GRI), has already become a common practices among large firms (KPMG, 2013). Thus, with a new reporting approach, increased competition but also possible synergies might arise.

1.2 Purpose and Research Questions

The aim of this thesis is to contribute to the knowledge of how integrated reporting fits into the existing corporate reporting landscape, how organisations apply integrated reporting in practice and how they are affected by taking this approach. Through achieving this aim, the thesis seeks to support the understanding of the possible benefits and drawbacks that this new reporting approach might entail. In addition to that, it seeks to provide insights into what the move towards integrated reporting could look like in practice and which positive or negative impacts can be expected for reporting organisations.

The research aim should be met by investigating how integrated reporting relates to and interacts with other corporate reporting practices, especially sustainability reporting. In addition to that, and based on multiple interviews, the research intends to capture how the integrated reporting journey is experienced by practitioners. By doing so, the emphasis is on the motivations, challenges and internal changes organisations are experiencing. Finally, by analysing multiple corporate reports, the thesis intends to clarify what the output of the integrated reporting process, the actual integrated report, looks like in practice and if that is in line with the theoretical requirements put forward by the <IR> Framework.

In line with the research aim and focusing on different aspects of integrated reporting, the research questions are defined as follows:

- RQ1: What is the relationship between integrated and sustainability reporting?

The term *relationship* has been chosen to account for the interdependencies between these reporting practices. The focus should be on the mutual impacts of the concepts and the extent to which they are supporting or contradicting each other.

- RQ2: Why and how are companies working with integrated reporting and what are the internal challenges and impacts of taking this approach?

Regarding RQ2 it is worth noting that internal impacts might occur at many different parts of a company. The focus for answering the research question has therefore been set on changes regarding internal communication and collaboration. In addition to that, implication for existing reporting practices and impacts on the understanding of sustainability aspects within a company, including possible influences on corporate strategy, have been considered.

- RQ3: What do integrated reports look like in practice and how do they relate to the International Integrated Reporting Framework?

Answering RQ3 implies a more descriptive approach, focusing on the structure of integrated reports, what kind of information is provided and how it is presented. Moreover, answering the question requires an assessment of whether integrated reports are in line with the requirements proposed by the <IR> Framework.

1.3 Overview of Methodology

To answer the research questions different data sources have been utilised and several methods for data collection and analysis have been applied. In order to address RQ1 from a theoretical perspective and to establish the background for this thesis, a review of the existing literature on integrated reporting has been conducted. This literature review formed the basis for Chapters 2 and 3. In addition to that, and mainly targeted at RQ2, semi-structured expert interviews have been conducted and analysed. Moreover, to answer RQ3, integrated reports have been reviewed and analysed.

After providing the background to the subject under investigation, Chapter 4 will provide more detailed information on the research methodology.

1.4 Limitations and Scope

This research project is exploratory in nature and intends to investigate a reporting concept which is gradually evolving, but still in its early stages of development. Hence, rather than focusing on specific details of integrated reporting, the research has been designed to enable an overview of different aspects, experiences and practices regarding this concept. The relatively broad research design, coupled with an area of investigating that is fluid and evolving, entails several limitations and required some choices to be made regarding the scope of the research project.

First, a large part of data collection was undertaken through expert interviews and by analysing corporate reports. For the interviews, several company representatives and other experts from Germany and Sweden have been consulted. These countries were chosen, since both show a high level of integrated reporting among companies (Eccles & Serafeim, 2011). Interviewees were chosen from several different organisations in different sectors. While enabling a holistic view on the topic, limitations regarding the generalisability arise. Interview findings represent the experiences and views of individual persons, operating in a specific, national context. While some high level similarities between interviewees could be identified, the results are not necessarily transferrable to other organisations or contexts.

Moreover, interviewees from companies have been primarily chosen according to their field of expertise. Most interviewees came from the sustainability staff function, which is one of the staff functions most involved in integrated reporting (Black Sun, 2012). This choice implies that the views they expressed might not be representative for the whole company.

For the analysis of the corporate reports a selection of companies was made. Six reports were chosen in total, three of which came from Swedish and three from German companies. By selecting a diverse group of companies from these two countries, different practices and approaches to integrated reporting were intended to be uncovered. However, the results are therefore specific to the reporting organisations and the context in which they operate.

1.5 Ethical Considerations

Conducting interviews and using interview data requires the consideration of several ethical and moral aspects. For this research project, informed consent and confidentiality, as proposed by Brinkman and Kvale (2009), were seen as most important. Informed consent requires the researcher to clearly communicate the purpose and nature of the study so that the interviewee is in a position to decide on participation, while being aware of possible implications. Furthermore, "confidentiality refers to agreements with persons about what may be done with their data" (Sieber, 1992, p. 52). Collected data includes both personal information and the actual data obtained in the course of the interview.

For this thesis, possible participants have been informed about the nature and purpose of the research project via e-mail and have been asked about their willingness to contribute to the thesis through an interview. Prior to conducting the interview it was explained to the interviewees that possible content from the interview, as well as personal information regarding the identity of the interviewees, would only be included in the thesis after a confirmation from the participant's side. All the content that is directly relatable to a specific interviewee has been written and sent to the interviewee for confirmation.

1.6 Audience

The thesis investigates integrated reporting as an emerging practice for corporate disclosure. It may therefore be interesting for a variety of people, working with or interested in corporate reporting. In specific, the author sees the target audience mainly in scholars and students, practitioners in the field of corporate reporting and report recipients, for example business analysts other stakeholders of a company.

For scholars and students, studying or conducting research on corporate reporting, the thesis intends to provide insights on integrated reporting and how it interacts with exiting corporate reporting practices. Moreover, the thesis might help to identify additional knowledge gaps and may lead to further research. The presented methodological approaches to investigate integrated reporting and corresponding reports might provide some inspiration on how to conduct future research.

For practitioners, responsible for financial and non-financial reporting in organisations, the thesis seeks to shed light on how integrated reporting might be implemented in practice. This covers both the integrated report itself but also the internal process behind it. Furthermore, the thesis might help them to better estimate possible challenges and benefits this approach might entail for their organisations. Insights from experts and integrated reports might be useful as guidance for practitioners planning to apply integrated reporting.

In addition to that, readers of corporate reports, such as business analysts, investors or other stakeholder, could find this thesis helpful to understand why companies decide to apply integrated reporting and which benefits or drawbacks this move might cause. Moreover, they might find the insights useful to get a good understanding of the characteristics of an integrated report and which aspect to look for in order to assess the quality of the publication.

1.7 Disposition

Chapter 1 provided a brief background on the topic under investigation and highlighted gaps in the current body of knowledge, which this thesis intends to address. Moreover, the research questions and a short overview of the methodology have been presented. In addition to that, limitations to the research project and ethical considerations have been outlined.

Chapter 2 and 3 provide the background to integrated reporting and establish the context of this research project. Chapter 2 provides a brief historical overview to the topic under investigation and outlines the developments that underpin the recent discourse on integrated reporting. In Chapter 3 the current thinking behind integrated reporting is presented and the reporting concept is put in perspective to established corporate reporting practices. Furthermore, research, relevant to the research questions, and theories on integrated reporting will be presented.

Chapter 4 introduces the guiding assumptions this thesis is based on and presents the research design, including the methods for data collection and analysis that have been chosen to answer the research questions.

Chapter 5 presents the key findings based on interviews and interview analysis as well as the result of the review and analysis of integrated reports.

Chapter 6 contains the discussion of both the results of the research project and well as the methodological choices made. Results are discussed in perspective of the theoretical background and findings from previous research.

Chapter 7 concludes the thesis by reiterating the research questions and discussing the extent to which they could be answered throughout the research project. Moreover, the chapter outlines the importance of the findings for the target audience and points out pathways for further research.

2 Background and Historical Development

This chapter outlines the historical developments that are important to understand the current debate on integrated reporting. It provides the basis for the more detailed discussion on integrated reporting in Chapter 3.

2.1 Early Adoption and Emerging Discourse

The discourse on integrated reporting has intensified in recent years and was mainly driven by the work of the IIRC (IIRC, 2013e). According to the organisation, more than 1000 companies are using integrated reporting, while regulators and international bodies are taking increasing interest in the approach (IIRC, n.d.-b). The IIRC declared the phase from 2014 to 2017 the breakthrough period for integrated reporting, which means the uptake of the approach by organisations world-wide (IIRC, 2014b).

The development towards integrated reporting however, started already in the early 2000s, with pioneering companies experimenting with innovative ways of reporting on their financial and non-financial performance in a combined or integrated way (Eccles & Krzus, 2015). In this early phase, first companies published what could be considered an integrated report. Examples of these early adopters are the Danish pharmaceutical companies Novozymes and Novo Nordisk, which started to report financial and non-financial information in one report in 2002 and 2004 respectively. Similarly, the Brazilian cosmetics company Natura or the German chemical company BASF produced their first integrated reports in 2002 and 2004 (Eccles & Krzus, 2015; White, 2005)

Referring to the *Novozymes Report 2002,* Eccles and Krzus (2015) point to some interesting statements, made by Steen Riisgaard, which was the president and CEO of the company. Riisgaard's introduction to the report touches upon aspects, which are still highly relevant for the recent debate on integrated reporting.

> *This year and in future years Novozymes publishes a combined annual report with information on the areas that we believe to be most important for the majority of our stakeholders. This report is an integrated financial, environmental and social report […]. Our decision to bring everything together in one report is a natural consequence of business and sustainability moving ever closer together, and of various stakeholders asking for a wider overview of the business. We have chosen to keep the printed report relatively short and publish more detailed information […] on the Internet.* (Riisgaard, 2003, p. 5)

To begin with, Eccles and Krzus (2015) point to the use of the terms *combined* and *integrated* to describe the report. This raises the question of what the difference between a combined and an integrated report is. While this issue is still debated, the difference is commonly seen in the connectivity between financial and environmental, social and governance issues. A combined report would present financial and ESG aspects side by side, while an integrated report would demonstrate the interconnections and dependencies between them (Eccles & Krzus, 2015; Solstice, 2005).

Moreover, Riisgaard mentions the growing importance of sustainability for the business as well as stakeholders' need for a better overview of the organisation, as a driver behind the report. This need for better information, including financial and non-financial aspects, is also central to the emergence of the IIRC, while the question of the exact target audience of an integrated report is still on-going (Eccles & Krzus, 2015; IIRC, 2011b).

In addition to that, Riisgaard points to the Internet as a source for further information, while the report is described as *short*. What he describes is a concise report, which only contains relevant information, while other information can be found elsewhere. This raises the question of which information should actually go in an integrated report. The debate on materiality is still far from resolved and will be addressed later (Flower, 2014; KPMG, 2014).

Alongside early adoption, first research started to pay attention to the new trend in corporate reporting. *The Global Reporters 2004 Survey of Corporate Sustainability Reporting* by SustainAbility, UNEP and Standard & Poor's (2004) benchmarked non-financial reporting in self-selected, top 50 reports from companies around the world. The researchers recognised that some companies were integrating their annual and sustainability report in one document, while comparing these reports to "Frankenstein's Monster" and stating that "most of today's integrated annual and sustainability reports are uncomfortable combinations" (SustainAbility et al., 2004, p. 49). However, the study assumed an accelerating development in this direction and identified some opportunities and risks associated with it. Better information for a broader audience and a better presentation of the business case for sustainability were seen as opportunities. Risks were associated to limited space for issues regarding sustainable development, due to space constraints in annual reports, or a focus on shareholders and investors, possibly compromising information needs of other stakeholders (SustainAbility et al., 2004).

Probably the first research focusing explicitly on integrated reporting was published by Solstice (2005). The researchers reviewed integrated reports and interviewed experts from companies, accounting and standard setting organisations. Findings point to internal benefits such as "improved understanding of the links between sustainability and business strategy", while challenges were seen for example in the multitude of information to handle, both for the report preparer and the recipients (Solstice, 2005, p. 1). Addressing the link between an integrated and a sustainability report, the authors of the study raise the concern that a combination of both reports could lead to overly large publications. According to them this might lead to sustainably information being reduced due to space constraint and the focus on financial disclosure (Solstice, 2005). This possible drawback is still relevant for the discussion on integrated reporting today. The researchers also discussed the difference between a combined and an integrated report, portraying the first as the start of integration while the latter one "requires an articulation of the links between financial and sustainability performance and outcomes" (Solstice, 2005, p. 1).

In the first book on integrated reporting, Eccles and Krzus (2010, pp. 148–155) outline four key benefits that can be expected from integrated reporting:

- Greater Clarity about Relationships and Commitments
- Better Decisions
- Deeper Engagement with All Stakeholders
- Lower Reputational Risk

Regarding the first benefit, the authors describe that integrated reporting encourages a company to identify the key ESG aspects and to be explicit about the relationship between these aspects and financial performance. This might for example include a discussing on how ESG aspects are seen as an opportunity or a risk for financial performance (Eccles & Krzus, 2010). Closely linked to that benefit, the authors name a positive impact on decision-making. In the process of uncovering the relationships mentioned above, better metrics and methods might improve the available information, leading to better decisions. The authors highlight that a close collaboration between different functional units within a company is necessary for this benefit to materialise (Eccles & Krzus, 2010).

A third benefit is seen for stakeholder engagement practices (Eccles & Krzus, 2010). According to the authors, companies are facing demands from several stakeholders and therefore also need to communicate how the often times competing demands are addressed. Eccles and Krzus (2010) argue that integrated reporting encourages companies to engage in a single dialogue with the relevant stakeholder groups, while separate sustainability reports are seen as marginalising other stakeholders interests compared to the interest of shareholders and investors. A better engagement with all stakeholder is expect to also improve the information basis for decision-making (Eccles & Krzus, 2010). Decreased reputational risk is linked to the other benefits. Better internal awareness of ESG aspects and their influence on business success and deeper engagement with stakeholders, might positively impact risks identification and management (Eccles & Krzus, 2010).

The emergence of integrated reporting as an internationally recognised and debated concept was heavily influenced and supported by the developments that took place in South Africa during the last decade. South Africa can be regarded a pioneering country in integrated reporting and will be presented in more detail.

2.2 Integrated Reporting in South Africa

Up until now, South Africa is the only country mandating integrated reporting for listed companies on an 'apply or explain' basis (Eccles & Krzus, 2015; Solomon & Maroun, 2012). In 2009, the *King Code of Governance Principles* also referred to as King III, was published and became effective one year later (Solomon & Maroun, 2012). This Code defines the governance principles all South African entities should follow and explicitly recommends the use of integrated reporting. The precursor to King III, King II already made sustainability reporting a requirement for South African companies (Solomon & Maroun, 2012). Taking a step further "King III supports the notion of sustainability reporting, but makes the case that whereas in the past it was done in addition to financial reporting it now should be integrated with financial reporting"(Institute of Directors in Southern Africa, 2009, p. 13).

In its listing requirements, the Johannesburg Stock Exchange (JSE) mandates that listed companies need to explain how they apply the King III principles or else provide reasons for not doing so (Solomon & Maroun, 2012). Since integrated reporting is one of these principles, in practice all listed companies have been required to produce integrated reports since 2010 or explain why they didn't do so (Solomon & Maroun, 2012).

To assist companies in preparing their integrated reports, the Integrated Reporting Council (IRC) of South Africa was founded in 2010 and released the *Discussion Paper* on its *Framework for Integrated Reporting and the Integrated Report* (IRC, 2011). This first attempt to codify integrated reporting already contained specific reporting principles and report elements. In addition to that, it provided insights regarding the general rational behind integrated reporting (Eccles & Krzus, 2015; IRC, 2011). The authors outline the incapability of separate financial and sustainability reports to provide a complete picture of an organisation's ability to create value. The key objective of an integrated report is defined as "to enable stakeholders to assess the ability of an organisation to create and sustain value over the short-, medium- and long-term" (IRC, 2011, p. 1). This objective should be achieved by "integrating and connecting important information about strategy, risks and opportunities and relating them to social, environmental, economic and financial issues" (IRC, 2011, p. 1).

While the discussion paper never resulted in a finished framework, it can be assumed that many principles and elements that had been defined by the IRC of South Africa, also informed the development of IIRC's <IR> Framework. Moreover, the focus on value creation over time, as central objective of an integrated report, is still at the heart of the current thinking behind integrated reporting. It is also worth mentioning that Mervyn King, chairman of the IRC of South Africa, is also chairman of the IIRC (IIRC, n.d.-a; IRC, n.d.).

2.3 The IIRC and the Development of the Integrated Reporting Framework

In August 2010, the Prince's Accounting for Sustainability Project (A4S) and the Global Reporting Initiative, both leaders in sustainability accounting, issued a press release to announce the set-up of the International Integrated Reporting Council (A4S & GRI, 2010; Flower, 2014). The IIRC describes itself as "a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs" (IIRC, 2013f, p. 1). Indeed, the organisation brings together representatives from international and national accounting organisations, the big four professional service firms KPMG, Ernst & Young, PwC and Deloitte, NGOs such as the GRI, the WWF or Transparency International and company representatives for example from HSBC, Microsoft, Nestlé or Novo Nordisk (IIRC, n.d.-a).

The ambition of the IIRC, stated in the press release, was "to create a globally accepted framework for accounting for sustainability. A framework which brings together financial, environmental, social and governance information (…) in an 'integrated' format" (A4S & GRI, 2010, para. 3). One year after its foundation, the IIRC published the *Discussion Paper* on integrated reporting, where the newly established organisation presented its intentions and provided background information on its motivations (IIRC, 2011b). The *Discussion Paper* already discussed key elements of integrated reporting and encouraged feedback on these suggestions. In line with the presented insights from South Africa, this publication emphasised the limitations of current reporting to meet the growing information needs from stakeholders (IIRC, 2011b). In the *Discussion Paper* the IIRC states that since "reporting has evolved in separate, disconnected strands, critical interdependencies between strategy, governance, operations and financial and non-financial performance are not made clear" (IIRC, 2011b, p. 2). From the identified disclosure gaps, the need for an international framework for integrated reporting was derived (IIRC, 2011b).

The development of the framework was supported by the *Integrated Reporting Pilot Programme,* a programme for companies that agreed to collaborate with the IIRC in order to support the framework development through their expertise (IIRC, 2011a). In November 2012, the IIRC released the *Prototype of the International <IR> Framework*. In April 2013, the organisation published its *Consultation Draft of the International <IR> Framework* and called for feedback within a three months period (Flower, 2014; IIRC, 2013d). Taking the 359 submissions from several organisations or groups of organisations into account, the IIRC published the *International Integrated Reporting Framework* in December 2013 (IIRC, 2013e).

In the course of the thesis, this framework will be referred to as the <IR> Framework, the notation proposed by the IIRC, or simply the Framework.

3 Integrated Reporting

This chapter presents the current thinking behind integrated reporting and provides the context to understand this reporting approach. The chapter introduces integrated reporting, as proposed by the IIRC. In addition to that, integrated reporting is put in context and compared to existing corporate reporting practices. The chapter is concluded by a discussion of relevant research and important theories on integrated reporting.

3.1 Integrated Reporting and Integrated Thinking

Before elaborating on the <IR> Framework in detail, the concept of integrated thinking, which is central to the understanding of integrated reporting, will be introduced. The IIRC defines integrated reporting as “a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time” (IIRC, 2013e, p. 13). This definition makes an important distinction between integrated reporting as the process and the integrated report as the result of this process. Moreover, it stresses the importance of integrated thinking as the overall foundation of integrated reporting.

Integrated thinking is defined as the “active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organization uses or affects” (IIRC, 2013f, p. 2). The rationale behind integrated thinking is that both the reporting process and the thinking and culture within a company, should be permeated by the concept of integration (Schultze & Miller, 2015). Integrated thinking may for example be seen in a holistic understanding of the different financial and non-financial factors or the stakeholder relationships, that influence value creation (Schultze & Miller, 2015). The Framework further states that integrated thinking leads to decision-making and actions that account for the diversity of factors influencing value creation (IIRC, 2013f).

In addition to that, the Framework states that integrated reporting is facilitating and supporting integrated thinking within a company (IIRC, 2013f). In other words, integrated thinking can be seen as prerequisite for integrated reporting, while integrated reporting is also enhancing integrated thinking. Figure 3-1 illustrates this reinforcing influence.

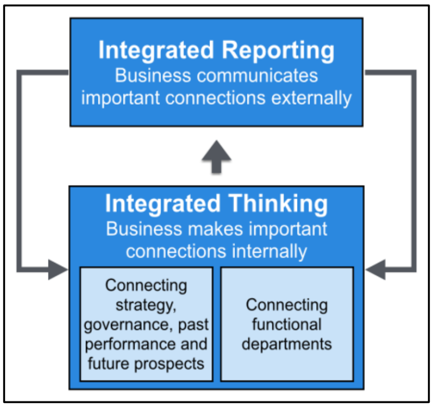

Figure 3-1. Relationship between integrated reporting and integrated thinking

Source: Figure adapted from IIRC (2013c)

What these definitions make clear is that integrated reporting is not simply an approach that governs what to present in a corporate report. It also claims to influence the thinking within a company (Adams, 2015). Eccles and Krzus (2015, p. 46) call this the “information function of integrated reporting and the transformation function of integrated thinking”. Information function in a sense that integrated reporting is supposed to lead to a holistic presentation of a company. Transformation function, since integrated reporting is supposed to support integrated thinking, enabling better decision-making and management (Adams, 2015; Eccles & Krzus, 2010; Krzus, 2011).

3.2 The International Integrated Reporting Framework

After having described integrated reporting as a process based on integrated thinking, the result of this process, the integrated report, can now be examined. For the preparation of an integrated report, the <IR> Framework proposes overarching concepts as well as guiding principles and content elements, which will be presented in the following sections.

3.2.1 Underlying Concepts

The <IR> Framework defines an integrated report as "a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term" (IIRC, 2013f, p. 1.1). Moreover, the central purpose of an integrated report is clearly defined as "to explain to providers of financial capital how an organization creates value over time" (IIRC, 2013f, para. 1.7). The definition of an integrated report introduces some new concept such as *value creation* or the *external environment,* which are central for the understanding of the thinking behind integrated reporting.

To begin with, the communication about value creation over time lies at the very core of an integrated report. To create value, an organisation relies on several resources and relationships and is impacted by the external environment it operates in. The external environment can be understood as the political, economic, social and environmental context the organisation is embedded in. The resources and relationships, also referred to as *the capitals,* are described as "stocks of value", on which the organisation relies (IIRC, 2013f, para. 2.11). The Framework defines seven key capitals: financial, manufactured, intellectual, human, social and relationship, and natural capital (IIRC, 2013f, para. 2.15). Table 3-1 provides examples of what kind of aspects are covered under these capitals.

Table 3-1. The six capitals, explanations and examples

Capital	Definition as proposed by the <IR> Framework	Examples
Financial	Pool of funds available to the organisation	Debt, equity, cash
Manufactured	Manufactured physical objects	Public roads, factories, machines
Intellectual	Organisational knowledge-based intangibles	Knowledge, management systems, patents, copyrights
Human	People's competencies, capabilities and experiences, and their motivations to innovate	Support for governance structure, ability to implement strategy, loyalty, ability to collaborate
Social and relationship	The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being	Reputation, licence to operate, stakeholder relationships, trust, shared norm and values
Natural	All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organisation	Crops, animals, biodiversity, air, water, minerals

Source: Table based on IIRC (2013b, 2013f), Flower (2014)

Considering the capitals, value creation means that the stocks of value are either "increased, decreased or transformed" through business activities (IIRC, 2013f, para. 2.11). The capitals model can be understood as a system of stocks and flows whereby a transformation between different capitals is possible (IIRC, 2013b). When employees are trained for example, financial capital gets transformed into human capital. Similarly, natural capital gets transformed into financial capital, when natural resources are exploited to generate and sell energy. Moreover, the Framework does not mandate to use the classification of the six capitals or to report on all the capitals. Reporting organisations may decide which capitals to cover in their reports.

