



The
University
Of
Sheffield.

**Integrated reporting and thinking through a practice lens:
Insights from case studies in Japan**

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**A thesis submitted in partial fulfilment of the requirements for the degree of
Doctor Philosophy**

**The University of Sheffield
Faculty of Social Science
Management School**

July 2022

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Acknowledgement

The topic of gratitude has always been emphasised throughout my upbringing, but Eastern cultural traditions of being reserved and introverted have also rarely left me with the opportunity to express gratitude in words. It is also challenging to convey the depth of my appreciation with just a few words, especially as someone who has always been fortunate to be surrounded by a bunch of warm and friendly people.

I would like to convey my heartfelt gratitude towards my supervisors. I have been blessed to have professional and knowledgeable supervisors who are passionate about the research and provide excellent support to students.

I am incredibly grateful for Prof. Kokubu for giving me an opportunity to study and work in this laboratory I aspire to and the excellent guidance and helpful comments during my days studying for my MSc and PhD programmes. I would like to extend my deepest gratitude to Prof. Belal and Dr. Wright for their assistance with numerous technical elements of my research and for many extremely informative discussions. Your consistent encouragement and unending patience have been helpful to me, particularly in light of the epidemic, and have been incredibly reassuring and encouraging.

I would like to express my gratitude to Dr. Turner and Dr. Verbeek. Thank you for always being supportive and providing me precious comments during my thesis writing process. I would also like to thank all current and past members of our community for sharing their comments and priceless companionship. Especially from you, Sara, I could not have hoped for any better illustrations!

I would also like to thank the staff at the Graduate School of Business Administration in Kobe University and the Sheffield University Management School for providing me a supportive environment to complete my academic studies and research. Many thanks to the Career Centre at Kobe University for providing me with the opportunity to conduct my research on the case company, which would not have been possible without your help.

I would like to place on record my thanks to my participants who generously made available their time for interviews, discussions and inquiries. In particular, I would like to thank the sustainability department for the help and support I received during the longitudinal study. Your openness and unstinting advice always made me feel warm and inspired simultaneously. The support, kindness and generosity of all participants was crucial to the data collection throughout the thesis. It was not really an easy task, especially in the light of the epidemic. Without your support, this research project would probably have become even more challenging, complex and frustrating.

Thank you to my friends and family whose unwavering support and favouritism over the past few years has been so valuable, especially in providing relief and escape when needed. Thank you to my aunt and uncle who told me at the crossroads of my life that it is never too late to choose a different path and start again. Thank you to my parents, I apologise for not being able to be there for you all these years and thank you for your trust, respecting my choices, even if you did not understand them. Your support has been the foundation I needed to help me achieve and succeed.

Finally, I thank myself for my good fortune in meeting each and every one of the lovely people I have met and for being courageous enough to persevere in my efforts to grow into a better me. Life never gets better, we just get stronger.

Abstract

This research investigates the development of integrated reporting at the practice level with selected cases from Japan after several years' adoption, focusing on how integrated reporting is shaped by and shapes organisational activities. It draws on Schatzki's practice theory to construct a theoretically informed narrative of the empirical data collected through several selected cases in Japan. Despite the fact that the integrated report is not mandatory in Japan, the number of companies issuing it has increased year by year. How this corporate reporting practice, which was not born and initiated locally, has developed in Japan is of value to offer insights in promoting such practices in a different context.

The investigation is conducted under two empirical settings. The first study analyses empirical data collected from multiple cases, i.e., Machine, Device, Pharmacy and House, which are the leading players in the respective industry and include companies both before and after the release of the IIRC Framework. With analysis of public documents and interviews with the managers in charge of the integrated reporting process, how the managers understand and implement the practices over time are analysed under different organisational settings. Drawing on empirical evidence collected from a longitudinal access to one organisation (Energy-tech) in a real-life setting, the second empirical study establishes an in-depth case study to further examine the mundane everyday activities that constitute integrated reporting practices, and what these activities have added up to. Accordingly, ethnographic methods including participant observation, interviews and document analysis were combined. Thus, this study extends and enriches the research of integrated reporting by engaging intensively with the field in different settings.

With evidence from these cases, this research has investigated integrated reporting as practices to comprehend a broader and more complicated field in which the organisations attempt to make themselves understood. The practice-based approach provides a means to understand the various activities involved in the integrated reporting practices and how they are shaped by and shape organisational activities. In general, it seems that as practice unfolds, the understandings and specific activities of integrated reporting did not necessarily converge towards what was externally defined or requested such as the IIRC Framework, but rather adapted to the specific organisational context. Furthermore, by investigating the relationships between integrated reporting and other organisational practices, no radical changes were brought by the implementation of integrated reporting. Nevertheless, the incremental changes could be the processes through which different practices possibly emerge, and unfold as a tangled nexus with other practices.

The analysis in this study is valuable in addressing the complex challenges of facilitating embedding sustainability in the management through integrated reporting initiatives. Overall, this study reinforces that the focus of integrated reporting practice should not be solely on the report as an outcome. How practice is developed within companies should receive more attention in future, whether in terms of reporting practice, academic research or policy makers' considerations.

Glossary

Empirical terms:

Business model is, as defined in IIRC (2013), “an organization’s system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the organization’s strategic purposes and create value over the short, medium and long term” (p.33). The IIRC design a value creation model around six capitals (i.e. financial, manufactured, intellectual, human, social and relationship, and natural capital) and requires reporting organisations to identify their inputs, outputs and outcomes. This model is also referred to as the Octopus Model in practice.

Coordinating department refers to those responsible for the preparation of the integrated report in the company. They are the main actors in coordinating activities with internal and external practitioners. Usually, they are called Jimukyoku (事務局/secretariat in Japanese). For the sake of clarity, the term of coordinating department is used throughout the dissertation.

Cooperative department refers to those who are involved but do not play a leading role in the integrated reporting process.

Editorial company refers to those whose business is to supply productions for film, broadcasting, advertising and publishing. In the publishing and advertising industries, they are referred to as Seisakugaisha (制作会社/editorial company in Japanese). They are expected to advise and provide opinions on the generation of content in integrated report preparation, although the level of this expectation and reliance may vary from company to company.

Materiality is a principle originally drawn from financial reports and has been continuously emphasised in the preparation of non-financial reports. According to IIRC (2013), “an integrated report should disclose information about matters that substantively affect the organization’s ability to create value over the short, medium and long term” (p.18). The results of the materiality determination/analysis are usually accompanied with a matrix to show how different issues/matters have been positioned.

Integrated reporting is “a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation”. As a result, integrated report is “a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term” (IIRC, p.33).

Integrated thinking, as defined in IIRC Framework, refers to “the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects” (p.33).

Institutional investor is a generic term for corporate investors who invest and manage funds contributed by their clients. In Japan, the main types include investment advisory companies, life insurance companies, non-life insurance companies, trust banks, investment trust companies and pension funds.

Theoretical terms:

Practice is broadly defined as what people do, as distinct from what we think, such as ideas, concepts, thoughts, theories etc. While the fundamental notion of practice, i.e. what people do, remains mostly constant, the practice theory employed in this study does not only examine practice in contrast to ideas. The most important is to address practice as a fundamental factor in determining social life and order (Schatzki, 2001a, 2002). This study adheres to Schatzki's definition of as "a temporally evolving, open-ended set of doings and sayings linked by practical understandings, rules, teleoaffective structure, and general understandings" (Schatzki, 2002, p.87)

Site, as explained by Schatzki, is "a specific context of human coexistence: the place where, and as part of which, social life inherently occurs" (Schatzki, 2002, p. XI).

Practical intelligibility is "what makes sense to a person to do" (Schatzki, 2002, p.57).

Rule are "explicit formulations, principles, precepts, and instructions that enjoin, direct, or demonstrate people to perform specific actions" (Schatzki, 2002, p.60).

Practical understanding means "knowing how to X, knowing how to identify X-ings and knowing how to prompt as well as respond to X-ings" (Schatzki, 2002, p.60).

Teleoaffective structure is "a range of normativized and hierarchically ordered ends, projects, and tasks, to varying degrees allied with normativized emotions and even moods" (Schatzki, 2002, p. 61).

General understanding represents an overall comprehensive understanding and is the way people perform a project or task (Schatzki, 2002).

Material arrangements are regarded as a constellation of material entities that attaches meaning to the individual entities of the constellation (e.g. a bed in a house vs in a hospital), which includes artefacts, humans, things and organisms (Schatzki, 2002).

Practice memory is a form of social memory in contrast to personal memory, referring to "the present circumscription of activity" with the "persistence of particular rules, ends and projects as organizing features" (Schatzki, 2010, p.104-105).

List of Abbreviations

A4S	The Prince's Accounting for Sustainability Project
CIMA	Chartered Institute of Management Accountants
CSO	Corporate Strategy Office
CSR	Corporate Social Responsibility
CSV	Corporate Shared Value
Cvrl	Corporate Value Reporting Lab
ESG	Environment, Social, Governance
ESPO	Environment Sustainability Promotion Office
GAAP	Generally Accepted Accounting Principles
GRI	Global Reporting Initiative
IIRC	International Integrated Reporting Council
IREA	Integrated Reporting Excellence Award
JICPA	the Japanese Institute of Certified Public Accountants
KHO	Kyoto Head Office
KPI	Key Performance Indicator
MA	Materiality Analysis
MCS	Management Control System
METI	Ministry of Economy, Trade and Industry
MoE	Ministry of the Environment
NIBR	Network Italiano Business Reporting
NIRA	Nikkei Integrated Reporting Awards
PDCA	Plan-Do-Check-Action
SASB	Sustainability Accounting Standards Board
SAICA	South African Institute of Chartered Accountants
SDGs	Sustainable Development Goals
SERA	Social and Environmental Accounting and Reporting
THO	Tokyo Head Office
TSE	Tokyo Stock Exchange
VRF	Value Reporting Foundation
WICI	World Intellectual Capital/Assets Initiative

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Chapter 1 Introduction

1.1 Background

Integrated reporting is the latest innovative corporate reporting practice and has been increasingly gaining momentum worldwide (de Villiers et al., 2014; Rinaldi et al., 2018). The concept of integration is not new; its “embryonic form” can at least be traced back to the concept of the *triple bottom line* (1994)¹ in terms of integrating economic, social and environmental performance (Hasegawa et al., 2018, p.3). Following this trend, innovation in corporate reporting practices has occurred with several attempts involving specific reports, including sustainability and intellectual capital reports (Quarchioni et al., 2021). In particular, sustainability reporting based on the Global Reporting Initiative (GRI) guidelines has garnered worldwide prominence with its adoption predominantly by multinational companies. However, the disclosed information was deemed insufficient to support the users to recognise and understand the holistic picture of the corporate business activities (IIRC, 2013). Moreover, such attempts and efforts have focused on the disclosure of specific information, which tended to have a limited impact on corporate management and therefore hardly contributed to improving sustainability (Kokubu, 2016).

Against this backdrop, integrated reporting has emerged and been advocated as a promising solution to bridge the gap in corporate reporting practices (Eccles and Krzus, 2010; IIRC, 2013). It has been proactively experimented by individual corporate pioneers (e.g. Novo Nordisk) and enforced on an *apply-or-explain* basis in South Africa (IoDSA, 2009)². With the publication of the International Integrated Reporting Framework (hereafter, Framework) in 2013³, the International Integrated Reporting Council (IIRC) eventually formulated and started to promote the most prevalent concept of integrated reporting. It is defined as “a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation” (IIRC, 2013, p.34).

Located at the forefront of corporate reporting practices, integrated reporting was claimed to distinguish itself from the existing reporting practices by emphasising the *value creation* process (IIRC, 2013), entailing “a tangible shift in requested reporting norms/practices” (Beck et al., 2017, p.193). As an external report, the integrated report has been designed to communicate the story of the value creation over time by organisations. Moreover, the IIRC emphasised the *mutually reinforcing* relationship between integrated reporting and integrated thinking. It was asserted that the engagement of integrated reporting should facilitate integrated thinking, “lead[ing] to integrated decision-making and actions that consider the creation of value over the short, medium

¹ The term was first proposed by John Elkington in 1994 (Elkington, 2018) and has since been reflected in the GRI Guidelines.

² This differs from the previous King codes, which were based on the “comply or explain” principle. As explained in the report, “apply or explain” more accurately expresses the intension as “comply or explain” could imply thoughtless reactions. The “apply or explain” regime requires the reporter to “consider how the principles and recommendations can be applied” (IoDSA, 2009, p.7).

³ The Framework was revised in 2020. The only conceptual amendments were the distinction between outputs and outcomes and the clarification of the definition of those responsible for governance. In this thesis, the 2013 Framework is referred to throughout the study (2013).

and long term” (IIRC, 2013, p.3).

However, the concept of integrated reporting, especially what has been defined in the Framework, was not accepted without controversy. Indeed, its influence on corporate reporting practice and organisational behaviours has been intensively challenged (Cheng et al., 2014; Jeffrey and Perkins, 2014; Flower, 2015; Dumay et al., 2016). One of the primary challenges to integrated reporting lies in the view that it might provide a business case approach to sustainability, particularly as the Framework emphasises that integrated reporting is primarily aimed at the providers of financial capital (Cheng et al., 2014; Flower, 2015). Moreover, improved integrated thinking has been emphasised as one of the key benefits of adopting integrated reporting, which is also framed as a business case instead of contributing to stakeholder accountability (Gerwanski, 2020).

