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CONCEPTUALISING THE CONTEMPORARY CORPORATE VALUE CREATION PROCESSES

by

Carol A Adams

Durham University Business School

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Address for correspondence:

Carol A Adams

Professor of Accounting,

Durham University Business School, Mill Hill Lane, Durham, DH1 3LB, UK

carol.adams@durham.ac.uk

Tel: +44 (0) 191 3345425

CONCEPTUALISING THE CONTEMPORARY CORPORATE VALUE CREATION PROCESS

ABSTRACT

Purpose

The purpose of this study is to examine and explain the complex interrelationships which influence the ability of firms to create value for their providers of finance and other stakeholders (loosely referred to in practice as 'integrated thinking'). In doing so it examines the inter-relationships between: Environmental, Social and Governance (ESG) risk; delivering on corporate strategy; non-financial corporate reporting; and, board oversight.

Design/methodology/approach

Interviews were conducted with Board Chairs and Non-Executive Directors of large listed companies on the Johannesburg Stock Exchange (JSE) (where Boards are required to have a Social and Ethics sub-committee and approve integrated reports which have been mandatory since 2010) and the Australian Stock Exchange (ASX) (where Board directors' liability legislation results in Boards being reluctant to adopt integrated reporting which is voluntary).

Findings

The research finds that contemporary reporting processes, and in particular those set out in the King III Code and the International Integrated Reporting Framework, influence cognitive frames enhancing Board oversight and assisting organisations in managing complexity. This results in increased awareness of the impact of environmental and social issues and governance processes¹ together with a broader view of value creation despite investor disinterest.

Research implications

A number of avenues of research are suggested to further examine the interrelationships identified.

Practical implications

The research assists the development of practice and policy by articulating and enhancing our understanding of linkages, which loosely fall under the vague practitioner term 'integrated thinking'.

Social implications

The conceptualisation can inform national and global discussions on the appropriateness of corporate reporting and governance models to achieve sustainable development.

Originality/value

The paper conceptualises emerging and complex interrelationships. The cross country comparison allows an assessment of the extent to which different national social contexts with differing governance and reporting frameworks lead to different perspectives on, and approaches to, value creation.

Keywords: cognitive frames, corporate governance, corporate reporting, ESG risk, integrated reporting, integrated thinking, strategy, sustainable development, value creation

INTRODUCTION

¹ The currently common acronym ESG is used in this paper to refer to Environment, Social and Governance issues.

The fields of practice of Environmental, Social and Governance (ESG) risk management and its incorporation into strategy, accounting and operational risk reporting have developed rapidly over the last decade or two. The corporate sector is addressing perceived increased interconnectivity between social, environmental and economic performance. Practitioners and scholars are grappling with increased interconnectivity between corporate reporting, risk, governance and performance and the complexity that entails. This increased complexity and unpredictability of relationships between relevant phenomena requires new theorisations in order to move towards a more multifaceted and interacting approach to social, environmental and economic sustainable development (Unerman and Chapman, 2014). Scholars have called for a review of extant theoretical insights and a development of theoretical frameworks to structure researchers' observations of practice and to enable the communication of new understandings (Adams and Larrinaga-González, 2007; Adams and McNicholas, 2007; Contrafatto, 2014; O'Sullivan and O'Dwyer, 2015; Parker, 2005; Unerman and Chapman, 2014).

The paper examines contemporary and emerging inter-relationships between: ESG risk; delivering on corporate strategy; and, corporate reporting, particularly non-financial reporting: from the perspective of Board Directors and insofar as they influence a company's ability to create value for its stakeholders.² Creating value for stakeholders has been explicitly linked to creating value for shareholders by both framework setters and reporters³. Interviews were conducted with sixteen Directors including Board Directors of large listed companies on the Johannesburg Stock Exchange (JSE) and the Australian Stock Exchange (ASX). These two countries are of particular interest due to the different nature of corporate reporting, governance and external contextual factors. In particular, integrated reporting is mandated for companies listed on the Johannesburg Stock Exchange (JSE)⁴ and discouraged in Australia by regulation relating to directors' liability (see Huggins *et al.*, 2015).

The interviews sought to gauge: approaches to ESG risk governance; understanding of the nature of ESG risk issues and their relevance to long term strategy; and, the role that corporate reporting has played in forming their views. By nature of their position, the interviewees are amongst the most influential people in the world with respect to aligning business outcomes with outcomes for society. Board Directors, also referred to as Non-Executive Directors (NEDs) of large complex companies are generally required to have held senior management positions, often as Chief Executive Officer (CEO), and hence have an appreciation of the interrelationships between the different factors and actors examined in this paper. Collectively Board Directors are ultimately responsible for corporate risk governance and developing and delivering on strategy to create value.

The paper draws on both theorising in the quality accounting and management literature and empirical research highlighting new practice developments and is informed by informal conversations with Board Directors, Chief Financial Officers and Heads of Sustainability through various forms of engagement work. Rather than focussing on any one theory, one aspect of the transformation process or the interrelationship between any two pieces of the puzzle, this paper takes a holistic approach to enhance our understanding of the various elements contributing to the

² For these purposes value creation is defined broadly i.e. including but beyond just the pursuit of profit, as it is in integrated reporting (see IIRC, 2013), but see EY (2013) for a summary of other approaches. It should be noted however, that under the King III Code which was current in South Africa in 2015 when the research was conducted, the notion of value creation is somewhat less organisation-oriented and closer to the notion of Value- Creation Stakeholder Accounting put forward by Mitchell *et al.* (2015).

³ See, for example, IIRC (2013, p10): "The ability of an organization to create value for itself is linked to the value it creates for others" and also Adams *et al.*, 2016).

⁴ The Companies Act no. 71 of 2008 was signed by the President on 8 April 2009 and gazetted in Gazette No. 32121 (Notice No. 421). The Act replaces the Companies Act, 61 of 1973 and came into effect on 1 May 2011.

ongoing transformation and the interrelationships between them. In doing so it identifies aspects that warrant further research.

A key contribution of this paper is a nuanced understanding of the interrelationships which influence value creation depicted in Figure 1. Figure 1 draws on recent literature, prior theorising, the author's prior engagement work and insights from the interviews with business leaders in two countries, South Africa and Australia, with very different contexts with respect to the three influencing elements of the conceptualisation, external contextual factors, board governance and corporate reporting (processes)⁵.

The approach used in this paper is inductive. Prior to the turn of the century theorising in corporate social or sustainability reporting occurred deductively (see Parker, 2005) focussing almost exclusively on corporate characteristics (such as size and industry grouping) and general contextual factors (such as the social, political and economic context) with a (unidirectional) influence on reporting (Adams, 2002). Parallel to this, corporate sustainability reporting in practice was conducted with little interaction with other corporate functions with consequently limited ability to effect change. In response Adams (2002) called for more case study work examining internal contextual factors and in recent years a growing body of research has sought to understand the inter linkages between corporate sustainability reporting practices and other organisational functions with increasing recognition that internal factors both influence and are influenced by reporting practices (see for example Adams and McNicholas, 2007; Correa and Larrinaga, 2015; Cho *et al.*, 2015; Lodhia, 2015; Milne and Gray, 2013; Queen, 2015). This work has increasingly drawn on broader management and social science theories to understand (impediments to) particular aspects of the transformation processes such as, for example, the role of social actors or stakeholders in the transformation (see, for example, Adams and Whelan, 2009; Archel *et al.*, 2011; Gray *et al.*, 2014; Hall *et al.*, 2015), or the role of individual organisational actors (Cho *et al.*, 2015; Hahn *et al.*, 2014).

The next section develops a contemporary conceptualisation of the value creation process. The findings section illustrates the complex relationships between the organisational context and approaches and practices presumed to lead to value creation which are analysed according to the conceptualisation. A key finding is that corporate reporting frameworks have a significant impact on the mindset of corporate leaders with respect to social and environmental issues and value creation. The paper concludes with regard to potential of corporate reporting to influence cognitive frames and thus enhance corporate contribution to sustainable development, societal and environmental well-being and corporate competitiveness.

CONCEPTUALISING THE VALUE CREATION PROCESS

This section reviews the academic literature and developments in practice and policy which informed the conceptualisation of the value creation process (see Figure 1) concerning the assumed relationships between the various factors influencing corporate value creation. In the field of practice the term 'integrated thinking' has been used to discuss the process of developing an integrated report and/or creating value beyond financial profit⁶. But the conceptualisation of these processes and interrelationships is underdeveloped. This section aims to address this through what Llewelyn (2003) refers to as level three and four theorising.

⁵ This approach to developing and elaborating on a conceptualisation follows that of Adams (2002).