Figure 3-2 illustrates the value creation process as described by the <IR> Framework.

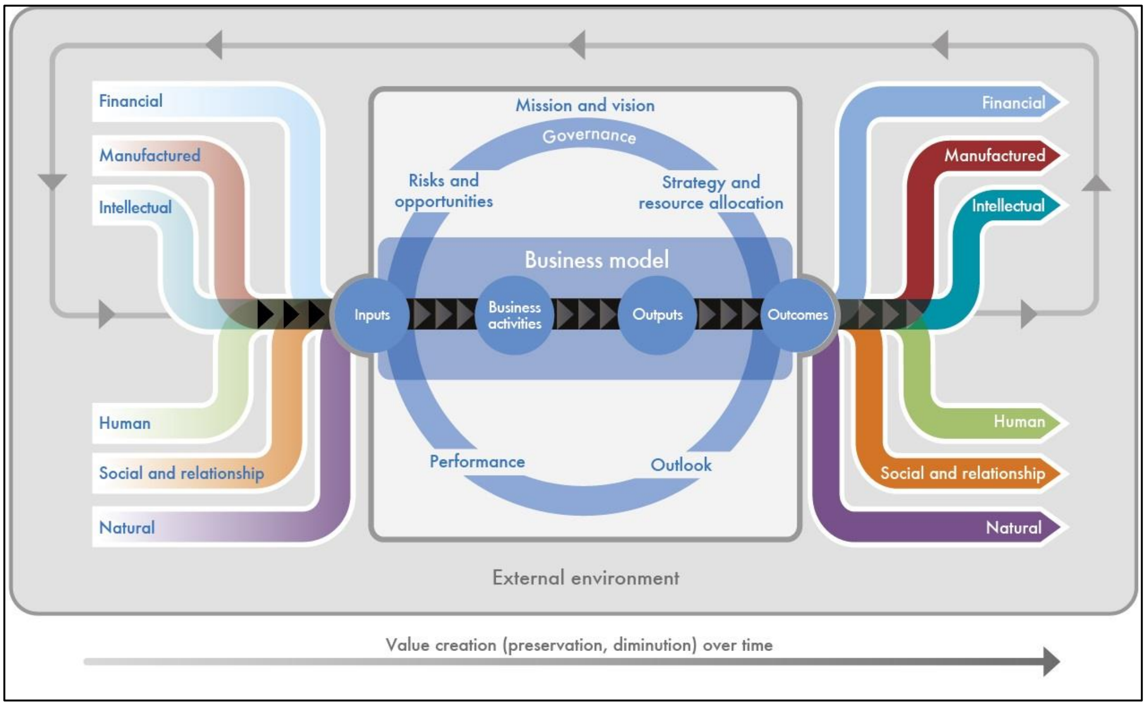

Figure 3-2. The value creation process

Source: IIRC (2013f), figure used with permission

The grey box in the middle of Figure 3-2 represents the organisation, which is embedded in the external environment. Central to the organisation is its business model, which defines how different capitals are used as inputs and get transformed through business activities, which in turn generate outputs, such as products and services, and outcomes on the different capitals. It is worth noting, that the capitals model does not only account for capitals that belong to the organisation. Outcomes on natural capital for example may also relate to positive or negative effects on natural resources or ecosystem services (IIRC, 2013f). Apart from its business model, other aspects, specific to the organisation, are also contributing to value creation. These aspects, such as governance, strategy or performance, are important content elements of an integrated report and will be further explained later.

Since the communication about value creation is central for an integrated report, it is important to examine the term *value,* as it is used in the <IR> Framework, more closely. According to the Framework, value can be divided into value that is generated for the organisation and value that is created for others. The Framework highlights, that the value created for the organisation is connected to value created for others. This can be explained by the multiple interaction of an organisation, for example with supplier, customers, or society at large, where it for example creates employment or pays taxes. Since the primary audience of an integrated report are providers of financial capital, the value that an organisation creates for others, should consequently only be included in an integrated report if "it affects the ability of the organization to create value for itself" (IIRC, 2013f, para. 2.5). Some reflections on that aspect are presented in Section 3.2.4.

3.2.2 Guiding Principles

The <IR> Framework defines seven guiding principles that need to be considered for the preparation of an integrated report (IIRC, 2013f). These principles relate to both the content and the quality of information and are summarised in Table 3-2. The two principles *Connectivity of Information* and *Materiality* are seen as particularly important and will be discussed in more detail below the table.

Table 3-2. The guiding principles of the <IR> Framework

Guiding Principles	Specifications provided by the <IR> Framework
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 organization 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 • 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: Table based on IIRC (2013f)

The difference between a combined and an integrated report can be seen in the degree to which financial and non-financial information such as environmental, social and governance aspects, are connected to each other (Eccles & Krzus, 2015). *Connectivity of information* is an essential principle that characterises an integrated report and makes it a tool to show "the combination, interrelatedness and dependencies" between the aspect that are important for an organisation's value creation capability (IIRC, 2013c, p. 13; Paternostro, 2013). Connectivity is seen as central for both integrated reporting and integrated thinking as illustrated by Figure 3-1. The <IR> Framework highlights different ways of how connectivity might be demonstrated. In particular it names connectivity between (IIRC, 2013f, para. 3.8):

- The Content Elements
- The past, present and future
- The capitals
- Financial information and other information
- Quantitative and qualitative information
- Management information, board information and information reported externally
- Information in the integrated report, information in the organization's other communications, and information from other sources.

As this list illustrates, connectivity can be shown in numerous ways. Connectivity between the content elements, which will be introduced in the next section, for example means that the link between an organisation's external environment, its risks and opportunities and its strategy is clearly established (IIRC, 2013f). The seven types of capital and the flows between them have already been introduced. Showing how they are interrelated and affect each other is a central intention of an integrated report. To demonstrate the connectivity between financial and non-financial information, the <IR> Framework gives the example of "cost reduction or new business opportunities of environmental policies, energy efficiency, cooperation with local communities or technologies to tackle social issues" (IIRC, 2013f, para. 3.8). Another form of connectivity can be implemented through linking the content between different publications or other sources of information.

Materiality is another key principle proposed by the Framework. In general, materiality can be seen as a synonym for significance or relevance (Oxford University Press, n.d.). Central to an integrated report is the communication about value creation to providers of financial capital. An issues is therefore material and should be reported, only if it is related to or affecting value creation (IIRC, 2013f). Different reporting approaches have different definitions of what material information is. Materiality as a concept for sustainability reporting will be introduced in Section 3.4.

3.2.3 Content Elements

The Framework proposes eight content elements and states that these elements are interconnected and might overlap (IIRC, 2013f). For every content element the Framework provides a guiding question that should be answered through the integrated report as well as further specifications regarding the elements. Moreover, it is stated that an integrated report does not need to follow the proposed sequence of the content elements. Table 3-3 presents the content elements and the corresponding questions. The content element *Business model* is described in more detail below due to its central importance for the value creation process.

Table 3-3. The content elements of the <IR> Framework

Content Element	Specifications provided by the <IR> Framework
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 organization'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 organization 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 presentation	How does the organisation determine what matters to include in the integrated report and how are such matters quantified or evaluated?

Source: Table based on IIRC (2013f)

The business model of an organisation is central to the value creation process (see Figure 3-2) and should be presented in an integrated report. The Framework defines the business model as the organisation's "system of transforming inputs, through its business activities, into outputs and outcomes" (IIRC, 2013f, para. 3.11). Inputs relate to the different capitals an organisation depends on. Business activities are specific to an organisation and may include the production of products, the provision of services, research and development (R&D) or other activities (IIRC, 2013a). Through these activities and inputs, the organisation generates outputs and outcomes. Outputs are products and services, but also waste or by-products. Outcomes are more difficult to characterise and are broadly defined as the "internal and external consequences for the capitals as a result of an organization's business activities and outputs" (IIRC, 2013a, p. 1). Examples of outcomes are profits, customer satisfaction, job creation and also environmental or social impacts (IIRC, 2013a). The outcomes can be understood as an increase or decrease of a certain capital. Customer satisfaction could be interpreted as an increase in social and relationship capital, while profits would increase financial capital. The capitals and corresponding stocks and flows can be measured easily for financial capital, for other capitals however, this seems very difficult.

3.2.4 Reflections on the Framework

In Section 2.3 the press release to the formation of the IIRC has been presented. The mentioned objective was to establish a "framework for accounting for sustainability" (A4S & GRI, 2010, para. 3). After analysing the final framework in light of what that IIRC initially sought out to do, Flower (2014, p. 1) describes the IIRC as "a story of failure" and concludes that it "has abandoned sustainability accounting". Mainly two considerations underpin his argument, which can be attributed to the Framework's concepts of value creation and the capitals model.

Flower (2014) argues that the IIRC's concept of value creation is focussing on the value to investors and not on value to society or other stakeholders. Referring to the Framework, he explains that the value created for others should only be included, if it is connected to value creation for investors. Flower (2014) states that the focus on investors largely governs what should be reported in an integrated report, prepared in line with the <IR> Framework.

Regarding the capitals model, Flower (2014) states that the proposed model could be a method to report on a company's wider environmental and societal impacts. If a company achieves an increase in all the capitals, or compensates the decrease in one capital by the increase of another, it can be inferred that sustainability has been achieved (Flower, 2014). For this to be true however, Flower (2014) argues that comprehensive reporting on all the capitals, as suggested by IIRC's *Discussion Paper*, published in 2011, would be necessary (IIRC, 2011b). The final framework however, leaves the decision which capitals to report on to the individual organisation. Moreover, the Framework requires a discussion of some capitals only if they are used as an input and connected to value creation. Natural capital for example is described as "all renewable and nonrenewable environmental resources and processes […] that support the past, current or future prosperity of an organization" (IIRC, 2013f, para. 2.15). It is argued that the Framework neglects the disclosure on impacts on the wider environment, which is not directly linked to an organisation's prosperity (Flower, 2014). Flower (2014) attributes the self-declared failure of the IIRC to the dominance of representatives from the accounting sector and multinational companies, with an interest to control the emergence of a new reporting approach in a way favourable to them.

Thomson (2015) comments on Flower's article and largely agrees with the criticism raised. He states that "integrated reports privilege a neo-liberal programmatic and incorporate the elements of sustainability that are aligned with underlying principles of capitalism" (Thomson, 2015, p. 21). Thomson (2015) argues that integrated reporting is too focused on the business case for sustainability and subordinates sustainability to the need to increase wealth for investors. Still, he acknowledges that some positive, social and environmental outcomes might arise from integrated reporting and thinking.

In response to Flower's article, Adams (2015) states that it is too early to assess whether the <IR> Framework is a success or a failure. Adams (2015) addresses Flower's critique by arguing that the main objective of the IIRC is not to address sustainability accounting and reporting, which is already covered by other organisations such as the GRI. Adams (2015) argues that integrated reporting might help encourage long-term thinking and the consideration of sustainability aspects at executive level, which sustainability reporting only managed to a limited extent. In addition to that, she agrees with Flower's critique of the missing requirements to report on all capitals and the trade-offs between them. However, she also highlights the underdevelopment of appropriate accounting practices, that could capture the stocks and flows of capitals such as social and relationship capital (Adams, 2015). Nevertheless, Adams (2015) points out that while a measurement of the different flows between the capitals is not possible, the capital model still has the potential to lead to a broader consideration of different factors that impact value creation.

3.3 Integrated Reporting in the Context of Corporate Reporting

According to the IIRC, integrated reporting builds on existing reporting practices such as financial reporting, management commentary or sustainability reporting (IIRC, 2011b). These three reporting practices will briefly be introduced and compared to integrated reporting in order to provide the context for the current development.

3.3.1 Financial Reporting

Financial reporting, as a central element of corporate reporting, serves the purpose of providing "financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity" (IASB, 2010a, p. 9). Financial information is summarised in financial statements, which show the financial position and performance of an organisation (IASB, 2010a). Elements of a financial statement are for example the balance sheet, listing assets, liabilities and equity, the income statement providing information on income and expenses or statements of cash flows for a specific period (Deloitte, 2015b). Financial statements mainly provide information on financial performance for the past and present the financial situation up to a specific date (Müller & Stawinoga, 2015; Paternostro, 2013).

The requirements for financial reporting are determined by national law and international standards and vary according to the type and size of the company. The International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) for example, are used in around 120 countries and have been adopted by the European Union in 2005 (IFRS Foundation, 2015). In addition to IFRS, in Germany and Sweden national regulations such as the German Commercial Code, German Accounting Standards or the Swedish Annual Accounts Act of 1995 and the Bookkeeping Act, govern how financial information need to be presented (Deloitte, 2015a, 2015c).

The predominantly quantitative information presented in financial statements, is frequently complemented by a more narrative report in form of a management commentary. This report seeks to explain and complement the information presented in the financial statements (Paternostro, 2013). The IASB issued a framework on how to present such a management commentary, which gives further insight into its nature. According to the framework a management commentary should establish the context for understanding the financial statements by explaining "management's view not only about what has happened, including both positive and negative circumstances, but also why it has happened and what the implications are for the entity's future" (IASB, 2010b, para. 9). Central elements of such a commentary are for example an organisation's objectives and strategies, its risks and opportunities or performance and prospects (IASB, 2010b; Paternostro, 2013).

In both Sweden and Germany some large companies are required to publish a report similar to the management commentary, proposed by the IASB. In Sweden, all limited companies need to prepare an annual report, including the so-called *förvaltningsberättelse,* which is translated to management report for this thesis (Bolagsverket, 2014). Other sources may call it directors' or administration report. Similarly, some large German companies are required to publish a *Lagebericht,* which can also be translated into management report (ASCG, 2012; Müller & Stawinoga, 2015). While being different in their specific requirements, all these reports intend to further clarify the situation of the company and may also present forward-looking information for example on expected risk and opportunities (Bolagsverket, 2014; Paternostro, 2013; Picard, Behncke, & Hoffmann, 2014). Both financial statements, management reports and other reporting formats, are commonly published together in a company's annual report.

Some general characteristics and corresponding limitations of financial reporting are central in order to understand how integrated reporting fits into the current reporting landscape. To begin with, financial reporting is largely regulated and standardised (Müller & Stawinoga, 2015). This enables a high comparability both from one reporting period to another and between reporting entities. On the other hand however, these regulations also limit the degree of freedom to customise disclosure according to the needs of an organisation's stakeholders (Fasan, 2013; Müller & Stawinoga, 2015).

In addition to that, financial statements primarily deal with present and backward-looking financial information (Paternostro, 2013). Fasan (2013) highlights the inability of this information to enable a forward-looking assessment of an organisation and to predict future performance. As outlined above, this limitation may partially be overcome by management commentaries. Furthermore, the amount and complexity of the information presented in financial reports is criticised and seen as an obstacle for readers to easily understand and identify relevant information (Fasan, 2013).

Moreover, the insufficient representation of non-financial information is mentioned as a key limitation of financial disclosure (Fasan, 2013). Fasan (2013) claims that issues related to governance, social or environmental aspects are not given enough attention, despite their importance for the future success of an organisation. Linked to, Müller and Stawinoga (2015) state that financial reporting primarily focuses on economic aspects which limits its capability to address the information needs of a wider stakeholder audience regarding sustainability related information.

The EU took up on that limitations and adopted Directive 2014/95/EU, which "requires companies concerned to disclose in their management report, information on policies, risks and outcomes as regards environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues, and diversity in their board of directors" (European Commission, n.d., para. 1). The directive entered into force in late 2014 and needs to be transposed into national legislation within two years. This new directive is expected to apply to around 6000 large companies in the EU (European Commission, n.d.).

3.3.2 Sustainability Reporting

While financial reporting has been applied and further developed since the 19th century, sustainability reporting, as it is practiced today, is a relatively new phenomenon, which started to emerge in the 1990s (Herzig & Schaltegger, 2006). Starting in the 1970s, companies began to complement their financial reporting primarily with information on social implications of their business activities. These reports discussed social and employment issues and impacts in a separate publication (Herzig & Schaltegger, 2006; Müller & Stawinoga, 2015). These early sustainability related reports were lacking regulation and standardisation and lost their relevance by the end of the century due to a number of reasons such as limited usefulness to stakeholders and low credibility (Herzig & Schaltegger, 2006).

During the 1980s, the public focus changed to environmental issues, which can be seen as a consequence of environmental disaster, like the release of toxic gas in Bhopal or the accident at the Chernobyl nuclear power plant (Herzig & Schaltegger, 2006). These reports communicated the environmental aspects and impacts of business activities as well as measures to address environmental challenges to a broad audience (Müller & Stawinoga, 2015). Social and environmental reports can be characterised as one dimensional sustainability related reports, since they either focus on social or environmental issues (Müller & Stawinoga, 2015).

In 1987 the *Brundtland Report* was published, coining the term *sustainable development* as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (United Nations, 1987, p. 43). Based on the notion of sustainable development, Elkington (1997) introduced the concept of the triple bottom line of a company. The triple bottom line requires a company to focus "on economic prosperity, environmental quality and – the elements which business has tended to overlook – social justice" (Elkington, 1997, p. 2). The corresponding triple bottom line reporting can be seen as a multidimensional approach to reporting, covering economic, social and environmental aspects (Mitchell, Curtis, & Davidson, 2008).

Multidimensional sustainability related reporting, including the economic, social and environmental dimension of sustainable development, started to emerge in the mid 1990s and today is a well-established part of corporate communication (Herzig & Schaltegger, 2006; Müller & Stawinoga, 2015). Different names have been used to describe corresponding publications, while the term sustainability report is most often used today (KPMG, 2013).

The KPMG Survey of Corporate Responsibility Reporting 2013 provides a valuable snapshot of contemporary sustainability reporting practices. Assessing reporting of 4,100 companies, the 100 largest in 41 countries, and the 250 largest companies in the world, the researchers found that 71% of the 4,100 companies and 93% of the top 250 companies were practising sustainability reporting in 2013 (KPMG, 2013). 67% and 79% of the 100 largest companies in Germany and Sweden were found to practice sustainability reporting in the 2013 (KPMG, 2013). Figure 3-3 shows which terminologies the 4,100 companies chose for their publications.

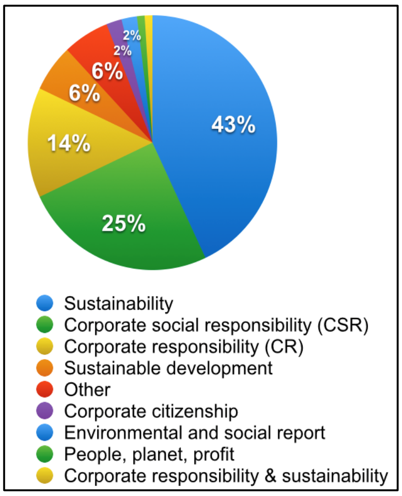

Figure 3-3. Reporting terminology for sustainability disclosure

Source: Figure adapted from KPMG (2013)

The study also looked at the guidelines used and found that 78% of the 4,100 companies and 83% of the 250 largest companies worldwide used the reporting guidelines issued by the Global Reporting Initiative (KPMG, 2013).

The GRI standards are considered to be the standards most often used for sustainability reporting by organisations worldwide (GRI, n.d.-b). The GRI is a non-governmental organisation (NGO) based in Amsterdam that published its first guidelines on sustainability reporting already in 2000. The fourth generation of these guidelines GRI G4 were published in 2013 (GRI, n.d.-c). According to the organisations, "a sustainability report is a report […] about the economic, environmental and social impacts caused by its everyday activities (GRI, n.d.-a, para. 2). Furthermore, it states that "the underlying question of sustainability reporting is how an organization contributes, or aims to contribute in the future, to the improvement or deterioration of economic, environmental and social conditions, developments, and trends at the local, regional or global level" (GRI, 2013b, p. 17). The target audience of a sustainability report goes beyond that of financial reports and is not specifically defined. In general sustainability reports intend to meet the information need of various stakeholder groups (Fasan, 2013). In most countries sustainability reporting is voluntary, while in Sweden, state owned companies are required to publish a sustainability report on a 'comply or explain' basis (Ministry of Enterprise, Energy and Communications, 2007). While GRI requirements cover indicator for the economic impact of an organisation, a focus on environmental and social aspects can be recognised (GRI, 2013b; Paternostro, 2013).

In addition to sustainability reports, other initiatives contribute to the sustainability reporting landscape through more specialised approaches. The Carbon Disclosure Project (CDP) for example is a non-profit organisation, which provides a disclosure system for companies and cities to "report, manage and share vital environmental information" (CDP, n.d., p. 1). According to the organisation over 4,500 companies and 207 cities use the disclosure system. In particular, the organisation focuses on information related to climate change, water and forests.

Moreover, the United Nations launched an initiative called the UN Global Compact in 2000 (United Nations, 2014). The objective of the initiative is to align business practices with ten key principles for business conduct in the area of human rights, labour standards, environmental aspects and anti-corruption. According to the initiative almost 8,000 companies are participating, making it the largest initiative that focuses on corporate sustainability, worldwide. In addition to adhering to the principles, participating companies are required to disclose how they implement the principles through a *Communication on Progress* report, which might be included in a company's annual or sustainability report (United Nations, 2014).

3.3.3 The Role of Integrated Reporting

As mentioned before, the integrated report is primarily targeted at providers of financial capital and seeks to explain how value is created over time. While the Framework acknowledges that an integrated report benefits other stakeholder as well, the overall aim is to improve the communication between organisations and the capital market (Müller & Stawinoga, 2015). From an evolutionary perspective, integrated reporting can therefore be seen as an extension of financial reporting, while it also builds on other reporting strands such as sustainability reporting (Fasan, 2013; IIRC, 2011b).

In the context of corporate reporting, integrated reporting seeks to overcome key limitations of traditional reporting practices, some of which have been introduced above (IIRC, 2011b).

Through the concept of the seven capitals, integrated reporting seeks to communicate how an organisation interacts with multiple resources and relationships and how that is connected to value creation (IIRC, 2013f). Financial statements and management reports commonly focus on financial and manufactured capital, while sustainability reports mainly communicate aspects related to social, human and natural capital (Paternostro, 2013). Moreover, sustainability reports are focused on reporting on an organisation's economic, social and environmental impacts, while integrated reports seeks to communicate the strategic relevance of addressing these issues and the possible impacts for an organisation's value creation (Adams, 2015).

In addition to that, the outcome of integrated reporting should be a forward looking report, focusing on an organisation's strategy and how it intends to create future value (IIRC, 2013f). This is a contrast to the present and backward looking information usually presented in financial statements, while the management commentary may include disclosure related to the future (Paternostro, 2013). The IIRC criticises the complexity and longevity of current reports and states that "length and excessive detail can obscure critical information rather than aid understanding" (IIRC, 2011b, p. 4). In order to overcome these obstacles, the <IR> Framework places an emphasis on a concise report, limiting disclosure to only material information (IIRC, 2013f). In addition to that, the spread of information over several disconnected publications should be avoided. An integrated report intends to present all the material financial and non-financial information and through applying the *Connectivity of information* principle, highlighting their interconnections (IIRC, 2013f; Panzer & Ergün, 2015).

Being principle based, the <IR> Framework provides organisations with the flexibility to customise their reports according to their needs. While overcoming the rigidity that is criticised for financial reporting, this aspect might also lead to integrated reports being hardly comparable (Müller & Stawinoga, 2015).