Nevertheless, integrated reporting has been promoted by the IIRC and has begun to be embraced by businesses in different countries (de Villiers et al., 2014; Rinaldi et al., 2018). With the development of integrated reporting practices, another strand of criticism emerges concerning the enforceability, practicability and the precise consequences that integrated reporting entails (Stubbs and Higgins, 2014; del Baldo, 2017; Feng et al., 2017; IIRC, 2017; Rinaldi, et al., 2018; La Torre et al., 2019), which relates, to varying degrees, to the voluntary principle-based Framework. The influence of the level of understanding and arbitrariness of integrated reporting by practitioners on how integrated reporting should be carried out has been highlighted (e.g., Feng et al., 2017; La Torre et al., 2019). Rather than thorough consideration based on integrated thinking, practitioners might, however, simply implement integrated reporting by following the precedents and best practices (del Baldo, 2017), raising the question of consequences the practice would bring about. The “envisaged benefits” could have brought companies to follow the practice, yet they could also choose to “wait and see” and not act because of the uncertainty of such benefits (Endenich et al., 2022).

However, it is difficult to criticise a principles-based framework for lacking precise rules and conceptual debates alone do not seem to have a substantive impact on the improvement of sustainability or corporate reporting. This is not to say that past research has not addressed the practice of integrated reporting and its consequences. Although research remains scarce compared to those working on integrated reporting as an external disclosure (Dumay et al., 2016), as the practice of integrated reporting becomes more prevalent, research has begun to examine its outcomes and impacts (Rinaldi et al., 2018).

In particular, prior studies (Stubbs and Higgins, 2014; Dumay and Dai, 2017; Guthrie et al., 2017; McNally and Maroun, 2018) gained relatively consistent insights and suggested the limited influence of integrated reporting on internal management. These discussions undoubtedly reflect the concerns and expectations of academics and practitioners about the practice of integrated reporting and therefore have a reflective and positive bearing on the further development of integrated reporting. What seems to be missing from this momentum, however, is further exploration of how integrated reporting and thinking has internally developed as practices and what these practices have added up to by investigating how integrated reporting is shaped by and shapes organisational activities. This is important in addressing the complex challenges of

facilitating embedding sustainability in the management through integrated reporting initiatives.

1.2 Theoretical background

The investigation of practice requires an overarching theoretical framework, without which contributions may present a fragmented picture and a limited understanding of the integrated reporting process as a whole. Concerning the theoretical underpinnings, in line with previous research on social and environmental accounting and reporting (SEAR), most of the relevant research still tends to examine integrated reporting with traditional, predictive and perhaps predominantly quantitative approaches, focusing on organisational/social structures as a whole or individual incentive (Gerwanski, 2020). This study uses a practice lens based on its focus on “dynamics, relationships and enactment” (Feldman and Orlikowski, 2011, p. 1240). A *practice turn* has emerged in the social science field, and the practice lens has been employed to investigate various practices in the management studies, including strategy as practices (Whittington, 2006; Jarzabkowski, 2005), management accounting (Ahrens and Chapman, 2007), corporate governance (Ahrens et al., 2011; Stacchezzini et al., 2020), etc. Although not many, some attempts (Lodhia, 2015; Al-Htaybat and von Alberti-Alhtaybat, 2018; Abhayawansa et al., 2019) have been made to elucidate the potential of a practice lens to approach different context specific issues in integrated reporting practice.

The practice lens, unlike those often used in the field of corporate disclosure (e.g. stakeholder theory, institutional theory, legitimacy theory etc.), argues the consequentiality of everyday actions in generating the “structural contours of social life” and provides an approach to understanding the “complex, dynamic, distributed, fluid, transient and unprecedented” phenomena within organisations (Feldman and Orlikowski, 2011, p. 1240). Practice, as the constituent of social life, cannot be reduced as regularities. Central to the practice perspective is the notion that social life is an ongoing production and therefore emerges through the regular actions of people (Warde, 2005; Rouse, 2007; Feldman and Orlikowski, 2011). Practice forms meaning, and the way of thinking is also regarded as tending to be routine and institutionalised; thoughts as mental constituents naturally bridge the micro and organisational aspects of practitioners (Johnson et al., 2007). A practice lens would provide a different perspective on social phenomena, instead of either solely focusing on individual purposes or social structures, providing an opportunity to investigate how integrated reporting unfolds as practices “organized mentally” by practitioners (Schatzki, 1996, p. 56).

This study hinges upon Theodore R. Schatzki’s work to investigate how integrated reporting unfolds as practices over time. This theoretical framework provides a unique tool that directs and allows a systematic search into motivational behaviour over time (Chotiyanon and Joannidès de Lautour, 2018). Compared to other practice-theoretical frameworks used, Schatzki’s theory of practice “focuses on the meshing of the various activities that shape practice” (Lodhia, 2015, p.585). In particular, this approach has the potential to “capture group structures that transcend individual knowledge, reasoning, and understanding of practice-related matters” (Stacchezzini et al., 2020, p.888).

1.3 Research aim

In light of what has been discussed so far, this study aims to examine the development of

integrated reporting at the practice level through case studies of selected companies that have adopted integrated reporting for several years, focusing on how integrated reporting is shaped by and shapes organisational activities. Accordingly, this study 1) scrutinises the understanding of practitioners regarding integrated reporting and thinking; 2) it attempts to explore how they develop integrated reporting practices and apply integrated thinking, if they do, in their organisational context; 3) based on such understanding, this research further examines the consequentiality of the unfolding of integrated reporting practices on organisational activities. Practitioners' understandings and specific actions are inextricably linked due to the dynamic nature of practices, even if they may not always materialise in the same way. Nevertheless, for analytical purposes, three operational questions were formulated as follow:

- 1) How do practitioners *understand* integrated reporting and thinking?
- 2) How do practitioners *implement* integrated reporting and thinking?
- 3) How do integrated reporting practices *interact* with other organisational practices?

Consequently, this study is qualitative in nature and the research enquiries are inherently descriptive and exploratory (Saunders et al., 2019). By “descriptive”, it does not mean to clearly define uniformed activities or processes of integrated reporting. Rather, the description of various *sayings* and *doings* (Schatzki, 1996, 2002) is important in the sense that it serves as both a precursor and an extension of the exploration of integrated reporting practices.

1.4 Research methods

In light of the qualitative nature of the inquiries and the focus on practices, the case study approach was chosen as it allows the research to directly investigate the case in its “actual context” (Bromley, 1986, p.23), while exploring the “inner life” of practitioners in developing the practices (Travers, 2001, p. 8; Scapens, 2011; Yin, 2018). The overall investigation was conducted under the research design combined with multiple case studies and a single longitudinal case study. These two empirical studies both explore integrated reporting with a practice-based approach, each with its own focus while complementing the other in order to provide a holistic picture of the dynamics of the integrated reporting practice. Moreover, there is no chronological sequence in the implementation and analysis of the empirical studies. For ease of understanding, this thesis presents the multiple case studies first, followed by the more specific and in-depth longitudinal case study.

In terms of the data collection, in line with previous empirical studies using a *practice lens* (e.g. Ahrens and Chapman, 2007), ethnographic methods were combined to complement an in-depth description of practices. Multiple case studies were formed by four cases, i.e., Machine, Device, Pharmacy and House. They are widely acknowledged as the leading players in the respective industry, ranging from companies both *before* and *after* the release of the Framework. The empirical data were collected with semi-structured interviews with managers in charge of the integrated reporting process and public documents. In doing so, this empirical study provides the perspectives of key practitioners in the integrated reporting process, allowing me to examine integrated reporting practices by investigating the “sameness and similarities” (Schatzki, 2001b, p.51) in different organisational contexts.

The second empirical study obtained the longitudinal access to one organisation, thereby

establishing an in-depth case to investigate how integrated reporting unfolds as practices in real-life setting with data collected by participant observation, interviews and document analysis in a Japanese manufacturer (Energy-tech). Research access is crucial and this goal can be challenging to attain for a number of reasons, most notably due to the degree to which the company is open to the public. This research may be considered, to the best of my knowledge, as the first study to apply a *practice lens* with data collected by participant observation⁴ within the integrated reporting context. In this sense, this study also extends and enriches the research of integrated reporting by engaging intensively with the field.

In line with McNally et al. (2017), cases were chosen from those, which at least had four years of experience in preparing the integrated reports to guarantee well-established cases for examining how the companies have developed the practices over time. In particular, the Japanese industry context was chosen as it provides a unique empirical setting in which the concept of integrated reporting was adopted at a fairly rapid pace, despite not having its origins in Japan.

While the integrated report is not mandatory in Japan, the number of companies issuing it has increased yearly, achieving ten years of continuous growth, with 716 companies self-declared as the end of 2021⁵. According to a Survey on Integrated Reporting in Japan (KPMG, 2021), companies listed in the First Section⁶ of the Tokyo Stock Exchange (TSE) led the growth in the number of issuers, accounting for 71% of the market capitalisation of all companies therein. It is worth noting that despite the practical challenges that emerged in the integrated reporting process, there emerged greater diffusion regarding the practice after several years' implementation, especially in Japan. Nonetheless, based on a comparative analysis of ten countries, Eccles et al. (2019) indicated that, while the growth in Japan has been rapid and the number of integrated reports is high, the overall quality is subpar. It is therefore worth investigating how this corporate reporting practice, which was not born and initiated locally, has been developed and implemented in Japan. It will offer beneficial insights into how to facilitate such practices in different contexts.

1.5 Summary of findings

Drawing from evidence from the cases, this research investigated integrated reporting as practices to understand a broader and more complex field in which the organisations attempt to make themselves understood. The practice-based approach provides a means to understand the various activities involved in the integrated reporting practices and how they are shaped by and shape organisational activities. It draws on Schatzki's practice theory to construct a theoretically informed narrative of the empirical data collected through several selected cases in Japan.

In general, it was found that the activities that composed the integrated practices were diverse, reflecting evolving understandings and being bound by the interwoven purposes and emotions, adapting to and composing the site of the practice. From the cases, the evolving understandings

⁴ To the best of my knowledge, only Mio et al. (2016) employed observation in their study.

⁵ According to the data disclosed by the Corporate Value Reporting Lab (http://cvrl-net.com/archive/pdf/list2021_202202.pdf)

⁶ On 4 April 2022, the Tokyo Stock Exchange was reorganised into three new market segments. The previous market divisions of TSE First and Second Sections, Jasadq and Mothers were replaced by three new market divisions: Prime, Standard and Growth.

of integrated reporting were observed. The purposes and understandings that organised the activities have changed in varying degrees while simultaneously sustaining the development of practices. The multiplicity of specific activities under the same goal reflected the diversity of understandings through the ongoing internal and external engagement of different practitioners, both in the form of continuity and changes. The doings and sayings that constitute the practice of integrated reporting are the unintended consequence of the intended sought-afters. Meanwhile, it seems that as practice unfolds, the understandings and specific activities of integrated reporting did not necessarily converge towards what was externally defined or requested such as the IIRC Framework, but rather adapted to the specific context of each organisation.

Regarding the consequentiality, it was found that integrated reporting is connected to other organisational activities by sharing components of the organisation of practices (Schatzki, 2002). Moreover, it is related to other organisational activities with the reports and various actors as the material arrangements that hang together with different practices. It means that the other organisational activities can influence integrated reporting through the preparation of integrated reports. However, this is not necessarily the case when viewed from the opposite perspective. The development of activities around the preparation of the report, upon which the involvement of different actors and the associated organisational practices are based, enables and constrains the relationship between integrated reporting and other organisational practices. Therefore, no radical changes were observed in/with the implementation of integrated reporting. Nevertheless, the incremental changes brought by integrated reporting could, however, also be recognised as the process through which different practices arise, and unfold as a tangled nexus with other practices. This provides a channel and opens up the possibility of embedding sustainability into practice across the entire organisation, even though such changes are likely to emerge gradually and may require opportunity, and may even need or develop into pathways beyond the confines of reporting activities.

1.6 Significance and limitation of the research

As the practice of integrated reporting continues to grow in popularity, it is important to first understand how practitioners perceive and develop the practice of integrated reporting and further explore the consequences of the unfolding of the practices. As several scholars have pointed out (Di Vaio et al., 2020; Dumay et al., 2016; La Torre et al., 2019; Rinaldi et al., 2018), research on integrated reporting needs to move from analysing external disclosure as reporting outcomes to its influence on internal management. Furthermore, this study is also in line with the call of IIRC (2017) to engage more with practitioners to understand the internal process and its practical implementation. Consequently, this study has both theoretical and practical implications by offering empirical insights into practitioners' understanding of integrated reporting and thinking in their implementation process.

