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It's a matter of trust: Exploring the perceptions of Integrated Reporting preparers

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ABSTRACT

In December 2013, the International Integrated Reporting Council (IIRC) proposed an outline framework for an Integrated Report. Despite the significance of this development, we currently know little about it, and even less about the views and opinions of preparers towards it. Building on Sztompka's (1999) theory on trust in social relationships, we explore the sources of trust as employed by the IIRC and its partners to enrol preparers into the IR initiative – and how preparers reacted to the latter. We especially interview preparers who influence the production of corporate reports such as the Integrated Report. Preparers are often suspicious of the motives of the IIRC professionals and express concerns about the performance and appearance of the Integrated Report. They tend to believe that the composition of the IIRC Board impairs the credibility of the Integrated Report and negatively influences their trust of this initiative. Furthermore, preparers are concerned about the credibility of a single report and seem uncertain of the benefits or the beneficiaries of IR. Finally, preparers report problems stemming from a lack of adequate and clear guidance, high preparation costs, the format, and the length of the report. They believe these undermine the IR's credibility. Our study thus contributes to the ongoing debate on the importance of trust in the marketing of new professional initiatives. It reveals that the reshaping of the IR's principles was a result of the IIRC's endeavour to expand its accounting expertise territory within a fragile nexus of trust relationships.

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1. Introduction

Driven by concerns that firms' annual reporting processes fail to adequately address social and environmental issues in a meaningful and transparent way, Integrated Reporting (IR) has emerged as a key development (cf. Adams, 2015; Flower, 2015; Thomson, 2015). Despite the increased demands from stakeholders for more and better social and environmental accounting and sustainability reporting, the over-riding opinion amongst commentators is that organisational accounts fail to understand and engage with these complex notions (Eccles & Krzus, 2014; Gray & Milne, 2002; Lehman, 2001; Owen, 2013; Tinker, Lehman, & Neimark, 1991). To fill the vacuum in the perceived needs of users, the International Integrated Reporting Council (IIRC) – a global coalition formed by regulators, accounting professionals, investors, organisations,

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standard-setters and NGOs – in December 2013 proposed a set of core elements which they hoped would become the foundations of a global IR framework (IIRC, 2013b; Owen, 2014). Our article makes an important and timely empirical contribution to the literature by providing extensive interview evidence from the perspective of corporate managers and design consultants (hereafter collectively preparers) who are involved in the preparation of the Integrated Report.

Sztompka's (1999) theorizing indicates that it may be quite challenging to establish trust in a new concept such as IR. Our study explores these challenges in the context of the interactions between the IIRC and preparers who are primary actors in determining the future of IR. We particularly seek to identify the main sources of trust and discomfort preparers have with the IR initiative. Drawing upon the social theory of trust as developed by Sztompka (1999) and on data from semi-structured interviews with managers and design consultants with valuable experience in reporting practice, this paper investigates the perceptions of preparers, their reactions to IR and their response to the IIRC's attempt to promote and establish its trustworthiness. In addition, we contribute to the ongoing discussion on IR around four key issues: (i) the establishment of a single report; (ii) the downgrading of the concept of sustainability; (iii) understanding who is the audience; and (iv) a perceived lack of impact. Our data also reveals that the IIRC's composition is a further point of controversy.

The Integrated Report is built on two basic premises. First, that disconnected financial and sustainability reporting cannot communicate how sustainability is incorporated and implemented within the context of a firm's strategy (Serafeim, 2015). Second, the failure of the traditional reporting practice to recognise and promote the value-creating mechanisms and adapt to the constantly changing, demanding business environment (Adams & Simnett, 2011). To this end, the IIRC developed the Integrated Report “... to enhance accountability, stewardship and trust as well as to harness the information flow and transparency of business that technology has brought to the modern world” (IIRC, 2016a). IR has thus emerged as a response to the perceived lack of information connectivity in the current reporting system. The Integrated Report is promoted as an opportunity for firms to garner enhanced accountability and trust through increased transparency, by publishing supplementary interrelated information on ‘six capitals’: financial capital; manufacturing capital; human capital; social and relationship capital; intellectual capital; and natural capital (Adams & Simnett, 2011; Eccles & Krzus, 2010, 2014; IIRC, 2013b).

There has, nonetheless, been an active debate indicating that the IIRC's ideas are contentious. IR has been the subject of criticism from practitioners and academics alike as reflected in the recent debate in *Critical Perspectives on Accounting* (CPA) between Adams (2015), Flower (2015), and Thomson (2015). Adams argues broadly in favour of the IIRC's proposals, whereas Flower and Thomson offer a more critical view. To throw further light onto this critical debate we draw on qualitative data, including interviews with 30 key stakeholders responsible for the preparation of corporate reports (15 company executives; plus, 15 corporate annual report design consultants) representing some of the UK's 100 largest companies.

Finally, our paper takes a step towards understanding the question posed by Humphrey, O'Dwyer & Unerman (2017, p. 32): “... is it realistic to expect a change in corporate reporting traditions to be capable of disrupting long-standing patterns of investor behaviour and capital markets? Or is it more likely that the development of integrated reporting will come to be captured by the very interests that have served to sustain a system of financial capital provision privileging the short-term over the longer-term”.

Our findings contribute to the IR literature by providing substantial empirical evidence from managers and design consultants' perceptions of the IIRC and the IR. Preparers' views on IR are surprisingly little known given that IR is currently voluntary in most countries worldwide, with the exception of South Africa where the preparation of the Integrated Report is a regulatory requirement (Eccles & Krzus, 2014). Its adoption or rejection, therefore, is subject to managerial discretion. Preparers' trust in the development of IR is central to the success or failure of this venture.

The study's “first-order” findings offer important insights from the preparers' perspective related to the nature and implementation of IR. The study outlines the problems managers and consultants have regarding the reputation of the IIRC and the performance and appearance of the Integrated Report. It brings to the fore the increased scepticism of managers and design consultants of the motivations of the IIRC. In particular, it reflects a lack of trust in the relationship between primary actors of corporate reporting (e.g. preparers) and members of the interorganisational network sponsoring the IIRC. Based on our interviews the IIRC is seen as an abstract, impersonal coalition of the professional accounting elite with self-serving interests.

A “second-order” analysis of our findings emphasises the importance of understanding IR as a “trust-building process” and considers the stages in which the IIRC communicates its proposal to build trust in the IR initiative. In the last decades, sociological understandings of trust have increasingly focused on the increased risk, vulnerability and complexity entailed in societal relationships (e.g. Currell and Inkpen, 2006; Giddens, 1990; , 1991; Luhmann, 1979). Following on from Barrett & Gendron's (2006) use of Sztompka's (1999) theory, the study extends the use of trust theorisation and examines the sources of trust as employed by the IIRC and its partners in trying to enrol preparers into the IR initiative. The study portrays the rhetoric used by the IIRC as a means of conveying a more trustworthy image of the initiative for major issues related to the adoption of the Integrated Report such as the status and value of IR in establishing better communication between preparers and investors.

In particular, the IIRC needed to establish reciprocal trust between themselves and the preparers. In our study, we explore these trust interactions between the IIRC and the preparers using Sztompka's trust concepts. We thus contribute to the ongoing debate on the importance of trust in the marketing of new professional initiatives.

The remainder of the paper is organised as follows. Section 2 discusses the theoretical lens of trust used by Sztompka (1999) to understand preparers' attitudes towards the IIRC's initiative. Section 3 summarises the emergence of the IR concept and the steps followed by the IIRC to develop trust of the initiative, and the ongoing debate about this new reporting concept.

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