The question which role the integrated report should have compared to other corporate reports is explained to some extent in the <IR> Framework. It states that "an integrated report may be prepared in response to existing compliance requirements" and "may be either a standalone report or be included as a […] part of another report or communication" (IIRC, 2013f, para. 1.14 and 1.15). Müller and Stawinoga (2015) argue that a standalone report next to other voluntary or mandatory publications would have the advantage of giving an organisation the freedom to prepare a report in line with the requirements of the <IR> Framework. Through this option, however, the integrated report would also add to the multitude of different reports, which is already seen as problematic by report recipients (Müller & Stawinoga, 2015). Another option would be to extend existing reporting formats such as the management report, with the requirements of an integrated report (Müller & Stawinoga, 2015). If an organisation publishes a separate sustainability report, it is also thinkable to merge this reports with for example the management report in order to create an integrated report (Kajüter, 2015). A discussion of how integrated reporting aligns or is in conflict with the German management report is provided in other publications and will not be discussed in more detail (see for example: Haller & Fuhrmann, 2013; Kajüter, 2015; Picard et al., 2014).

The aspects, mentioned above, are all related to the informative function of integrated reporting. However, as explained in Section 3.1, integrated reporting also intends to foster integrated thinking and better decision-making within a company. The IIRC states that "because traditional reporting occurs in silos, it encourages thinking in silos. Integrated Reporting, on the other hand, reflects, and supports, integrated thinking – monitoring, managing and communicating the full complexity of the value creation process" (IIRC, 2011b, p. 9). In this context, silo thinking implies that a company is made up of different silos, e.g. finance, sustainability or human resources (HR). Silo thinking describes a mentality where these departments all work separately without much interaction. In practice, preparing an integrated report requires the collaboration of commonly disconnected corporate functions such as finance, sustainability or accounting and thereby avoids a silo mentality (IIRC, 2011b; Krzus, 2011). According to Eccles and Krzus (2010, p. 151) "as each unit [...] begins to better understand the consequences of its decisions on other units, better decisions that craft and reinforce a sustainable strategy will be made". Similarly, Müller and Stawinoga (2015) argue that the cooperation between different functions might foster the integration of issues related to corporate responsibly into business activities. In summary, getting a better understanding of the different financial and non-financial aspects and their interdependencies, is not only the basis for an integrated report, but is also expected to integrate economic, social, environmental considerations in decision-making and management (Panzer & Ergün, 2015).

Table 3-4 summarises key characteristics of the different reporting formats.

Table 3-4. Characteristics of different reporting formats

	Financial statements	Management commentary (IASB)	Sustainability reports	Integrated reports
Target audience	Specific stakeholder (investors, lenders and other creditors)	Specific stakeholder (investors, lenders and other creditors	Several stakeholders	Specific stakeholder (providers of financial capital)
Time frame	Past and present	Past, present and future	Past, present and future	Past, present and future
Capitals covered	Financial capital	Financial and manufactured	Social and relationship, human and natural	Financial, manufactured, intellectual, human, social and relationship and natural
Obligation	Mandatory	Voluntary	Voluntary	Voluntary
Scope	Financial reporting entity (company or group of companies)	Financial reporting entity (company or group of companies)	Broader than financial reporting entity (supply chain, LCA approach)	Broader than financial reporting entity (supply chain, LCA approach)

Source: Table adapted from Fasan (2013), Paternostro (2013) and IASB (2010b)

Regarding the scope, sustainability and integrated reporting deal with disclosure, not limited to the financial reporting entity. Both reporting formats may for example include a discussion of the social and environmental impacts and outcomes, which occur along the value chain.

3.3.4 Assurance of Integrated Reports

Information, presented in an integrated report, should enable providers of financial capital to make better decisions. Therefore, the report content needs to be trustworthy (IIRC, 2014a). The IIRC (2014a, para. 1.6) states that assurance "is a key mechanism to help ensure integrated reports and the <IR> process are, and are seen to be, credible and trustworthy".

Third party assurance of corporate reports is a common practice, however the assurance of an integrated report and the processes behind it, could bring about some challenges. Questions whether new assurance approaches need to be developed for this new reporting concept or whether existing practices can be used on an integrated report, arise (IIRC, 2014a). To provide some context, existing assurance practice will briefly be explained.

In both Sweden and Germany information, published by certain organisation, needs to be externally verified (Bolagsverket, 2013; Kuhner, 2010). This includes information provided in financial statements and, for some German companies, also in management reports. In the verification process, an auditor conducts an audit in order to be able to make a statement about whether the presented information has been prepared in accordance with certain criteria (Junior, Best, & Cotter, 2014). This auditing process is conducted to provide assurance that the information presented is correct. For financial information, the auditor provides an assessment regarding the information, which is traditionally a "form of 'positive' assurance that proclaims everything was done right" (Eccles & Krzus, 2015, p. 207). The audit is conducted to enable reasonable assurance of the respective information. A reasonable assurance opinion is provided in positive form and can be expressed by the auditors through stating that "the Consolidated Financial Statements (…) give a true and fair view of the net assets, financial position and results of operations of the Group" (BASF, 2015, p. 153). This is a positive statement, stating that everything was done correctly.

For non-financial information the level of assurance depends on the specific company. One possibility is a declaration by the company itself, stating that the information is correct. More credible options to verify non-financial information are to rely on third party assurance as well. Most commonly, auditors provide limited assurance or, in some cases, reasonable assurance for non-financial information (Eccles & Krzus, 2015). Limited assurance is less comprehensive than reasonable assurance and does not provide the same certainty. A limited assurance opinion is expressed in a negative form (Eccles & Krzus, 2015). It for example says that "based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report, is not prepared, in all material respects, in accordance with the criteria defined" (Atlas Copco, 2015, p. 132). This is a negative statement, stating that nothing has come to the attention of the auditors that would suggest the information to be wrong.

To which extent these practices are also applicable to assure integrated reports will be touched upon in Sections 5.2.2 and 5.3.1.

3.4 The Integrated Reporting Framework and GRI G4

The emergence of integrated reporting is closely connected to sustainability reporting and especially to the Global Reporting Initiative. In fact, the very first reports that could be considered integrated, the *Natura Annual Report 2002* and the *Novozymes Annual Report 2002*, already applied GRI guidelines for their sustainability disclosure (Natura, 2003; Novozymes, 2003). Moreover, as noted before, the GRI was also a co-founder of the IIRC (A4S & GRI, 2010). In addition to that, research conducted by the GRI shows that many companies that state to publish an integrated report, also use GRI guidelines (GRI, 2013d). Müller and Stawinoga (2015) acknowledge that an integrated report can be based on central elements of an annual and sustainability report. The presentation of different reporting approaches in Section 3.3, already made clear however, that sustainability and integrated reporting do not necessarily serve the same purpose. Behind this background, it is worth taking a closer look at the frameworks, governing the preparation of integrated and sustainability reports, in order to see to which extent they contradict or reinforce each other.

First of all, both reporting frameworks propose several guiding principles that govern report content and data quality. The <IR> Framework proposes seven guiding principles, while G4 provides four principles for report content and six principles governing report quality (GRI, 2013b; IIRC, 2013f; Kajüter, 2015). Moreover, for GRI G4, companies can choose between the *core* and *comprehensive* reporting option, while the latter requires a more extensive disclosure.

Table 3-5 shows the principles of both frameworks and where they overlap. What can easily be seen is that both the <IR> Framework and GRI G4 propose some principles that are unique. On the other hand however, several principles can be found in both frameworks with some differences in wording (Kajüter, 2015).

Table 3-5. Reporting principles of the <IR> Framework and GRI G4

<IR> Framework	GRI G4
Strategic focus and future orientation	-
Connectivity of information	-
Stakeholder relationships	Stakeholder inclusiveness
Materiality	Materiality
Conciseness	Clarity
Reliability and completeness	Reliability
	Balance
	Completeness
Consistency and comparability	Comparability
-	Sustainability context
-	Accuracy
-	Timeliness

Source: Table adapted from Kajüter (2015), principles based on GRI (2013b) and IIRC (2013f)

Connectivity of information is unique to the <IR> Framework and also somewhat differentiates an integrated report as Eccles and Krzus (2015) point out. For GRI G4 the principle of *Sustainability context* is specific to the guidelines. As explained earlier, the key question of sustainability reporting is how an organisation contributes or will contribute to sustainable development with regards to the economic, social and environmental dimension (GRI, 2013b). The principle requires to put performance information in the context of sustainability, for example through discussing them in relation to scarce environmental resource or social challenges (GRI, 2013b; Kajüter, 2015).

A principle addressing stakeholder engagement is included in both frameworks, while the wording already suggests some differences. The <IR> Framework requires an organisation to give insights into key relationships and engagement activities with stakeholders, while focusing on value creation. It states that this principle reflects “the importance of relationships with key stakeholders because [...] value is not created by or within an organization alone, but is created through relationships with others“ (IIRC, 2013f, para. 3.11). Stakeholder relationships are seen as means to value creation. GRI G4 sees stakeholder interests as the key foundation for determining the content of the sustainability report (GRI, 2013b; Kajüter, 2015). The guidelines require the reporting organisation to name key stakeholders and explain how they have been identified and selected. Moreover, stakeholder engagement activities and relevant topics raised by stakeholders need to be reported along with how these issues have been addressed (GRI, 2013b).

In addition to that, the content of both sustainability and integrated reports is determined by the principle of materiality. The two frameworks however, define what should be considered material information very differently. Again, the <IR> Framework’s concept of materiality revolves around value creation. Material pieces of information are those related to aspects that affect value creation over time (IIRC, 2013f). Moreover, since the key audience are providers of financial capital, value creation to be discussed is the value an organisation creates for itself plus the value created for others, given that "it affects the ability of the organization to create value for itself" (IIRC, 2013f, para. 2.5). For GRI G4 on the other hand, material issues "are those that may reasonably be considered important for reflecting the organization's economic, environmental and social impacts, or influencing the decisions of stakeholders" (GRI, 2013b, p. 17). Kajüter (2015) argues that the <IR> Framework defines materiality separate from stakeholder's views, while these views are central to GRI G4. Both frameworks provide guidance on how to determine material issues, while the processes are relatively similar. Both approaches are based on identification, prioritisation and selection of relevant issues. While the processes are similar, the <IR> Framework focuses on the potential impact on value creation, while GRI G4 considers the sustainability context and stakeholder views to determine material issues.

After comparing the definitions of materiality for both frameworks, an article by KPMG (2014) concludes that it might be possible to align the two definitions. It is argued that information reflecting the economic, environmental and social impacts of an organisation, is also connected to its ability to create value, which bridges the two materiality definitions. Moreover, GRI G4 defines stakeholders as those who are affected by the organisation's activities and also those that have the capacity to affect the organisation. Information that affects decisions of stakeholders, who in turn have the capacity to affect an organisation, is also connected to value creation, which further aligns the materiality definitions (KPMG, 2014). Despite these attempts to reconcile the two definitions, it is stated that companies will have to find their own way of aligning both frameworks (KPMG, 2014). Touching upon conciseness and the connectivity principles, the authors state that the *core* option in G4, requiring a limited amount of indicators for material aspects, would be suited for the combination of both frameworks in one report. The reporting required by the *comprehensive* option might make a separate publications necessary (KPMG, 2014).

Table 3-6 shows the content elements of sustainability and integrated reports. It can be seen that the required content overlaps for several elements. It should be kept in mind though, that the main focus of a sustainability report is to disclose sustainability related information.

Table 3-6. Content elements of the <IR> Framework and GRI G4

<IR> Framework	**GRI G4**
Organisational overview and external environment	General standard disclosure (Organisational profile)
Governance	General standard disclosure (Governance, Ethics and integrity)
Business model	General standard disclosure (Organisational profile, Stakeholder engagement)
Risks and opportunities	General standard disclosure (Strategy and analysis; *comprehensive* option only)
Strategy and resource allocation	General standard disclosure (Strategy and analysis)
Performance	Specific standard disclosure (Economic, social and environmental indicators)
Outlook	General standard disclosure (Strategy and analysis, *comprehensive* option only)
Basis of presentation	General standard disclosure (Report profile, Identified material aspects and boundaries)

Source: Table adapted from Kajüter (2015), content elements based on GRI (2013b) and IIRC (2013f)

What is called *General standard disclosure* in GRI G4 can be seen as a general overview of central aspects of an organisation, intended to provide the context for the more specific disclosure of sustainability performance and related management (Kajüter, 2015). The more specific disclosure, called *Specific standard disclosure* in GRI G4, includes indicators measuring economic, social and environmental impacts and explanations of how these impacts are managed.

The <IR> Framework puts more emphasis on the content that would go under *General standard disclosure* in GRI G4. It requires for example an explicit discussion of the business model, while GRI G4 is more focused on general information regarding the nature and scale of the business. Moreover, strategy is included in both frameworks. GRI G4 however, requires disclosure of an organisation strategy related to sustainability, while the <IR> Framework is focused on the overall corporate objectives and strategies. Reporting on performance is central to both frameworks. GRI G4 provides a comprehensive list of indicators that focus on the organisation's impact in the environmental, social and economic dimension. The <IR> Framework requires a discussion of the performance in relation to the strategic objectives and outcomes on the capitals. Still, how to measure outcomes on the capitals is not really clear and Fasan (2013, p. 55) argues that integrate reporting "is not able to measure the stocks for the six capitals and their variations". A discussion of diverse risk and opportunities is required by the <IR> Framework, while GRI G4 requires a presentation of "sustainability trends, risks, and opportunities" only for the *comprehensive* option (GRI, 2013b, p. 25). It is worth noting that the GRI G4 guidelines are accompanied by an implementation manual, which contains detailed guidance on how to prepare the information for an sustainability report, including guidance for compiling the specific indicators (GRI, 2013a).

Kajüter (2015) argues that the uptake of integrated reporting might cause that GRI G4 guidelines contribute with *Specific standard disclosure* to an integrated report, while the <IR> Framework might govern the remaining content. This however, he highlights, would only be possible if integrated reports can satisfy stakeholder needs for sustainability information.

3.5 Research on Integrated Reporting

This section provides an overview of research, relevant to the research questions. It first discusses the uptake of integrated reporting in an international context, followed by research on the quality of corporate reports as well as the motivations, challenges and impacts of integrated reporting.

3.5.1 Uptake

The GRI conducted research on the uptake of integrated reporting by analysing 756 reports, available in their Sustainability Disclosure Database. The researchers report that the number of self-declared integrated reports, based on GRI, rose from 14% in 2010 to 20% in 2012 (GRI, 2013d). For the year 2012, the research found that 93% of the reports came from large and multination enterprises, while the rest was published by small and medium-sized enterprises. Moreover, the reports came most frequently from Europe (58%), followed by Africa (13%), Asia (10%) and Northern America (9%), in 2012 (GRI, 2013d).

Research on the uptake of integrated reporting in different countries is still rare, due to the novelty of the approach. Nevertheless, a study conducted by Eccles and Serafeim (2011) provides some insights into both the state of integrate reporting in different countries as well as the interest from investors in environmental and social data. Looking at 2,255 companies in 23 countries, the researchers assessed the degree to which environmental and social performance data were integrated with financial information. While the integration of these aspects is not all that makes an integrated report, it can be seen as a proxy, indicating the degree of integration within a corporate report. To evaluate investor interest, the researchers looked at how often investors from different countries accessed environment and social performance data in a period of six months. This was done through data provided by Bloomberg (Eccles & Serafeim, 2011). Table 3-7, which is based on the results of the study and adapted from Panzer and Ergün (2015), shows the different countries, grouped by the degree of integrated reporting and the investor interest in environmental and social data. In both Sweden and Germany, the researchers found a high level of integration, while investor interest was found to be low in Sweden.

Table 3-7. Integrated reporting and investor interest in different countries

		Integrated reporting by companies	
		low	high
Investor interest	low	Australia, China, Hong Kong, South Korea	Brazil, Finland, France, South Afica, Sweden
	high	Canada, Greece, India, Japan, Singapore, USA	UK, Germany, Spain

Source: Table adapted from Panzer and Ergün (2015), originally based on Eccles and Serafeim (2011)

3.5.2 Report Quality

The study by the GRI, also provides some insight into the nature of integrated reports. Based on the reviewed reports, 48% of self-declared integrated reports were found to be "an annual and a sustainability report – published under one cover, with minimal cross-connection" (GRI, 2013d, p. 5). Only 31% of the reports were found to clearly link financial and sustainability performance, while the remaining 21% were seen as sustainability reports with little linkage to financial performance (GRI, 2013d).

To which degree corporate reports are in line with the theory behind integrated reporting, has been evaluated in several studies (Eccles & Krzus, 2015; PwC, 2012, 2013a, 2013b). These studies use the requirements proposed by the IIRC and apply them to existing reports. In most cases, the researchers come up with statistical figures to describe the quality of the reports compared to the requirements.

A study conducted in Sweden, analysed 56 reports from Swedish listed companies in 2011 (PwC, 2013a). The study was based on the *Prototype Framework* issued by the IIRC in 2012. Despite the fact that the *Prototype Framework* was released after the reporting period, the researchers concluded that several reports already contained information in line with this framework. The results show a strong communicating of strategy, risks and performance by most companies. On the other hand the researchers identified large potential for improvements for example related to the external environment, where 70% of the reports did not identify key developments in the market. Another weakness was identified in the extent to which sustainability was integrated in the business strategy. Only 27% of the reports were found to do so, while 34% presented sustainability related key performance indicators.

A similar study analysed corporate reports of German companies, represented in the DAX 30 stock market index for the reporting year 2012 (PwC, 2013b). The study was based on the criteria proposed by the IIRC's Consultation Draft published in 2013. Overall, results show that only few companies managed to communicate the different content elements effectively (see

Figure 3-4). Relatively many companies effectively communicated the first content element as well as risk and opportunities, while no company managed to do so for governance. In addition to that, many reports showed a clear potential to improve the presentation of the business model.

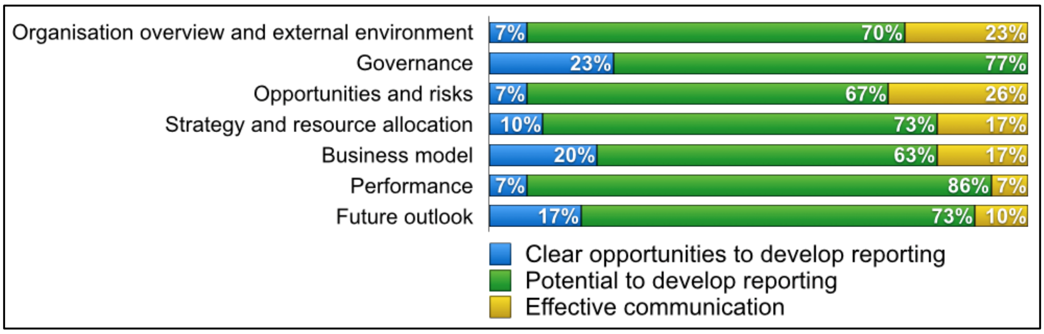

Figure 3-4. Evaluation of reports by content elements

Source: Figure adapted from PwC (2013b)

The two presented studies illustrate the methodological choices that are possible for researching integrated reporting. Both studies chose a sample of companies regardless of their reporting practices and compared them to the theoretical requirements. Eccles and Krzus (2015) took a different approach, since they specifically analysed self-declared integrated reports from 124 companies from around the world, for the year 2012. 24 reports came from South African companies. The analysis was also based on IIRC's *Consultation Draft*. The researchers investigated the quality of the content elements and some guiding principles and graded the quality on a scale from 0 to 3. In general, the researchers report little variation on the quality of the content elements and noted that South African companies scored on average higher for all elements. *Risk and opportunities (2.03)* and *Outlook (1.93)* were found to be the lowest scoring content elements, while *Organizational overview and external environment (2.23)* and *Performance (2.20)* received the highest score. On average the content elements were scored at 2.1 out of 3 possible points. With regard to the guiding principle *Connectivity of information* the researchers state that "lacking in nearly all reports were explanations of how financial and nonfinancial performance related to each other – a grave oversight considering the centrality of 'connectivity' as an idea" (Eccles & Krzus, 2015, p. 199). The researchers argue that this can be explained by the difficulties of understanding these relationships and lacking data to test hypotheses about cause and effect relationships.

An interesting aspect of all three studies is that they use criteria to compare the report against, which weren't published by the time the reports were prepared. The fact that the analysed reports were in line with the criteria, such as those proposed in the *Consultation Draft*, to some extent, suggests that some aspects of integrated reporting, as it is understood by the IIRC, are not necessarily new to corporate reporting and are already applied by many companies.

3.5.3 Motivations, Challenges and Impacts

The question why companies take on integrated reporting was assessed in a study based on survey data by Ernst & Young and GreenBiz (2013). 282 responses from companies in 17 sectors were collected in 2012. Figure 3-5 shows the percentage of interviewees that confirmed a specific reason. The figure lists reasons that can be associated to both better communication practices and internal benefits, such as better reporting efficiency, increased collaboration or cost reductions.

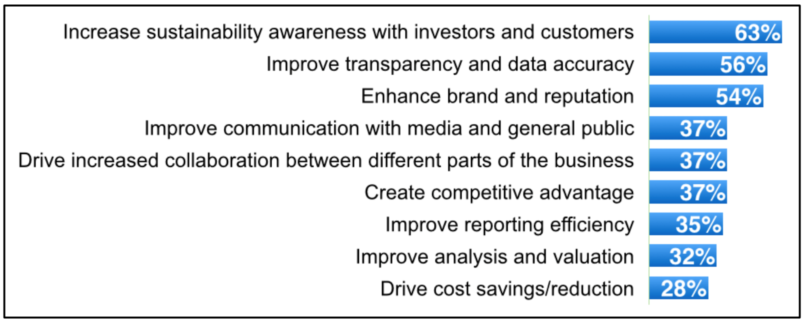

Figure 3-5. Reasons for creating a voluntary integrated report

Source: Figure adapted from Ernst & Young and GreenBiz (2013)

The study by the GRI, mentioned above, also included survey data from 18 companies (GRI, 2013d). Findings point to three main reasons for applying integrated reporting. The respondents mentioned overcoming a silo mentality within the company and meeting stakeholder demands. Moreover, all companies expressed that integrated reporting followed their strategy and business model with sustainability as an integral part (GRI, 2013d).

The study by Ernst & Young and GreenBiz (2013) provides insights into the challenges that are related to preparing an integrated report. Figure 3-6 lists the aspects, which were mentioned as most challenging. The term C-suite relates to the chief executives within a company.

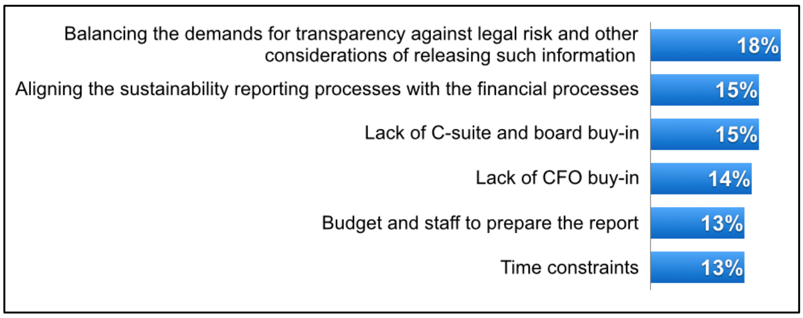

Figure 3-6. Challenges in creating an integrated report

Source: Figure adapted from Ernst & Young and GreenBiz (2013)

Collecting survey data from 56 German companies, the study by akzente and HBG (2012) also provides insight into key challenges. 62% of the respondents expect internal coordination and time constraints to be key challenges of integrated reporting. The second most frequently named challenge mentioned by 41% of the respondents was that management didn't regard financial and sustainability indicators as equally important. Other reported challenges were the collaboration between the investor relations and sustainability management unit and the difficulty of communicating sustainability aspects to analysts (akzente & HGB, 2012).