Generally, this study contributes to the integrated reporting studies based on a practice-based approach. Previous studies (Lodhia, 2015; Al-Htaybat and von Alberti-Alhtaybat, 2018; Abhayawansa et al., 2019) have demonstrated the potential of a practice lens to approach different context specific issues in integrated reporting practice. This research firstly contributed to this stream of studies by conducting further experiments involving Schatzki's theory and its relevance to the corporate reporting process. Secondly, it further expanded the practice-based studies in

integrated reporting by discussing the role of general understanding, an element that Lodhia (2015) neglected. Furthermore, it involves data collected by ethnographic methods to build a longitudinal case study and multiple case studies. This is, to my best knowledge, the first study to apply a practice lens with data collected by participant observation of the integrated reporting practices. In this sense, this study also methodologically extends and enriches the research of integrated reporting with a practice lens.

From a practical perspective, the analysis in this study is valuable in addressing the complex challenges of facilitating embedding sustainability in the management through integrated reporting initiatives. Overall, this study reinforces that the focus of integrated reporting practice should not be solely on the report as an outcome. How practice is developed within companies should receive more attention, whether in terms of reporting practice, academic research or policy makers' considerations. This study also responds to calls for research to engage more with practices (Dumay et al., 2017) to investigate the organisational process (Perego et al., 2016) and further understanding of integrated reporting and thinking at the practice level (IIRC, 2017).

Regarding the limitation, part of them were due to the impact of the pandemic. Overall, the study design and conduct were based on the best choices that could be made to achieve the study objectives and answer the research questions given the limited time and accessibility. Due to the pandemic, there was less opportunity for international investigations. Another limitation would be the small sample of organisations and practitioners that participated in the multiple-case study. Moreover, although the involvement of different actors such as editorial companies and shareholders/investors were included, their understandings towards the practices were not fully addressed through fieldwork.

Nevertheless, the limitations also suggest some possibilities for future research directions. Future research could involve more practitioners from different departments to see how different understandings mould practices through the cross-functional team. Moreover, how it unfolds in different organisational and even cultural settings at practice level is a question worth exploring in the future studies. Furthermore, it is true that a number of studies have focused on the views of report users (e.g. Atkins and Maroun, 2015; Haji et al., 2020; Abhayawansa et al., 2019). However, this body of research has mainly focused on the usability of the integrated reports. How the views and perceptions of these outsiders, who potentially affect corporate decision making, influence companies at a practical level and together shape corporate reporting practices needs to be engaged with a wider variety of practitioners in the future research.

1.7 Structure of the thesis

The rest of this thesis is structured as follows: Chapter 2 frames the conceptual and empirical context for the research. Chapter 3 attempts to identify and assess relevant debates and findings from the extant literature on integrated reporting and thinking in relation to how it has been recognised and implemented in practice. Chapter 4 delineates the theoretical background regarding how practice is organised by rules, practical understanding, general understanding and teleoaffective structure as proposed by Schatzki and how his approach has been applied in different management studies, followed by the methodology in Chapter 5. The findings from the multiple case studies and a longitudinal case study are presented and discussed in Chapters 6 and

7, respectively. Chapter 8 provides a discussion on the findings, and Chapter 9 ends the thesis with the conclusion, an outline of the implications for industry and policy makers, its limitations and future research avenues.

Chapter 2 The Concept and Practice of Integrated Reporting and Thinking

2.1 Introduction

This chapter frames the conceptual and empirical context for the research by outlining the concept of integrated reporting and thinking, and briefly introducing the development of integrated reporting practices in Japan. It begins by summarising the relevant narratives surrounding integrated reporting and thinking, briefly describing the historical background within which it was formulated and the evolution of the concept in order to depict the conceptual context in which the study is situated. Section 2.3 describes the development of integrated reporting practices, and related regulatory and industrial developments in Japan, as the empirical context for the study. The chapter concludes with a summary in section 2.4.

2.2 The concept of integrated reporting and thinking

This section explains the terminology of integrated reporting and thinking and addresses relevant debates and critics on the concept defined in the Framework to address the practical challenges arising from the integrated reporting process.

2.2.1 An outline of the concept of integrated reporting and thinking

Integrated reporting has emerged as a search for an alternative to traditional corporate reporting. It is primarily related to the evolution of sustainability information management approaches that have taken place to date. Suppose the concept of *integration* can be reduced to integrating financial and sustainability aspects. In that case, its “embryonic form” can be at least traced back to the concept of the *triple bottom line* (1994), which aims to harmonise economic, social and environmental performance (Hasegawa, 2018, p.3). Following this trend, innovation in corporate reporting initially occurred with several attempts involving specific reports including sustainability and intellectual capital reports (Quarchioni et al., 2021). In particular, sustainability reporting based on the GRI guidelines has gained widespread recognition and developed globally, particularly by multinational companies. However, in effect, the main focus was on the disclosure of social and environmental information, which had a limited impact on corporate management (Kokubu, 2016).

In 2004, the Prince’s Accounting for Sustainability Project (A4S) was launched to address the linkage between non-financial information in stand-alone sustainability reports and financial information in financial reports. Over subsequent years, it developed guidance on *connected reporting*, focusing on the critical linkages between significant social, environmental and economic actions and outcomes in reporting organisations (Hopwood et al., 2010). Thereafter, companies such as the Danish pharmaceutical company Novo Nordisk sought to exemplify the concept through further developing their corporate reporting practices (de Villiers et al., 2014). Moreover, integrated reporting has been enforced on an *apply-or-explain* basis in South Africa since the release of its third report on corporate governance in 2009, which is also known as King III (IoDSA, 2009).

Engaged in these efforts, the IIRC was established in 2010, and it published a draft of the framework for integrated reporting in 2011 to gather feedback from interested stakeholders. As a result, the Framework was released in December 2013, and its revised version was published in

2020. The IIRC also issued guidance to help report preparers to develop a plan for transition to integrated reporting in line with their circumstances (*Transition to integrated reporting: A Guide to getting started*) in September 2021.⁷

In addition, in 2020, the IIRC declared that it would merge with the US-based Sustainability Accounting Standards Board (SASB), and a new organisation, the Value Reporting Foundation (VRF), was formally established in 2021. According to the VRF, guidance is being developed to ensure that the Framework and SASB standards will be applied simultaneously after the merger. The respective standards will continue to be rolled out. Furthermore, the VRF has identified integrated thinking as its third product in addition to both standards. Thus it is expected that integrated thinking will be further promoted in the future.

The IIRC has proposed integrated reporting as a new approach to corporate reporting that shows how organisations use multiple capitals - financial, manufacturing, human, intellectual, social and relational, and natural capital - in their long-term value creation processes across the value chain (IIRC, 2013). It also highlights integrated thinking as an essential concept for integrated reporting, which incorporates features such as forward-looking, increased transparency, improved decision-making, and an accurate understanding of the value process (IIRC, 2013). Despite being the latest development in corporate reporting, integrated reporting is not just about disclosure, but more importantly, about companies incorporating sustainability into their decision-making and strategy formulation, and understanding their organisational strategies and policies based on integrated thinking (Guthrie et al., 2017).

The concept of integrated thinking was discussed at the outset of the preparation of the Framework, and the need for clarification of the concept before the official release of the Framework was identified in the feedback to the IIRC discussion paper, particularly the issue of confusion between integrated reporting, integrated reports and integrated thinking. The problem was raised, with some respondents drawing a distinction between the process (integrated thinking and integrated reporting) and the product (integrated report). They suggested that, as excellent integrated reporting can only come naturally from integrated thinking, the IIRC should focus on “embedding integrated thinking” in organisations rather than reports. (IIRC, 2011, p.9).

With the discussion above, the Framework (2013) emphasised the mutually reinforcing relationship between integrated reporting and integrated thinking, defining integrated reporting as “a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation” (IIRC, 2013, p.34). One of its objectives is to “support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term” (p.3). The mutual reinforcement of integrated reporting and integrated thinking leads to “efficient and productive capital allocation” and contributes to “financial stability and sustainability” (p.3).

⁷ <https://integratedreporting.org/news/transition-to-integrated-reporting-a-guide-to-getting-started/>

Integrated thinking is defined as “the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects” (p.3). As integrated thinking permeates organisational activities, it more naturally leads to “the connectivity of information flow into management reporting, analysis and decision-making” (p.3). As a result, the long-term vision and goals of the company can be achieved while managing the business to meet short-term priorities. Such integrated thinking and management are essential for maintaining long-term competitiveness and business resilience in a changing environment, which is key to superior long-term performance and returns for investors (Churet and Eccles, 2014). Fostering integrated thinking requires the identifying and understanding by an organisation’s management team of all the key factors that influence the business model. It is also highlighted as being integral to the strategy for a business to create value over the short, medium and long term.

In addition, a background paper on Connectivity, jointly developed by the IIRC and WICI, shows the relationship between integrated reporting and integrated thinking, describing integrated thinking as a concept relating to the connection of “strategy, governance, past performance and future prospects”, and the linkages between “functional departments” (WICI, 2013, p.4). Adopting integrated reporting requires a shift in management thinking from “silo thinking⁸” (p.12) to integrated thinking, which in turn requires a bold rethinking of corporate strategy, business model and corporate governance.

What is presented in an integrated report is only the tip of the iceberg; the most important is the invisible part of what has been brought by integrated thinking and integrated decision-making (Churet and Eccles, 2014). This, however, in no way devalues the importance of disclosure but rather emphasises that the emergence of integrated reporting has initially been based on the recognition that separate disclosure of non-financial information was not sufficient to affect the business’s operations.

The IIRC argues that the change processes associated with integrated thinking are necessary for medium- and long-term value creation, supporting that integrated thinking is important and valuable. While the objectives appear to be easily understandable, the perception of the precise meaning and practical content is less straightforward. It is left to companies to decide how exactly to implement integrated thinking or evaluate to what extent it is achieved in practice.

With the diffusion and development of integrated reporting practices, the importance of integrated thinking has increasingly been recognised by practitioners. For example, in KPMG’s survey of Japanese companies’ attitudes towards integrated reporting initiatives (KPMG, 2018), the most significant number of companies considered “management improvement based on integrated thinking” to be a challenge in implementing integrated reporting. It seems that the management began to be aware of the need for management improvement based on integrated

⁸ Silos are taken from tower buildings or cellars for storing grain, and are windowless, stifling spaces. Under this view, people in an organisation tend to pay attention only to their particular functional area, rather than to other departments or the organisation as a whole.

thinking, including clarifying business models, introducing non-financial key performance indicators (KPIs), and establishing governance systems.

According to the Framework, integrated thinking is integral to integrated reporting, and they are mutually reinforcing. The Framework is principle-based and designed to “to strike an appropriate balance between flexibility and prescription that recognizes the wide variation in individual circumstances of different organizations while enabling a sufficient degree of comparability across organizations to meet relevant information needs.” (IIRC, 2013, p.8); it does not seek to set specific standards for integrated reporting or integrated thinking (SAICA, 2015). While there is nothing to be gained by criticising the lack of detailed rules for a framework based on a principle-based model, how to apply it is undoubtedly a challenge in practice.

The result of IIRC’s international consultation on the Framework noted that while integrated thinking was recognised as a core element of, and a prerequisite for, effective integrated reporting, companies were struggling to adopt this central concept (IIRC, 2017). It was also observed that companies did not prepare integrated reports based on a thorough understanding of how to integrate and manage different types of capital, but rather by referring to best practices or competitors’ reports (del Baldo, 2017). Similar challenges exist in Japan, where there is currently a lack of understanding of what integrated thinking is in the first place (Hasegawa et al., 2018).

The IIRC has also recognised this as an issue and has made numerous efforts to promote integrated thinking. In 2018, the IIRC launched the Integrated Thinking & Strategy Group, which brings together the world’s most innovative companies to provide applicable role models in companies. The IIRC has taken up the challenge of clarifying and improving market understanding of integrated thinking (IIRC, 2017). It is also working with relevant professional bodies to promote integrated thinking through the development of some guidance and working groups. For example, drawing on the experience of some of the pioneers of integrated reporting, CIMA⁹ has made recommendations on how to “make integrated thinking happen” (CIMA, 2017, p.18). In particular, it recommends creating cross-functional groups in business planning, measurement and reporting, and identifying the drivers and activities that enable the implementation of a company’s business model. They also emphasise the importance of involving specific departments (e.g. finance and strategy departments) and hierarchies (e.g. top management) in this process. Other studies have also highlighted the role of specific tools in improving integrated thinking and reporting. SAICA’s¹⁰ survey on integrated thinking (SAICA, 2015) points out that certain tools, such as KPIs and the Balanced Scorecard (Kaplan and Norton, 1992), may help companies to improve their integrated thinking. Still, few companies use such tools during the preparation of integrated reporting. Similarly, the NIBR¹¹ states the importance of KPIs and a dedicated dashboard for integrated reporting and thinking (NIBR, 2018). In addition

⁹ The Chartered Institute of Management Accountants (CIMA) is the world’s leading professional body for management accountants, based in the UK.

¹⁰ SAICA (South African Institute of Chartered Accountants) is the South African Institute of Chartered Accountants (SAICA).

¹¹ NIBR (Network Italiano Business Reporting) is a not-for-profit organisation that works with organisational bodies such as the Italian Accounting Association, the WICI Global Network and the EFFAS Intellectual Capital Committee to improve business reporting in companies.

to these efforts, the IIRC also calls for further investigation on the corporate practices. Against the guidance provided and the development of integrated reporting practices, the following sections continue to explain how academic research has approached the concept of integrated reporting thinking, while the practice would be elaborated in Chapter 3.