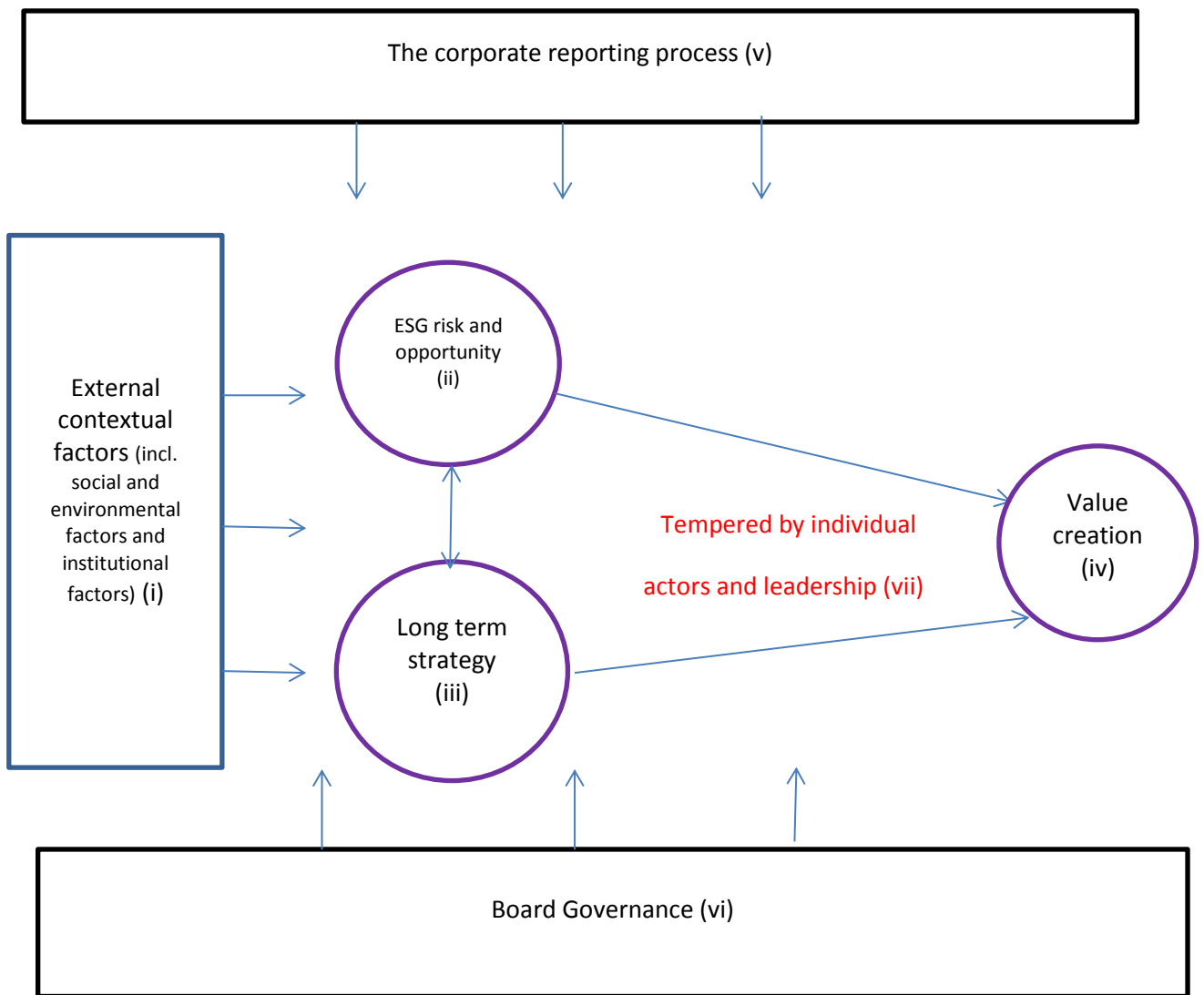
⁶ See, for example, <http://www.accountingsustainability.org/integrated-thinking/10-main-elements-to-embed-sustainability>, <https://www.ifac.org/publications-resources/creating-value-integrated-thinking> (accessed 12th April, 2016)

Llewelyn (2003) argues that concepts are essential to praxis and constitute theories of practice and that the introduction of new concepts (level three theorising), such as 'integrated thinking', represent new ways of thinking and acting allowing practical developments in the world to be discussed. Llewelyn's level four theorising involves tying together a range of differentiations and concepts to construct broader schema which explain "specific social, organisational or individual phenomena in their settings" (p 674).

Evidence of the impact of corporate governance scandals, supply chain human rights and labour issues and environmental disasters suggests that ESG risk and opportunities are increasing as a factor determining corporate success. Other external factors that influence the relationship between ESG risk and opportunity, strategy and value creation (the blue box in figure 1) could include social and environmental issues at the global (such as those in KPMG, 2011), regional or national levels and the actions of stakeholders and social actors (see, for example, Adams and Whelan, 2009; Archel *et al.*, 2011; Gray *et al.*, 2014; Hall *et al.*, 2015).

The conceptualisation of the value creation process is discussed in three stages. The interrelationship between ESG risk and opportunity, strategy and value creation (depicted in purple circles in Figure 1) and the impact of external contextual factors is discussed first. Secondly, the role of corporate reporting and reporting processes and governance in shaping those linkages to create value is discussed. Lastly, the role of individual actors and leadership in tempering the links between ESG risk and opportunity, strategy and value creation and the interplay with corporate governance, reporting and external contextual factors is discussed.

Figure 1: Conceptualisation of the corporate value creation process



References informing the conceptualisation depicted:

- i). ACCA and the Net Balance Foundation, 2011; Adams, 2002; Adams and Whelan, 2009; Archel *et al.*, 2011; KPMG, 2011; Henri and Journeault, 2010;
- ii). ACCA and Eurosif, 2013; ACSI, 2014, 2015; Adams 2013a; Adams *et al.*, 2013; Coulson, *et al.*, 2015; CPA Australia *et al.*, 2014; EY, 2013; GRI, 2014; KPMG, 2011; UNGC, 2010; van der Vegt, *et al.*, 2015
- iii). ASIC, 2013; Cho *et al.*, 2014; Christensen *et al.*, 2013; IIRC, 2013
- iv). Atkins and Maroun, 2014; Eccles, 2014; EY, 2013; IIRC, 2013; Ioannou and Serafeim, 2015; Mitchell *et al.*, 2015; Solomon *et al.*, 2013
- v). Adams, 2015; Coulson *et al.*, 2015; Dent, 1990; Flower, 2015; Gray, 2006; Hall *et al.*, 2015; Roberts, 1990; Skærbæk and Tryggestad, 2010; United Nations, 2014
- vi). Adams, 2013b, 2014; Adams and Whelan, 2009; Archel *et al.*, 2011; Eccles and Serafeim, 2011
- vii). Adams and McNicholas, 2007; Cho *et al.*, 2015; Eisenbeiss *et al.*, 2014; Hahn *et al.*, 2014; Laughlin, 1991

ESG risk, strategy and value creation and the role of external contextual factors

This section examines the (perceived) relationship between ESG risk and opportunity, developing and delivering on strategy and creating value. The ever increasing corporate social and environmental disasters impacting reputation, relationships and profit since the advent of globalisation has highlighted that delivering on strategy and long term corporate success is dependent on the effective management of ESG risks and opportunities (see, for example, Adams 2013a; Adams *et al.*, 2013; Coulson *et al.*, 2015; EY, 2013; KPMG, 2011; van der Vegt *et al.*, 2015). Further, it seems reasonable to assume that a range of external contextual factors including both social and environmental factors and institutional factors, will influence not only the nature of ESG risks and opportunities, but also how those risks and opportunities impact on value creation. KPMG (2011) which identifies global sustainability megaforges impacting on business clearly expects this to be the case, but little is known about the extent to which or how these megaforges influence strategy.

With regard to institutional factors there is some evidence that: investors increasingly seek information on ESG issues (see, for example, ACCA and Eurosif, 2013; ACSI, 2014; 2015); there is a strong dissatisfaction with the level of information currently provided (ACCA and Eurosif, 2013); and, over time analysts are assessing firms with high CSR ratings more optimistically (Ioannou and Serafeim, 2015). Further, interviews with 20 members of the South African institutional investor community conducted by Atkins and Maroun (2014) found that “interviewees were clearly aware of the financial significance and materiality of ESG issues” (p 10). This is perhaps not surprising given that the majority of the Atkin and Maroun sample were ESG/CSR analysts (7), followed by investment analysts (4) then asset managers (3). Likewise, it might be reasonable to expect pension funds and institutional investors with their longer term focus to have a higher level of understanding of the importance of ESG risks to financial returns than other investor groups. Recent annual reports of Cbus and VicSuper superannuation funds indicate that this is the case⁷. The Australian Council of Superannuation Investors (ACSI) has the support of ASX investors in its push to increase corporate information provision on ESG risks (ACSI 2014, 2015). In contrast, Solomon *et al.* (2013) found evidence that investors subordinated social and environmental information to financial information in private discussions which were consequently exercises in impression management. The authors linked the lack of rigour in investor questioning with weak governance structures, poor social and environmental stewardship and the blind pursuit of profit.