Two studies published by Black Sun (2012, 2014) in collaboration with the IIRC focus on the impact of integrated reporting on organisations. In both studies the researchers collected data from businesses, participating in the IIRC Pilot Programme, through surveys and phone interviews. In the first study, 44 responses to the survey and 19 phone interviews were included. Results show positive impacts of integrated reporting, which are clustered in five groups. Identified impacts are (Black Sun, 2012, p. 3):

- Connecting departments
- 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
- Creating value for stakeholders

Regarding the third bullet point, respondents agreed to a large extent that integrated reporting increases the focus on sustainability aspects among management. In addition to that, respondents reported positive impacts on stakeholder engagement, including a better understanding of their information needs (Black Sun, 2012). The positive findings are confirmed by the second study, which included survey data from 66 organisation and 29 interviews (Black Sun, 2014). Better understanding of the value creation process and benefits for data quality was mentioned by 92% and 84% respectively. Moreover, a positive impact on decision-making was reported by 79% of the respondents. In line with the pervious study, the researchers found positive impacts on collaboration between departments (Black Sun, 2014).

Churet and Eccles (2014) investigated the relationship between integrated reporting, the quality of ESG management and financial performance. The study included around 2000 companies and reports for the years 2011 and 2012. The analysed data was taken from a database provided by the asset management company RobecoSAM. The researchers found a weak but positive influence of integrated reporting on the management of ESG issues. For financial performance, no correlation was found. The researchers argue that a possible explanation could be the time lack between the uptake of integrated reporting and impacts on financial performance (Churet & Eccles, 2014).

The implications the move towards integrated reporting has for the disclosure of social, ethical and environmental information in annual reports was analysed by Solomon and Maroun (2012). The researchers compared the annual reports of 10 listed South African companies, before and after Kings III made integrated reporting a requirement (see Section 2.2). The researchers report a substantial increase in the amount of social, ethical and environmental information presented in the annual reports. Moreover, these pieces of information were found in multiple sections, while being confined to specific sections or sustainability reports earlier to integrated reporting. In addition to that, the researchers state that integrated reports were "imbued with stakeholder accountability rhetoric" and infer that integrated reporting has led to new priorities amongst management (Solomon & Maroun, 2012, p. 5). The researchers also noted that they found an excessive repetition of social, ethical and environmental information throughout the reports. The researchers remain sceptical of the actual impact the move towards integrated reporting has on companies and point to the limitation of making inferences regarding the inner working of a company based on its external reporting. They conclude their study with the frequently quoted sentence:

> *While the existence of an integrated report should embed sustainability reporting in the heart of the primary corporate reporting vehicle, the annual report, this does not necessarily imply that the reporting will fulfil its potential for transforming corporate behaviour or will not result in empty rhetoric.* (Solomon & Maroun, 2012, p. 5)

3.6 Theories about Integrated Reporting

Integrated reporting has not yet been extensively discussed from a theoretical perspective. Still, several theories can be useful to assist the understanding of this new reporting approach. Ioana and Adriana (2014) highlight legitimacy theory as well as stakeholder and shareholder theory as particularly important for the discourse on integrated reporting.

Legitimacy theory is frequently used to investigate corporate reporting and especially sustainability reporting (van Bommel, 2013). Suchman (1995, p. 574) defines legitimacy as 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". According to legitimacy theory, companies seek to establish and maintain a social contract or a license to operate by aligning their value system with that of the society they operate in (van Bommel, 2013). Reporting takes a central role in managing legitimacy since it communicates the organisation's values and norms to society (van Bommel, 2013). Legitimacy theory can be used to explain why companies publish sustainability reports and disclose their impact on society at large. Similarly, it may be used to provide insight into why companies move towards integrated reporting (van Bommel, 2013). Integrated reporting can be used as an approach to demonstrate how social, environmental aspects are connected to the core business and how they are aligned with an organisation's purpose or strategy. In addition to that, Eccles and Krzus (2010) argue that integrated reporting has the potential to improve the dialogue with divers stakeholders groups. Hence, integrated reporting may also be a tool to manage legitimacy among the relevant stakeholders.

To understand the possible implementation and intentions behind integrated reporting, two competing theories namely the shareholder and the stakeholder theory are most useful (Ioana & Adriana, 2014). Both theories have different assertions of the purpose of the firm, which ultimately govern how integrated reporting may be understood and applied by different actors (Massie, 2010). Both theories will be introduced and related to integrated reporting.

From a shareholder theory perspective, managers have the primary task to maximise financial value for shareholders (Smith, 2003). From a stakeholder theory point of view, the shareholder is only one out of several stakeholders and the managers need to consider the legitimate interests of all stakeholders for decision-making (Smith, 2003). The consideration of multiple stakeholder interests does not mean however, that the company neglects profitability. The focus is rather on balancing different interests, of which profitability is one (Smith, 2003). From a shareholder theory perspective, other stakeholder interests are seen "as a means to the end of profitability" (Smith, 2003, p. 87). This means that activities tailored to benefit other stakeholders, for example charity projects, should be conducted if they are in the best interest of shareholders (Smith, 2003).

Massie (2010) argues that from a shareholder theory perspective, integrated reporting will be adopted to uncover those ESG aspects that might positively impact the financial value of a company. Discovering the interconnections between financial and non-financial information can help to identify those environmental, social and governance aspects that are relevant to the increase of the organisation's prosperity (Ioana & Adriana, 2014). Indeed, the <IR> Framework shows many instances of shareholder theory, for example in the focus on value creation for providers of financial capital or the definitions of the six capitals, including stakeholder relationships, as resources to enable a company's prosperity. From a stakeholder theory perspective, integrated reporting would be used as a tool to improve the dialogue with stakeholders. It would be applied to uncover the interactions and dependencies with stakeholders in order to balance the different interests of which the interests of shareholders are one out of many (Ioana & Adriana, 2014; Massie, 2010).

Both theories convey their understanding of the purpose of the firm. Integrated reporting seeks to balance these competing theories and according to Massie (2010, p. 8) "the real challenge […] is whether the creation of a system of integrated reporting will affirm and support a more accurate view of the role of the corporation in creating long-term value for individuals, for firms, for stakeholders, and for communities".

4 Research Methodology

This chapter introduces and justifies the research design that has been chosen to answer the research questions. Moreover, the methods used for data collection and analysis are presented.

4.1 Guiding Assumptions and Research Design

The research is explorative in nature, which can be attributed to the novelty of integrated reporting and the uncertainties regarding its implementation and its impacts. The research methodology was supported by triangulation, which means the use of several data sources and methods to investigate one topic. The research project has been designed to provide a wide range of insights regarding possible implications, both positive and negative, that this reporting approach entails. Research design and the methods, selected for data collection and analysis, were based on some guiding assumptions and ideas, which are grounded in the current knowledge about integrated reporting and available research.

First, it is acknowledged that integrated reporting influences and interacts with existing corporate reporting practices. It is assumed that the benefits or drawbacks integrated reporting will bring with it, is ultimately dependent on how well this approach can be adopted by companies and aligned with existing requirements and practices for corporate disclosure. RQ1, which relates to the relationship between integrated and sustainability reporting, has been chosen to investigate the interactions with existing reporting practices. Answering this research question from a theoretical perspective and providing a solid background to integrated reporting, is primarily addressed through a literature review and a comparison of different reporting approaches, as presented in the previous chapters.

In addition to that, one guiding assumption, which has been touched upon in several sections, is that a company is affected by the way it reports. Moving towards integrated reporting is expected to bring about changes in an organisation, for example in the form of better cooperation between different departments or a more holistic thinking and decision-making. Following this assumption, RQ2, asking about the journey towards and implications of integrated reporting, has been phrased to capture the experiences and insights from a practitioner's point of view. Large parts of the research project have therefore been attributed to conducting and analysing interviews with experts in the field, focusing on motivations, challenges and internal impacts.

Another principal idea behind this research project is the assumption that integrated reports are different from 'regular' corporate reports and include specific, observable features. These observable features may for example be a discussion of the interdependencies between different capitals or a presentation of the external environment and the business model. These aspects have been presented in Section 3.2 and are mainly determined by the <IR> Framework. RQ3, which asks about the nature of an integrated report, has been chosen to investigate what characterises an integrated report and to which extent the requirements proposed by the IIRC are applied in contemporary integrated reports. The research therefore included the analysis of six integrated reports using a research instrument that has been designed based on the <IR> Framework (see Appendix B – Research Instrument).

Moreover, interviews and report analysis, primarily targeted at RQ2 and 3, were also suitable to provide insights into the interdependencies between integrated and sustainability reporting. These methods were therefore also used to answer RQ1 from a practical point of view.

4.2 Methods for Data Collection and Analysis

4.2.1 Literature Review

A comprehensive literature review has been conducted, which was based on peer-reviewed articles, books, grey literature, research from accounting organisations as well as official publications and research from standard setting organisations such as the IIRC, the IRC of South Africa or the GRI. The literature review as method for data collection had several intentions. First, it was conducted to provide a background to the subject under investigation and establish the context for this thesis. In addition to that, the literature review was used to guide the design of other research methods such as the interviews and the report analysis. Interview questions or criteria used to review corporate reports were based on the review of relevant literature. Thirdly, the literature review has been chosen as a method to answer RQ1 from a theoretical perspective. To the extent possible, for example regarding research or national reporting requirement, the focus was set on Germany and Sweden. In many cases however, insight from other countries seemed crucial to provide a comprehensive understanding of integrated reporting.

4.2.2 Interviews and Interview Analysis

In order to answer RQ2 and also parts of RQ1, the semi-structured expert interview has been chosen as the principle method for data collection. A semi-structured interview is an interview with a flexible structure, usually supported by a research guide that contains the thematic areas that should be covered during the interview. Mason (2004, p. 1021) states that "the relatively open, flexible, and interactive approach to interview structure is generally intended to generate interviewees' accounts of their own perspectives, perceptions, experiences, understandings, interpretations, and interactions". An expert interview is an interview with a person that possesses specific knowledge related to a certain profession or field. Flick (2009, p. 166) states that "mostly staff members of an organization with a specific function and a specific (professional) experience and knowledge are the target groups".

Regarding the nature of RQ2, it was necessary to collect data from those persons that were actively involved and working with the subject of integrated reporting. The intention was to get a picture of the diverse experiences, different experts were making with the concept. Acknowledging the fact that these experiences might be very diverse and context specific, a flexible approach to getting access to the expert knowledge was required. Hence, the semi-structure interview with experts was seen as the most suitable method for this research project. Conducting a survey has also be considered, however this method was seen as not flexible enough to capture the diversity of insights and experiences that are being made with integrated reporting in practice. Flick (2009) mentions time pressure as a common challenge for expert interviews, therefore interviews over phone were chosen as the interview mode.

Especially relevant to this research project were representatives from companies involved in integrated reporting as well as other expert such as accountants or business analysts. To find relevant interview partners, both German and Swedish companies have been identified. This was done through desktop research, guided by lists of the largest national companies, reviews of articles regarding integrated reporting or by looking at companies that participated in the IIRC Pilot Programme. Usually a check of the company's website and the publications could provide the information if the company was working with integrated reporting.

Based on the list of identified companies, the representatives primarily from the sustainability staff functions have been identified and contacted. Representatives from that area have been chosen since, they were expected to be most involved in integrated reporting, as research suggests (Black Sun, 2012). Moreover, they were expected to provide insights regarding the link between integrated and sustainability reporting, thus helping to answer RQ1. For the other experts, relevant companies in the accounting sector or focused on the analysis of companies regarding their sustainability or ESG performance, have been identified and persons involved in integrated reporting have been contacted. Table 4-1 provides a list of interviewees and additional information regarding the interviews.

Table 4-1. List of interviewees

Company Representatives			
Name	Company	Position and/or Department	Mode and date
J. André	SKF AB	Project Coordinator Corporate Sustainability	Phone interview June 11, 2015
R. Bernro	Vattenfall AB	Senior Development Manager Sustainability	Phone interview June 8, 2015
A. Christensson	Volvo AB	Director Investor Relations	Phone interview June 12, 2015
A. Furbeck	LKAB	Director Sustainable Development	Phone interview June 10, 2015
H. Jenß	Deutsche Bahn AG	Senior Business Analyst, Corporate Strategy, Sustainability Management and Corporate Foresight	Phone interview June 12, 2015
D. Jost	Bayer AG	Environment & Sustainability	Phone interview July 8, 2015
L.-O. Larsson	Swedfund International AB	Senior Manager ESG Affairs; CEO of Integrated Reporting Sweden	Phone interview June 8, 2015
L. Rieth	EnBW AG	Group Expert Sustainability	Phone interview June 19, 2015
D. Schmid	SAP	Chief Sustainability Officer	Phone interview June 12, 2015
V. Stelkens	Flughafen München GmbH	Consultant in Strategic Sustainability Management, Department of Corporate Development	Phone interview June 18, 2015
L. Strömberg	Holmen AG	Director of Sustainable and Environmental Affairs	E-mail contact June, 2015
Other Experts			
Name	Company	Position and/or Department	Mode and date
N. Behncke	PricewaterhouseCoopers AG	Senior Manager; Expert in Corporate Reporting	Phone interview July 16, 2015
H. Dräger	IIRC	Executive Director of the IIRC Business Network	Phone interview June 16, 2015
M. Grünewald	imug Beratungsgesellschaft für sozial-ökologische Innovationen mbH	ESG Analyst - Sustainable Investment	Phone interview June 16, 2015
F. Hedén	GES Investment Services AB	Senior Engagement Manager	Phone interview June 12, 2015
R. Link	KPMG AG	Certified Accountant, Accounting Centre of Excellence	Phone interview June 18, 2015
C. Söderlund	Ernst & Young AB	Certified Accountant, Climate Change and Sustainability Services	Phone interview June 17, 2015

Interview guides for the company representatives, accounting professional and analysts have been prepared and can be found in Appendix A – Interview Guides. While an interview guide is only a rough guidance on relevant topics, Flick (2009, p. 167) states that for expert interviews "the interview guide here has a much stronger directive function with regard to excluding unproductive topics". Therefore specific question were prepared beforehand. Still, the interviews did not strictly follow the order or wording of the questions. To enable an efficient interview process and prevent misunderstandings, the interview questions have been sent to the interviewees before the interview.

For the company representatives, the questions were divided into three sections in line with the research questions. First, general questions about the understanding of integrated reporting, motivations as well as obstacles and challenges were raised. The second part addressed the process towards integrated reporting and how it was coordinated with other reporting strands. The last part included questions on the internal impacts of taking this approach. The focus was set on the impact on internal collaboration, the discourse on sustainability aspects within the company and implications for corporate strategy.

To enable a qualitative analysis of the interview data, the recorded interviews needed to be transcribed first. As proposed by Meuser and Nagel (1991) the transcription did not include aspects like pauses or non-verbal elements. All interviews from company representatives were transcribed, which enabled a detailed analysis of the text. The interviews from other experts were summarised, since relevant findings were expected to be more diverse and a detailed comparison did not seem relevant.

The transcripts of the interviews with company representatives were further analysed, using meaning condensation and categorisation as proposed by Kvale and Brinkmann (2009). According to the authors "meaning condensation entails an abridgement of the meanings expressed by the interviewees into shorter formulation" (Kvale & Brinkmann, 2009). The authors propose a stepwise process, which has been followed and slightly adapted for this research project.

First, the interview text has been read completely and important passages in the text have been highlighted. In the next step these passages have been summarised as shortly as possible, including the main theme of the passage. These summaries were then transferred into a table, including the name of the interviewee. Furthermore, the summaries have then been labelled according to different categories. These categories were initially based on the interview questions and were for example, *motivations* or *challenges*. In the course of the analysis more categories evolved. In a next step all responses that were labelled according to a specific category were put together in one table, including the names of the interviewees. Through that it was possible to list all the condensed statements addressing for example motivations in one place. Through further reading, this enabled the identification of patterns, similarities and differences. The different themes that emerged during the analysis provide the structure for Section 5.1, where the interview findings are presented.

4.2.3 Review and Analysis of Integrated Reports

For the review and analysis of integrated reports, publications from German and Swedish companies were considered. As described earlier, reporting requirements differ based on the type of company. The focus for the selection was therefore placed on publicly listed companies and for the Swedish context public limited companies. In addition to that, the publications needed to show evidence that they could be considered integrated reports. This was evaluated through the report name, or the description within the report. To identify relevant Swedish companies a list of the largest national companies has been used and corporate websites have been checked. In the German context, three companies that participated in the IIRC Pilot Programme and fulfilled the above-mentioned criteria were selected. Table 4-2 shows the companies and the reports that have been included in the analysis. If available, the pdf version of the reports has been used to enable and easy analysis, using relevant software tools to comment and highlight. The *SAP Integrated Report 2014* was only available online and has therefore been analysed using the report website.

Table 4-2. List of companies and reports analysed

Company	Industry	Country	Report	Cited as
SAP SE	Software	Germany	*SAP Integrated Report 2014*	(SAP, 2015a)
EnBW AG	Energy Utility	Germany	*EnBW Report 2014*	(EnBW, 2015)
BASF SE	Chemicals	Germany	*BASF Report 2014*	(BASF, 2015)
Atlas Copco AB (publ)	Manufacturing (industrial tools and equipment)	Sweden	*Atlas Copco Annual Report 2014*	(Atlas Copco, 2015)
SKF AB (publ)	Manufacturing (bearing, seals and other)	Sweden	*SKF Annual Report 2014*	(SKF, 2015a)
Vattenfall AB (publ)	Energy Utility	Sweden	*Vattenfall Annual and Sustainability Report 2014*	(Vattenfall, 2015)

The literature review provided an overview of possible methods to analyse and evaluate integrated reports. Several studies base their methodology on the criteria proposed by the IIRC (Eccles & Krzus, 2015; PwC, 2012, 2013a, 2013b). These studies compare disclosure in corporate reports to the requirements proposed by the IIRC and provide some quantification of the disclosure quality. Eccles and Krzus (2015) scored integrated reports according to the requirements proposed by the *Consolation Draft*. However, little information is provided on how that scoring was actually done and which methods where used. Solomon and Maroun (2012) analysed integrated reports by counting *items* related to social, environmental and ethical issues and compared the frequency and location of these items from one reporting period to another. This approach however, was dismissed, since it did not account for IIRC‘s proposed requirements.

Some studies mention the use of a list of questions or a criteria catalogue to guide the analysis (Haller & Fuhrmann, 2013; PwC, 2012, 2013b). A research instrument based on specific questions was also seen as a suitable approach for this thesis. The intention behind the research instruments was to provide insights into characteristics of integrated reports. Ranking or grading the quality of the reports, as done in others studies, fell outside of the scope of this thesis. Moreover, the goal was to find out whether the integrated reports addressed the main elements proposed by the <IR> Framework. Since the Framework proposes numerous guiding principle and content elements, the scope of the research instruments needed to be limited. Similar to Eccles and Krzus (2015) the first seven content elements and three guiding principles namely *materiality*, *connectivity of information* and *stakeholder relationship* were included. Agreeing with Eccles and Krzus (2015), principles, such as *conciseness*, *completeness* or *reliability,* were seen as difficult to assess in an objective way. In addition to the content elements and principles, general report characteristics have been added to the research instrument in order the get insights into the structure, frameworks used and assurance practices. To guide and structure the data collection, for every element in the research instruments, several questions based on <IR> Framework have been developed.

Table 4-3 shows the main elements of the research instrument, while Table 4-4 provides an example of the questions used. The complete research instrument, including 36 questions, can be found in Appendix B – Research Instrument.

Table 4-3. Elements of the research instrument

1. General Report Characteristics
1.1 Report structure
1.2 Reporting frameworks
1.3 Audit and assurance
2. Content Elements
2.1 Organisational overview and external environment
2.2 Governance
2.3 Business model
2.4 Risk and opportunities
2.5 Strategy and resource allocation
2.6 Performance
2.7 Outlook
3. Guiding Principles
3.1 Materiality
3.2 Stakeholder relationship
3.3 Connectivity of information

Table 4-4. Example of questions used for report analysis

2. Content Elements	
2.1 Organisational overview and external environment	Are central business activities, markets and key quantitative information (e.g. size, revenue, employees) presented?
	Does the report identify the organisations mission/vision/values/culture?
	Is the competitive landscape and market positioning explained?
	Are significant economic, social, environmental and political aspects impacting the organisation's external environment explained?

For every report a corresponding table, based on the research instrument has been created. Corporate reports have first been reviewed and relevant chapters, addressing the elements in the instrument, have been marked. In a second step, relevant sections have been read in detail and analysed considering the posed questions. For every question a quick answer (yes, no, party) and a more detailed summary, explaining the answer, was inserted in the table. Corresponding page numbers, to easily find relevant sections again, were also included. Through answering the questions with yes, no, or partly, and explaining the answers, it was possible to summarise the key information from one report in one table.

After analysing all reports and in order to find out how different companies addressed the requirements of an integrated report, additional tables were created, where the information from all report, but only related to one element of the research instrument was transferred. Using a single table, where the information from all reports, specific to, for example, the business model, was included, enabled statements about patterns, similarities or differences through additional reading. It is worth noting that the <IR> Framework was seen as too comprehensive to check for every proposed aspect regarding content elements and principles. The questions have therefore been limited to what seemed most important to the author.

5 Key Findings

This chapter presents the key findings that have been generated through the interview process and the review and analysis of corporate reports. First, the insights provided by the company representatives and other experts will be presented. After that, findings from the integrated reports will be presented. In the end of the chapters on findings from company representatives and report analysis, a table, summarising key findings, has been included.

5.1 Reporters' Perspective

The following sections include a summary of key result and concrete examples from the interviews with company representatives. If necessary, the results are further analysed and interpreted and put in context of the theory behind integrated reporting.

5.1.1 Characterisation of Integrated Reporting

The interviews often started with a discussion of the general nature of integrated reporting and the understanding of integrated reporting in the respective organisation. This general topic was included in the interview guide in order to see which issues or aspects of integrated reporting were perceived as central from a practitioner's point of view.

The focus on materiality and conciseness, both guiding principles in the <IR> Framework, was frequently mentioned as a key characteristic of the integrated reporting process and the integrated report. Moreover, the capability to show the connectivity between information, for example financial and non-financial information, was often mentioned as central attribute of an integrated report. Regarding the target audience, most interviewees did not name a specific group, but stated that their integrated reports needed to satisfy a wide range of stakeholders.

Addressing the principle of materiality, one interviewee mentioned that the purpose of integrated reporting was to identify and lift up the material issues in order to help stakeholder understand what was really important for the company (A. Christensson, personal communication). He highlighted that too much information often times blurred the view on what was really relevant (A. Christensson, personal communication). What the interviewee touched on, was the information overload that is frequently highlighted as a key limitation of current reporting practices. Similarly, one interviewee stated that an integrated report should enable a holistic view on the company, including both the material financial and non-financial information (L. Rieth, personal communication). The holistic view an integrated report should convey, is encouraged through the IIRC's capitals model, including inputs and outcomes on several forms of capital (see Section 3.2.1).

Illustrating the different approaches to integrated reporting that can be chosen, one interviewee highlighted that for her organisation the decision was made to have the integrated report as one report that comprises all the information (H. Jenß, personal communication). The focus in the first integrated report, published in 2015, was to give a comprehensive presentation of the company. Limiting the report only to material issues was mentioned as the aim for the second integrated report, incorporating GRI G4 and coming in 2016. As mentioned earlier, integrated reporting is voluntary and the <IR> Framework is principle based. It is therefore left to the reporting organisations to decide on the design of their report. In general, trade-offs exist for example between materiality and conciseness on the one hand and completeness on the other. The outlined example shows that for some organisations the focus might be on the first two principles, while others put more emphasis on completeness. Integrated reporting is presented as a process that may change focus on certain principles over time.