2.2.2 Clarification of integrated thinking

In addition to the definition of integrated thinking, the Framework identified the following four elements that should be considered in terms of integrated thinking, which thinks the connectivity and interrelationships between factors that affect an organisation's ability to create value over time:

- i) The capitals that the organization uses or affects, and the critical interdependencies, including trade-offs, between them
- ii) The capacity of the organization to respond to key stakeholders' legitimate needs and interests
- iii) How the organization tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces
- iv) The organization's activities, performance (financial and other) and outcomes in terms of the capitals –past, present and future (IIRC, 2013, p.3)

In addition, the background paper on Connectivity developed by the WICI and IIRC (WICI, 2013) also provides a complementary understanding of integrated thinking. Based on these guidance, integrated thinking is assessed from the integrated reporting practice, but the scope and specific content of the assessment as an understanding of the practice changes depending on the research objectives. The content of the integrated report is the disclosure of information about specific organisational activities, and the analysis is based on the information disclosed externally. In this context, the content analysis of the integrated report and the Thomson Reuters Asset4 score can be regarded as a relatively objective assessment.

Content analysis based on integrated reports identifies the elements involved in integrated thinking from normative guidelines issued by the IIRC and related organisations and previous studies on integrated reporting. It included an assessment of integrated thinking according to whether certain elements were disclosed or not (Tirado-Valencia et al., 2021) or how they were reflected in integrated reporting (Quarchioni et al., 2021). Arul et al. (2021) also examined differences in integrated thinking in different institutional contexts. These studies are more recent and indicate a growing interest in integrative thinking in the academic field.

On the other hand, many empirical studies often use the Thomson Reuters Asset4¹² score to assess integrated thinking (de Villiers et al., 2017). Having assessed integrative thinking on that basis, they then examined institutional or contextual factors that influence integrated thinking (Busco et al., 2019; Malafronte and Pereira, 2021), or the relationship of integrated thinking with other organisational behaviours (e.g. transparency of tax disclosure) (Venter et al., 2017).

¹² ASSET4 is Thomson Reuters' database of environmental, social and governance (ESG) ratings, which assesses a company's ESG performance based on more than 250 KPIs and 750 individual data points (Thomson Reuters, 2013).

In previous studies, among the elements to be considered based on integration thinking, the most attention has been paid to “i) The capitals that the organization uses or affects, and the critical interdependencies, including trade-offs, between them”. Based on systems theory, Oliver et al. (2016) described how integrated thinking was observed as an attribute, or ability, of senior managers to manage the tensions between multiple capitals in strategy, resource allocation, performance measurement, and management. Tirado-Valencia et al. (2019, 2021) incorporate the mention of “the link between the description of capital and the value creation process” as one of the assessment items of integrated thinking in their multi-criteria assessment. Arul et al. (2021) assessed integrated thinking by specifying how many of the six capitals (i.e., financial, manufactured, intellectual, human, social and relationship, and natural) were discussed. In addition to integrated reports, other studies have evaluated integrated thinking in terms of the range of capitals considered in decision-making from organisational behaviour (Herath et al., 2021; Williams and Lodhia, 2021).

Meanwhile, Grassmann et al. (2019) assessed integrated thinking limited to multiple capitals and their relationships and sought to investigate the extent of disclosure of capital connectivity in integrated reports. To examine the connectivity, they measured the amount of the relevant disclosure and recorded the sequence, measuring the degree of disclosure of the other capitals mentioned (how many capitals were mentioned) before and after the description of one capital. Based on a content analysis of 169 integrated reports disclosed by Forbes Global 2000 companies in 2013 and 2014, the study found a high degree of heterogeneity in the degree of disclosure of capital connectivity in current integrated reports.

Assessing integrated thinking with a focus on capital based on a vocabulary approach, Quarchioni et al. (2021) interpreted the text of integrated reports as a system of words that could provide meanings for a common understanding of the concept of integrated thinking. For descriptions of the six capitals, they specifically focused on words and their relationships; they combined textual and network text analysis to examine the structure of meaning embedded in the texts of five companies’ integrated reports (2012-2018). The results show that in the integrated reports, the concept of integrated thinking is expressed by incorporating descriptions of different elements and capitals, which follow different paths and relate to each other over time so that the meaning is dynamic.

In addition, “iii) how the organization tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces” is also considered in many studies as integrated thinking. As this element incorporates several contents (external environment, risks, opportunities, business model and strategy), combinations of different topics are used as assessment items. For example, Arul et al. (2021) evaluated integrated thinking in terms of the relationship between the external environment, risks and opportunities with the business model and strategy.

On the other hand, in Thomson Reuters Asset4, Corporate Governance: Vision and Strategy (CGVS)¹³ was regarded as a valid assessment of integrated thinking as it “measures a company’s

¹³ CGVS measures include four “drivers” and eight “outcomes” to evaluate the company’s board vision and strategy;

management commitment and effectiveness towards the creation of an overarching vision and strategy integrating financial and extra-financial aspects” (Thomson Reuters, 2017), thus being used as an index of integrated thinking in many studies (de Villiers et al., 2017; Busco et al., 2019). For example, Busco et al. (2019) measured the integration level as an assessment of integration thinking. They evaluated the integration thinking of companies from scores representing different aspects of the implementation of the overall integration strategy of the company based on the Thomson Reuters Asset4 mnemonic CGVS. The degree of integration was shown to be correlated with the traits of the firm and tended to be steady and imitative through time. The level of integration was also found to be highly influenced by economic growth, market performance, civil liberties, and poor environmental performance at the national level.

Similarly, Maniora (2017) examined the impact of integrated reporting in integrating ESG issues into business models and the associated changes in economic and ESG performance. They defined integrated thinking as a demonstration of whether and to what extent a company uses both financial and non-financial information in its strategic decision-making. They argue that an integrated reporting process requires increased awareness of boards and senior management, as it assumes that ESG issues (non-financial information) are discussed at a corporate level. Therefore, the integration of ESG issues into corporate strategy at the board and senior management level (CGVSDP0041¹⁴, CGVSD04, CGVSD01 and CGVSO01) was chosen for assessment of integrated thinking. Malafronte and Pereira (2021) also addressed the issue of measuring integrated thinking and, based on previous research, attempted to provide a measure to quantify the level of integrated thinking. Considering integrated thinking as the integration of sustainability into the everyday decision-making of managers, they excluded corporate communication skills, i.e. the measurement of reporting outcomes, and narrowed down the indicators of integrated thinking to four items (CGVSD01, CGVSD03, CGVSD04 and CGVSO03).

Concerning “iv) The organization’s activities, performance (financial and other) and outcomes in terms of the capitals –past, present and future”, Tirado-Valencia et al. (2019, 2021) evaluated “the impact of products and services on society, markets and reputation” and “prospects and short- and medium-term directions” as relevant items. On the other hand, for “ ii) The capacity of the organization to respond to key stakeholders’ legitimate needs and interests”, Tirado-Valencia et al. (2019, 2021) did not provide different expressions or specific evaluation contents, while Arul et al. (2021) measured by the frequency of the term “stakeholder” or “major stakeholder”.

Regarding the relation between “strategy, governance, past performance and future prospects”, and connections of “functional departments” (WICI, 2013, p. 4), relevant criteria included the presence or absence of cross-functional (Tirado-Valencia et al., 2019, 2021), effective governance (mechanisms for governance coordination, internal audit and assurance systems, existence of

the four drivers contain the word “integrates” or “integrated”, referring to the company’s “integrated strategy” (Venter et al., 2017). Based on 12 items, CGVS is evaluated essentially like content analysis, where certain behaviours are judged based on whether or not there is the disclosure of information about them, which is ultimately scored. In addition, the choice of specific rating scores differs according to the understanding of integrated thinking and the research objectives.

¹⁴ A data point element in the CGVS category, assessed on the commitment of senior management and board members to integrate ESG issues into the company’s strategy and day-to-day decision-making.

ethical commitments) (Tirado-Valencia et al., 2019, p.4)) and the involvement of different organisational levels (Arul et al., 2021). Other more “formal” assessment items were also included. For example, integrated communication (references to additional information, links and cross-references within the report content, conciseness) and the presence of the word “integrated thinking” are addressed.

Arul et al. (2021) narrowed the focus to specific countries and investigated integrated thinking in different institutional contexts without considering specific factors such as national legal systems or industries. To be clear, in two different institutional contexts, South Africa (where integrated reporting is mandatory and the practice is world-leading) and Japan (where integrated reporting is voluntary and interest in integrated reporting is still developing), they analysed the integrated reports issued by financial services companies to explore similarities and differences in the way the concept of integrated thinking was portrayed. Based on institutional theory, the analysis results suggested that the concept of integrated thinking varied between South Africa and Japan, but that in both environments, there was a strong link between integrated thinking disclosures and corporate governance practices, materiality assessment, the pursuit of industry leadership positions. In addition, while Japanese disclosure appears to mimic South African disclosure, highlighting South Africa’s leading role in integrated reporting, interpretations of integrated thinking were more diverse in Japan.

Depending on the research purpose in the above studies, each of the elements to be considered based on integrated thinking has been listed as detailed assessment items. The scope and specific content of the assessment as the understanding of integrated thinking have been changed. Still, the level of integrated thinking has been assessed by disclosing exact contents as a checklist or by the existence of organisational actions. In this way, by identifying individual assessment items, these studies provide practical content to contribute to the understanding of integrated thinking while at the same time having the potential to lead to organisational action. Among them, the relationship between the capitals is the most rated as integrated thinking, but the description of the six capitals alone does not provide the logic for the use of integrated thinking. It is, of course, essential to know what to consider when understanding integrated thinking, but there are limits to quantitative evaluation when trying to assess the extent of relationships and connectivity. The functioning of integrated thinking requires internal organisational behaviour that is difficult to express through documentation, and it is most important to move beyond the traditional disclosure function of corporate reporting to influence organisational management. The following section describes the implications for organisational behaviour based on an understanding of integrated thinking.

In summary, this section considered the four elements presented in the Framework as the content of integrated thinking and examined how they have been captured explicitly from previous studies. Concerning the understanding of integrated thinking, assessment items were extracted from the guidance issued by the IIRC and related organisations and prior studies and analysed based on externally disclosed information, with many assessments using content analysis and Thomson Reuters Asset4 scores in integrated reports. The relationship between the capitals was the most evaluated as integrated thinking. This type of individual assessment has the potential to lead to organisational action by providing practical content to the understanding of

integrated thinking. On the other hand, only evaluating the disclosure of certain items, as in a checklist, did not mean that integrated thinking was enacted. Nor would an increase in disclosure content alone certainly lead to organisational action.

2.2.3 Controversy surrounding the concept of integrated reporting

As briefly mentioned, the concept of integrated reporting, especially what has been defined in the Framework, was not accepted without controversy. Indeed, its influence on the corporate reporting practice and organisational behaviours has been intensively challenged (Cheng et al., 2014; Jeffrey and Perkins, 2014; Flower, 2015; Dumay et al., 2016). Firstly, one of the initial criticisms focuses on the business case approach to sustainability, particularly as the Framework emphasises that integrated reporting is primarily aimed at the providers of financial capital (Cheng et al., 2014; Flower, 2015). In addition, improved integrated thinking has been emphasised as one of the key benefits of adopting integrated reporting, which is framed as a business case instead of contributing to stakeholder accountability (Gerwanski, 2020).

With the development of integrated reporting practices, another strand of criticism emerges concerning the enforceability, practicability and the precise consequences that integrated reporting entails (Stubbs and Higgins, 2014; del Baldo, 2017; Feng et al., 2017; IIRC, 2017; Rinaldi, et al., 2018; La Torre et al., 2019), which relates, to varying degrees, to the voluntary principle-based Framework. The influence of the level of understanding and arbitrariness of integrated reporting by practitioners on how integrated reporting should be carried out has been highlighted (e.g., Feng et al., 2017; La Torre et al., 2019). Rather than thorough consideration based on integrated thinking, practitioners might, however, simply implement integrated reporting by following the precedents and best practices (del Baldo, 2017), raising the question of consequences the practice would bring about. The “envisaged benefits” could have brought companies to follow the practice, yet they could also choose to “wait and see” and not act because of the uncertainty of such benefits (Endenich et al., 2022). Nonetheless, it is difficult to criticise a principles-based framework for not providing specific rules; conceptual debates alone do not seem to have a substantive impact on the improvement of sustainability or corporate reporting.

This is not to say that past research has not focused on the practice of integrated reporting; rather, as the practice of integrated reporting has become more prevalent, studies, though still comparatively few, have begun to examine the outcomes and impacts of implementing integrated reporting from different perspectives and on different theoretical underpinnings (Rinaldi et al., 2018). These discussions undoubtedly reflect the concerns and expectations of academics and practitioners about the practice of integrated reporting and therefore have a reflective and positive significance for the further development of integrated reporting. However, what seems to be missing from this momentum, however, is some further exploration of how existing integrated reporting has developed in/as practices.