Yet despite an increasing acknowledgment of a link between ESG risk and opportunity and value creation, ESG risk has traditionally not been factored into corporate risk registers (CPA Australia *et al.*, 2014). An examination of reports of ASX 50 companies by the ACCA and Net Balance Foundation (2011) pointed to poor management of ESG risks with only 70% of these top 50 companies disclosing policies in place to manage ESG issues and only 36% reflected an ESG focus in their company purpose and value statements. Further, the CPA Australia *et al.* (2014) study concluded that many ASX 50 companies “did not demonstrate an understanding of the complex, systemic and compounding nature of the mega forces” (p 8, CPA Australia *et al.*, 2014 referring to the ten sustainability megaforges identified in KPMG, 2011). Only three of the ten megaforges, Climate Change, Energy and Fuel and Population Growth were identified by all 50 companies. Further, the study found a lack of linkage between the megaforges and value drivers in corporate reports. Drivers of corporate value associated with the megaforges in order were: brand value and reputation; productivity; risk profile; licence to operate; and, attracting customers.

These developments and research findings indicate a perceived link between ESG issues and value creation for shareholders, but a lag in corporate and investor responses. Nevertheless, it is

⁷ See <https://www.cbussuper.com.au/about-us/annual-report> and <http://www.vicsuper.com.au/about-us/reports> (accessed 30th September 2016).

reasonable to expect that corporate strategies, the achievement of which is a Board responsibility, will incorporate consideration of ESG issues. The next section considers contextual factors that might influence this interplay.

The corporate reporting process and governance

There is a vast literature on the role of reporting as a constructed and constructing tool shaping both management practices and society (e.g. Burchell *et al.*, 1985; Miller, 1991; Milne *et al.*, 2009). Accordingly, Figure 1 reflects assumptions inherent in policy developments that corporate reporting (process) and governance practices influence the extent to which ESG risks and opportunities are linked to strategy in order to create value and the contextual factors which influence that process. This section examines the role that reporting frameworks and board involvement in reporting processes might play in raising awareness of ESG risks and opportunities and incorporating them in strategy development. Reporting frameworks concerned with non-financial reporting, such as those of the International Integrated Reporting Council (IIRC) and the Global Reporting Initiative (GRI), are increasingly specifying processes of reporting and thus influence management actions and thinking.

Board involvement is increasingly seen as essential for the effective integration of environmental and social sustainability into corporate practices (Adams, 2013b; Eccles and Serafeim, 2011), but evidence regarding the extent of that involvement in practice is limited. Whilst focus on these issues is generally CEO led, the Board's involvement through, for example: including social and environmental KPIs in Executive remuneration determinations; signing off on sustainability and integrated reports and sustainability disclosures in annual reports; and, ensuring that ESG risks inform strategy and are included in risk registers: can be critical in embedding management led initiatives. And, if we accept that long term corporate success (as well as the survival of the human race) requires integration of sustainability thinking into corporate practices (see Adams, 2014; KPMG 2011), it is clearly in the Board's interest to do so. Further, the Board appoints the CEO and CEO ethical leadership has been found to have a positive influence on an organisation's ethical culture which in turn has a positive influence on firm performance (Eisenbeiss *et al.*, 2014).

The International Integrated Reporting Council (IIRC, 2013) encourages Boards to take responsibility for integrated reports and to disclose the nature of their oversight of its preparation. It seems logical perhaps that this would be seen to be in the interests of Board Directors given that a) they are responsible for strategy (which is disclosed in an integrated report); and, b) delivering on strategy is dependent on sound risk governance (including ESG risks), a Board responsibility. Proponents of integrated reporting argue that the six capital model of integrated reporting could further facilitate the integration of sustainability issues into corporate thinking (see, for example, Adams, 2015; Coulson *et al.*, 2015) whilst critics contend that it has not lived up to its promises on sustainability disclosures (see, for example, Flower, 2015). Further there are dissenting voices with regard to attempts to connect sustainability accounting and reporting with increasing profit (or value) with Gray (2006) describing them as misguided (see also Milne and Gray, 2013; Milne *et al.*, 2009). Indeed a desired purpose of sustainability reporting is accountability to key stakeholders (Gray *et al.*, 2014) rather than creating value for owners.

Linked to increasing interest in corporate ESG performance, there are international discussions (for example, those led by UNCTAD ISAR and the Corporate Reporting Dialogue) on the future of the corporate reporting model to achieve sustainable development and the Sustainable Development Goals (SDGs) developed by the United Nations (2014). During 2015 the Global Reporting Initiative (GRI), UN Global Compact and World Business Council for Sustainable Development (WBCSD) collaborated to produce a consultation document to assist companies in aligning their reporting and performance with the Sustainable Development Goals (see GRI *et al.*, 2015). This partnership between three organisations which have already significantly increased corporate attention on ESG issues (see, for example, GRI, 2014; UNGC, 2010) is likely to further influence the integration of

social and environmental sustainability issues into mainstream corporate practices, including corporate reporting and strategic planning.

The assumption inherent in many of the developments discussed above is that corporate reporting and governance processes not only influence what is visible, but also change corporate actions (Burchell *et al.*, 1985; Henri and Journault, 2010). Indeed, there is a significant body of work examining how accounting (and hence reporting frameworks which influence the account that is provided) influences strategy (see, for example, Dent, 1990; Roberts, 1990; Skærbæk and Tryggestad, 2010). “Accounting is an integral part of framing strategy, that is to say the accounting devices become strategic in a role of (re)formulating strategic ends and rationales, rather than being limited to implementation” Skærbæk and Tryggestad (2010, p 121).

There is already evidence of integrated reporting having perceived strategic benefits (see for example, Cheng *et al.*, 2014; Simnett and Huggins, 2015; Black Sun and IIRC, 2014) including the breaking down of silos, greater collaboration, better understanding among finance teams of the financial impacts of non-financial performance, improvements in decision making, better collaborative thinking by the board about goals and targets, and a better understanding of risks and opportunities. Contrary evidence is provided by Stubbs and Higgins (2014) who found no indication that integrated reporting was changing organisations’ interpretive schemes or value systems (see Laughlin, 1991)⁸.

Notwithstanding perceived benefits, in the Australian context, the Australian Institute of Company Directors (AICD) has argued strongly that both integrated reporting and the requirements of the Australian Securities and Investments Commission’s Regulatory Guidance (RG) 247 (ASIC, 2013) pose ‘significant risks’ particularly in relation to the disclosure of forward looking information, including qualitative information, and directors’ liability (see, for example AICD, 2014). It would be reasonable to presume that the legislation (Australian Companies Act, 2001) regarding directors’ liability and the attention given to this issue in Australia has been a barrier to the take up of integrated reporting in Australia (see Huggins et al, 2015 for a discussion of this issue).

There are an increasing number of voluntary and regulatory frameworks concerned with the disclosure of both ESG risks and corporate strategy. Revisions to the ASX Corporate Governance Principles effective for financial periods beginning on or after 1st July 2014 require companies to disclose economic, environmental and social sustainability risks on an ‘if not, why not’ basis. Specifically, Recommendation 7.4 requires companies to state how they manage, or will manage, such material risks. The Australian Securities and Investment Commission (ASIC) Regulatory Guide 247 (ASIC, 2013) requires listed companies to prepare an Operating and Financial Review (OFR) which discusses (amongst other things) environmental and other sustainability risks which could affect the company’s financial performance (RG247.63). RG247.62 contains a forward looking disclosure requirement pertaining to the likelihood of risks increasing or decreasing and their potential impact on the company’s prospects⁹.

In contrast to Australia, in South Africa, the King Code of Governance Principles for South Africa of 2009 (King III) required companies listed on the JSE to issue an integrated report which incorporated sustainability reporting for financial years commencing on or after 1 March, 2010 (see Steyn, 2014). King III also contains a number of principles including that: the board should appreciate that

⁸ It should be noted that the interviews for Stubbs’ and Higgins’ research were conducted in 2012 prior to the publication of the IIRC’s International <IR> Framework (IIRC, 2013).