In many interviews it was discussed, that the focus on material information also meant that an integrated report could not deliver the same level of detail than for example a separate sustainability report. One interviewee saw the integrated report as an overview of the organisation's operations while more specific and detailed information was available through other sources such as the website (V. Stelkens, personal communication). This aspect was also mentioned by L.-O. Larsson who described the integrated report as an umbrella report, which was less detailed than special reports for example on human rights or climate issues (personal communication). These statements picture the integrated report as an entry point to the organisation's disclosure while more detailed information can be found elsewhere. The focus on material information also means that decisions need to be made on which information is suitable to be included in an integrated report. This is of course tightly linked to the intention and intended audience the organisation tries to reach.

Putting forward another key principle of integrated reporting, many interviewees saw a central purpose of an integrated report in uncovering and presenting the interconnections between information. In line with other respondents, D. Schmid emphasised that the intention with integrated reporting was not to report aspects of financial and sustainability reporting side by side in one document (personal communication). It was seen as central to show the interconnections and dependencies between financial and non-financial information (D. Schmid, personal communication). This resembles the differentiation between a combined and an integrated report as discussed by Eccles and Krzus (2015). Uncovering the connections between financial and non-financial aspects is also the basis for integrated thinking, the overall foundation of integrated reporting. These interdependencies are difficult to identify or even quantify. An example of how this could look like in practice can be found in Section 5.3.3.

To summarise, most of the responses showed that interviewees were well aware of the concepts and principles underpinning integrated reporting. Interviewed experts put a different emphasis on certain aspects, which can be seen as an expression of the different approaches and directions organisations take to approach integrated reporting.

5.1.2 Motivations and Drivers

In order to learn more about why companies adopted integrated reporting, the motivations and drivers behind this approach were discussed throughout the interviews. While it is acknowledged that motivations and drivers are not the same, they were not explicitly separated in the interviews and in the analysis.

The analysis of the responses showed that especially one aspect was found in almost all the interviews, while being phrased differently. Most interviewees connected the step towards integrated reporting to the company's strategy or the way sustainability aspects were included in management processes. Most respondents explained the move towards integrated reporting as a consequence of the way their company was operated. The ambition behind integrated reporting was to improve communication in a way that gives a fair impression of the company, including all the financial and non-financial aspects that were considered most important for the business.

In line with most interviewees, V. Stelkens pointed out that for a company with one integrated strategy, integrated reporting was the most suitable approach to give a fair presentation of the organisation (personal communication). In this context an integrated strategy means that there is no separate sustainability and corporate strategy but that these strategies are aligned into one strategy. Another respondent also highlighted this aspect. D. Schmid stated that the internal awareness of the strong interdependencies between financial and non-financial aspects was a key driver to move towards integrated reporting (personal communication). Moreover, the fact that sustainability considerations were already embedded in the corporate vision and strategy supported the decision to report in an integrated way (D. Schmid, personal communication).

Resembling the argumentation of the two interviewees above, R. Bernro stressed that since his organisation had seven key targets, of which four were financial and three sustainability targets, it was a necessary step to report on these targets in one context, meaning one integrated report (personal communication).

While these excerpts suggest, that the uptake of integrated reporting is a consequence of how a company is managed, one interviewee also made the point that an influence in the other direction can also be a motivation. L. Rieth pointed out that besides improving corporate communication, an important motivation for moving towards integrated reporting was also to positively influence how the company was managed (personal communication). This aspect points to the interdependency between the transformative and informative function of integrated reporting, as discussed in Section 3.1. Practicing integrated reporting and exploring the connections between the various financial and non-financial aspects that affect value creation, might ultimately lead to a better information basis for management.

On a more practical side, some interviewees mentioned the avoidance of overlaps between annual and sustainability reports as a motivation for integrated reporting. J. André for example pointed out that while previously the annual report had discussed topics like purchasing or product R&D, the sustainability report had addressed responsible sourcing and life cycle R&D (personal communication). In his opinion, an integrated report was a better way of presenting what the company was actually doing. This aspect resembles an often mentioned weakness of current reporting practices, that relevant information is spread over a variety of different reports. Presenting this information in one place, while eliminating redundancies, as described by the interviewee, could help overcome this obstacle.

Some interviewees also stated that a reason for publishing an integrated report was to underline the organisation's stance on sustainability. D. Jost for example stated that when a company claimed to have integrated sustainability in corporate strategy and management, publishing an integrated report was a more credible way of communicating these aspects compared to publishing a separate sustainability report (personal communication).

Overall, different companies have different reasons to move towards integrated reporting. Still the intention to align reporting to the way a company is run, was a commonly mentioned aspect. Many companies had separate sustainability reports before moving towards integrated reporting. From the responses it can be inferred that the organisations gradually connected sustainability aspects more and more to their core business, their targets, values or strategies. It is assumed that at one point it became necessary to report on aspect that were already connected within the organisation, also in an integrated format.

5.1.3 People and Processes

To find out more about the implications and impacts of integrated reporting on companies, it was considered important to ask the experts about how integrated reporting was coordinated and which people were involved in the process.

Based on the explanations, interdisciplinary teams were responsible for the integrated report in most companies. Team members came most frequently from the financial staff functions, be it accounting or controlling, the sustainability or CSR staff function and the investor relations department, which is the department responsible for communicating with investors. Also common were employees from the communications department.

One interviewee pointed out that prior to integrated reporting, the financial department was responsible for the financial statements, investor relations for the administration report, while the sustainability department was responsible for the sustainability report (J. André, personal communication). The interviewee mentioned that the departments were still responsible for their respective parts, guided by framework such as IFRS or GRI, but collaborated closely to issue the final report. Similarly, in the case of a private company without an investors relations department, one interviewee described the reporting process, as being headed by the communication department as responsible for the overall layout, while financial and sustainability departments were responsible for dedicated content in the report, based on IFRS, country specific accounting requirements and the GRI framework (V. Stelkens, personal communication). The interviewee reported a close collaboration and a weekly coordination within the reporting team.

In its *Discussion Paper,* the IIRC criticised that reporting was organised in silos, thus fostering silo thinking (IIRC, 2011b). The respondents confirm this point and also highlight the changes in collaboration that occurred in their organisations. It was evident in most interviews, that the employees that were previously responsible for the financial and sustainability reporting processes, now work together to produce the integrated report.

Regarding the actual transformation process towards integrated reporting, only little information could be gathered. H. Jenß explained that after deciding on the requirements of the integrated report, reporting processes and necessary indicators needed to be prepared for the integrated report (personal communication). In order to identify which indicators were needed and how these could be properly collected, workshops and discussions with the respective business areas were necessary. H. Jenß stated that the whole process from the decision to the final integrated report took around 2 to 3 years (personal communication). One interviewee pointed out that a helpful tool for identifying the possible content and relevant processes for an integrated report, was the preparation of a prototype report based on an annual and sustainability report in collaboration with employees from the different functional units (D. Jost, personal communication).

5.1.4 Challenges

Expectedly, the move towards integrated reporting entails some obstacles and challenges, which the practitioners experience in their work. Discussing these aspects, many interviewees highlighted the organisational challenges that come along with changing reporting practices. Others named practical challenges related to the structure of an integrated report, while some respondents also addressed the difficulties in demonstrating the connectivity of information.

V. Stelkens saw the high efforts that were needed to coordinate within the teams and to align the different standpoints and views as a challenging process (personal communication). On the other hand, she stressed the positive effects of this process for integrated thinking as the main idea behind integrated reporting. It is assumed, that these challenges probably appear in every organisation that wants to prepare an integrated report. Controversial discussions, difficult decisions and compromises are probably inevitable for preparing an integrated report.

Another challenge reported by an interviewee was the initial need to align the different reporting strands in terms of timing (D. Jost, personal communication). The respondent explained that prior to reporting in an integrated way, the organisation published the annual and sustainability report at different times, which made changes in the reporting processes necessary. Especially for large organisations, this challenge, which is most likely also connected to high upfront costs, should not be underestimated and might require comprehensive planning beforehand.

L. Rieth explained that since integrated reporting was voluntary, the initial challenge had been to explain the possible changes and expected additional value of following this approach (personal communication). He noted that the gradual approach towards an integrated report was helpful in overcoming these challenges.

Corporate reporting is shaped by defined requirements and processes and most likely also by routines and habits. Introducing integrated reporting as a new reporting concept naturally disturbs these routines, which might cause resistance. As the interviewee's comments suggest, taking a stepwise process seems important. Interestingly, the interviewee's company published two combined reports before published an integrated report in 2015, which underlines the gradual move towards integrated reporting that has been chosen.

On a practical side, interviewees frequently mentioned the difficulties of how to present information in an integrated way and how to best structure an integrated report. Referring to the plenitude of information within an integrated report and the need to suit the reading habits of a variety of stakeholder, one interviewee saw finding a good structure as one of the most difficult parts (J. André, personal communication). Like several others, he explained that one common approach for an integrated report was to have general information in one place and then refer the reader to other documents or sections for more detailed information.

As pointed out in Section 3.2.2, conciseness and materiality are guiding principle for an integrated report. The need to keep the report as short as possible while at the same time covering all the different reporting framework such as GRI, IIRC's framework, IFRS and other national standard was mentioned as a challenge (V. Stelkens, personal communication). V. Stelkens highlighted the trade-off between a concise and short communication and a level of detail that satisfied all stakeholders' information needs (personal communication).

This aspect demonstrates that integrated reporting enters a reporting landscape that is already packed with voluntary and mandatory requirements. While integrated reporting and the <IR> Framework seeks to simplify the reporting landscape and align different reporting approaches, it also adds to the multitude of possible frameworks to consider.

As some interviewee claimed, a central purpose of an integrated report was to show the connectivity of information for example between financial and non-financial aspects. J. André took up on that principle and noted that it was very challenging to actually identify the correlation between financial and non-financial information (personal communication). He noted that it required a lot of maturity within an organisation to see these synergies as well as methodological capabilities to make meaningful statements about the financial implications of non-financial information. The positive implications of analysing the connectivity of information have been emphasised by one interviewee. Referring to the monetarisation of non-financial information, D. Schmid highlighted that making the financial implication of non-financial information visible, positively affected internal discussions and decision-making (personal communication).

It can be assumed that these capabilities are rare in many companies and the <IR> Framework provides little guidance on how to uncover these independencies. The missing link between financial and non-financial performance in most integrated reports as highlighted through a study by Eccles and Krzus (2015) also confirms this challenge.

In summary both organisational and practical challenges arise from integrated reporting. Overcoming the organisational challenges however, can also bring about significant benefits as shown in the next section.

5.1.5 Interdepartmental Cooperation and Sustainability Discourse

The company representatives have been asked to assess how integrated reporting was influencing the internal collaboration between different staff functions or departments. The intention was to find out more about the possible effects integrated reporting might have on internal processes. Interviewees were also asked to assess if integrated reporting made an impact on the way sustainability aspects were discussed throughout the organisation. This question was motivated by prior research pointing at positive impacts on the awareness of sustainability aspects.

Answers to the question on internal cooperation were largely consistent. Almost all of the respondents reported positive effects on interdepartmental collaboration. Being asked about examples, closer and more frequent cooperation between the different staff functions was frequently mentioned. In line with many responses, one interviewee experienced that the mutual understanding of the different roles and responsibilities within the company increased (R. Bernro, personal communication). Referring to the fight against silo thinking, which is often mentioned as a key benefit of integrated reporting, he stated that silo thinking was not avoided but at least the silos got smaller.

Similarly, one interviewee stated that the different departments such as HR, controlling, accounting or the sustainability staff function had always worked together (L. Rieth, personal communication). However, working towards integrated reporting lead to more and intense cooperation among business units. This enabled a better understanding for the work of the colleagues and lead to a more holistic view on the various parts within the company (L. Rieth, personal communication).

In order to produce an integrated report, several departments need to cooperate and coordinate their work. The responses suggest a positive effect on the mutual understanding between the employees from the different staff functions. The increased understanding could be interpreted as an expression of increased integrated thinking within an organisation. As a reminder integrated thinking is partly defined as the „active consideration by an organization of the relationships between its various operating and functional units“ (IIRC, 2013f, p. 2).

Giving an example of how the closer collaboration and coordination between different departments could look like in practice, H. Jenß stated that through the move to integrated reporting, the controlling and the specialist departments, such as the environmental staff function, had to worked closer together in order to align control and reporting systems for non-financial data with those of corporate finance (H. Jenß, personal communication). She also pointed to the increased area of responsibility for the controlling staff function, which had to start working with all the non-financial indicators in addition to the financial ones. This is also a practical example of how integrated reporting can help to increase the understanding of sustainability aspects within different staff functions.

In general, most interviewees confirmed the positive influence of integrated reporting on the understanding of sustainability aspects within the organisation. V. Stelkens highlighted an effect for both the financial and the sustainability staff functions and noted that employees from the sustainability department started to think more economically and colleagues from the financial staff function more holistically (personal communication). She pointed out that integrated reporting encouraged the sustainability staff function to see the advantages of acting sustainably from a business perspective (V. Stelkens, personal communication). L. Rieth confirmed a positive influence on the understanding of sustainability aspects within the entire organisation (personal communication). However, he also emphasised that central to integrated reporting was to understand the interactions between all the various material elements influencing corporate performance of which sustainability aspects were one among many. This response emphasises that integrated reporting is not necessarily focusing on sustainability aspects in general. It focuses on value creation, which is in turn influenced by how organisations account for the multiple aspects including economic, environment and social ones that affect value creation.

In addition to that, several interviewees described the integrated report as an important communication tool within the organisation. V. Stelkens for example mentioned that through the integrated report every employee could understand how their doing contributed to the sustainable development of the organisation (personal communication). In addition to that J. André mentioned that through an integrated report it became very easy to understand, both for internal and external stakeholders, how values and drivers of the company were connected to sustainability (personal communication). These aspects suggest an increased understanding among employees and other stakeholders of how sustainability is connected to the business.

5.1.6 Strategy and Sustainability

One intention behind the interviews was to investigate the possible effects of integrated reporting on corporate strategy. As mentioned earlier, respondents in another research project expected integrated reporting to facilitate the integration of sustainability aspects into corporate strategy (akzente & HGB, 2012). The interviewees have been asked whether they think integrated reporting could connect sustainability and corporate strategy more strongly.

While most interviewees saw integrated reporting more as a consequence of their organisation's integrated strategy, many respondents also mentioned that integrated reporting was supportive on the way towards a more sustainable strategy. In line with other responses, L. Strömberg stated that through working with integrated reporting it was more emphasised than before that sustainability aspects needed to be considered when discussing the organisation's strategy (personal communication). Similarly, A. Christensson explained that through integrated reporting sustainability aspects were discussed regularly with the strategy department when the annual report got prepared (personal communication). He argued that this process kept sustainability up on the agenda along with other important aspects and reinforced the message of a strategy that integrated sustainability. L. Rieth emphasised that through integrated reporting the sustainability staff was even more challenged to clarify and explain why sustainability aspects were material for the corporate success and thus had to be included in the integrated report (personal communication).

What these responses make clear it that practicing integrated reporting is not necessarily leading to a more sustainability business strategy. The relevance of sustainability efforts for business success needs to be carved out. Still, the responses suggest that integrated reporting helps to support the development towards a more sustainable strategy. How strong this influence can be, is difficult to investigate and cannot be inferred from the collected data.

Providing another perspective, H. Jenß referred to integrated reporting as a way to operationalise a new strategy (personal communication). According to her, the transformational process could be accelerated via integrated reporting, since new processes and topics were introduced in daily routines. Since, in her company, the introduced strategy comprised the social, environmental and economic dimensions, this way of operationalising the strategy was also seen as helpful to foster integrated thinking and the understanding of sustainability aspects throughout the organisation (H. Jenß, personal communication).

According to L.-O. Larsson integrated reporting could also be a driver for business development (personal communication). He argued that discussing a company's externalities and responsibilities in a wider context, as encouraged by the <IR> Framework, could also help identify new business opportunities for example with regard to climate issues.

5.1.7 Integrated Reporting and GRI

Integrated reporting and especially the <IR> Framework emerged at a time when sustainability reporting according to GRI had been applied for several years and had matured in many companies (GRI, n.d.-c; KPMG, 2013). All the interviewees' organisations applied GRI guidelines, therefore it was seen relevant to find out more about how integrated and sustainability reporting influenced each other and whether changes in sustainability reporting were necessary while moving towards integrated reporting.

To begin with, none of the interviewees reported significant changes for sustainability reporting due to the step towards integrated reporting. All of the companies continued preparing sustainability information in line with GRI guidelines. Frequently mentioned was the decision to move more detailed information on specific sustainability issues or the GRI index to the corporate website. This can be interpreted as an attempt to adhere to the concept of materiality and conciseness for the integrated report.

Being asked about possible conflicts between integrated reporting and sustainability reporting according to GRI guidelines, one interviewee mentioned that the increased focus on materiality in GRI G4 was supportive for the integrated report (D. Schmid, personal communication). Also addressing the concept of materiality, A. Christensson, mentioned that while environmental data had been integrated in the annual report several years ago, the adaption of the GRI guidelines and increased sustainability disclose made it necessary to produce a separate sustainability report (personal communication). He mentioned that through a focus on the material issues in sustainability reporting, it became thinkable again to move back to one report, integrating content from sustainability and financial reporting.

To put the responses in perspective, it is worth mentioning that the GRI increased the emphasis on materiality through the G4 guidelines. This step gives companies the opportunity to focus on fewer indicators for their disclosure. Since an integrated report should also be short and concise, the respondents see this development in sustainability reporting as supportive on the way towards integrated reporting.

Also addressing GRI, D. Jost underlined the importance of the GRI framework for the integrated report and stated that it was a helpful tool to argue why certain information needed to be included in the annual report (personal communication). In addition to that, several interviewees emphasised the role of sustainability reporting according to GRI as a management tool to guide the sustainability work within their company. Comparing the GRI guidelines to the IIRC Framework, one interviewee noted that in terms of managing sustainability aspects, his organisation would probably not be on the same level with only the IIRC framework (J. André, personal communication).

V. Stelkens, pointed to the differing definitions of materiality in the <IR> and the GRI framework, which was discussed in Section 3.4 (personal communication). According to her this discrepancy made it difficult to choose one approach, which was why her organisation used a customised approach covering both the approaches of GRI and <IR>, instead.

Discussing how future reporting might look like and in line with other respondents, one interviewee mentioned that detailed reports according to various frameworks such as GRI or the CDP would still be there in the future, however he saw a trend towards less detailed umbrella reporting focusing on material issues (L.-O. Larsson, personal communication). From this statement it can be inferred, that detailed sustainability reporting needs to be practiced in order to meet the needs of various stakeholder groups. Integrated reports on the other hand can be more targeted at a specific audience and presented in a short and concise manner, focusing on the most material issues.

5.1.8 Summary of Findings

Table 5-1 provides a short summary of the key findings that have been discussed in detail in the previous sections.

Table 5-1. Summary of findings from interviews with company representatives

Characterisation of Integrated Reporting	• Holistic presentation of financial and non-financial aspects, focusing on materiality and conciseness • Demonstrating connectivity of information central to an integrated report
Motivations and Drivers	• Aligning reporting to integrated strategy and management • Improving internal management • Avoiding overlaps between annual and sustainability reports • Underlining the company's stance on sustainability
People and Processes	• Interdisciplinary teams responsible for integrated reporting • Staff from financial, sustainability, investors relations department represented • Workshops, discussions, prototype report as tools to prepare for integrated reporting
Challenges	• Organisational challenges: coordination in teams, aligning reporting strands in terms of timing, explaining expected value from taking this step • Practical challenges: how to structure integrated report, manage information, account for diverse target audience, account for numerous frameworks • Uncovering and reporting connectivity between financial and non-financial aspects
Interdepartmental Cooperation and Sustainability Discourse	• Increased interdepartmental collaboration, closer more frequent interaction • Better mutual understanding regarding different roles and responsibilities • Increased internal understanding of sustainability aspects
Strategy and Sustainability	• Integrated reporting supportive on the way towards a more sustainable strategy • Stresses the importance to include sustainability in discussion on strategy • Way of operationalising a new corporate strategy • Positive driver for business development
Integrated Reporting and GRI	• No significant changes to sustainability reporting practices, move of detailed information to corporate website frequently mentioned • GRI G4 focus on materiality supportive for integrated reporting, but different materiality definitions as challenging • Continued demand for detailed sustainability information by stakeholders

5.2 Other Experts' Perspective

The development of integrated reporting is supported and influenced by several professional service companies such as KPMG, PwC or Ernst & Young. These companies conduct audits and assurance engagement on corporate disclosure or advise companies in diverse fields such as finance, legal or taxation issues. Regarding integrated reporting they conduct research on the topic and are shaping the development of integrated reporting through their membership in the IIRC (IIRC, n.d.-a). Experts from audit and consulting organisations have been interviewed in order to get insights on their experiences with integrated reporting and learn about which challenges they are facing in working with companies that implement integrated reporting. Moreover, two practitioners specialised in sustainable investment and ESG performance of companies have been interviewed to better understand the implication of integrated reporting for the recipients of integrated reports. Key findings relevant to the research questions are presented here.

5.2.1 General Aspects

N. Behncke outlined that integrated reporting represented a more fundamental change in corporate reporting than visible at first sight (personal communication). She argued that this reporting concept not only affected the actual corporate report but also influenced how an organisation was managed. According to her, integrated reporting required an organisation to practice integrated thinking, which she explained as the integration of non-financial aspects into for example corporate strategy, management, governance and remuneration (N. Behncke, personal communication). This is in line with the ambitions of IIRC to also influence corporate thinking, as expresses through the <IR> Framework. It emphasises that for an integrated report it is not enough to adjust the layout of a corporate report. Wider changes of internal processes are necessary, which then informs the content of an integrated report.

Discussing corporate strategy, F. Hedén argued that it was counterintuitive for a company to have a separate corporate and sustainability strategy and corresponding separate reporting strands (personal communication). He pointed out that if there were sustainability aspect to the activities of an organisation, as usually the case, these aspects should be integrated in the overall strategy and operations and consequently also be reported integrated. In that sense, he assumed that integrated reporting was probably also an expression of how mature companies were in managing sustainability aspects. Beginners might start with separate sustainability reporting, while more mature companies, realising the interconnection of sustainability aspects and their core business, might rather report in an integrated way (F. Hedén, personal communication).

In line with other respondents, N. Behncke emphasised that without the driving force coming from management, it was difficult to overcome silo thinking and motivate the different staff functions to embrace a new reporting concept (personal communication). In addition to that, R. Link pointed out that a common obstacle were the expectation of high upfront costs related to the necessary adaption of reporting systems (personal communication). Establishing reliable processes for both financial and non-financial information and aligning different reporting schedules, were mentioned as contributing to the high initial costs. On the other hand however, he outlined that some companies also saw the potential for cost savings in the medium to long term through streamlined reporting processes (R. Link, personal communication).

Regarding possible benefits, M. Grünewald saw a great potential of integrated reports to effectively communicate business risk and opportunities connected to sustainability and make investors aware of these aspects (personal communication). This also underlines a key intention of integrated reports, which is to demonstrate how sustainability aspects are contributing to a company’s future viability. Through bringing sustainability information in the annual report, investors could be made more aware of the related risks and opportunities.