Leaving aside the practical challenges of applying voluntary principle-based Framework (Atkins and Maroun, 2015; Feng et al., 2017; del Baldo, 2017), the extent to which it is applied is itself controversial. McNally and Maroun (2018) pointed out that relying too heavily on guidelines may entail a low level of commitment to integrated reporting. The intent of the principle-based approach was to “strike an appropriate balance between flexibility and prescription that

recognizes the wide variation in individual circumstances of different organizations” (IIRC, 2013, p.5). However, the optional application may bring about the problem of relying solely on “concepts that already meet their internal strategic needs” (Higgins et al., 2019, p. 1674).

Another important controversy may not be entirely relegated to the issue of the concept of integrated reporting and thinking, but rather to the IIRC’s promotion of them. Humphrey et al. (2017) seek to explore how the IIRC reshaped the field of corporate reporting practice in the short time between its inception and the formal release of the framework, and its impact on the final form and practice of integrated reporting. While different professional bodies were mobilised to redefine the boundaries of the integrated reporting, the problem that remained was that the investment field also had to be mobilised to bring about a shift in perception in favour of long-term investment.

Dumay et al. (2017) also noted the substantial influence from professional bodies, particularly the accounting profession and large corporations. In addition, they also make the point that They argue that the IIRC’s rhetorical strategy of promoting integrated reporting seeks to persuade people that integrated reporting is necessary and desirable, while defining itself as a standard setter and attempting to define integrated reporting as a new accounting practice. It is a frequently used tactic by accounting standard setters when seeking to make changes to accounting practices (Young, 1995). In addition, the use of third party bodies can reinforce the legitimacy and authority of the IIRC and further justify the desirability and appropriateness of promoting integrated reporting. This rhetoric is by persuasive, but there is a lack of evidence to demonstrate that such improvements are universal or inevitable. Similarly, although Dumay and Dai (2017) did not explore how the IIRC has promoted integrated reporting, they argued that one of the reasons why integrated thinking has not caused a change in corporate culture in their case study may lie in the continued emphasis on why rather than how integrated reporting/thinking should be practiced.

Broadly speaking, it is unlikely to settle controversies about the concept of integrated reporting and thinking, but underlying these controversies are concerns about the consequences of putting the concept into practice. This is not to say that past research has not addressed the practice of integrated reporting and its consequences. Although research remains, as the practice of integrated reporting becomes more prevalent, more and more research is beginning to focus on the practice of integrated reporting and its impact on organisational practice. A review of these studies will be presented in Chap. 3. Prior to this, the next section will continue to frame the context of this study in an empirical perspective.

2.3 Integrated reporting and thinking in Japan

This section briefly summarises the empirical context of this study in Japan. It begins by describing the relevant developments in non-financial information disclosure, in particular the relevant regulatory requirements for it and how companies have responded to it. Section 2.3.2 explains how integrated reporting practices have developed to date. These include the diffusion of integrated reporting and its promotion by other relevant professional bodies or organisations.

2.3.1 Regulatory development of non-financial information disclosure in Japan

Non-financial disclosure in the form of independent reports can be traced back as far as the launch

of the environmental report. It has been around since the early 1990s and has gradually established itself as an important tool for environmental protection initiatives (Ministry of the Environment, 1999). Following a similar tendency, companies in Japan also began to publish environmental reports in the 1990s.

There were virtually no companies in Japan issuing environmental reports before 1995, and the number of companies issuing environmental reports increased rapidly in the late 1990s. Kokubu et al. (2012) pointed out several important reasons for this. Firstly, the penetration of environmental management systems and the accompanying operational systems and instruments, in particular ISO14001, have had an impact on the diffusion of environmental reports. Secondly, the establishment of schemes to honour excellence in environmental reporting has also contributed to the spread of environmental reporting. For example, the Environment Agency (the current Ministry of the Environment, hereafter MoE) sponsored the Japan Environmental Action Plan Award (currently known as the Environmental Communication Awards) in 1997, and the Toyo Economic Signal Press and the Environment NPO jointly organised the Green Report Forum in 1998, which started rewarding outstanding corporate environmental reports in Japan. Furthermore, Kokubu et al. (2012) believed that the public release of guidelines to clarify what should be included in environmental reports was also important in promoting its diffusion. The MoE released the earliest guidelines in 1997, and thereafter issued Environmental Reporting Guideline in 2001 (2000 edition), which have undergone several revisions since then. According to the official website of the MoE¹⁵, they provided the latest version in 2018 and emphasised the importance of embedding environmental consideration into the management strategies as below:

International trends towards a sustainable society, such as the SDGs and the adoption of the Paris Agreement, have brought about major changes in the environment surrounding companies. In this context, environmental reporting is required not only to disclose the status of efforts to reduce environmental impact and environmental considerations in the course of business activities, but also to report in a future-oriented manner on how to tackle environmental issues in the context of management strategies.

In Japan, the Law for the Promotion of Environmental Consideration was enacted in 2004, making it mandatory for certain businesses in public sector to prepare and publish an environment report. With regard to companies from private sector, it sets out a duty of effort, but is not an enforceable provision. Around the same period, the scope of corporate disclosure expanded to include not only environmental information but also CSR information, and the terms “CSR report” and “environmental and social report” have become more common. In Japan, 2003 is also known as the First Year of CSR (Ministry of the Environment and JICPA, 2007).

According to the MoE’s survey on “Results of Environmentally Friendly Corporate Behaviour”¹⁶, which was conducted until 2018, the percentage of companies that have prepared and published an environmental report to the total number of companies over time shows that,

¹⁵ The website of the Ministry of the Environment of Japan: <http://www.env.go.jp/policy/2018.html>.

¹⁶ Disclosed on the homepage of the Ministry of the Environment: <http://www.env.go.jp/policy/j-hiroba/kigyo/index.html>.

among listed companies, less than half of them prepared and published an environmental report in 2004, but currently the percentage is around 60-70% and is on the increase. This environmental report includes CSR reports, integrated reports and other reports containing environmental information. From the survey conducted in 2018, 68.4% of companies that disclosed information related to the environment had prepared and published an environmental report. Among listed companies, this proportion reached 82.2%. Therefore, at the very least, it can be assumed that most listed companies have by now had some experience in preparing and publishing information relating to the environment.

A shift in focus could be observed in the subsequent discussions, which slowly expanded from the mere release of information to a debate on the utilisation of information, which generally revolved around the dialogue with investors. For example, from November 2011 to March 2012, the Ministry of Economy, Trade and Industry (METI), as part of the FY2011 Comprehensive Survey and Research¹⁷, held a series of meetings to exchange views with each of the groups (IR Group, Risk Management Group, and Corporate Planning Group). The participants included investors, academics, experts, and those in charge of investor relations, risk management, and corporate planning divisions from Japanese companies.

Later in 2012, the Corporate Value Reporting Lab (Cvrl) was established in July by METI and the Research Institute for Corporate Vitality (RIETI) as a forum for companies and investors to discuss, investigate and propose ways of dialogue and disclosure aimed at enhancing corporate value due to its increasing importance recognised in Japan and overseas. As such, the focus on non-financial information was no longer exclusively on the unilateral corporate disclosure, but rather on the dialogue between the company and its stakeholders, particularly investors, which often focused on the value creation of the company.

In May 2017, the Guidance for Collaborative Value Creation (hereafter, METI Guidance) was developed based on discussions in the Study Group¹⁸ on Long-Term Investment for Sustainable Growth (ESG and Intangible Assets Investment) set up by the METI. According to METI¹⁹, the Guidance is the “common language” that links companies and investors, and is a framework for companies (management) to systematically and comprehensively organise the information (management philosophy, business model, strategy, governance, etc.) to be communicated to investors, and to enhance the quality of information disclosure and dialogue with investors. As shown in Fig. 2.2 (METI, 2018, p.5)²⁰, the framework organises the overall picture (six components including values, business model, sustainability/growth, performance and KIP, and

¹⁷ Survey on the Disclosure of Non-Financial Information that Contributes to the Creation of Sustainable Corporate Value.

¹⁸ The study group was set up as part of the government’s growth strategy “The Japanese Revitalisation Strategy 2016” to discuss measures to promote sustainable enhancement of corporate value and medium-term investment as part of the corporate governance reform.

¹⁹ METI website:

https://www.meti.go.jp/policy/economy/keiei_innovation/kigyoukaikei/ESGguidance.html#:~:text=%E4%BE%A1%E5%80%A4%E5%8D%94%E5%89%B5%E3%82%AC%E3%82%A4%E3%83%80%E3%83%B3%E3%82%B9%E3%81%A8,%E3%81%9F%E3%82%81%E3%81%AE%E2%BC%BF%E5%BC%95%E3%81%A7%E3%81%99%E3%80%82

²⁰ Translated by the author.

governance) of a company’s sustainable value co-creation with investors. In an explanatory document issued in 2018, METI further explained that the chain links different components and the business/external environment implies the risk factors and uncertainties for them. Nevertheless, the Guidance is expected to be used as a basis for companies to select the items that are important for their business model and strategy, and position them in their own value creation story; the order and content of the guidance items to be displayed may be flexibly set according to each company’s situation and purpose (METI, 2018). Similar to the Framework provided by IIRC, the Guidance is also voluntary in nature, the extent to which it is applied is dependent on the company’s understanding and willingness.

In addition, efforts to promote the disclosure of specific information²¹ have also been seen in recent years, including intellectual capital, human capital, climate change related information and the incorporation of non-financial information into the annual securities report (mandatory financial

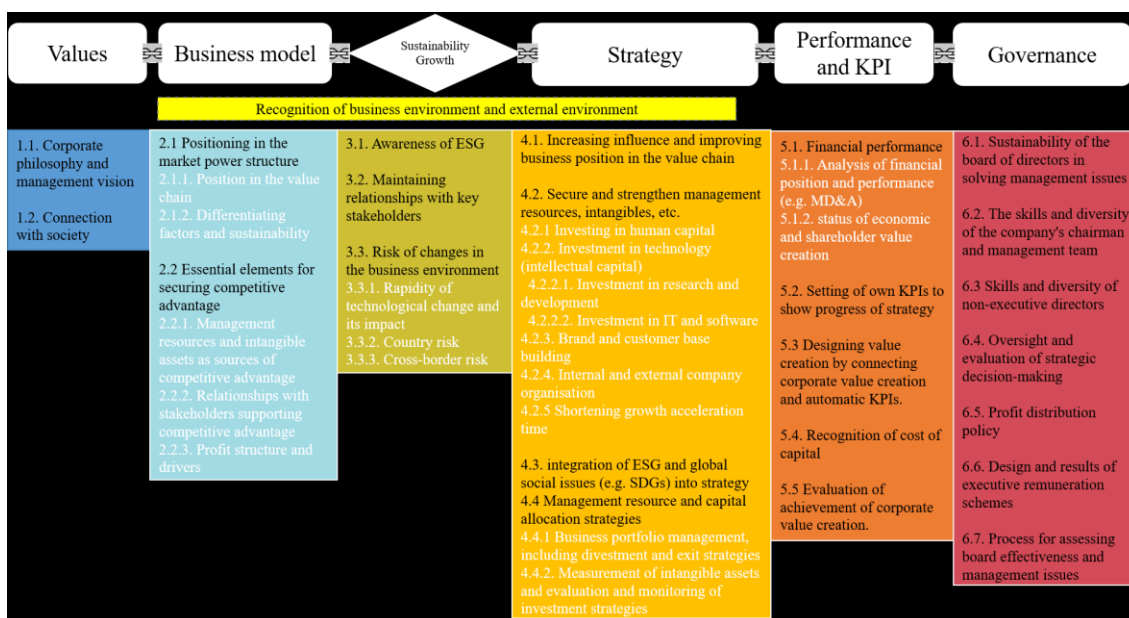


Figure 2.1 General Overview of METI Guidance

report) and forth. Government agencies, mainly METI, have been instrumental in promoting the disclosure of non-financial information and its use in corporate dialogue with investors. Most of the promotion is in the nature of advisory rather than legally compulsory. In addition, there is an emphasis on dialogue between investors and companies about long-term value creation rather than one-sided disclosure by companies. However, these discussions seem to tacitly acknowledge that investors have shifted their mind-set (Humphrey et al., 2017), preferring to invest in companies with long-term value, rather than demanding short-term returns. This is not to say that there are no long-term institutional investors, and Government Pension Investment Fund (GPIF), which will be mentioned in the following section, is one of the major long-term investment institutions that have a considerable impact on the capital markets. Moreover, these discussions

²¹ More policies and discussion on specific information disclosure can be found in the website of METI: <https://www.meti.go.jp/policy/economy.html>.

have not been undertaken by governments alone, and the potential impact of these efforts on practice is also reflected in the involvement of scholars from the academic community and practitioners from the practice area in the discussion.

2.3.2 Development of integrated reporting practice in Japan

The spread of integrated reporting practices in Japan is not only driven by the government’s promotion of non-financial information disclosure and use as mentioned above, but also with the spread of “fashion setters”, including “consulting firms, management gurus, business mass-media publications, and business schools” and the alike (Abrahamson, 1996, p.254).