⁹ The UK Companies Act 2006 (as amended in 2013) also now requires companies to prepare a Strategic Report.

strategy, risk, performance and sustainability are inseparable; and, the board should appreciate that stakeholders' perceptions affect a company's reputation.

Role of individual actors and leadership

The conceptualisation in Figure 1 acknowledges the role of reporting and governance practices in constructing change and the extent to which companies embrace change towards sustainable development is influenced by individual actor cognitive frames and by leadership (Christensen *et al.*, 2013; Cho *et al.*, 2010; Hahn *et al.*, 2014).

The literature recognises that aspirational future talk may serve to mobilise organisations to strive to achieve a different future (see, for example, Christensen *et al.*, 2013; Cho *et al.*, 2010). This raises a question as to whether mandatory requirements to report on strategy (such as ASIC, 2013) and encouragement to disclose forward looking information (IIRC, 2013) could influence corporate aspirations themselves. This possibility is reinforced by Cho *et al.* (2015) who suggest that the concepts of organisational façade and organised hypocrisy raise the possibility of individual organisational actors improving an organisation's social and environmental performance. The different future to which these authors refer could include a future where creating value for stakeholders is seen as essential to creating value for shareholders as it is in company reports examined by Adams *et al.* (2016).

Linked to this Hahn *et al.* (2014) present business case and paradoxical frames as being at two ends of a continuum as to how managers conceptualise corporate sustainability. The business case frame is presented as being fully aligned with economic goals and the paradoxical frame as being a combination of interrelated but conflicting social, environmental and economic goals. In the paradoxical frame managers deal with a high level of diversity of attributes and a high level of complexity and diversity of interconnections between the attributes. They scan more broadly considering a wide range of aspects of sustainability issues and consider non-financial information in decision making. Hahn *et al.* hypothesised that, in contrast, managers with a business case frame would only consider sustainability issues that they regarded as having business relevance and information about those issues which is seen as similar to business information i.e. typically quantified. They are also likely to only consider sustainability issues over which they perceive they have a high degree of control.

Hahn *et al.* (2014) is particularly pertinent in understanding organisational dynamics in developing integrated thinking, a term used by practitioners to denote a way of thinking about the business of an organisation more holistically rather than in silos. How does integrated reporting, which is intended to encourage integrated thinking (IIRC, 2013), influence managers' cognitive frames? The characteristics of the paradoxical frame described above might be considered desirable features of integrated thinking and a broader understanding of value creation. On the other hand any attempt to monetise the non-financial outcomes of the value creation process might encourage a business case frame (see Coulson, 2016; Cooper and Senkl, 2016).

Research Questions

In summary, recent prior literature suggests that: 1) ESG risks and opportunities, arising from the external context (including social and environmental issues and institutional factors) are linked to the development of an appropriate strategy which delivers on creating value for stakeholders (including shareholders); and, 2) corporate reporting along with Board governance which is attuned to the relationship between ESG risk and opportunity and strategy, influence value creation. Further, prior theorising suggests that these influences are mitigated by the actions and decisions of corporate actors. Thus the research questions examined in this study are: 1) What is the perceived relationship between the management and governance of ESG risk, strategy development and value

creation?; 2) What role does corporate reporting (including the processes to develop corporate reports) and cognitive framing play in mitigating these relationships?

RESEARCH METHOD

Following the approach of Miles *et al.* (2013) the conceptualisation in Figure 1 informed the framing of both the research question and the interview questions and also the data condensation process. The framework itself was developed through a review of theoretical and empirical literature and various forms of engagement work involving informal discussions with Board directors, Chief Financial Officers and Heads of Sustainability.

The selection of two countries, with significant social, environmental, political and institutional differences is based on the assumption that national, as well as international, contextual factors will be significant mitigating factors ('external contextual factors' in Figure 1). The very different social contexts lead to different ESG risks impacting on value creation. Further, there are significant differences in governance and reporting requirements between the two countries. Companies on the JSE are required to have a Social and Ethics sub-committee and Board approval of mandatory integrated reports whilst NEDs of ASX listed companies are subject to directors' liability legislation. Companies listed on the JSE have had experience of using integrated reporting since 2010. In contrast, whilst required to report on strategy and context, there is no requirement for integrated reporting by ASX companies. These differences in governance and reporting requirements and practices allow investigation of how corporate reporting and governance requirements and practices influence the relationship between ESG, strategy and value creation depicted by the conceptualisation in Figure 1.

A semi-structured interview approach was used with interviews conducted during 2015. Interviewees were advised in writing that the study sought to ascertain Board Director views on:

1. The management and governance of Environmental, Social and Governmental (ESG) risk and its implications for delivering on long term strategy; and,
2. The role of corporate (sustainability and integrated) reporting (including reporting processes) in managing risk and creating value for companies and their stakeholders.

The approach to interviewee selection involved strategic, purposive and convenience sampling (see Miles *et al.*, 2013). It was strategic and purposive in seeking views of Board Chairs and Non-Executive Directors (NEDs) of the very largest listed companies. These are experienced business leaders who are influential in shaping the relationship between business and society and determining the extent to which corporate strategy is linked to value creation. With respect to the South African sample approaches to potential interviewees were made through the company contact email addresses on the JSE, web searches of Board chairs identified company websites and personal contacts based in South Africa. In Australia approaches to Board Chairs were made through personal contacts working in the companies concerned, the Company Secretary and other interviewees. The purpose was to achieve samples which were matched in terms of national prominence and (stated/perceived) commitment to social responsibility and sustainability (for example through being in the JSE 2014 SRI index, winning awards for Corporate Social Responsibility and/or sustainability or integrated reporting).

All Directors approached agreed to be interviewed, with the exception of two companies involved in mining, one South African and one Australian, the Chairman of the Australian mining company

advising that interviewing a NED was 'not possible'¹⁰. The total sample of 16 interviewees included a high proportion of the most senior NEDs in the largest countries and had experience in a range of sectors including property, mining, banking, manufacturing and retail.

The South African sample of seven interviewees comprised five Board Chairs of JSE listed companies including three in the Top 40 Index, two NEDs of JSE listed companies and a group senior executive responsible to the Board on risk reporting. All but one of the Chairmen/NEDs were on the Board of a company included in the JSE 2014 SRI Index¹¹. The sample included two corporate lawyers, two chartered accountants, one self-declared environmentalist active in conservation, someone who had been involved in the development of the King III Code and at least two honorary/adjunct University professors. All interviewees were male and, relevant in post-apartheid South Africa, four of the seven were white. At least one of those four had been heavily involved in the anti-apartheid movement.

The Australian sample of nine interviewees comprised one former multinational corporation Board Chair, four current or former NEDs of ASX 20 companies, one NED of an ASX 100, one Executive Director of wholly owned companies formally on the ASX, one Group Head of Sustainability of an ASX50 company and one NED of private and public sector companies involved in reporting/assurance developments at a global level with considerable insight into non-financial reporting issues of ASX listed companies. The sample included four accountants, two economists and an engineer. Three were women.

The status, industry and number of Board positions held by individual interviewees is not provided. The interviewees are high profile people and providing this level of detail may reveal their identity. These senior interviewees were thus free to speak their minds.

Interview preparation involved familiarisation with the background of the interviewees and the reporting of the companies in which they held key Board positions. Interviews were recorded and transcribed verbatim with transcriptions being checked by the researcher. Interviews lasted approximately one hour. The interviews were semi-structured with the initial questions designed to stimulate reflection. Follow up questions provided deeper insights into the relationships between the factors being considered.

Following Miles *et al.* (2013), the data condensation process involved the author listening to the interview recordings and reading the transcripts several times to: identify themes and issues arising in the data; and, organise the data around both the research questions (derived from the conceptualisation in Figure 1) and the themes and issues which emerged during the interviews. This was an iterative process which involved developing mind maps, adding comments to the data and organising and re-organising it. The high level of familiarity with the data which ensued facilitated the author's understanding of the interrelationship between the various factors at play and through this inductive-deductive coding approach (Miles and Huberman, 1994), four broad nodes codes were identified namely 'Social and Environmental Factors', 'Institutional Factors', 'Governance and Corporate Practices' and 'Implications and Outcomes'. The broad node codes were informed by the conceptualisation and developed from the literature, the author's prior knowledge of the issues and the specific circumstances in each country.

These broad codes were then broken down into a set of specific codes which differed in each country sample. The specific codes emerged entirely from the data.

¹⁰ Letter to author.

¹¹ In both samples a number of interviewees had additional Board roles aside from the most prestigious role mentioned here.