5.2.2 Assurance

Regarding audit and assurance procedures, two interviewees mentioned that it was difficult for auditors to assure forward looking information, due to the inherent uncertainty of this information (C. Söderlund and H. Dräger, personal communication). As explained earlier, at the core of integrated reporting lies the communication about value creation over time, which requires statements about the future. H. Dräger explained that in order to avoid liability issues, a possible approach was to use scenarios, providing a range of possible outcomes (personal communication).

Also discussing assurance, N. Behncke, argued that the <IR> Framework was not specific enough to serve as a good foundation for assuring an integrated report (personal communication). As an example, she highlighted the guiding principle *Connectivity of information*. Different companies might implement this principle either by providing few comments on the connectivity of different capitals or through a comprehensive analysis of the relationship between these capitals. According to her, this raised the question whether both practices could be seen as fulfilling the requirements of the Framework (N. Behncke, personal communication).

Apart from that, no major difficulties regarding audit or assurance were mentioned. In line with other interviewees, C. Söderlund stated that normally financial and sustainability related information was assured differently and received reasonable or limited assurance respectively (personal communication). She outlined that this practice was also suitable to assure the information presented in an integrated report (also see Section 3.3.4). Examples from analysed reports give further insight into the question of how integrated reports are assured (see Section 5.3.1).

5.2.3 Integrated and Sustainability Reporting

N. Behncke assumed that the significance of sustainability related disclosure would increase in the future and that reporting processes for non-financial information would get closer to those for financial reporting in terms of quality (personal communication). This, she emphasised, would also be a necessity to effectively connect the reporting strands with each other. However, N. Behncke noted that the presentation of sustainability related information through separate sustainability reports would not necessarily continue (personal communication). According to her, material sustainability aspects would rather be integrated into the general corporate communication, which could have the effect of bringing these aspects closer to the attention of those responsible for decision-making (N. Behncke, personal communication). Similarly, C. Söderlund pointed out that through integrated reporting, sustainability reporting moved closer towards the responsibility of the management, while it had previously been driven by specialised personnel (personal communication)

M. Grünewald addressed the upcoming EU directive on non-financial reporting and highlighted that through this directive integrated reporting could get a new dynamic (personal communication). Many companies that did not previously issue a sustainability report might directly move towards integrated reporting instead. He argued that for these companies it might be easier to apply the integrated reporting framework compared to companies that for many years had worked with separate sustainability reporting (M. Grünewald, personal communication). Discussing possible advantages and disadvantages of integrated reporting for the report recipients, F. Hedén argued that with separate sustainability reporting it was easy to find specific information (personal communication). He mentioned that an integrated report was more complex and some stakeholders might not be able to easily find the information they needed.

5.3 Integrated Reports in Practice

In this section, the key findings based on the review and analysis of six integrated reports will be presented. The section is structured in the same way as the research instrument and presents the results for each category. For most sections, first a summary of findings is presented, followed by report examples and further analytical thoughts regarding the findings and the theoretical requirements put forward by the <IR> Framework.

5.3.1 General Report Characteristics

Structure and Frameworks

The six reports provided diverse examples of the different approaches companies took in structuring and presenting their integrated reports. Every company had its unique setup, which made a comparison of the structure difficult. Still, some similarities could be identified.

To begin with, most reports contained basic report elements such as the management report, the financial statements and information on corporate governance. Four of the reports specifically referred to the <IR> Framework for their disclosure. The financial information was presented throughout the management reports, in the financial statements and corresponding notes. The financial information was based on IFRS and country specific regulations in all cases. To present detailed financial information, most companies provided lengthy sections for their financial statements with detailed explanatory notes. Not following this approach the *EnBW Report 2014* only included condensed financial statements on seven pages (EnBW, 2015, p. 98). For the complete financial statements the reader was directed to a separate document on the website.

Sustainability reporting content such as data on environmental and social performance was also found throughout the management reports. This information was prepared in line with GRI reporting guidelines in all the analysed reports. In addition to that, all the reports served as *Communication on Progress Reports* for the UN Global Compact. Most commonly the reports contained dedicated section addressing environmental and social aspects, while two reports contained specific sections in the back with detailed sustainability performance data.

In addition to the information in the management report, the *Atlas Copco Annual Report 2014* for example contained a dedicated section on ESG performance in the back of the report with detailed explanatory notes (Atlas Copco, 2015, p. 125). These notes presented information on reporting principles, the materiality process, environmental impacts and governance issues and, from the author's perspective, could be considered a separate sustainability report. A similar approach was found in the *SKF Annual Report 2014,* which, just like the financial statements, contained environmental and social statements in the back of the report, with detailed information on environmental and social performance (SKF, 2015a, pp. 175–181).

The *SAP Integrated Report 2014* was found to be different from the other reports. First, it was only available online. This enabled the reader to quickly switch between sections, supported by hyperlinks, and use interactive features like a chart generator. The report provided the possibility to get an overview of different aspects and access more detailed information, for example on performance, if necessary. Moreover, on the report website, it was stated that next to the online report "we continue to provide the 'SAP Annual Report 2014.' This report is an excerpt from the SAP Integrated Report 2014 which comprises all of the information legally required to be presented to our shareholders" (SAP, 2015b, para. 1). Referring back to Section 3.3.3, it was mentioned that an integrated report could be a standalone report or included in other reports. None of the other companies saw their integrated report to be separate from their annual report. It is argued that the *SAP Integrated Report 2014* can be seen as a standalone report while in the other cases existing reporting formats have been merged.

Structuring an integrated report and organising the multitude of information can be challenging as stated by several interviewees. The structure of the *SAP Integrated Report 2014* was found to be very close to the content elements of the <IR> Frameworks, for the other reports the content from sustainability reporting was included or integrated into existing reporting formats. Surprisingly two companies were found to include detailed sustainability content in the back of their reports in addition to the elaborations in the management report. This is probably an attempt to enable stakeholders, interested in specific data on ESG performance to quickly find these pieces of information, while redundancies most certainly result from this structural choice.

Assurance

The analysis of the six reports gave an impression of how integrated reports are assured today. To begin with, all of the reports included a report from the auditors with an assurance opinion on their sustainability or non-financial performance information. In addition to that, all the reports had separate opinions on financial and non-financial information. No integrated report was found to have only one audit opinion for the entire report.

The financial statements, annual accounts and for the German companies the management reports received a reasonable assurance opinion. The assurance engagements that have been conducted to assure the non-financial information aimed at providing limited assurance in most cases. For two reports, some selected non-financial information even received a reasonable assurance opinion. The standards used, as well as the criteria applied to assure the non-financial information can be seen in Table 5-2. Most often, the *International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, has been used. ISAE 3000 is a common standard to assure non-financial and sustainability related disclose (GRI, 2013c). Additionally, the *ISAE 3410, Assurance Engagements on Greenhouse Gas Statements* and for the Swedish companies the *RevR 6 Assurance of Sustainability Reports,* issued by the Swedish association for accountants, auditors and consultants (FAR) has been applied. Since all the reports used GRI guidelines to prepare their sustainability reporting content, these guidelines were also used as criteria against which the information was assured.

Table 5-2. Standards, criteria and scope of assurance for non-financial information

Report	Standards used	Criteria	Scope of assurance
SAP Integrated Report 2014	ISAE 3000; ISAE 3410	GRI G4, and other	Limited and reasonable
EnBW Report 2014	ISAE 3000; ISAE 3410	GRI G3.1 and other	Limited
BASF Report 2014	ISAE 3000; ISAE 3410	GRI G4, and other	Limited
Atlas Copco Annual Report 2014	RevR 6	GRI G3, and other	Limited
SKF Annual Report 2014	ISAE 3000	GRI G4, and other	Limited and reasonable
Vattenfall Annual and Sustainability Report 2014	RevR 6	GRI G4, and other	Limited

The findings are in line with the responses from the accounting experts. The <IR> Framework was not used as a criterion to assure whether reports were in line with the Framework or not. Rather the practices that are applied for separate annual and sustainability reports were also conducted on different parts of the integrated reports.

5.3.2 Content Elements

Organisational Overview and External Environment

The first content element, as defined by the <IR> Framework, requires the reporting organisation to give an overview of its key activities and to discuss the external environment in which it operates. For the overview, the Framework recommends to include general aspects such as the organisations mission, vision, values, key activities, as well as key quantitative information for example on revenues or number of employees. Details on the competitive situation are also suggested to be included (IIRC, 2013f). The discussion on the external environment may for example include "economic conditions, technological change, societal issues and environmental challenges" (IIRC, 2013f, para. 2.21). From the explanation in the Framework basically everything that happens outside the company and may significantly impact value creation, should be captured by this content element.

To being with, all the analysed reports contained introductory chapters, most commonly on the first pages. In these sections the reports introduced the company and provided key information for example on the organisation's activities, products and services, geographical reach and markets as well as key quantitative information for example on financial performance or employees. In addition to that, all the reports contained references to the organisations mission, vision and values, although differently phrased by the reporting companies and presented in different sections.

A discussion of the competitive environment as suggested by the Framework, was addressed very differently in the different reports. All the reports presented some information on competition while this disclosure ranged from few mentions in the risk chapters, to more detailed and differentiated discussion regarding specific sectors. Five of the reports explicitly named key competitors and gave information of the position in the market. The *SKF Annual Report 2014* was found to provide a detailed description of the market position and key competitors for all of its markets (see for example: SKF, 2015a, p. 102).

Assessing the discussion on the external environment was arguably difficult, since the relevant information was frequently not limited to one section. All the report contained specific chapters discussing the economic environment, including detailed information on industry and market trends and economic developments relevant to the organisation. Some reports, for example the *EnBW Report 2014* or *Vattenfall Annual and Sustainability Report 2014,* also contained dedicated sections describing the political context in which the organisations operated. Sections dedicated to societal or environmental aspects influencing the external environment were not that clearly identifiable. Information on these matters was found for example in the chapters on risks or the chapters on the organisations' activities with regard to environmental or social aspects.

Two examples where found that, from the author's point of view, effectively communicated aspects of the external environment and the relevance for the company. The *SKF Annual Report 2014*, in a section called *External drivers and trends*, identified key drivers namely, population growth, urbanisation, environmental constraints and smart systems (SKF, 2015a, p. 14). For every driver the report explained the impact caused by these trends and provided information on how the organisations would approach these issues. Similarly, the *BASF Report 2014* opened with a cover story, outlining future societal challenges. The challenges included urbanisation and future cities, future energy supply and food security for a growing world population. For all these global challenges, the report explained how the organisation worked on these issues and how the product portfolio addressed these challenges (BASF, 2015).

To summarise, all of the reports gave a basic overview of the reporting organisation and its key activities as stipulated by the Framework. This is of course not unique to an integrated report but still one requirement. The discussion of the external environment was also found to some extent in all the reports. The Framework does not require to comprehensively describe environmental or social aspects affecting the external environment. The report should present those aspects that affect value creation. Here it becomes evident that the quality of this content element is very much depends on the organisation's awareness of the developments and trends that take place in its external environment. Moreover, the reporting organisation needs to evaluate which of these factors can really influence the ability to create value, which requires a great deal of judgment by the organisation. For the reader it is difficult to assess whether the important aspects of the external environment have been captured properly. Hence, a statement of whether a report complies with the requirements of the Framework or not, seems difficult to make. However, giving an overview of how an organisation addresses and contributes to solving key global challenges was found to be an effective way of presenting this content element.

Governance

According to the Framework, an integrated report should give insights into an organisation's governance structure and how this structure helps the organisation to create value. Corporate governance is broadly defined as the "system by which companies are directed and controlled" (Tihanyi, Graffin, & George, 2015, p. 1535). The <IR> Framework provides some guidance on what could be addressed by this content element. The leadership structure, strategic decision-making processes, procedures to ensure ethical business conduct and integrity are examples. This content element leaves a lot of room for interpretation and covers numerous aspects related to corporate governance. To simplify the analysis, the reports were analysed, focusing on where corporate governance aspects were reported and if theses sections addressed issues like leadership structure, governing bodies or ethical business conduct.

In general, all the reports had a well-defined section on corporate governance where the organisation's governance and leadership structure was introduced. The presentation on the governance structure usually contained the identification of the different roles and responsibilities within a company. In general the presentation on governance was found to be closely connected to the different national regulations such as the *German Corporate Governance Code* and the *Swedish Code of Corporate Governance*. In the dedicated section the reports explained how the organisation adhered to these different requirements.

Regarding ethics and integrity, all but one report presented the organisation compliance management system or programme. Additionally, all but one report presented the organisation's codes of business conduct, where basic principles with regards to ethics and integrity were defined. In many cases, other tools such as a supplier code of conduct, environmental management systems or policies addressing issues related to human rights have been found.

A clear presentation of this content element was provided by the *SAP Integrated Report 2014*. The report presented details on corporate governance in a dedicated chapter and also introduced the organisation's policies and management approach pertaining to sustainability, security and safety. Issues covered were for example the code of business conduct, human rights policies or sustainable procurement (SAP, 2015a).

The content element *Governance,* as described in the <IR> Framework, is a very general description of the many different aspects that could be included in an integrated report. Governance disclosure is already determined by country specific guidelines, which probably limits the relevance of the specification provided by the Framework. In general, this content element could give a good overview of how an organisation actually integrates economic, social and environmental aspects into its governance structures, management systems and policies. It is therefore argued that the quality of this element is depended on how well the internal governance is addressing these multidimensional aspects. Moreover, the Framework requires the organisation to explain the link between the governance structure and value creation. However, from the author's point of view the description in the Framework provides little guidance for how this could be achieved. Consequently it was not clear how to relate the content from the reports to the Framework. Research specifically on this content element was conducted by Larsson and Ringholm (2014) and can provide deeper insights into this aspect.

Business Model

The content element *Business model* requires the organisation to describe how inputs, related to the different capitals, are transformed through key activities into outputs and outcomes. Inputs are described as products and services, by-product and waste, while outcomes, as a very broad category, may include for example revenue generated, customer satisfaction, tax payments, job creation and environmental effects (IIRC, 2013a).

The analysis of the six reports showed no consistent way of how organisation communicated their business model. While all the reports had dedicated chapters presenting the business model, the level of detail and issues covered differed. In the specific business model chapters or in sections discussing the business model, all the reports addressed the organisation's key activities as well as main products and services. Inputs to the operations pertaining to the different capitals were not clearly presented in most cases, while only one report explicitly listed key inputs for the reporting year. Next to products and services, waste or emissions may also be included as outputs (IIRC, 2013f). However, these aspects were not found in the respective chapters but were reported in dedicated section discussing the environmental performance. Key outcomes for example regarding financial capital were found in the business model chapter to some extent. More specific information, for example regarding financial, social or environmental outcomes, was found in dedicated chapters on these aspects.

The *Atlas Copco Annual Report 2014* was found to effectively communicate the organisation's key inputs, outcomes and how it created value. After describing the key activities in the chapter *This is how we do business*, the report provided an illustration with key figures on resources that have been used throughout the year (Atlas Copco, 2015, pp. 10–13). The number of employee, capital employed, investments, R&D expenditure or raw material used, was presented for the reporting period. With the capitals model in mind these resources could be attributed to financial, intellectual or natural capital. In the same manner, the report presented the outcomes of the operations such as a reduction of accident, higher percentage of women in the workforce, reductions in energy consumptions or financial performance. Similar to other reports the presentation of outcomes also included the generated economic value and the distribution amongst different stakeholder such as the government, employees or business partners (Atlas Copco, 2015, pp. 10–13).

The *EnBW Report 2014* contained a comprehensive chapter on its business model, including a discussion of business principles, customers and products as well as the organisation's different segments. Since the report did not have a separate introductory chapter, the business model chapter also covered the first content element *Organisational overview and external environment*. Indeed, from the <IR> Framework's definitions, both content elements require a description of the organisation's key activities, which makes the presentation of these elements in one chapter understandable.

To summarise, all the organisations followed a different approach in presenting their business model. Even for those companies referring to the <IR> Framework, a consistent way of presenting the business model has not been found. In addition to that, the classification of inputs or outcomes according to the different capitals proposed by the Framework has not been found. Only the *SAP Integrated Report 2014* briefly touched on capitals while explaining its business model. Interestingly, the *EnBW Report 2014* stated that a "presentation of the IIRC capital model is planned for future reporting periods" (EnBW, 2015, p. 113). The <IR> Framework mentions that a way to improve the communication on the business model includes an "explicit identification of key elements of the business model" or "a simple diagram highlighting key elements" (IIRC, 2013f, para. 4.13). These approached have not been found, however the graphical presentation of inputs and outcomes in the *Atlas Copco Annual Report 2014* already went into that direction.

As illustrated by Figure 3-2, the business model lies at the heart of the value creation process. This content element could be a quick and clear way of communicating upon which resource the organisation relies, how it uses and converts them and what the respective outputs and outcomes are. In practice however, given the vagueness of some capitals, the complexity of many organisations and the multitude of inputs, outputs and especially outcomes, the implementation of this content elements according to the Framework seems difficult. The challenge is to limit the presentation to key inputs, outputs and outcomes, while not generating overly simplified and generic information.

Risk and Opportunities

The <IR> Framework requires an integrated report to present the organisation's specific risk and opportunities, which also includes risk related to the availability of key capitals. Moreover, the organisation's approach to manage these risk and opportunities should be discussed.

The analysis of the six reports showed that all the reports had dedicated chapters addressing risk and risk management practices. The discussion of opportunities differed between the reports. In some cases, risks and opportunities were discussed together, while other reports had separate chapters for opportunities or mentioned them in other chapters for example related to specific segments. All but one report had lengthy sections, listing various risks and opportunities and provided detailed information on them. In the *SKF Annual Report 2014* only a very short section on generic risks was found, while the reader was referred to a detailed risk matrix available through a document on the website (SKF, 2015b)

Regarding the different capitals, none of the reports classified the specific risk according to the impacts on or the availability of the different capitals. However, all reports presented a variety of different financial, economic, social and environmental risk that could be associated to different capitals. The possible impact of risks and opportunities on value creation was found to be explained in most reports while the level of detail differed. Most commonly, the possible impacts were explained while some reports for example the *EnBW Report 2014* or *SAP Integrated Report 2014* contained more specific information on magnitudes or probability of occurrence.

Considering the organisations' approaches to mitigate risks, most reports contained an explanation of the activities that should address the identified risks. For those reports containing a presentation of opportunities the steps taken to exploit these opportunities were explained as well.

The *Atlas Copco Annual Report 2014* was found to have a clear approach to presenting this content element. The report gave an overview of diverse risks related for example to the market development, the supply chain, corruption, health and safety, access to skilled employees or environmental issues. For all the risk, the report provided a characterisation of the risks, including possible effects on the company, and presented the approaches to mitigate the risk. In addition to that, for every risk, the corresponding opportunity was identified and explained (Atlas Copco, 2015, pp. 36–39).

The *EnBW Report 2014* provided a good example of clarifying the possible effects of risks and opportunities on business success. For the identified risk and opportunities, the report explained the possible effect on the company and for some risks also provided an indication of the magnitude and the probability of the risk. In addition to that, the report provided a matrix, illustrating how the risks and opportunities were linked to the 13 key performance indicators that were introduced earlier in the report (EnBW, 2015, p. 82). Through that a more differentiated picture of possible impacts on different aspects of the organisation's performance was possible.

The <IR> Framework requires an organisation to broaden the view on risk and opportunities. Possible risk and opportunities related to the different capitals and originating from the external environment need to be identified. A multidimensional presentation of key risk and opportunities, related to both financial and non-financial aspects could be found in all the reports to some degree. Similar to other content elements, it became apparent that the quality of this element depends on the organisation's capacity of monitoring a wide range of possible risks and opportunities, stemming from internal and external sources, and its capability to apply the right filters to identify those that might affect value creation significantly. For the reader, without industry knowledge, it is difficult to assess whether the organisation succeeded in identifying the relevant aspects. Therefore it can hardly be confirmed or negated whether a report complies with the Framework. A discussion on risk management processes and risks covered, however, can give a good impression on whether the organisation takes an integrated approach to risk management or mainly focuses on economic aspects.

Strategy and Resource Allocation

An integrated report should give insights into an organisation's strategic objectives, how it intends to achieve these objectives and how it will measure success. The importance of this content element is also reflected in the guiding principle *Strategic focus and future orientation (IIRC, 2013f, para. 3A).* Readers of an integrated report should be able to understand how the organisation's strategy will enable future value creation.

All report had a dedicated section presenting aspects of the organisation's strategy. These sections commonly gave insight into mission, vision or guiding principles and explained the general strategic direction, objectives or focus areas of the company. Additionally, all reports presented key goals or targets connected to the strategy in these sections. In all cases these goals or target were both of financial and non-financial nature and were frequently related to social, environmental and economic aspects.

The *BASF Report 2014* for example introduced the organisation's purpose, values, and strategic principles in the strategy chapter. In addition to that, the report listed the organisation's strategic focus areas such as innovation, employees and sustainability that should enable the organisation to achieve its goals. Four of these goals were financial goals while the other 16 were related to employees, health, safety, security and the environmental dimension (BASF, 2015, pp. 22–27).

It was also assessed whether sustainability as a general concept was integrated in the presentation on corporate strategy. All the reports contained references to sustainability in general or social and environment issues in particular. Some reports directly included sustainability narratives in their purpose or mission. The *Atlas Copco Annual Report 2014* for example stated "the mission is to achieve sustainable, profitable development" (Atlas Copco, 2015, p. 6). While the *BASF Report 2014* communicated the purpose as to "create chemistry for a sustainable future" (BASF, 2015, p. 29). Moreover, in all reports, the presented goals and targets comprised financial, social and environmental aspects.

In general, the strategy sections provided a high level overview of the strategic direction and objectives of the companies. For more detailed information on specific strategies or concrete activities, the reader was often referred to other sections or chapters throughout the reports.

Strategies for different business areas, strategies to foster innovation or to ensure good social and environmental performance could be found in separate chapters.

The *Atlas Copco Annual Report 2014* presented the strategy, vision as well as strategic activities for every of the company's business areas (see for example: Atlas Copco, 2015, p. 22). Similarly, the *Vattenfall Annual and Sustainability Report 2014* presented strategies, targets and planned activities for defined focus areas, which for example related to emissions, renewable energies, protection of biodiversity, or employees (see for example: Vattenfall, 2015, p. 35).

Regarding the measurability of success, stipulated by the Framework, most of the reports provided measurable performance indicators along with their goals and targets. The *EnBW Report 2014* for example provided a key performance indicator for every of its defined goals and presented the corresponding outcome in the reporting year as well as a target for 2020 (EnBW, 2015, pp. 24–25).

In summary, this content element was one of the most difficult ones to assess. Discussions on strategy or strategic objectives varied considerably from company to company and every organisation had its unique way of defining and presenting issues related to corporate strategy. Moreover, there was no consistent division between goals, objectives or targets. Information regarding specific strategies or strategic activities was spread over several chapters. The <IR> Framework logically lists the elements that should be included in the discussion on strategy. First the strategic objectives, followed by strategies to achieve these objectives should be identified. Resource allocation needs to implement the strategies and ways to measure success should be presented. In practice, the discussion on an organisation's strategy and strategic objective was fond to be much more complicated and not necessarily limited to a single chapter. Moreover, it was not clear, based on the <IR> Framework, which information can be classified as resource allocations plans. This aspect has therefore not been included in the analysis.

Nevertheless, all reports presented central elements of their strategy and showed how sustainability aspects were embedded in it. Most reports showed a variety of different goals related to the social, environmental and economic dimension. Referring back to the interview findings, most interviewees saw their integrated strategy as a driver to also report in an integrated way. The review of the reports also demonstrated that in most cases sustainability aspects were presented as an integral part of the corporate strategy. Still, the assessment of whether sustainability aspects are integrated requires a close reading of the strategy section and an examination of strategic goals and targets, since narratives emphasising the importance of sustainability are easily provided.