As part of its business, the consulting companies provide advisory services to companies on how to prepare their integrated reports. In addition to major accounting firms, these consultancies also include those offer editorial services. Apart from providing consultancy services to companies, these companies also play a catalytic role by conducting surveys on the current state of integrated reporting and organising relevant seminars. KPMG Japan, for example, has launched an annual survey on integrated reporting by Japanese companies to provide an overall assessment and recommended direction since 2014. Similarly, Edge international (hereafter, Edge) followed to conduct similar survey since 2016. Meanwhile, these companies also organise seminars for interested companies on different themes surrounding but not limited to the integrated reporting.

Similar to the diffusion of environmental reporting, professional bodies and different organisations that have tried to honour excellence in integrated reporting have also contributed as the fashion setters. For example, the Nikkei Integrated Reporting Awards (hereafter, NIRA, formerly known as the Nikkei Annual Report Awards) are organised by the Nihon Keizai Shimbun and supported by the METI, the Japanese Institute of Certified Public Accountants, the Japanese Securities Analysts Association and the VRF. According to the introduction on the Awards website²², the NIRA has been held annually since 1998 to further enhance and promote the annual reports published by Japanese companies. At the time, this report mainly involved non-regulatory disclosure in English for overseas institutional investors, but the nature of the report has shifted with the changing times. Currently, the features of the rewards, as claimed by the organiser, include: 1) involvement of discussions among institutional investors, auditing firms, consulting and academic experts; 2) evaluation of the integrated report instead of the company itself (e.g. performance); 3) external evaluation at relatively low cost; 4) high promotion effect (during the congress, covering the Nihon Keizai Shimbun, Nikkei Veritas and other diverse media). The assessment is carried out by institutional investors, researchers and consultants, based on the criteria in Table 2.1. There is a fee (¥495,000) to participate in the awards and to be evaluated by professionals. Nevertheless, even if the companies do not receive an award, they can still obtain the results of this evaluation and the relevant comments for improvement.

Table 2.1 Evaluation criteria for the Nikkei Integrated Reporting Awards

Theme	High ratings	Low ratings
Narrative of corporate value	The integrated report as a whole is structured in such a way that the	The content of each part is disjointed and lacks a coherent

²² Introduction of Nikkei Integrated Reporting Awards: <https://adnet.nikkei.co.jp/a/nira/index.html>.

creation process depiction	corporate value creation process is well understood and convincing.	story.
Message from top management	The management philosophy and principles issued by the top management are clear, timeless and convincing, and the passion for overcoming business challenges is felt.	The expression is too formal, emotional and abstract and seems empty.
Identification of materiality for long-term corporate value creation	The materiality has been extracted in a well thought-out manner in line with the nature of the business of the company concerned. The reasons for setting them as materiality items are also clearly stated.	Reasons for materiality extraction not given. Explanations are inconsistent.
Medium- and long-term financial policy and business Portfolio management	Investment plans and shareholder return policies are clearly and consistently described and business portfolio management methods are detailed.	Simple dividend and business portfolio policies are simply presented.
Ambitious and detailed medium- and long-term management plans	The medium- to long-term management plan is ambitious and realistic. It is well-designed and precise in detail.	The description of the medium- and long-term management plan is inconsistent and not feasible.
Financial information sufficient for investor analysis	Financial information sufficient for investor analysis is accurately disclosed. Segment information, sales information for major items and financial KPIs are also detailed.	Only minimal financial information is described.
Corporate governance systems in place	Mechanisms are in place to anticipate the contents of the revised 2021 Corporate Governance Code.	Formal and minimally compliant.
Qualitative quality of the board of directors (fulfilment of function as monitoring board, fulfilment of function of non-executive directors)	The activities of the Board of Directors, the activities of the non-executive directors and the evaluation of the Board of Directors are adequately described.	The board's activities are not conveyed in a lively manner. Only positive aspects are promoted.
Identification of important environmental and social items and presentation of KPIs in line with company	Sufficient presentation of key activities and KPIs for environmental and social aspects of ESG according to the company's characteristics.	There is no explanation as to why the key items were picked out; KPIs are not properly selected; KPI setting is not ambitious; KPIs are not set up in a way that is appropriate; KPI

characteristics		setting is not ambitious; and KPIs are not set up in a way that is appropriate.
Operational status of sustainability governance and its evaluation	Mechanisms are in place to facilitate the smooth promotion of sustainability activities in the company and appropriate evaluations are made.	Unclear policy on how the company as a whole will promote sustainability activities.

Source: <https://adnet.nikkei.co.jp/a/nira/criteria.html> (in Japanese)

Integrated Reporting Excellence Award (IREA) from WICI Japan is another principal award. It is an award system established in 2013, and covers integrated reports issued by listed companies. The organiser of the awards, WICI Japan, was established in 2007 and is made up of company officials, financial analysts and investors, with the aim of improving the simplicity and clarity of business reporting and the disclosure of corporate value indicators. As stated on the website²³, the purpose of the award system is to encourage companies to prepare reports that enable stakeholders to gain a more accurate picture of the company's value creation activities by adding invisible management resources that support the value creation of business activities to financial reports of business activity performance, and by presenting a concise and clear picture of the relationship and link between the two in business activities. The assessment covers the top 300 companies by market capitalisation listed on the First Section of the TSE and the criteria for assessment were listed as follows:

- 1) Is the financial and non-financial information quantitatively and qualitatively organised in a way that reflects the mandatory information set out in the IIRC Framework, and is it designed to demonstrate the company's value creation capabilities in an integrated manner? And does it concisely and clearly describe the issuer's value-creating story?
- 2) Are the results achieved in past business activities and remaining challenges organised, the link between them and the results of the current period clarified, and is the strategy for future business development based on these results, together with the risks involved, adequately foreseeable?
- 3) Are the value creation drivers for each of the business activities in which it operates presented using KPIs, etc., and are they provided in a form that allows comparison over time or between peer groups, and are they linked to other financial and non-financial data? Are the links to other financial and non-financial data presented?
- 4) Is ESG information provided to support the long-term sustainability of its business activities and does the issuer have appropriate governance and management oversight systems in place?
- 5) Is the executive management aware of its cost of capital and, as a listed company, does it balance its management with an awareness of its shareholders and consideration for other stakeholders?

²³ The website of WICI Japan IREA: https://wici-global.com/index_ja/event/integrated_report_award/.

In addition to these two awards on the integrated report, the GPIF has also been selecting the outstanding integrated reports each year since 2018. The GPIF is a pension fund management organisation that manages public pensions, with total assets of ¥200.8 trillion, of which domestic equities account for ¥50.1 trillion²⁴, approximately 6.9% of the total market capitalisation of 728.4 trillion²⁵ on the TSE First Section at the same time (end-December 2021). Although it has considerable influence on the stock market, its principle is not short-term speculation. Pension funds are entrusted to asset management institutions, and as a general rule of investment, the aim is to secure the yield required for pension financing with the minimum risk, from a long-term perspective, exclusively for the benefit of the insured, in order to contribute to the stability of the operation of the pension business. Since 2018, the GPIF has asked 16 institutions (to which it outsources the management of domestic equities) to select up to 10 companies each year for an “excellent integrated report” and a “highly improved integrated report”, respectively, and publishes the selected companies. The GPIF has also adopted as its investment principle that

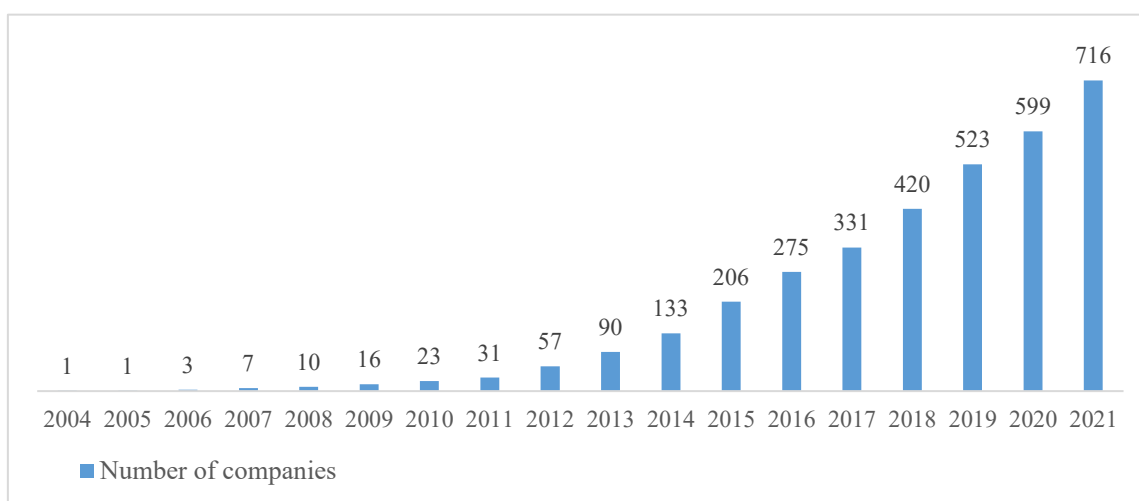


Figure 2.2 Number of companies that declared the issuance of integrated reports

sustainable growth of investees and the market as a whole is necessary for long-term investment returns, and promotes ESG considerations throughout its investment process. Since 2017, the GPIF has been investing in stocks based on “ESG indexes”, which are based on non-financial information disclosed by companies, and are used to assess a company’s ESG initiatives. The GPIF has selected eight ESG indexes with the addition of FTSE Blossom Japan Sector Relative Index in March, 2022²⁶, and the total amount of assets under passive management linked to these ESG indexes is approximately ¥10.6 trillion as of the end of FY2020²⁷.

²⁴ According to the GPIF website: <https://www.gpif.go.jp/operation/the-latest-results.html>.

²⁵ According to statistics from the JSE Group: <https://www.jpjx.co.jp/markets/statistics-equities/monthly/00-archives-01.html>.

²⁶ GPIF’s newsletter on the adoption of new ESG index: https://www.gpif.go.jp/esg-stw/20220330_esg_adopt_jp.pdf. These indexes include MSCI Japan ESG Select Leaders Index, MSCI Japan Empowering Women Select Index, FTSE Blossom Japan Index, FTSE Blossom Japan Sector Relative Index, S&P/JPX Carbon Efficient Index for domestic equities and Gender Diversity Morningstar Indexes, MSCI ACWI ESG Universal Index, S&P Global Ex-Japan LargeMidCap Carbon Efficient Index for foreign equities.

²⁷ According to the GPIF’s website on its approach to ESG investment: <https://www.gpif.go.jp/esg-stw/>

In addition to the promotion by various fashion setters, a survey by Edge (2018) pointed to the financial crisis as an opportunity to trigger an increase in integrated reporting in Japan, where increasing companies have begun to appeal to their sustainability by disclosing comprehensive non-financial information rather than focusing on financial information. On the other hand, some companies have simply combined their annual reports with their CSR reports as a means of reducing their budgets. The report also pointed out that around 2012, when IIRC activities became more active, which became a topic discussed at top management gatherings such as the Keizai Doyukai (Japan Association of Corporate Executives)²⁸, a growing number of Japanese companies started preparing integrated reports. Thus, although there have been many bottom-up initiatives in Japanese companies, the introduction of integrated reporting has been largely driven from the top-down approach.

As a result of various flows, while the integrated report is not mandatory in Japan, the number of companies issuing it has increased year by year, achieving 16 years of continuous growth, with 716 companies self-declared by 2021²⁹. As shown in Fig. 2.1, the first company to introduce integrated reporting emerged from the wholesale sector and began its integrated reporting journey in 2004. According to Survey on Integrated Reporting in Japan (KPMG, 2021), companies listed on the TSE First Section led the growth in the number of issuers. Among these 716 companies, 650, equivalent to 91% of the total, were listed on the First Section, accounting for 71% of the market capitalisation of the 2,173 companies listed on the TSE as of September 2021. In terms of the distribution of companies by industry, the largest number of companies were in electronic equipment (66), chemicals (58) and machinery (52), as well as banks, wholesale and construction. The industries with the highest proportions were insurance (75%), pharmaceuticals (68%) and electricity and gas (68%) (KPMG, 2021).

However, based on a comparative analysis of ten countries, Eccles et al. (2019) indicated that the overall quality of the integrated reports in Japan is not high, although they are rapidly gaining in popularity and are being issued in large numbers. They conducted comparative research among 10 countries and selected five cases for content analysis of their reports based on five criteria including Materiality, Risks and Opportunities, Strategy and Resource Allocation, Performance and Outlook. It is found that the extensiveness, quality, quantity and completeness of reporting varied among different countries. Specifically, apart from being close to average in terms of Strategy and Resource Allocation, these five Japanese companies were rated very low in several other categories, and even received the lowest scores in Performance. Similarly focused on the cross-country analysis of the content of the integrated report, a more recent research claimed that the elements of report content of companies in South Africa and Japan were more or less the same (Tjahjadi et al., 2020).

Both studies show an interest in Japan as an empirical setting, although again, relatively small

esginvestments/

²⁸ The Keizai Doyukai (Japan Association of Corporate Executives) is an economic organisation of business executives in Japan. It is one of the three economic organisations, along with the Nippon Keidanren (Japan Business Federation) and the Japan Chamber of Commerce and Industry (JCCI) (<https://www.doyukai.or.jp/about/org.html>).