FINDINGS

The coding scheme and key findings for each specific code arising from the data are summarized in Tables 1 and 2.

Table 1: Summary of South African findings based on thematic coding scheme used

Node codes	Specific codes	Summary of key findings
Social and environmental factors (i.e. Social, environmental drivers for / impediments to change)	Global factors	Megaforces (increase in middle classes, climate change); increased focus on carbon emissions; increase in consumer concern about health and well-being.
	National factors	Social and economic inequity; high unemployment leading to social unrest; energy cuts; young post-apartheid population; more women in senior and governance positions; retirement of those carrying baggage from the Apartheid era; emigration of racists; poor infrastructure; and, lack of leadership from government and regulators to address these issues.
Institutional factors (i.e. Institutional drivers for / impediments to change)	Role of investors	Gap between Board and investor view of what is important to success. Limited investor concern about longer term/ ESG issues.
	Government intervention in the economy	Minimum wage seen as reason for high unemployment. Government representation on corporate boards (means some discussions take place outside the Board room). Sophisticated regulatory environment.
	Regulation	Integrated reporting as per the King III Code and the Social and Ethics Board subcommittees mandated by the South African Companies Act have led to positive change. A number of significant benefits of mandatory integrated reporting identified.
	Post-apartheid relationships	Improving relationship with government due to business concern about economic inequity, possible social unrest and business consequences of energy cuts. Young people connected with the rest of the world.
Governance and corporate practices (including corporate reporting)	Integrated thinking	Integrated thinking is becoming embedded and evidenced by the changing nature of boardroom discussions.
	ESG risk governance	Focus on ESG issues has increased over last 5-10 years. Board focus on social issues is high and dominates over concern about environmental issues.
	Corporate reporting	Integrated reporting (as per the King III Code) is a useful framework for ensuring that attention is paid to ESG risks.
Implications and outcomes	More informed decision making	Strong positive view of the role of integrated reporting in improving decision making.
	CSR integrated into strategy and core business	Enhanced attitude to Board Diversity - Valuing the holistic thinking of female NEDs. Banks making lending decisions on an integrated basis. CSR initiatives linked to strategy and core business.
	National benefits	Businesses are forging relationships with government to address social issues in recognition of their significance to business success.

Table 2: Summary of Australian findings based on thematic coding scheme used

Social and environmental factors (i.e. Social, environmental drivers for / impediments to change)	Global factors	The global financial crisis (particularly for the banking sector). Digital disruption; housing affordability. Income inequality, ethical sourcing and other global social and environmental issues are a driver to the extent that there is a risk of the corporation being involved in a reputation risk issue.
	National factors	Discussions on the need for long term infrastructure investment and targets to deal with climate change at the G20 summit held in Australia in 2014 got media attention. Shareholder activism; changing customer and employee views; rights of indigenous people.
Institutional factors (i.e. Institutional drivers for / impediments to change)	Role of investors	Belief that investors should (but don't necessarily) want more forward looking information. View that sustainability reporting has limited usefulness in that it does not link ESG issues to value creation. Investor interest and understanding of the impact of ESG issues on long term performance is low.
	Regulation / mandatory requirements	Companies may not be complying with mandatory requirement to disclose forward looking information in the Operating and Financial Review (OFR) due to Directors' liability concerns. Quarterly reporting requirements lead to a short term focus in the absence of compensatory drivers (e.g. King III Code in SA).
	Director's liability	Director's liability concerns are a significant barrier to integrated reporting. Directors want to provide information which better meets long term investment needs.
	Other	Emergence of risk management as a profession. Incorporation of ESG issues into Director training. Social media.
Governance and corporate practices (including corporate reporting)	Integrated thinking	Integrated thinking expressed in terms of: i) a holistic approach to strategy; and, ii) leadership with respect to culture. Not engrained – thinking is more traditional and short term.
	Redefining value	Boardroom discussions on ESG issues have increased over the last 5-10 years, but generally more from the perspective of reputation risk rather than value creation.
	Board involvement in non-financial reporting	Boards sign off on the sustainability component of annual reports and integrated reports but generally do not sign off on sustainability reports. Some Boards are unaware of what sustainability information is being collected and reported. Many Boards do not have committees dealing explicitly with sustainability issues.
Implications and outcomes	Developing <IR>	Interviewees who had been involved with <IR> had a good understanding of it. The most difficult <IR> concept to put into practice for those with no prior knowledge is the six capitals concept, although boards discuss the capitals in their own terms. The perceived potential for giving away new competitive information is a barrier for those who have not previously reported strategy.
	ESG risks	Governance processes and Board aptitude/capability on ESG risk and opportunity considerations need to be enhanced.

The South African interviewees without exception had a high level of awareness of the impact of social issues on long term business success and were broadly in agreement as to what those issues were (see Table 1), how they might impact on their businesses and how they might be resolved. Whilst there was some awareness of environmental issues across all interviewees there were differences in emphasis and understanding of their likely future impact on business. The South African Board Directors raised varying levels of concern about the governance of government. In most cases this level of concern could be described as high. The interview data pointed to exceptional leadership, a concern for the future of their country, the mandatory (by the South African Companies Act) Social and Ethics Board sub-committee and the requirements of the King III Code with respect to integrated reporting being key enabling factors in creating value for shareholders and other stakeholders.

The level of awareness of and responsiveness to ESG issues amongst the Australian interviewees was more varied and was not as natural or engrained. This may reflect the lack of consensus which emerged on both key drivers for change and top ESG issues (see Table 2). Thinking was more traditional or constrained (for example by reporting to short term investors) and, unlike the South African sample, there was no sense of urgency for change from the perspective of pressing issues or of realising benefits. Director's liability legislation was seen as a barrier. Whilst most interviewees could articulate what integrated thinking and a broader view of value creation might mean, there was a sense that, whilst there had been change, the corporate climate was not where it ought to be. A number of Australian interviewees expressed a view that Boards were not sufficiently aware of ESG risk and opportunities or their impact on business (an awareness which is forced upon South African Board directors through the King III Code).

The key findings are further elaborated under headings which correspond to the conceptualisation represented in Figure 1: approaches to ESG risk and opportunity, long term strategy and value creation; and, the role of governance and corporate reporting in value creation.

ESG risk and opportunity, long term strategy and value creation

This section discusses interviewee perspectives on ESG risk and opportunity and their integration into long term strategy to create value (the circles in Figure 1). Perspectives on this emerged through questions posed about the external context, ESG risk governance and long term strategic planning. These questions addressed perceptions of integrated thinking and ESG risk identification processes.

Of concern, few of the interviewees identified global sustainability mega forces for change (CPA Australia *et al.*, 2014; KPMG, 2011) influencing their strategy although Aus5 noted that they: "are very real, they're very complex, they're increasingly interconnected". SA6 was the only interviewee who had linked them to strategy and value creation having foreseen a world-wide increase in demand for organic products some 20 years earlier linked to the growth of middle class mothers not wanting to 'poison their children'. That foresight paid off and SA6 has now turned attention to making the supply chain more socially and environmentally responsible noting: "We've got to make money to survive and we've got to make the world around us survive." (SA6) Other interviewees were aware of trends such as the high level of concern amongst younger people about the environment (SA3, SA5, SA6, Aus8) and significantly changed customer views on how they "measure our creation of value for them" (Aus5). Aus5 was critical of Australian business colleagues who felt there was no need to change because the local customer and investor base was not concerned about these issues missing the point that globally "the ...movement of the superannuation funds... asking for it is going to increasingly drive it".

SA2 provided evidence that even where companies reported on climate change (as did this company), the Board was not necessarily engaged and did not see it as a business risk issue over

which Boards have control (see Hahn *et al.*, 2014) – certainly not one which needs to be analysed in order to make the business more ‘bulletproof’:

“There is an awareness... But forgive me for being entirely practical - at board level the majority of directors tend to discuss, or they invest time, and debate, in matters they can do something about, and matters that will make the business better, and more bulletproof.”

This sense that the risk was too distant was reiterated by SA1 who noted that when a Board member raised concerns about rising sea levels anticipated in 90 to 100 years’ time “We all laughed at him”.

Poor incorporation of global sustainability trends into strategy in Australia was confirmed when interviewees (particularly Aus4, Aus5, Aus6 and Aus8) expressed scepticism about whether most Australian boards could even identify their top three ESG risks, despite the link between strategy and ESG risk articulated by Aus2: “...you can’t really have a sensible strategy without understanding the risks attached to it.” However, there was evidence that Boards consider ‘ESG type issues’ (Aus3) and carbon emissions (Aus1) when considering major investment opportunities.