Performance

The <IR> Framework requires an integrated report to explain an organisation's performance related to its strategic objectives and the different capitals it affects. It provides some more detail of what might be included in this content element. Effects on different capitals, including effects along the value chain, and the relationship between past, present and future performance are mentioned and have been included in the research instrument (IIRC, 2013f). Moreover, it was noted where and what kind of performance information was reported.

To being with, all reports contained a performance summary commonly presented on the first pages of the report. For the *SAP Integrated Report 2014*, which was only available online, this summary could be found in the *Performance* chapter (SAP, 2015d). These performance summaries contained key financial and non-financial performance data while the ratio differed between the reports. Two reports had little information on non-financial performance in their summaries, while the others gave a detailed overview of the performance for example regarding social and environmental performance. Apart from the overviews, performance data was presented throughout the reports. Financial performance information could be found in dedicated chapters and was often broken down according to different segments or markets throughout the management reports. As already mentioned, all of the reports contained the financial statements with detailed information on financial performance. Information on non-financial performance was usually found in dedicated chapters for example on employees, environmental or social issues throughout the management reports. In addition to these chapters discussing non-financial performance, two reports also contained detailed performance summaries on ESG aspects in the back of the reports.

The performance regarding strategic objectives, as stipulated by the Framework, was presented in all the reports. Most commonly, based on strategic objectives, specific targets or goals were presented and the corresponding outcome in the year was provided. Regarding past, present and future performance, all the reports put their present in perspective to past performance. For performance indicators, commonly the performance in the previous and in the reporting year was provided. Several reports such as the *SKF Annual Report 2014* or *Vattenfall Annual and Sustainability Report 2014* also contained multiple year overviews. A performance outlook or forecast has only been found in the reports from German companies.

According to the <IR> Framework the discussion on performance may also include "material effects on capitals up and down the value chain" (IIRC, 2013f, para. 4.31). To assess these effects an organisation needs to expand its reporting boundaries to capitals that are not necessarily controlled by the organisation. This might include human rights or environmental effects of the organisation's activities that occurred at the location of business partners. Downstream effect might for example be financial or environmental benefits for customers.

All reports were found to discuss effects up and down the value chain to some extent. For upstream activities a supplier code of conduct or responsible sourcing policies were frequently presented as tools to mitigated negative environmental and social effects up the value chain. Some reports contained a comprehensive presentation of the initiatives and activities to address different aspects along the value chain. The *BASF Report 2014* provided a dedicated chapter called *Responsibility along the value chain,* where the organisation presented its activities regarding for example supply chain management, responsible sourcing, product safety or climate protection (BASF, 2015, pp. 93–110). Similarly, a good overview of policies and initiatives addressing social and environmental issues along the entire supply chain has been found in the *SKF Annual Report 2014*. Along the dimensions suppliers, manufacturing, transportation, customers and end of life, the report presented all the activities or policies that were used to manage these aspects (SKF, 2015a, pp. 16–17).

Regarding outcomes down the value chain, many reports contained a presentation of the positive impacts of the different products and services. In the *SAP Integrated Report 2014* for example, it was stated that "as we help our customers tackle complexity and run at their best, they contribute to the world's economies, create jobs, and unleash the potential of their employees. As we help them become more efficient, they can mitigate their environmental footprint" (SAP, 2015f, para. 23). The *BASF Report 2014* used specific product examples to highlight the value generated for the company as well as for the customers. One example was an additive used in the mining industry that was supposed to generate sales growth by 12% annually while helping to recover more than 80% process water for customers (BASF, 2015, p. 69). The *SKF Annual Report 2014* presented specific methods to measure cost and emission savings from using the company's products compared to standard products and provided specific figures on approved savings (SKF, 2015a, p. 32).

To summarise, the presentation of performance was one of the most obvious characteristics of the integrated reports. All reports contained detailed information on financial and non-financial performance information guided by GRI, IFRS and country specific guidelines. The <IR> Framework also requires to relate the performance to outcomes on the capitals. This aspect was clearly communicated for financial capital. For the other capitals such as social and relationship capital this is of course much more difficult. Even more difficult is to estimate effects on capitals up and down the value chain. The reports addressed these issues through explaining policies or highlighting examples regarding for example environmental issues along the value chain. The Framework does not require to make statements about all the capitals, which makes it difficult to determine which report is in line with the framework and which is not. Moreover it is probably one of the most important ambitions of an integrated report to show how financial and non-financial performance is connected. Two examples have been found which will be presented in section 5.3.3.

Outlook

The content elements *Outlook* intends to provide the reader with an overview of future challenges, uncertainties or expected trends regarding the external environment. In addition to that, the possible effects of these factors on the organisation's business model or its performance should be made clear. This content element is by its definition closely related to other parts of an integrated report such as the discussion on risk and opportunities, performance or the presentation on the external environment.

The analysis of the reports also showed a diverse picture of how this content element was covered. All the reports contained a discussion on future trends, challenges and developments, however, the location of these discussions and the level of detail differed. The reports from German companies were found to have dedicated chapter for forecasts or outlooks. The *EnBW Report 2014* discussed changing market conditions in its strategy chapter and provided more detailed information on trends and developments in the chapter *Economic and political environment* (EnBW, 2015). In addition to that, the report provided a forecast regarding key financial and non-financial indicators in a separate chapter (EnBW, 2015, pp. 84–87). The Swedish companies presented future challenges or uncertainties along with other topics. The *Atlas Copco Annual Report 2014* for example presented market trends and development related to its different business areas.

The importance of the content element *Outlook* is underlined by the guiding principle *Strategic focus and future orientation (IIRC, 2013f)*. Similar to the discussion on risk and opportunities or the external environment, the quality of this content element is dependent on the foresight an organisation is able to provide. This is of course difficult and requires assumptions based on imperfect information. It was highlighted in Section 5.2.2 that accounting professionals are cautious about assuring future looking information. Still, this information is a central aspect of what an integrated report tries to do, namely to report about value creation over time.

5.3.3 Guiding Principles

Stakeholder Relationship and Materiality

The <IR> Framework requires an integrated report to provide information about the relationships with central stakeholders and how the organisation engages with them. All but one report provided a specific chapter where stakeholder groups were identified and information on engagement activities was given. Similarly to other findings, the level of detail given regarding engagement activities differed. A detailed presentation of stakeholder engagement activities was found in the *SAP Integrated Report 2014*. There the organisation listed its seven key stakeholder groups, explained how engagement with these groups looked like and provided examples from the reporting year (SAP, 2015e).

Materiality is a central principle of an integrated report and has been discussed in Section 3.2.2. An integrated report should present how the organisation determined the material issues to be presented. All of the analysed reports contained a discussion of their materiality process while the level of detail differed. Three of the reports explicitly referred to the GRI guidelines in the discussion of their materiality process. Two of those that didn't refer explicitly to the GRI guidelines described the purpose of their materiality process as to identify the relevant sustainability aspects to be reported. In addition to that all the reports explained to some extent how they included stakeholders in the materiality determination process, which is proposed by the <IR> Framework. Most commonly this process included surveys with key internal and external stakeholders.

With the discussion on materiality in Section 3.4 in mind, it can be assumed that the companies' materiality process is heavily influenced by the GRI guidelines. While the conflict between the GRI and IIRC definitions of materiality have been outlined, it seems that GRI, which has been applied by the companies for several years, also governs the materiality determination process for parts of the integrated reports.

Connectivity

It was highlighted in Section 3.2.2 that the principle *Connectivity of information* can be implemented in numerous ways. Since it was not possible to account for all these possibilities, only specific examples demonstrating the connectivity between financial and non-financial information or the different capitals have been looked for. Two examples have been found in the reports and will be presented in some details

The first example has been taken form the *EnBW Report 2014* and is illustrated by Figure 5-1. The report introduced several key performance indicators pertaining to customers, employees, the environment, finance and strategy. Based on an internal survey, the company analysed the frequency and intensity of how these indicators were interacting with each other. Figure 5-1 demonstrates qualitatively, how the performance indicators are connected to each other. The abbreviation LTIF stands for *Lost Time Injury Frequency* and represent an index for injuries that caused absence. SAIDI stands for *System Average Interruption Duration Index* and measures energy supply reliability (EnBW, 2015, p. 28). The second example could be found in the *SAP Integrated Reports 2014*. In its online report the company presented 14 performance indicators for the economic, social and environmental dimension. Four of these indicators, the ones marked with the stars in Figure 5-2, represented the overall corporate objectives (SAP, 2015c). Since it was an online report, it was possible to click on every indicator and corresponding arrows would appear, showing how the selected one indicator was connected to the others. In Figure 5-2 the outcome, when clicking on *GHG Footprint,* is illustrated. In addition to the graph, the report provided qualitative explanations on how the indicators interacted. Next to the qualitative interactions, the report provided a quantification of how four social and environmental indicators, the ones marked the Euro sign, contributed to the operating profit. Through that, the report for example showed that a one percentage point change in *Employee Engagement,* would mean an impact on the operating profit of 35 to 45 million Euro (SAP, 2015c).

These examples demonstrate how the principles of *Connectivity of information* can be implemented in practice. Through uncovering the interaction of key performance indicators, it gets possible to directly determine how activities related to environment and social issues are contributing to the financial performance. Positive implications of this knowledge regarding decision-making processes have been highlighted in the interview section.

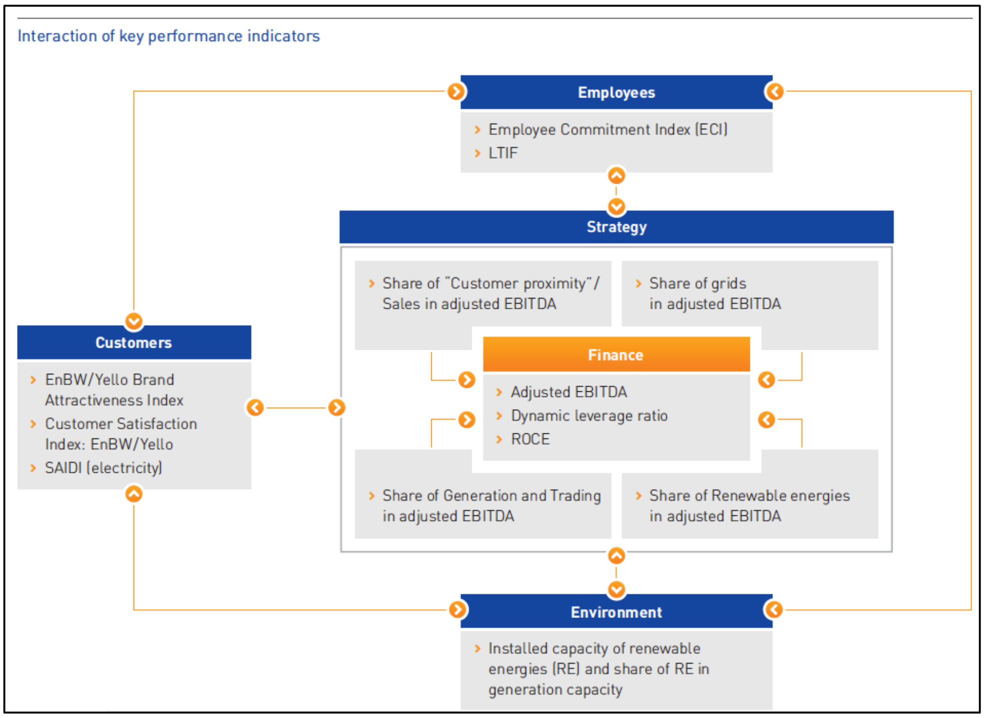

Figure 5-1. Interaction of EnBW's key performance indicators

Source: EnBW (2015), figure used with permission

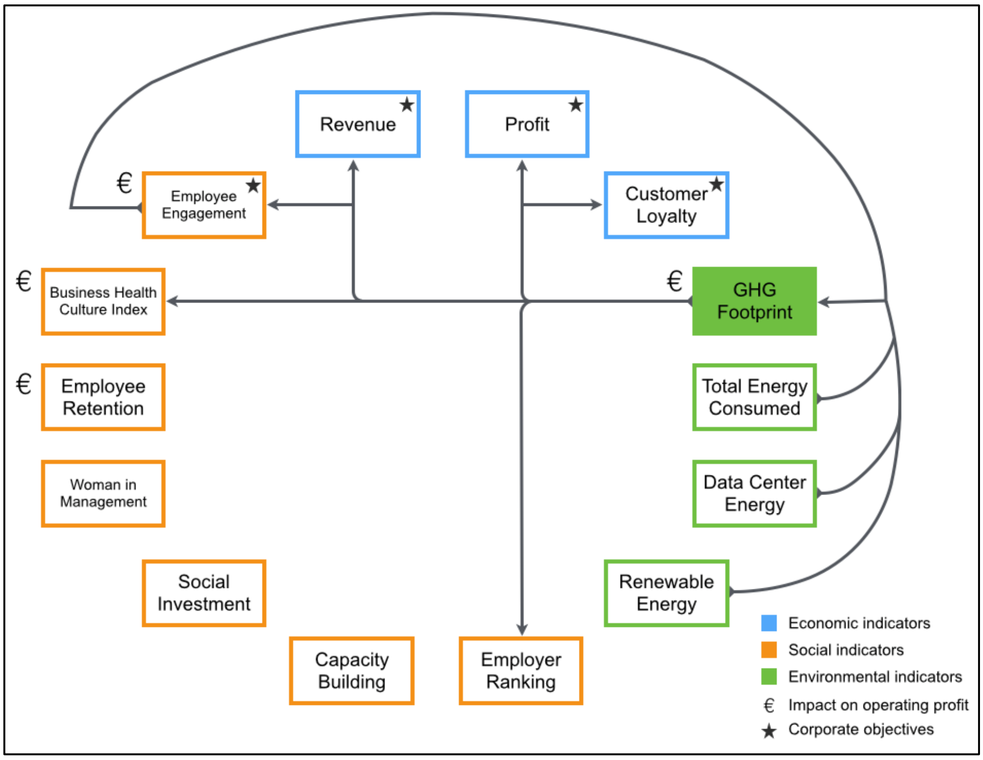

Figure 5-2. Interaction of SAP's financial and non-financial performance indicators

Source: Adapted from SAP (2015c)

5.3.4 Summary of Findings

Table 5-3 provides a brief summary of key findings from the analysis of integrated reports that have been discussed in detail in the previous sections.

Table 5-3. Summary of key findings from report analysis

General	
Structure, Frameworks, Audit and Assurance	• Basic elements: management report, financial statement, governance section • Stand-alone report in one case • Financial information prepared according to IFRS and national requirement, non-financial information according to GRI and other frameworks, references to the <IR> Framework in 4 reports • Non-financial information integrated in management report, some reports provided additional details in the end of the reports • Separate assurance of financial an non-financial information
Content Elements	
Organisational Overview and External Environment	• Introductory chapters in all reports • Discussion of competitive environment in all reports to varying extent • Discussion of external environment to some extent in all reports
Governance	• Well defined section in all reports, influenced by national requirements • Discussion on integrity and ethical business conduct in most reports • Polices and approaches pertaining to sustainability integrated in some reports
Business Model	• No consisted way of communicating business model • No clear presentation of inputs and outcomes as proposed by the IIRC • Key activities and products and services clearly presented
Risk and Opportunities	• Dedicated chapters about risks in most reports, opportunities sometimes discussed alongside risk or separately • Diverse risks and opportunities related to environmental, social and economic aspects found in most reports
Strategy and Resource Allocation	• Dedicated sections about strategy including financial and non-financial goals and target in all reports • Discussion of sustainability aspects in relation to strategy in all reports • Measureable financial and non-financial KPIs for goals/objectives in all cases
Performance	• Performance summaries including financial and non-financial aspects in all reports, amount of non-financial information varied • Financial performance reported throughout management reports and financial statements • Non-financial information in dedicated sections in the management reports, in two reports additional section with details ESG performance in the back • Effect up and down the value chain discussed to some extent in all reports
Outlook	• Chapter on forecast and outlook only in German reports • Content element overlapped with other elements, relevant information in several sections e.g. regarding ext. environment
Guiding Principles	
Materiality, Stakeholder Relationship, Connectivity	• Stakeholders identified and engagement explained in most reports • Materiality process explained in all report, influence by GRI clear • Connectivity between financial and non-financial performance demonstrated in two cases

6 Discussion

This chapter comprises the discussion of key findings and the research process in general. It starts by discussion key findings related to the three research questions, followed by reflections on the chosen methodological approach.

6.1 Discussion of Findings

6.1.1 Integrated and Sustainability Reporting

It has been highlighted in the introduction that integrated reporting could not be analysed in separation from existing reporting practices. Its acceptance and possible impacts are ultimately determined by how it integrates in the existing reporting landscape. One intention behind this research project was to shed light on the relationship between integrated and sustainability reporting. Insights have been generated through a literature review, including a comparison of the relevant frameworks, expert interviews and the review of integrated reports.

Findings demonstrate that sustainability reporting forms an important basis for the integrated reporting process. It contributes methods and data that are crucial for the preparation of an integrated report. Especially the methods and indicators to measure and report impacts on human, social and relationship, and natural capital, are crucial since the <IR> Framework does not provide any specific indicators or methods to measure these aspects. Integrated reporting therefore relies on established methodologies, such as those proposed by GRI. In addition to that, approaches to stakeholder engagement or the materiality determination processes are already practiced via sustainability reporting. These practices are also important organisational skill for integrated reporting.

The comparison of the frameworks showed that large parts of the content of a sustainability report are also suitable for an integrated report. Difficulties to align these reporting concepts arise through differing definitions of materiality, as the concept, which governs the information to include in these publications. Sustainability and integrated reports serve different purposes and therefore consider different aspects important for disclosure. Sustainability reports seek to provide detailed information regarding a company's economic, social and environmental impacts for a broad audience. Integrated reports are more focused on communicating, primarily to providers of financial capital, the material financial and non-financial factors, contributing to value creation. Findings suggest that the two materiality definition overlap to some extent, for example since information on significant economic, social and environmental impacts are most likely also relevant for value creation over time. Nevertheless, challenges to align the two reporting concept remain. As findings from interviews and the literature review pointed out, the consideration of both the <IR> Framework and GRI G4 guidelines in one report might require practitioners to find their own approaches to define which information to include in the corresponding publication.

Despite these difficulties, GRI's increased focus on materiality for sustainability reporting was mentioned as helpful for the integrated reporting process. It can be inferred, that the emphasis on the crucial sustainability information, without the need to report on too many indicators, makes it easier to integrate sustainability content in line with GRI requirements in an integrated report. Moreover, the analysed integrated reports showed a high proportion of sustainability related information, prepared according to GRI requirements, which confirms the importance of sustainability reporting for integrated reports.

At this point it is also fair to raise the question why GRI and the IIRC didn't chose to design their frameworks in a more compatible way. If companies, publishing an integrated report, still continue to use GRI guidelines, such an alignment would probably be helpful for practitioners that want to consider both frameworks in on report. The author assumes that both organisations probably wanted to maintain their unique reporting profile and the GRI, after many years of work on sustainability reporting, presumably didn't want to subordinate their approach as one element of integrated reporting, an approach targeted primarily at providers of financial capital.

Considering the impact of integrated reporting on sustainability reporting, some interesting insights could be generated through the interviews. What the responses suggest is that detailed sustainability reporting on social, environmental and economic impacts will not become obsolete in the future. Many interviewees pointed out that several stakeholder groups would continue to demand detailed sustainability information. On the other hand however, integrated reporting might impact the format of how this information is presented. It could be observed throughout the interviews and the report analysis that publishing an integrated report makes an additional sustainability report obsolete. Many interviewees indicated that next to the integrated report, more detailed sustainability information was made available online. It is argued that a trend towards integrated reporting might change how sustainability information will be presented in the future. A possible scenario is that material sustainability information will be included in an integrated annual report, while more detailed sustainability indicators might be made accessible through the website. Another scenario could emerge if more companies embrace the use of the Internet to present their integrated reports. As exemplified by the *SAP Integrated Report 2014,* having an integrated report solely available online, enables a detailed presentation of both financial and sustainability related information in a clear way, while the readers can chose on their own which level of detail they want to get into. Moreover, interactive features could help to present information in a connected way.

Ultimately, the question of how current sustainability reporting practices will change, depends on what reporting formats seem most useful for companies, considering their context and stakeholder demands. If more companies take an integrated reporting approach it seems likely that the format of a separate sustainability report will be chosen less often to communicate the relevant sustainably information of a company. In that process it is up to stakeholder groups to ensure that important sustainability related information does not get lost.

In addition to that, findings from the literature review and the interviews show that companies intending to prepare a credible integrated report will need to uncover the connectivity between financial and non-financial information. As one interviewee highlighted, this requires non-financial information to be of high quality it terms of accuracy and reliability. These findings suggest that the move towards integrated reporting and an alignment of financial and non-financial reporting practices might ultimately also lead to more robust sustainability reporting processes.

6.1.2 Motivations, Challenges and Impacts

A key intention behind this thesis was to enable insights on integrated reporting from a practitioner's point of view. Moreover, the study intended to uncover how this reporting approach is influencing reporting organisations internally.

Not surprisingly, the practitioners were well aware of the theoretical requirements and the thinking behind integrated reporting, as proposed by the IIRC. Still, it could be observed that different companies considered different aspects of integrated reporting as crucial in their context. Some emphasised the importance of materiality and conciseness, while others highlighted the connectivity between information as particularly important. This variation can be explained by the flexibility organisations have in implementing integrated reporting. While the <IR> Framework specifies some requirements, the voluntary and principles based nature of it gives organisations room to find their specific approach to integrated reporting. This also highlights that practitioners will determine how integrated reporting will evolve in the future.

Regarding motivations and drivers, the intention to align reporting practice to the integrated strategy or the integrated approach of managing a company, was central. This also confirms what Riisgard (2003, p. 5) said about "business and sustainability moving ever closer together". The move towards integrated reporting was often described as a consequence of how sustainability aspects were integrated within the company, which is in line with the study conducted by the GRI (2013d). Through an integrated report, companies intended to provide a holistic presentation of all significant financial and non-financial issues, thus making their communication more useful to their audience.

The challenges that practitioners associated to integrated reporting were diverse and could be associated to organisational and more practical challenges. Organisational challenges were mentioned in relations to required changes in organisational processes. Moreover, the necessary cross-departmental collaboration was mentioned as challenging, while interviewees reported significant benefits connected to that aspect. The findings confirm the challenges identified in the study by Ernst & Young and GreenBiz (2013) to some extent. Lacking support form executives, as reported in this study, did not seem to be an issue for the interviewed company representatives. However, the other experts highlighted support from executive managers as a crucial requirement to successfully implement integrate reporting. One explanation why this challenge hasn't been reported by company representative could be that in their organisations support from the top management was available, otherwise they would probably not have moved towards integrated reporting.

Practical challenges of how to structure an integrated report and also how to demonstrate the connectivity of information, as outlined by the interviewees, were not mentioned in previous studies. However, one of the first studies on integrated reporting, conducted by Solstice (2005), already pointed to the challenge of managing the plenitude of information for report preparers. Demonstrating connectivity between for example financial and non-financial information was seen as challenging and the <IR> Framework offers little guidance of how this could be achieved. Here, innovative approaches of how to deal with these challenges will have to be developed by industry. The use of online reports, with interactive features, or the use of methods to identify relationships between financial and non-financial aspects, as shown in the *EnBW Report 2014* and the *SAP Integrated Report 2014,* can give an impression of what might be applied more frequently in the future. The described examples however, also show that it requires a lot of expertise within an organisation to make these connections visible. Here a need for suitable methods exists and innovative approaches to demonstrate connectivity might get available in the coming years. These efforts are also crucial to increase integrated thinking within a company as interview responses suggest.