²⁹ According to the data verified and disclosed by the Corporate Value Reporting Lab (http://cvrl-net.com/archive/pdf/list2021_202202.pdf)

samples of content analysis were done. This is understandable, given that it provides a unique empirical setting in which the concept of integrated reporting was not originally born in Japan, but was adopted at a fairly rapid pace. Nonetheless, these studies have only addressed the role of integrated reporting as a disclosure platform. How practitioners understand and implement integrated reporting at the corporate practice level is a question that deserves further exploration. The intrinsic value of choosing Japan as the empirical setting for this study is therefore that it may provide useful insights into how integrated reporting can be developed at a practical level in different contexts.

2.4 Summary

This chapter frames the conceptual and empirical context for the research by outlining the concept of integrated reporting and thinking, and briefly introducing the development of integrated reporting practices in Japan. The concepts of integrated reporting and thinking are not uncontroversial, but rather have been questioned and discussed from different perspectives since the concept was first defined. Despite the controversy, there is no doubt that the popularity of integrated reporting, especially in Japan, is well established. At the very outset, the discussion and promotion of integrated reporting has focused on why integrated reporting is necessary, which is important and useful in a period of diffusion of the concept or practice. However, exactly how this unfolds in practice needs more discussion, especially in some particular empirical context such as Japan. The following chapter examines how the practice of integrated reporting and thinking has been identified, analysed, and discussed in previous academic studies.

Chapter 3 Literature Review on Practices of Integrated Reporting and Thinking

3.1 Introduction

The present chapter outlines the existing knowledge of integrated reporting and thinking with a review, synthesis and critique of prior relevant literature in order to demonstrate how this study would extend the current discussion. Along with the research purpose, this chapter attempts to identify and assess relevant debates and findings from the extant literature. It explores how integrated reporting and thinking have been recognised and implemented in practice as well as what the consequences these practices may have brought about.

Focusing what occurs within the organisations, it starts by drawing on literature regarding the features of adopting companies and motivations behind the decision. Further understanding is then facilitated in the following section by examining what is known about relevant internal mechanisms and the consequentiality of integrated reporting. This chapter therefore devotes a separate section to the examination of existing research on integrated thinking. This is a key element in integrated reporting but it is often difficult to determine whether it is the consequence of the integrated reporting or as a practice within the process, followed by a summary at the end of this chapter.

3.2 How organisations came to adopt integrate reporting practices?

If integrated reporting could be simplified as a series of activities involved in preparing an integrated report, the integrated reporting journey of the organisation can be at least traced back to the decision to adopt integrated reporting. Not only in the field of integrated reporting, the question regarding why and how organisations come to adopt new practices has remained a central theme in the management and organisation literature (Kennedy and Fiss, 2009). Without exception, many studies have attempted to examine the motivation and determinants of organisations to adopt integrated reporting practices (e.g., Fuhrmann, 2019; Robertson and Samy, 2019). In addition, in line with previous research on SEAR, it is evident that similar theoretical perspectives have been used to investigate the motivations/ incentives/ rationales behind the adoption of integrated reporting and the features of those who tend to implement the practices (Gerwanski, 2020).

One stream of relevant studies has predominantly relied on quantitative approach, utilising the expanding example of adopters to test “whether these firms show specific isomorphic organizational or country-level drivers compared to non-adopting firms” (Perego et al., 2016, p.58). These studies, which focused on the factors in determining the extent and nature of integrated reporting, have primarily been concerned with corporate characteristics of adopters or general contextual factors. As can be seen in Table 3.1, the theoretical underpinnings adopted by these studies do not specifically explain why integrated reporting was adopted. Rather, they tend to focus on the reasons for voluntary disclosure, which is perhaps why the theoretical grounds present similarities to previous studies of environmental and social reporting (Girella et al., 2017; Gerwanski, 2020). Most of the theoretical perspectives underpinning adoption rely on either stakeholder theory to highlight the characteristics of the firm or institutional theory to validate the impact of institutional structure on the adoption of this practice by organisations.

Table 3.1 Prior Studies on Drivers behind Adoption and the Theoretical Underpinnings

Study	Theoretical underpinnings	IR drivers/determinants
Jensen and Berg(2012)	Institutional theory	Political/financial/education and labour/cultural/economic system
Frías-Aceituno et al. (2013a)	Institutional theory	Legal system
Frías-Aceituno et al. (2013b)	Stakeholder theory	Corporate governance structure
García-Sánchez et al. (2013)	Stakeholder theory	Cultural system
Frías-Aceituno et al. (2014)	Agency, signalling and proprietary costs theory	Company size, profitability, business sectors, industry concentration, and growth opportunities
Sierra-García et al. (2015)	None	Assured CSR report and corporate variables such as size, region, industry, and supplement
Vaz et al. (2016)	Stakeholder and institutional theory	Country level determinants (law/culture/policy/economic system) and company-level determinants(company size, industry membership, sustainability information assurance)
Lai et al. (2017)	Legitimacy theory	Legitimacy pressures (size, leverage, profitability, industry)
Lopes and Coelho (2018)	Stakeholder and institutional theory	Firm level determinants
Fuhrmann (2019)	Voluntary disclosure, signalling, proprietary cost, legitimacy, stakeholder and institutional theory	Country level determinants (law/economic/political/cultural system) and company-level determinants (company size, profitability, industry concentration, social performance)
Girella et al. (2019)	Agency, signalling, cost of capital, political cost, proprietary cost, institutional, and stakeholder theory	Culture/legal system, company size, profitability, size of the board, market-to-book ratio
García-Sánchez and Noguera-Gámez (2020)	Agency, signalling, political cost, proprietary costs and stakeholder theory	Firm incentives and institutional factors (investor protection)
Kılıç et al., (2020)	Institutional theory	Law system/institutional quality
Nishitani et al. (2021)	Voluntary disclosure theory	

Comparing the internal factors with external pressure, García-Sánchez and Noguera-Gámez (2020) make the point that the internal incentives can play a pivotal role in the adoption of

integrated reporting. Integrated reporting is much more than just voluntary disclosure, and more insights from practitioners, are needed to explain why integrated reporting is or is not adopted. These studies describe the characteristics of adopting firms or draw inferences from statistics on the contextual factors that influence adoption. The qualitative studies, on the other hand, engaged with the *insiders* of the organisations to identify the rationale behind the decision (Steyn, 2014; Gunarathne and Senaratne, 2017; Robertson and Samy, 2015, 2019).

As shown in Table 3.1, the adoption decision and diffusion process of integrated reporting may be explained in parallel by different theoretical perspectives, which is consistent with the conclusion drawn by Furhmann (2020). The analysis of whether or not companies adopt integrated reporting (i.e. the motivations and challenges), lies in two main dimensions. These, however, are not completely independent but mutually influential, if not indispensable. In brief, one of these aspects is the main constraint on an organisation's ability to implement integrated reporting. In other words, it assesses whether the firm is able to do so. This is mainly due to the resources available to the company, including the awareness/understanding of integrated reporting, consideration on preparation cost, and is often related to the size of the company (e.g. SMEs) (Bananuka et al., 2018; Gerwanski, 2020). On the other hand, the willingness of the company is crucial. Similar theoretical arguments based on institutional and stakeholder theory tend to be utilised as explanatory tools. In the context of integrated reporting, there are more specific explanations. These determinants include the influence of the prevalence of integrated reporting in the same country or industry (Gunarathne and Senaratne, 2017), and the understanding or requirements of stakeholders (Bananuka et al., 2018), especially investors, to issue integrated reports.

The diffusion of innovation (DOI) theory, on the other hand, does not directly address why organisations decide (not) to implement integrated report, but examines how the practices diffuse among organisations and the rationales behind. Applying DOI theory, Robertson and Samy (2015) investigated the companies likely to adopt integrated reporting and analysed the factors influencing its adoption. A number of key elements were identified: the relative advantage, compatibility with existing values, past experience and needs of potential, complexity, trialability, observability (Roger, 2003) as well as image and voluntary nature (Moore and Benbasat, 1991). They highlighted the importance of senior manager perception of relative advantages of integrated reporting compared to current reporting.

In a similar study employing DOI theory regarding integrated reporting as managerial technologies, Gunarathne and Senaratne (2017) examined its diffusion under a Southeast Asian context. They concluded that the development of integrated reporting in Sri Lanka has transitioned from the primary phase to the diffusion phase. It was also revealed that in the primary phase, the adoption of integrated reporting was an efficiency-driven choice. In the diffusion phase, however, the adoption was more in accordance with the fashion (Abrahamson, 1996). The "fashion-setters" in the case of integrated reporting, included organisations such as IIRC, consulting companies and powerful accounting journals that promote awareness and provide training opportunities for companies.

In a similar vein, Robertson and Samy (2019) identified economic rationales and sociological

rationales behind the adoption and the key factors which can impact on the extent of adoption in the UK early adopters. A predominance of sociological over economic rationales were identified from interviews with 36 in-depth semi-structured interviews with senior executives. Both of these offered organisations a relative advantage over existing practices. Economically, a perceived performance gap was regarded as a relative advantage, which was particularly obvious in those industries with significant impacts on the environment/society. Primary sociological rationales included external pressures to respond to societal expectations and internal motivation to enhance reputation. However, it was also found that the companies tended to transit from sociological to economic rationales when attempting to adapt the new practices to the organisational settings.

Furthermore, unlike those examining the motivations behind companies that have already adopted integrated reporting, Gerwanski (2020) examined why companies decided not to adopt or temporarily refrained from implementing integrated reporting. Although the survey respondents were SMEs with their own unique organisational settings, the study pointed out what managers actually perceived as the practice of integrated reporting. The managers interviewed for this study were more likely to believe that if they adopted integrated reporting, they would value its potential as a business case. This involved its potential to help achieve legitimacy, improve corporate image, reach out to professional investors and help recruit staff, rather than on the basis of stakeholder accountability endeavours. They did not, however, adopt integrated reporting because they felt that there was a lack of public interest in it, unlikely to meet user needs, and that adoption implied a corresponding cost of preparation. To take this further, the cost of adopting integrated reporting does not generally match the expected results. This study focused on companies not using integrated reporting, this leaves open the possibility that companies that do use integrated reporting are more likely to do so on the basis of stakeholder accountability. Nevertheless, it is evident that different companies have different interpretations of the potential shown when it comes to integrated reporting as a business case.

Thus, there is not just one theory that determines what firms do or do not do. On the contrary, there can be a variety of reasons or multiple theories to explain it. In practice, many factors can influence companies' decisions. It is worth noting that a potential prerequisite for interviewing companies, those have or not have adopted, is that they have already made a decision at the time of the interview. They may have also already discussed their own adoption or non-adoption of the integrated report. This might therefore be considered as a process of rationalising the decision.

3.3 Internal mechanisms

In addition to the adoption process, the literature also emphasises the importance of internal organisational context in the “extensiveness, quality, quantity and completeness” of corporate reporting, which includes reporting process and perceptions of internal actors (Adams, 2002, p. 244; Adams and McNicholas, 2007; Stubbs and Higgins, 2014; McNally et al., 2017; Stacchezzini et al., 2020). In particular, under a principle-based framework, the ideal integrated report for a certain company needs to be explored by trial and error of each company. Hence, the importance in investigating the implementation of integrated reporting in practice has been increasingly recognised especially after the release of the Framework (Cheng et al., 2014; de Villiers et al., 2014). In addition, IIRC (2017) continued to call for more engagement with insiders of

organisations in order to gain insights on how integrated reporting unfolded as practice. This section identifies discussion and findings from previous literature on what occurs within the organisations for integrated reporting and thinking.

Several key internal mechanisms were identified in Stubbs and Higgins (2014). Further investigation has been conducted by several studies focusing on the diffusion of integrated reporting practices. As an exploratory study, this research identified several internal mechanisms for integrated reporting to drive organisational changes. However, only incremental changes were identified and no suggests that it can influence the interpretive scheme of the organisations (Laughlin, 1991). As empirical research continues to accumulate, an increasing number of studies have begun to explore different aspects of internal practices. The following is a summary of these mechanics and what different studies have added to them.

Different approaches

Motivational factors can have a significant impact on specific practices, which is perhaps why Stubbs and Higgins (2014) identified the different approaches as one of the important mechanisms in the integrated reporting process. Under the *push strategy*, organisations explicitly aim for internal changes, while by the *pull strategy*, integrated reporting is regarded as “a result of an integrated business”. This is, however, not exclusive in integrated reporting practices.

A similar discussion could also be identified in the sustainability reporting literature. Three main approaches are defined: the *outside-in* approach which aims to meet external expectations to gain legitimacy; the *inside-out* approach that aligns the accounting system with corporate strategy to support internal decision making and the combination of both approaches (Beck et al., 2012; Schaltegger and Wagner, 2006; Burritt and Schaltegger, 2010; Schaltegger, 2012a, b). GRI stands for the typical outside-in approach, which is driven by the reporting requirement. The outside-in approach, however, is “an outcome of managing strategically relevant issues and key performance indicators” (Stubbs and Higgins, 2014, p. 1074). Beck et al. (2012) point out that sustainability reporting has evolved over time from the outside-in to the inside-out process.