The data revealed very different national level drivers in the two countries studied primarily reflecting the significant social issues in South Africa impacting on business (see Table 1). This dominated South African Board discussions on ESG issues with some reference also to energy, water and food security. There was particular concern about: the immorality of high unemployment (referred to by SA6 as a sin); and, the impact of poverty and working away from families on productivity and disposable income. Concerns were also expressed about the lack of skills in the potential workforce: the “knowledge and skills base is not in alignment with the needs of a modern economy” (SA2). Interviewees wanted to work with government to address these social issues which they explicitly identified as impacting on value creation. Interviewees SA1 and SA6 spoke of concern about speaking out because the government exerted control through, for example, the ability to grant banking and mining licences.

In contrast, whilst the Australian interviewees identified a number of national level drivers (see Table 2) all playing a role in change, none emerged as dominating all others.

When asked whether the balance was right between short and long term decision making, a key factor in whether ESG issues are considered, Aus8 articulated the difficulty posed by short term reporting and investment horizons and the threat it poses to reputation:

“There’s this tension between reporting on a quarterly basis, which is incredibly short term for companies, and... longer term growth... The average shareholding by the big asset management companies is quite short too. So it is hard... for a company. ... No I don’t think the balance is right. I think the reputational issue is a very real factor in longer term profitability... I think we’ve got a long way to go... it’s a bit hard to invest in something which you can say it’s going to bring us a return in 7 to 10 or 15 years. ...those that will take notice of it are those who’ve had disasters... But unless you’ve been burned, it’s very hard to go into a board and say, ‘We really need to invest heavily in this and, by the way, it’s impossible to make it break even.’”

These tensions between what is expected by shareholders and what NEDs believe is necessary might lead to what Cho *et al.* (2015) refer to as hypocrisy of strategy. The majority of Australian interviewees expressed frustration at the lack of investor understanding about ESG issues and their short term investment horizon as an impediment to long term value creation.

The picture of companies and their Boards being pulled away from making longer term decisions against their better judgement was summed up as: “...boards... vacillate a bit between thinking short term and long term, not because they want to but because there’s... pressure on them.” (Aus3)

Consistent with Solomon *et al.* (2013) investor focus on short term performance and financial performance was seen to be at the expense of broader indicators of sound management and governance which lead to longer term value creation. Aus3 saw this changing as a younger generation of fund managers came through and Aus5 saw a greater concern about ESG risk in pension funds and sovereign wealth funds describing the Australian investor base as “absolutely blinkers on” whilst Aus9 argued that “they don’t understand what it takes to actually run or manage a business”. Aus8 and SA1 noted that investor ESG concerns were largely limited to executive remuneration policy. Aus6 and Aus9 thought investors should be more concerned about safety and gender diversity respectively given their impact on reputation. These negative attitudes towards investors appeared genuine, although proactive strategies to change investor attitudes were not identified, perhaps because the reasons given for them are perceived as beyond the ability of individual companies to change. However Aus1, a proponent of integrated reporting, blamed poor reporting to long term investors for lack of long term infrastructure investment (an issue which got attention at the G20 summit hosted by Australia in 2014): “There’s enough money to pay to invest in infrastructure but they [*pension funds*] won’t invest long term because they don’t know enough about, well, are these guys going to be around in five years”. Consistent with the findings of ACCA and Eurosif (2013), Atkins and Maroun (2014) and Ioannou and Serafeim (2014) Aus1 indicated a potential to influence the cognitive framing of investors to demand, and see relevance in, increased ESG information perceived it as relevant to value creation.

Integrated thinking was generally articulated as taking a holistic view to developing and articulating the organisation’s strategy and it was felt by Australian interviewees that this was not done well. As one interviewee (Aus7) put it: “The cascade of the goals and objectives to all staff is missing... in most companies...” The potential of a reporting framework to guide thinking and behaviour in the context of hostile cognitive frames was alluded to when this interviewee went on to say that in order to develop a holistic strategy “you have to be obsessed because if you don’t push it and follow it through it falls away... because it’s hard work”. The interviewee argued this can be achieved i.e. by giving different functional managers the same shared performance goals aligned with strategy, such as keeping the customer happy. Achieving such shared goals requires them to work together to develop joint plans and actions. But speaking about the role of individual actors (a dimension of the conceptualisation in Figure 1), Aus7 stressed that CEO leadership was fundamental to success and that it involves changing the culture (see Eisenbeiss *et al.*, 2014; Hahn *et al.*, 2014). Likewise, SA3 linked ‘integrating’ with good leadership:

“There are many, many leaders, particularly the younger ones, and very often, and I’m not patronising you, very often the women who... can actually see the benefit of... integrating and creating. Somebody asked me why I’m so strong on the women in the company... there’s still that nurturing, they’ve got that ability to make the company a home, to see that all the rooms interlink. They can understand integrated reporting... They can see how if all of this comes together it will create a business... So I honestly believe that it’s a characteristic of women... (SA3).

These interviewees then were identifying leadership, diversity, determination and use of shared goals as means of influencing a dominant business case frame towards a more paradoxical frame which was seen as more desirable (Hahn *et al.*, 2014).

SA4 indicated an awareness by South African boards of the link between ESG risks and opportunity, reputational issues and value creation:

“So let’s take this energy crisis that the country is experiencing currently. If the board sees that as a serious risk... because it will impact the future sustainability of this organisation... if we want to then address it... so that we don’t extend our carbon footprint negatively through adding additional diesel generators to our current property portfolio, then that’s

going to have a negative impact on our short term income statement, but a positive impact on our sustainability ...that's the summarised view that you can present to your board."

The interviewee argued that you then had the basis for a request to management to work out a long term holistic business case solution and added: "We can position it to say, even though the cost is high, it affords you as a board an opportunity to brag about what you're doing." (SA4)

Asked whether the Board linked social and environmental initiatives to value creation SA4 responded:

"Absolutely, because if you do it sincerely, you can leverage it in terms of creating value for the organisation in the long term, and you can use it to market yourself in the community and again, if you do it sincerely, people will buy into what you're doing... I think the South African community has so shaped the *[name of company]* brand, with sustainability as well... it's a nice story that is associated with the brand. There's a reliability factor, there's a trust factor that's got into the brand." (SA4)

South African Board directors demonstrated a broader concept of value than previously and there was evidence of the emergence of a shift in Australia. Integrated thinking was seen as being central to the value creation story, i.e. using the capitals "efficiently and effectively to create things that people want" (Aus5). How you tell the value creation story was also in turn seen as critical to encouraging further integrated thinking. As one interviewee put it:

"I could articulate *[name of company]* as being a construction property, or I can articulate *[name of company]*'s purpose... to create... a future for communities and people to prosper. Very different... I'm actually creating place where people want to spend their time to live, to work, to play... A clear understanding that that's what I'm doing will unite functions and line management." (Aus5)

Integrated thinking was also seen to be about strategy alignment facilitated by a balanced scorecard approach to setting the CEO's goals which then cascades down and focuses on "what... you need to measure to understand whether you're actually succeeding or not..." (Aus2), whether that be through the eyes of donors (for NGOs), government departments allocating grants or corporate investors. Aus7 concurred with this view also emphasising the importance of leadership:

"...our strategy was done holistically and so citizenship was a core strategy and a core objective for the leadership team and we wanted to make it real for every staff member. ...we need to change the way people feel about us as a company... We need every staff member to be able to articulate the contribution we made to the community, the industry and society".

The views expressed by Australian interviewees with regard to the development of integrated thinking are indicative of the relatively limited extent of integration of ESG risk into corporate decision making and strategy. As another Australian interviewee who had served on the Board of a bank put it: "I think at the moment we're in our infancy and you're seeing... the lack of involvement of... the bankers in ESG". The superior experience and know-how of South African managers in achieving integrated thinking was underlined by Aus4: "*[name of related South African company]* are five years in front of us".

The responses highlight how integrated thinking and long term strategic thinking are seen as critical to the integration of ESG issues into strategy, which in turn is considered important in creating value.

The role of governance and corporate reporting in value creation

This section discusses the extent to which governance processes, corporate practices and corporate reporting in particular (the black rectangles in Figure 1), were found to shape outcomes with respect to value creation, particularly through the consideration of ESG risk and opportunity in strategy development.