Only few interviewees mentioned positive impacts on internal management as a motivation for integrated reporting. After taking this step however, the presented benefits for internal processes were quite consistent across all interviewees. Increased collaboration between departments, better mutual understanding or a more holistic view on the company was reported. It is argue that theses aspects can be seen as indicators of integrated thinking within a company. Hence, the findings confirm the theoretical relationship between integrated thinking and reporting as proposed by the Framework and discusses by Eccles and Krzus (2010, 2015). The findings are also in line with the benefits reported in the studies by Black Sun (2012, 2014). Positive impacts on decision-making, as highlighted in these studies were difficult to confirm through the interviews. However, the benefits reported by the interviewees suggest positive impacts in that direction.

What the findings show, is that few companies move towards integrated reporting to improve their internal processes. Still, consistent benefits on internal processes are reported after having adopted an integrated reporting approach. The question arises why these internal benefits are not mentioned as a motivation to move towards integrated reporting. One explanation could be that the companies, practicing integrated reporting today, are still in the minority and little knowledge exists about the positive impacts internally. It can be assumed that as more research, such as this thesis, points to these benefits, more companies might adopt integrated reporting in order to improve their internal processes.

This research project also investigated whether integrated reporting affected the understanding of sustainability aspects throughout the reporting organisation and if consequence for corporate strategy could be observed. The positive impact of bringing sustainability consideration closer to management and also into strategy, has been reported in studies by Black Sun (2012) and akzente and HGB (2012). The results presented in this thesis also suggest a positive influence in this direction. Several interviewees reported increased understanding of sustainability aspects among different departments in their companies. Moreover, integrated reporting was presented as supportive for the integration of sustainability aspects in the discussion on corporate strategy.

Here it is important to highlight that while a positive influence regarding the sustainability awareness and corresponding influences on the strategy process were highlighted by the interviewees, this does not tell whether more sustainable decisions or strategies are actually being made due to integrated reporting. What can be said with some certainty is that the information basis for decision-making gets broadened and a more holistic view including both financial and non-financial aspects is possible. Which decisions are derived from that however, is context specific and aspects related to sustainability are some out of many consideration that inform decision-making.

To refer back to the <IR> Framework, the relationship between integrated reporting and integrated, more holistic thinking within an organisation could be seen throughout the interviews. The step from integrated thinking to integrated decision-making however, is very difficult to uncover and causal relationship could not be observed through the chosen methodological approach. Nevertheless, based on the interviews, it can be inferred that integrated reporting supports the awareness of sustainability aspects within an organisation also during the strategy process. How strong this influence is and if it actually leads to tangible changes for example in management or strategy is context specific and could for example be addressed through an in-depth case study focusing on decision-making in one company.

6.1.3 Integrated Reports in Practice

The thesis started off by asking about the nature and characteristics of integrated reports. It also raised the question of how contemporary reports were in line with the theoretical requirements proposed by the IIRC. After analysing the six reports, these questions do only seem answerable to some extent.

To begin with, the integrated reports differed considerably and outlined different approaches that can be taken to work with integrated reporting. Most reports were interpreted as a merger of an annual report, including elements like the management report and financial statements, and a sustainability report. Sustainability reporting content was included in the management reports, while two reports also included additional section with detailed sustainability indicators in the back. One report was found to be a standalone integrated report, separate from the company's annual report.

This diversity of reporting approaches is not surprising, since integrated reporting is still in its early stages and companies can be considered to experiment with the concept at the moment. While the <IR> Framework provides some guidance and specifies what an integrated report could look like and how it may be structured, the voluntary and principle based approach the IIRC took, leaves a lot of freedom to the reporting companies. Some might only choose specific guiding principles or content elements, which they see as suitable for their purposes.

What can be said about all the report, however, is that they provided a comprehensive presentation of financial and non-financial performance, relying on GRI, IFRS and other national frameworks. Moreover, through the management reports, companies provided detailed insights into the company's activities with regard to the social, environmental, economic and financial dimension. Furthermore, through the discussion of business strategy, objectives and targets, it was easy to identify how sustainability aspects were connected to the core business. Most reports provided a diverse overview of the multidimensional risks the companies were facing. The IRC of South Africa explained the key objective of an integrated report as to connect relevant information "about strategy, risks and opportunities and relating them to social, environmental, economic and financial issues" (IRC, 2011, p. 1). In light of this definition, the reports were found to fulfil these requirements to a large degree.

The question, to which extent the reports were in line with the <IR> Framework, which represents the current thinking behind integrated reporting, turned out to be difficult to answer. This was due to the vagueness of the framework and the complexity of analysed reports. The results show however, that all reports contained aspects of integrated reporting as proposed by the IIRC. This is probably also due to the fact that many requirements proposed by the <IR> Framework are not particularly new and can be found in other frameworks and guidelines as well.

With regard to the underlying concepts, explained in Section 3.2.1, none of the reports showed a particular focus on the prosed capitals model as suggested by the IIRC. This can be explained by the novelty of the approach or the classifications proposed by different framework such as the GRI, which are already established in practice. In addition to that, and given the extensive sustainability related disclosure in the reports, it is questionable if the reports were designed primarily for providers of financial capital as suggested by the IIRC. Also with the responses from the interviewees in mind, it can be assumed that most of the analysed reports were intended to cover a wider stakeholder audience.

Referring to the content elements, the analysis in Section 5.3.2 shows numerous approaches of how these elements could look like in practice. Some practices were found to be more in line with the <IR> Framework than others. In general, there is a lot of room to align reporting practices to the <IR> Framework and none of the reports is seen as compliant with the Framework in total. The presentation of the business model for example, which is of central importance for an integrated report, was found to be little aligned to what the IIRC proposes. Innovative ways of presenting this element might get available in the coming years. Other sections for example regarding risk or strategy were found to comprehensively integrate economic, social and environmental aspects.

Regarding the considered guiding principles, the reports presented the approaches to materiality and stakeholder engagement, while the influences of GRI guidelines were visible. This is in line with the observations about the supporting nature of sustainability reporting outlined above. Through the analysis of the reports, two concrete examples have been found illustrating how the *Connectivity of information* principle could be applied in practice. The presented examples demonstrate how financial and non-financial performance can be connected. The positive impacts of this knowledge for example to demonstrate the business case for investments in social or environmental improvements are likely. One interviewee outlined the resulting positive impacts for decision-making and internal discussions. After analysing 124 integrated reports, Eccles and Krzus (2015) conclude that the connection between financial and non-financial performance, was missing is almost all the reports. It can therefore be assumed that the practices, described in Section 5.3.3, are innovative ways of presenting information in an integrated way.

On a general note, it became very clear through analysing the reports and working with the <IR> Framework, that the quality of most content elements and the implementation of guiding principles depends on how well internal processes follow an integrated approach. The discussion of, for example, the external environment, governance, risks and opportunities or the outlook, requires corresponding processes to account for economic, social and environmental aspects. To report on the *Connectivity of information* first these connections need to be uncovered. This is line with IIRC's claim that integrated thinking is the basis for integrated reporting. If a company seeks to deliver a trustworthy integrated report, without having integrated processes, the <IR> Framework with its capitals model could be a starting point to embed economic, social and environmental considerations into organisational processes.

6.2 Discussion of Methodology

In Chapter 4 the research methodology was justified through some guiding assumption. The assumptions were related to the interaction of integrated reporting with other corporate reporting practices, the influence of corporate reporting on organisational processes and the nature of integrated reports, as reports with specific, observable characteristics. In retrospective, these assumptions proved to be well suited to guide the research project. Focusing on the interaction of integrated reporting with other reporting practices was a valuable approach to guide the literature review and provide relevant background for conducting the interviews and analysing the reports. The assumption that integrated reporting affects organisational processes could be confirmed by the interview findings. The notion that integrated reports show specific characteristics was also helpful to guide the report analysis. Difficulties of clearly identifying these characteristics or relating them to the theoretical requirement, proposed by the IIRC, have been outlined in the previous section.

6.2.1 Interview process

The methodological choices that needed to be made with regards to the interview process turned out to be generally suited for this research project. The phone interview as principle mode of interviewing enabled a relatively easy access to the experts, which could also explain the high participation rate among the persons contacted. In only one instance, the sound quality was problematic. Moreover, the selection of company representatives from the sustainability staff function was seen as a good choice since these experts were all involved in integrated reporting and also had a good knowledge regarding sustainability reporting processes. The use of an interview guide was helpful to give structure to the interviews, while questions needed to be slightly adapted, with increased knowledge on the topic.

The method for analysing the interview transcripts was seen as helpful to condense the responses to manageable pieces and identify patterns. Since the method required to condense interview content using own words, there was the risk that statements from interviewees could be misinterpreted. Moreover, interviews conducted in German have been translated into English, which enabled possible inaccuracies to arise. Sending all relevant content to the respective interviewees and letting them confirm the information, largely mitigated this risk. Still, limitations associated to that approach cannot be fully dismissed. The difficult part turned out to be the presentation of the results. The responses were generally very diverse which is why a short summary of findings was not always possible. The results section was therefore designed to capture the diverse experiences and insights, while some overcharging patterns could also be identified. As already addressed in Chapter 1, limitations regarding the generalisability of the findings should be kept in mind.

6.2.2 Research Instrument and Report Analysis

Analysing corporate reports in general is a difficult process. This is due to their complexity and the abundance of information they contain. In order to not get lost in these reports, a structured process needed to be followed. This was achieved through the design of a research instrument with specific questions based on the <IR> Framework. This however, brought another difficulty, since the <IR> Framework does rarely offer specific, clear cut criteria, which can be used to investigate the content elements and guiding principles. The research instrument was therefore designed to the author’s understanding of the Framework and focused on the aspects, which were seen as most important. These choices needed to be made and might not be in line with other persons’ understanding of the Framework. Moreover, the review of reports was dependent on the reviewer’s own judgement and interpretation of the presented data. Due to the complexity and longevity of corporate reports, the author needed to scope down the amount of passage reviewed as well as the level of detail. The chosen approach included a subjective interpretation of data, hence, the findings might not always be in line with the views of other readers of the reports.

In general the use of the research instrument was well suited to identify the most important passages in an integrated report. Sections for example dealing with risk, the business model or the external environment could easily be found and further analysed. Moreover, by summarising the approaches different companies took, it was possible to identify the difference between the reports and also spot good or innovative practices.

While the questions in the research instrument were based on the <IR> Framework, it was difficult to state whether or not a certain aspect in the reports was in line with the Framework or not. For this to be possible, the requirements would need to be much more precise. Moreover, the question if a report is following the Framework, can hardly result in a yes or no statement. It is rather the case that following a guiding principle or a content element can result in different degrees of fulfilment. One company for example might explain that employee engagement is crucial for financial success, while another company, as the example of SAP shows, might quantify this relationship and demonstrate the monetary value behind a change in employee engagement. Both companies somewhat apply the principles of *Connectivity of information* while the quality of fulfilment is significantly different.

The difficulty of relating the findings from the report to the Framework can also be seen in the principle based nature of the Framework and the flexibility the IIRC wants to give to companies that wish to work with integrated reporting. This of course limits the preciseness of the <IR> Framework and also the research instrument, based on the Framework.

7 Conclusion

The overall aim of this thesis was to contribute to the knowledge of how integrated reporting interacts with existing corporate reporting practices, how it is applied in practice and how companies are affected by taking this approach. The research aim was motivated by the possibly far-reaching implications of this new reporting approach for corporate reporting and thinking and the lack of research conducted on the different aspects of integrated reporting so far. In this context, the thesis contributed to the debate on integrated reporting in a number of ways. Firstly, it gave a detailed overview of the current discourse on integrated reporting and provided insights into how it builds on and interacts with existing reporting practices. Secondly, it provided comprehensive insights into experiences and practices from a wide range of experts from different industries. Thirdly, the thesis showed what integrated reports look like in practice, highlighting the different approaches that can be taken.

The contributions were guided by the three research questions, which could be answered within the scope of this research project.

- RQ1: What is the relationship between integrated and sustainability reporting?

The literature review, including a comparison of the <IR> Framework and GRI G4, the expert interviews and the reviewed reports, made clear that there are several interactions between integrated and sustainability reporting. Sustainability reporting was found to provide an important basis for the integrated reporting process. It contributes both methods and data that are crucial for the preparation of an integrated report. Measuring impacts of business activities in the social and environmental dimension or identifying and engaging with key stakeholder, is already practiced by companies through sustainability reporting. These practices are important organisational skill for integrated reporting as well. Regarding the actual reports, the findings clearly show that integrated and sustainability reports serve different purposes and may consider different information material for disclosure. The consideration of both the <IR> Framework and GRI G4 guidelines in one report might therefore require practitioners to find their own approaches to define material information. While the materiality definitions of GRI G4 and the <IR> Framework seem only compatible to some extent, the GRI's increased focus on materiality for sustainability reporting, was mentioned as helpful for the integrated reporting process. The research suggests, that if more companies embrace integrated reporting, a separate sustainability report might be replaced by relevant sustainability disclosure in annual reports, plus more detailed sustainability information available through sources such as the corporate website. Another possible scenario is the use of interactive online reports, which enable the readers to choose on their own which level of detail they want to get into. In addition to that, an alignment of financial and non-financial reporting might positively influence the quality of the sustainability reporting process.

Through the chosen methodological approach, the research question could be sufficiently addressed. Limitations, associated to the limited insights into the practical implementation of integrated and sustainability reporting processes in organisations, should be kept in mind.

- RQ2: Why and how are companies working with integrated reporting and what are the internal challenges and impacts of taking this approach?

The diverse sample of interviewees enabled a broad insight into current experiences and practices around integrated reporting. Given the broad range of answers, findings are not easily summarised. The key motivation for integrated reporting was the intention to align reporting practices to the integrated strategy or management. The move towards integrated reporting should enable a holistic communication with stakeholders about all the financial and non-financial aspects relevant to the business. Findings show, that the practical implementation of integrated reporting was enabled through interdisciplinary teams that were frequently made up with personnel from different departments, such as finance or sustainability. Increased interdepartmental collaboration was seen as challenging but also as highly rewarding by the interviewees. Other challenges were seen in aligning different reporting strands in terms of timing or finding an appropriate structure to present information in an integrated way. Internal benefits were very consistently seen in improved collaboration and an increased mutual understanding between departments. Impacts on the understanding of sustainability aspect and corresponding influences for corporate strategy were confirmed to some extent by interviewees. While the actual influence could not be captured, integrated reporting can be described as fostering a better understanding of sustainability aspects within a company with possible effects on corporate strategy.

Considering the limitations associated to the relatively small sample size, the research question could be answered within the scope of the research project. It is acknowledged however, that the diverse approaches organisations choose to take, might lead to other challenges or impacts than those in the presented examples.

- RQ3: What do integrated reports look like in practice and how do they relate to the International Integrated Reporting Framework?

Six reports from two different countries have been analysed to address this research question. The findings demonstrate the different ways integrated reports can look like in practice. The course of the research made clear that it can hardly be stated what integrated reports look like in general. Every report was unique, every organisation choses a different approach and the requirements proposed by the IIRC give plenty of room for individual customisation. Next to the differences between the reports, some overarching similarities, for example the reliance on GRI guidelines to inform some of the content, could still be identified. The selected reports were found to be in line with the <IR> Framework to some extent, while a great potential to adapt reports to the proposed guiding principles and content elements exists. A high integration of environmental, social and economic factors could be observed in the discussions of risks, strategy or performance. The content element *Business model* was found to be poorly aligned with the recommendation put forward by the IIRC. While similarities between the reports could be shown, the generalisability of the result is limited due to the small number of reports. Outlined examples are specific to the organisations and show different approaches of how integrated reports can be designed.

Through answering the research questions, the thesis contributed to the body of knowledge around integrated reporting and provided insights that might be of use for the target audience defined in Section 1.6. Students and scholars, interested in corporate reporting were provided with an overview of current developments in the field as well as practices and experience from experts. These insights could be used as a basis for further research. Moreover, the chosen methodological approach and corresponding limitations might provide a starting point to design future research projects. Practitioners in the field of financial and non-financial reporting might also benefit from this research project. Highlighted challenges, benefits and approaches to implement integrated reporting, might help practitioners to better estimate which obstacles and benefits can be expected from the move towards integrated reporting for their organisations. Reported impacts on interdepartmental collaboration or sustainability awareness might motivate them to consider integrated reporting in the future. Moreover, the generated insights and examples based on the six integrated reports could be used as a source of inspiration of how to design an integrated report. In the end however, as mentioned several times, the actual integrated report is only a reflection of the processes behind its content. An integrated report will only be as good as the level of integrated thinking and management within a company. Still, taking a look at current reporting examples can be a guidance to see which internal adaptions might be necessary to create an integrated report. In addition to that, recipients of corporate reports, such as investors or other stakeholders, might get a better understanding of the developments that take place in corporate reporting right now. Furthermore, they might be better equipped to identify the important aspects to look for in an integrated report. This could help to assess how well a company integrates significant financial and non-financial aspects in its business activities and how well it might be equipped to realise risk and opportunities related to sustainability challenges.

Despite the multiple insights into this evolving practice, there is still a huge potential for further research. Findings suggest positive implications for decision-making, however the collected evidence on that specific issue was limited. Future research could address the knowledge gap of how integrated reporting affects decision-making processes, for example through an in-depth case study approach, focusing on a small number of companies. Furthermore, interviewees highlighted the importance but also the difficulty of demonstrating the connectivity between financial and non-financial information. Research on this guiding principle, focusing on how it is approached by different companies, could be helpful to further develop this central characteristic of integrated reporting. In addition to that, more research is needed to better understand the benefits and drawbacks integrated reporting might have for the different internal and external stakeholder groups of a company. To better estimate the value of integrated reporting it is important to investigate how different stakeholder groups assess the usefulness of integrated reporting to address their specific information needs.

To conclude, it is difficult to answer how integrated reporting will evolve in the future and which benefits and drawbacks it will bring with it. The approach, proposed by the IIRC, has the potential to broaden a company's perspective on value creation, including its diverse outcomes on the social and environmental context in which it operates. Future research will have to investigate if this new reporting approach will be applied as a simple extension of financial reporting, targeted at few stakeholders, or if it will be used as an approach to foster a more holistic thinking and to demonstrate to a broad audience how aspect related to economic, social and environmental sustainability are integrated within a company.

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Appendix A – Interview Guides

Interview guide for interviews with company representatives

<u>General</u>

- How have you worked with integrated reporting so far?
- What is the understanding of integrated reporting in your organisation? Where do you see central characteristics of integrated reporting?
- What is the motivation for taking and integrated reporting approach in your organisation? What are the obstacles/challenges to this approach?
- Where do you see the key benefits and drawbacks of integrated reporting?

<u>Process focus</u>

- Could you briefly describe the steps that were taken to adapt an integrated reporting approach? Which internal changes were necessary?
- How is sustainability reporting coordinated with other reporting strands (e.g. financial reporting) to produce an integrated report? Who is involved in this process?
- Since you report according to GRI, did you have to make significant changes to how you collect and present sustainability data? If yes, which changes needed to be made?

<u>Impact</u>

- How is integrated reporting influencing the collaboration between the sustainability department (function) and other corporate staff functions (finance, investor relations, legal, etc.)?
    - Is the collaboration increased/decreased? Is the mutual understanding between departments affected? Could you give examples?
- How is integrated reporting influencing the internal understanding of the relationship between sustainability/ESG aspects and business success?
    - Does it lead to more/less understanding/awareness in the organisation? Where do you see evidence for changing understanding/awareness?
- Do you think that integrated reporting helps your organisation to connect sustainability aspects with the corporate strategy more strongly? If so how?
- Are there any other important aspects related to integrated reporting you experienced in your work?

Guiding questions for interviews with accounting professionals

- How would you characterise integrated reporting? Where do you see key differences to traditional corporate reporting?
- How have you worked with integrated reporting so far?
- What would you say are the benefits and drawbacks of integrated reporting?
- Where do you see key challenges for companies implementing integrated reporting?
- Which challenges or obstacles do you see for the external assurance of integrated reports?
- How would you describe the relationship between integrated and sustainability reporting?
- How do you think will the trend towards integrated reporting influence sustainability reporting?

Guiding questions for interviews with business analysts

- What is your understanding of integrated reporting?
- Did you already work with companies that publish integrated reports? What was your experience? Where do you see the benefits and drawback?
- What are you looking at when you want to assess a company's sustainability performance? Annual report, sustainability report, website? What is most useful to you?
- One criticism to separate sustainability reports is that they often appear in isolation and have little linkage to the core business. Do you agree with that?
- Do you think an integrated report is better suited to communicate a company's sustainability performance compared to separate sustainability reports?
- Do you think investors will pay more attention to sustainability/ESG risks and opportunities of a company when they are reported side by side with financial indicators?

Appendix B – Research Instrument

1. General Report Characteristics	
1.1 Report Structure	What are the main elements of the report? In which formats is the report available?
	Where are economic, financial, environmental and social information reported?
1.2 Reporting Frameworks	Which sustainability related reporting standards or frameworks are used?
	Which other reporting standards or frameworks are used?
	Does the report refer to the <IR> Framework?
1.3 Audit and Assurance	Which parts of the integrated report are externally audited or assured?
	How is sustainability information assured and which assurance opinion is given?
2. Content Elements	
2.1 Organizational Overview and External Environment	Are central business activities, markets and key quantitative information (e.g. size, revenue, employees) presented?
	Does the report identify the organisations mission/vision/values/culture?
	Is the competitive landscape and market positioning explained?
	Are significant economic, social, environmental and political aspects impacting the organisation's external environment explained?
2.2 Governance	Does the report discuss the organisation's governance structure including leadership structures, processes used for strategic decision-making and policies/processes to ensure integrity and ethical business conduct.
2.3 Business Model	Does the report provide a specific section discussing the organisation's business model?
	Are key inputs related to the six capitals, business activities and outputs presented?
	Are key positive and negative outcomes with regard to the capitals presented?
	Does the report discuss the organisation's effect on capitals along the value chain?
2.4 Risk and Opportunities	Are central risks and opportunities presented in the report?
	Are risks and opportunities related to the different capitals the organisation uses or affects?
	Are the organisation's risk management processes including the approach to identify and assess the risks explained?
	Is the possible effect of identified risk and opportunities for short, medium and long term value creation explained?
	Is the organisations response to mitigate risks or take advantage of opportunities explained?
2.5 Strategy and Resource Allocation	Are strategic objectives and goals for the short, medium and long term defined?
	Are the strategies to achieve these goals and objectives explained?
	Are specific activities or plans to implement the strategies explained?
	Does the report show how the achievement of strategic objectives and goals will be measured?
	Are social and environmental aspects discussed in relation to the organisation's strategic objectives and goals and is the relevance for business success shown?
2.6 Performance	Is the performance of the organisation related to the different capitals reported (where is the performance reported)?
	Is the performance of the organisation in relation to the strategic goals and objectives presented?
	Is past and present performance linked and is a performance outlook provided?
2.7 Outlook	Are future challenges, uncertainties, trends and their possible impact on the organisation discussed?

Research Instrument continued

3. Guiding Principles	
3.1 Materiality	Does the report presents the organisation's approach to identifying material issues?
	Are stakeholder needs and interests taken into account when identifying material issues?
3.2 Stakeholder relationship	Does the report identify key stakeholders?
	Are the relationships with key stakeholders and engagement activities discussed?
3.3 Connectivity of Information	Does the report provide specific examples demonstrating the connectivity of financial and non-financial performance or the trade-offs between the different capitals