A strong link was found between integrated reporting, board director awareness of the importance and determinants of broader value creation and governance practices (see also Eccles and Serafeim, 2011). For example, Aus7 (see above) argued that integrated reporting would help in the articulation of a holistic strategy that incorporated ESG issues and this was supported by South African interviewees and those Australian interviewees who already had integrated reporting experience. SA2 noted: “It [*integrated reporting*] led to the implementation of a more holistic, or a more integrated approach. And it has certainly enhanced the quality of governance....” This interviewee noted that not only had it improved the balance between long term and short term thinking but also between shareholder and stakeholder interests and the level of disclosure, in particular leading to a greater emphasis on long term strategic issues. Interviewee SA4 supported this:

“One has to have a holistic view, which is what integrated reporting has done for the board rooms... One can’t just focus on the financial statements. It’s far too narrow. And it definitely has changed the mindset of board members... I think integrated reporting has done wonders in terms of getting board members to apply their minds more widely.” (SA4)

SA7 argued that integrated reporting helped demonstrate the link between use of natural resources and value creation demonstrating that such externalities should be accounted for.

SA1, SA2, SA4 and SA6 described a high level of Board involvement in integrated reporting including careful attention to report drafts. Perhaps linked to this the single biggest change brought about by integrated reporting was described as being:

“Very, very simply... five years ago, when I spoke to somebody, they spoke about their department. Now they speak about the company, and the impact that their department will have on another department and on the company... they actually understand the benefit of talking to each other.” (SA3)

Overall the South African interviewees were unanimous in support for integrated reporting stating the benefits as being: provision of a framework for following an approach which they think makes good business sense and legitimises that approach (for example focussing on increased customer demand for socially and environmentally responsible products); encouraging board members to think more broadly about the business context and develop a more informed strategy which takes account of ESG risk and opportunities; increasing emphasis on long term strategic issues (for example, innovation in product development which addresses social and environmental issues); improving the quality of risk identification, measurement and management; and, improving corporate brand by engaging in social investment activities that link with strategy.

The following quotes demonstrate the strength of this support:

“...integrated reporting is part of our DNA... we can’t believe there are jurisdictions where it’s not mandatory. Sometimes it’s hard to believe that a shareholder doesn’t know - isn’t being told the story on an integrated basis, that there are countries that still report in silos. What we know now because of the journey with integrated reporting is [that] you know nothing about the company when you report in silos. Until you’ve integrated and you know the story and you see the impact of what one division has on another, you can’t make an investment decision....” (SA3)

“... if I... just think about the companies I’m involved in, the quality of risk management... and the effectiveness of risk management, and the visibility of risk management, has increased dramatically, dramatically.” (SA2)

With no mandatory ethics or sustainability Board sub-committee, Australian interviewees reported that Board involvement with, and approval of, sustainability data was generally limited to any data reported in the annual report. Interviewees demonstrated a lack of knowledge of sustainability reporting practices. For example, one interviewee (Aus6) did not know whether companies on whose Boards they sat prepared sustainability reports (though information on specific issues such as gender diversity and safety went to the Boards) and another said that the sustainability report was ‘noted’ rather than approved because it is “four fifths management estimates” and “I don’t even know how you get half of it” (Aus1) which serves to limit board discussions. The importance of Board and Senior Executive influence (see Eccles and Serarfeim, 2011; Eisenbeiss *et al.*, 2015) was apparent by its absence. As Aus6 put it: “You get the reporting. It’s just the depth of the conversation I guess that goes with it [*that is missing*].” Aus4 put it more strongly referring to a previous employer: “...you would not get the concept of sustainability recognised with any level of credibility at all in that organisation. You almost couldn’t raise it.”

Those Australian interviewees with experience of integrated reporting (for example, being on the board of, or having a relationship with a company who had done it) spoke of the benefits of: moving away from “five million metrics and... tick boxes” (Aus1) on sustainability to providing more forward looking information; and, providing investors with information which allows them to make long term investment decisions. One interviewee (Aus3) said that the discussion in the board room on their integrated report got unusually heated with a healthy tension and that it changed his view “for the positive, in terms of ESG and ESG risk in particular, and it made me sit up and think more about it”. In talking about the first meeting in connection with the integrated report this interviewee reported what Lewin (1947, p330) refers to as the emotional stir up required to ‘break open the shell of complacency’:

“The first meeting actually changed my whole attitude which scared me. Scared is not a bad thing... scared in the right sense that it actually triggers your mind into action...”

This interviewee went on to further elaborate how thinking about value creation in broader terms than the financial statements changed his thinking about how to do business, focussing more on the long term and thinking about opportunities and risks. Integrated reporting moved this Board Director’s cognitive frame closer to Hahn *et al.*’s (2014) paradoxical frame increasing his consideration of social and environmental issues and seeing their connection with economic issues.

Changes to cognitive framing also came from giving the capitals, for example human capital, “real status in an organisation” (Aus3). Indeed a number of interviewees demonstrated an awareness of the potential for ‘human capital’ and the conditions under which people worked to influence both the bottom line and broader value creation. For example: “If... you can get 90% of the women who go on maternity leave to come back you are picking up an enormous amount of additional money value.” (Aus3). SA7 explained how the impact of redundancies was now considered in human-centric terms whereas previously only financial impact were considered.

There was some scepticism regarding the extent of change that could be brought about by reporting with interviewee (Aus7) cautioning that we would see a lot of “fake integrated reporting” expressing a view that “the most disintegrated companies can produce an integrated report”. Whilst stressing that integration requires leadership, this interviewee considered integrated reporting to be a step in the right direction albeit “the tail wagging the dog to a certain extent”.

Concerns raised about integrated reporting included: reliability (the African Bank failed despite having a good integrated report as per EY, 2014); does not compensate for a lack of integrity; possibility of 'fake' integrated reports where companies are 'disintegrated'; time consuming; costly; difficult to find a balance between disclosing strategy and undermining competitive advantage.

It was noted that corporate values are an important influence on decisions, particularly those with an impact on human capital and natural capital (SA6) the above discussion demonstrates that integrated reporting can have significant impact on the views of individual directors, the issues that get attention in the boardroom and board decision making on those issues. Whilst not a replacement for good governance and management, this influence on the governance of corporations by way of providing a framework for focussing on ESG risks and opportunities, reputation and long term strategy and performance, was significant. To some interviewees this was a no-brainer and as Aus8, who was concerned that companies weren't focussed on the long term, put it:

"There's no doubt about it. With the focus on the responsibilities of the directors now more clearly enunciated and directors very much aware that they have to be serious about it, the preparation of an annual report or quarterly reports that is integrated focuses the mind and there's no doubt about that. It would be strange if it weren't."

The visibility of a broader range of issues that Boards then consider was noted as a benefit of a reporting framework:

"...it's only when you're asked to do something that you start searching for the answer and I think... that's a very good process... some might say it's box-ticking and there possibly is an element of that, but the very fact that you're asked to think about it will get most people more alive to it and in time... they'll realise these are real risks." (Aus8)

Indeed, SA2 spoke of embarrassment at the inability to tick all the boxes when King III first became mandatory due to lack of data, but noted that now it had become part of the values system and was no longer just about compliance. Aus7 also pointed to the need for boards to step up:

"A notion that risk management is a parallel process to citizenship and corporate social responsibility is a parallel process to the widget sales, is the root cause of disconnection and the reason why we don't deal with these things in a clear, coherent way."

Reflecting on the role of governance and ESG risks in value creation, Aus3 and Aus7 agreed there is need for Boards to include an understanding of ESG risks in the Board skills matrix. Aus2 saw significant opportunities for the accounting profession to add value to Boards, management and investors through external assurance of non-financial information and through internal audits.

Contrary to the simplistic mantra of legitimacy theory and the evidence which has been found to support it (see, for example Patten, 1992; Deegan *et al.*, 2002), a number of the interviewees spoke of the importance of transparency: "you'd rather let it hang out there... than come back later to address a shortcoming (SA5); "boards should ask themselves the question all the time: are we being transparent enough?... there's just no reason to be anything other than 100% transparent" (Aus3); "I've never been in any discussion where people have said... it's a risk, we don't want to disclose" (Aus9); "we should be disclosing as much as we possibly can" (Aus6). Countering this, a minority of interviewees noted that such views were not shared by some board colleagues.

DISCUSSION

The interview findings increase our understanding of the complex interrelationships which influence the ability of companies to create value, broadly defined (see Figure 1) and they highlight nuances in these interrelationships which are neither apparent in the extant literature nor explained by prior theorising.

A number of examples of a broader view of value creation emerged from the interviews and are supported by Adams et al.'s (2016) examination of corporate reports over the period in which the integrated reporting framework was developed. A broader concept of value creation was something all of the interviewees had given some thought to in recent years albeit to different degrees. South African interviewees clearly articulated a link between national social issues and value creation and also provided examples of economic and social value creation being enhanced through opportunities identified from considering these issues. One particular interviewee stood out as a leader who had sought, and succeeded in identifying opportunities which served society's interest, decreased negative environmental impact and resulted in business growth. He observed global, as well as national trends. Other examples related to particular initiatives and issues around employees (human capital, to use the term in IIRC, 2013), the environment (natural capital) and relationships with customers, government and other stakeholders (social and relationship capital). This has occurred in the context of increased demand from customers, employees and even banks providing funding for social and environmental responsibility.

The South African interviewees had strong views that business had a role in addressing social issues and they put forward a number of suggestions as to how this might be done whilst simultaneously further enhancing corporate value creation: improving education to increase capability; increasing corporate social investment; and, better collaboration between business and government to make sure regulation makes sense. Thus they espoused a broad view of value creation where ESG issues, particularly national level issues, played an important role. The visibility afforded by the mandatory requirement to prepare an integrated report and consider ESG issues at Board (sub-committee) level was clearly a factor shaping their views (see Burchell *et al.*, 1985; Miller and Power, 2013 regarding implications of making issues visible). Whilst Australian companies had not embraced a broad view of value creation to the same extent, there was evidence that those that had considered integrated reporting linked it with an enhanced awareness of ESG issues albeit starting from a low base.

The interviews suggest that integrated reporting with its broader view of value creation through 'integrated thinking' sets the scene for a more paradoxical frame (as per Hahn *et al.*, 2014). The interviewees' notions of integrated thinking might be thought of as increased paradoxical thinking moving cognitive framing of ESG issues closer to the paradoxical frame. Consistent with Hahn *et al.* (2014), Board Chairs and Directors of major listed companies were not influenced by global sustainability mega forces (KPMG, 2011) over which they had limited control. National contextual issues, with a more immediate impact, on the whole proved to be more dominant.

Those Board members with experience of integrated reporting demonstrated a greater awareness of the interconnectedness of social, environmental and economic issues. Further, consistent with Hahn *et al.*'s (2014) paradoxical frame they attach greater importance to non-financial performance measures. In South Africa, in particular, integrated reporting was found to increase attention on ESG issues and the longer term and was associated with a changed mindset that value creation for business that was linked to creating value for society.

Although not a key focus of the research, the interviews supported prior work identifying a relationship between board diversity (in gender and expertise), a focus on ESG issues and perceptions of improvement in (CSR) performance (see Harjoto *et al.*, 2015; Isidro and Sobral, 2015). Explicit references by two male interviewees about the ability of women to make connections between complex issues indicate the potential value in research examining the role of gender in cognitive framing on sustainability issues.

The research also finds that the very different national contextual issues (see Tables 1 and 2) impacting on companies in the two countries studied have influenced both the nature of ESG issues considered and the extent to which ESG issues are considered in determining strategy. It supports the view that disclosure of strategy (or aspirational future talk) can inspire business leaders to achieve a different future (Christensen *et al.*, 2013; Cho *et al.*, 2014), including one aligned with value creation for stakeholders. The strategy described by the Chairman of a retail food company of increasing social approval by donating to the poor, at the same time as allowing the company to increase value by providing fresher and hence better quality produce to customers, gives the company the ability to be more defensive at the onset of a (social, environmental or governance) crisis (see Bundy and Pfarrar, 2015).

In the absence of investor interest, integrated reporting with its focus on integrated thinking was found to provide an initial framework and discipline for considering ESG risk issues and focussing on the longer term, changing director mindsets and influencing decision making. The South African sample and those Australian interviewees with experience of integrated reporting noted considerable (positive) changes brought about by integrated reporting. These changes related primarily to a) the changes in thinking initiated by integrated reporting; and, b) the additional information collected and made visible to the Board (which further changes thinking and influences decision making).

CONCLUSION

There are a number of factors that, taken together, make the study particularly important: the link between ESG risk, reputational damage and delivering on strategy; some evidence of increasing investor demand for information on ESG risks; the importance of board involvement in integrating environmental and social sustainability into corporate practices; increasing regulatory and stock exchange requirements to disclose both ESG risks and strategy; global discussions on the role of corporate reporting in achieving the Sustainable Development Goals; and, the trend towards integrated reporting.

The interrelationships (depicted in Figure 1) represent the contemporary value creation process or what practitioners and the IIRC refer to as 'integrated thinking'. It depicts a wide range of external contextual factors, including social and environmental factors and institutional factors) being considered by organisations, a process which allows the identification of ESG risks and opportunities. These are fed into long term strategy development and their consideration also assists organisations in delivering on their strategy to create value as broadly defined. The IIRC's Integrated Reporting Framework and the King III and IV Codes in South Africa set out processes, including governance requirements, which encourage this type of 'integrated' thinking. This is of course mitigated by individual actors and leaders. For example, whilst most interviewees do not consider ESG issues as much as various sources quoted (such as KPMG, 2011) suggest that they should, this is explained in the conceptualisation as being due to the existing cognitive framing of managers as per Hahn *et al.* (2014).

Enhanced understanding of the inter-relationships in Figure 1 can inform national and global discussions on the appropriateness of current dominant corporate reporting and governance models to achieve sustainable development. The cross country comparison allows an assessment of the extent to which different national social contexts with differing governance and reporting frameworks lead to different perspectives on value creation. The study confirms that approaches to non-financial corporate reporting, which include Board involvement, are critical in determining the outcomes of these interactions between approaches to ESG risk and approaches to the firm's strategy for value creation.

This author suggests that new understandings arising from this research will lead to recommendations and framework developments which facilitate greater alignment of value creation outcomes with sustainable development. Thus the research findings have implications for government policy, corporate governance practices and the accounting profession. Governments can better influence social, environmental and economic outcomes for companies, their nations and their people. In South Africa the government can take advantage of the increased awareness of what creates value and the consequential strong desire of business (expressed by the interviewees) to help improve the well-being of the nation's people and its competitiveness. In Australia government policy could seek to remove or counter constraints due to directors' liability legislation and the gap between Board and investor interest in ESG risk that prevents businesses from seizing opportunities resulting from global sustainability mega-forces. It could strengthen requirements that facilitate companies in identifying and responding to such opportunities. There is a role for ASIC and the ASX to assist with this. South Africa provides an example of how such interventions can provide a counter force to attitudes of investors which limit long term economic and social prosperity.

This research demonstrates that the emerging business paradigm is at odds with accountants' traditional narrow perspectives. Accountants maintain powerful influence in companies and on Boards and they have a presence on corporate internal audit teams which have an important role in governance. Accountants are not assisting, and perhaps hampering, long term value creation. The need for greater skills in non-financial accounting, reporting and auditing and for a wider perspective on business externalities is apparent. Further research is needed to inform the practical implementation of these recommendations. The recent emergence of ESG risk management as a profession and the emerging understanding of its link with setting and delivering on strategy (which needs further research) and the increasing importance attached by business to a broader view of value creation has significant additional implications for business school education. The need for knowledge and awareness of environmental and social issues to be included in board skills' matrices was also apparent through the interviews and explicitly called for by some interviewees.

This study has focussed on the perspectives of Non-Executive Directors. Future research may consider whether the perspectives articulated here are reflected in corporate reports. For example, further research might: develop the work of Cho *et al.* (2010) by examining the extent to which optimistic language in forward looking statements and strategic overview sections of integrated reports mask poor performance, or indeed, might encourage better performance; examine the extent to which integrated reporting demonstrates a portrayal gap (Adams, 2004) and hence evidence of camouflaging (Michelon *et al.*, 2016); test the relationships set out in Figure 1 both quantitatively and qualitatively; examine the influence of the relationships between Board members and managers on the relationships depicted in Figure 1; and, explore in detail the influence of integrated reporting and 'integrated thinking' on managers' cognitive frames particularly their positioning on the business case versus paradoxical frame continuum (see Hahn *et al.*, 2014). Further, the emergence of the new practices considered here might be problematized (see, for example, Miller, 1991). Such research might shed further light on the link between integrated reporting, governance and integrated thinking.

Whilst as little as a decade ago the possibility of companies contributing to the SDGs and sustainable development would not have been thought possible by this author (see Adams, 2004) (who remains sceptical about the public relations fluff, omissions and untruths in many corporate reports), this research provides evidence that this is happening (notwithstanding the ongoing concerns of Gray, Milne and their co-authors). And initiatives such as those of Stock Exchanges, the IIRC, GRI and UN Global Compact with respect to corporate reporting and governance practices have a part to play. The IIRC's decision to focus on value creation (rather than just impacts) and to require Board sign-off on integrated reports appear to have influenced the mindset of corporate leaders in a way that

decades of sustainability reporting have not. The interviews shed light on the nature of 'integrated thinking' involved in the value creation process.

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