In Stubbs and Higgins (2014), both pull and push strategies, as well as its combination were observed in the early adopters in Australia. With a pull strategy, the practitioners recognised relative advantages of integrated reporting over the existing practices as being better to tell the value creation story. By applying a push strategy, the companies aim to drive internal changes to “push sustainability into core business”, which seems to be led by “sustainability people” (ibid, p.1078). However, as Stubbs and Higgins (2014) suggests, this does not mean that using a push strategy would necessarily bring about greater change due to internal inertia. It should also be noted that internal pressure is much weaker in organisations compared to external pressure (Larrinaga-Gonzalez and Bebbington, 2001).

Cross-functional team

The involvement of different actors from various department in the reporting process has been identified as an important mechanism in facilitating organisational changes such as sustainable performance (Adams and McNicolas, 2006). As indicated by Adams and McNicolas (2016), the “personal perspective and integrity” of the practitioners involved would also definitely influence

how the reporting is carried out and the outcome achieved (p.398). In reference to Lewin (1947)'s concept of "group dynamics", Adams and McNicololas (2006) argues that theoretically the dynamics between practitioners within the cross-functional team might bring about "the unfreezing of individual views and hence to change" (p.385).

In the context of integrated reporting, Mio et al. (2016) observed an increase in interaction between different functions accompanied by the fact that the preparation of the integrated report required breaking down silo thinking and gathering a holistic view of the company. Stubbs and Higgins (2014) emphasised the role of finance and strategy teams as integrated reporting is, comparably, more closely related to business strategy and value creation process. However, it is worth noting that the involvement of multiple functional departments does not necessarily mean their full integration. Despite the increase in interaction, Mio et al. (2016) also identified disconnectedness between the different reporting departments. It is argued that this was not necessarily a result of the traditional division of labour in corporate management, but rather that the new framework had not changed managers' mind-set. There is also the need to unite different departments to promote integrated thinking and sustainable development, as advocated by the IIRC. In many cases, however, such changes have not been internalised, and therefore the corporate structure and management systems are not able to change accordingly. McNally et al. (2017) suggests that the difficulty in connecting different reporting teams is often accompanied by the uncoordinated accounting infrastructure to account for data. Furthermore, McNally and Maroun (2018) highlight the difficulty of technical integration in their exploration of resistance to change within organisations. In many instances, the techniques and details specific to each area of expertise present a challenge for both finance and sustainability specialists. In addition, despite the ownership of integrated reporting, which will be addressed in the following section, the practitioners responsible for the functioning of the team may need "influence enough powerful people" to drive fundamental changes (Stubbs and Higgins, 2014, p.1081).

Ownership of integrated reporting

Adams (2002) argues that the ownership of the reporting (either in the sustainability department or the communications/public relations department) helps influence and enhances the practices. In contrast to what is observed in the sustainability reporting process (Larrinaga-Gonzalez and Bebbington, 2001), Stubbs and Higgins (2014) propose that the integrated reporting seems to move beyond the sustainability department and tends to work more closely with other groups. However, similar to the cross-functional team, the finance department's presence and contribution to the overall integrated reporting process is still minimal. This is in line with the findings in Adams (2002) of the absence of accountants in the data collection process. In Higgins et al. (2019), one case of transferring ownership from corporate responsibility to a financial group was identified and was regarded as a change in structure to facilitate the internal collaboration across organisations. This change was enabled by the perception of champion of integrated report within the organisation. The important message is that IR can serve as an effective tool to improve the organisational communication and shared understanding.

Sustainability committee

In line with studies on sustainability reporting (Adams, 2002), sustainability committee is another important mechanism identified by Stubbs and Higgins (2014), which is responsible for signing

off the report. From the investigation on German and British companies, Adams (2002) found that the corporate social reporting committee was an internal context factor to increase social disclosure. The composition of the committee may vary, but usually involve top management including the CEO. In addition to sustainability committee, the Board was also found to play the same role in some organisations (Stubbs and Higgins, 2014).

Materiality analysis

In line with sustainability reporting, identifying material issues is a key step in the integrated reporting process (IIRC, 2013). By analysing the internal process of integrated reporting, both Stubbs and Higgins (2014) and Mio et al. (2020) identified materiality analysis as an important mechanism as “integrated reporters point to focusing on fewer, more strategic issues rather than lots of issues” (Stubbs and Higgins, p.1083). In addition, several articles have addressed issues surrounding the materiality analysis, including auditors’ materiality judgments (Green and Cheng, 2019), comparison of materiality analysis between integrated reporting and sustainability reporting (Beske et al., 2020; Mio et al., 2020), materiality determination process (Steenkamp, 2018) and the views of practitioners (Lai et al., 2017). The materiality analysis is connected to organisational change as it is supposed to help the organisations to determine what information is material to disclose. In spite of recognising its importance, the practitioners noted the lack of internal process to support the determination and the over-reliance on the regulations such as GRI guidelines (Mio et al., 2020).

Integrated measurement systems

Although integrated measurement systems and metrics were also identified as one mechanism requiring substantial changes in Stubbs and Higgins (2014), few studies have investigated exclusively on certain internal tools. Rather, more research calls for organisations to adopt KPIs or tools such as Balance Scorecard to improve integrated reporting (e.g. SAICA, 2015). Mio et al. (2016) further explored integrated measurement and system by investigating how the internalisation of IR principles could address the challenges in the management control system. They found that it could increase the use of non-financial indicators. De Villiers et al. (2017) propose a conceptual model, aiming for the integration of MCS and sustainability reporting and emphasised the role of stakeholder in the choice of integrated measures. This model differs from the conclusion drawn by Mio et al. (2016) regarding their integrated reporting context. The former argue that this was because of the different focus between integrated reporting and sustainability reporting.

In addition to the internal mechanisms identified in Stubbs and Higgins (2014), the role of other practitioners were also emphasised in the current literature as follows:

Top management involvement

Several studies have suggested that the changing of mind-set of investors is needed for the long-term value creation of companies (Humphrey et al., 2017). Others, however, maintain that the company, or to be specific, the strategic change made by management, can also exert influence the investors (Knauer and Serafeim, 2014).

As in the survey conducted by the IIRC and related organisations (e.g. IFAC, 2015; ACCA and IMA, 2015) and several previous research (Busco, 2017; Maniora, 2017; Hearth et al., 2021), the importance of top management involvement and the composition of cross-organisational teams to promote integrated thinking is emphasised. There is also, however, limited knowledge from existing research on how to involve them in promoting integrated thinking. It may be inferred that well-managed organisations have, to various extents, engaged in integrated thinking. However, how to enable it and substantially influence corporate management by engaging in more integrated reporting needs to be carefully examined, as it requires knowledge and experience from practitioners.

External professions engagement

Although the importance of external expertise in corporate reporting has been mentioned (Adams and McNicholas, 2007), very few studies have examined the impact of external experts on the implementation of harmonised reporting. Studies do mention the involvement of external experts. However, only Gunarathne and Senaratne (2017) in their study of the diffusion of integrated reporting in Sri Lanka have emphasised the role of consulting firms and other accounting groups in shaping the fashions of integrated reporting to promote its diffusion. The shaping of this fashion is undoubtedly important in the early stages of a new innovation (Dumay et al., 2017), but there is no evidence of how this shaping influences specific practices in its implementation phase. Furthermore, consultancies are a very specific group and their role may vary in different national and organisational contexts, which requires more empirical research to analyse.

Perceptions of preparers

Several studies have also focused on the perceptions of report preparers and their impact on the reports. This is not difficult to understand, since the Integrated Report, ultimately as the product of integrated reporting, is the outcome of the perceptions and set of activities of the practitioners. However, this strand of research still seems to be inclined to investigate the perceptions of the preparers of the integrated report as a disclosure of external information. A case in point is the study by Naynar et al. (2018) which confirmed the gap between the perceptions of report preparers and stakeholders as information providers and receivers in terms of the value of the information. Similarly for the impact of information disclosure, Lai et al. (2017) explored the impact of preparers' mode of cognition on accountability. It is argued that preparers' narrative mode of cognition facilitates dialogue with users of integrated reports. According to Lai et al. (2017) it can also assert the potential of integrated reports as a means of achieving accountability.

Studies have also begun to focus on the influence of preparers on the internal implementation of integrated reporting. For example, McNally et al. (2017) explored the challenges of preparing reports, mentioning that many corporate decisions to adopt integrated reporting were made by top management. It was found that they were often not understood by individual preparers. In fact, integrated reporting tended to be imposed onto existing internal structures and not fully understood by actual preparers as meaningful. This led to it being a regulatory compliance that hardly had any impact on corporate management. In another related study, McNally and Maroune (2018) further explored the perceptions of and resistance to organisational change by integrated reporting by those within the organisation, particularly those who prepare it. In particular, with respect to a lack of shared understanding of the purpose of the integrated report, the researchers

suggested that unless there was thorough “commitment to or internalisation of the reasons for producing the integrated report”, preparers would not expend effort or give much thought to the corresponding data collection, let alone attempt to change internal management or practice. In this way, the preparation of integrated report worked out as a separate task and “imposed an administrative burden on employees” as a result (ibid, 1332). Nonetheless, it is noteworthy that the context of both studies is South Africa, where, although not entirely mandatory, integrated reporting follows an *apply-or-explain* basis. How integrated reporting is manifested in different contexts, where the decision to implement integrated reporting is entirely voluntary, may require further exploration with more empirical evidence.

As discussed above, the internal process includes both the disclosure activities concerning the preparation of an integrated report and how these activities affect the internal decision-making process. To clarify how integrated reporting processes connect to the integrated decision-making process underpinning the creation of value over the short, medium and long term, it is important to investigate the internal process and activities surrounding the preparation and internal use of integrated reports. Concerning the internal practices, it is found that there was no necessarily shared understanding of the preparers and the corresponding organisational structure and accounting system in place.

3.4 Consequentiality of integrated reporting

Previous studies found that the academic literature has mainly focused on the generation and production of the idea of integrated reporting, and relatively little research has been conducted to investigate the impact of the concept and the practice (Dumay et al., 2016; Rinaldi et al., 2018). Nonetheless, increasing research started to investigate the consequence of integrated reporting with the diffusion and development of the practice. Depending on the expectations of integrated reporting, the corresponding consequences brought about by integrated reporting are examined in terms of external disclosure and internal organisational change respectively. As a corporate reporting initiative, it is not surprising that many of the current studies tend to focus on the external reporting function of integrated reporting, especially at the early stage of its diffusion process. Researchers have identified changes in the external disclosure through several cases of early adopters in South Africa and Australia (Higgins et al., 2019). Nonetheless, changes in disclosure do not necessarily entail high-quality information (Ahmed Haji and Anifowose, 2017). Brown and Dillard (2014) also provide a critical analysis of integrated reporting in order to broaden the dialogue on how reporting influences sustainable practices.

However, as indicated by Higgins et al. (2019), whether such changes can be extended to the internal organisational process and activities is less clear, especially in regard to its external outcomes. Organisational change has been a consistent theme in examining the internal reporting process. In a study summarising the organisational changes brought about by sustainability accounting, Bebbington and Fraser (2014) note that Laughlin’s framework has been more influential in the environmental accounting literature, and this influence has continued into the studies of integrated reporting (e.g. Stubbs and Higgins, 2014; Guthrie et al., 2017; McNally and Maroun, 2018).

To briefly summarise, Laughlin (1991, p.211) identifies three elements of organisations in the

change process, namely, interpretive schema (e.g. beliefs, values and norms, mission/purpose); design prototypes (organisational structure, decision processes and communication systems), and subsystems (tangible organisational elements). Empirical studies using this theoretical framework have generated consistent findings on the changes brought about by the implementation of integrated reporting. In particular, it was found that the implementation of integrated reporting has indeed had some impact on the design prototype of the organisation. This is often achieved by expanding the traditional accounting system; however, the impact on the interpretive schemas appears to be less marked and inconclusive.

For example, an early study conducted by Stubbs and Higgins (2014) examined and assessed how well integrated reporting had been able to promote innovative disclosure practices. They interviewed early adopters in Australia regarding the internal mechanisms they employed at the time of adoption. In addition to sustainability managers, financial managers were also asked for their views. It was found that integrated reporting has a tendency to evolve and gradually move away from sustainability reporting. The process, however, tends not to involve a radical and rapid change from existing financial and non-financial reporting. In addition, the implementation of integrated reporting led to changes at the resource and structural level, but not so much in the core activities and approaches of companies. However, it appeared that the process led to more engagement between internal stakeholders (e.g. finance and sustainability groups) and a more holistic approach was used. Therefore, it cannot be said that integrated reporting did not encourage entirely new innovations. Since integrated reporting was still in its infancy, the emergence of innovative disclosure mechanisms would take time. The lack of comprehensive standards could also hinder the widespread adoption of integrated reporting.

McNally and Maroun (2018), however, highlighted that regardless of the reason for the introduction of integrated reporting (mostly due to decisions by corporate management), the decision itself does not guarantee automatic support for new subsystems and design prototypes (p.1333). Rather, it appears that an accounting system that does not match with reporting programmes may lead to an over-reliance on reporting standards. The findings of Higgins et al. (2019) also suggest that there may be substantial changes in the reported and presented information framework. There was, however, little reported evidence of substantive changes to the systems that generate this information.

In terms of interpretive schemas, Mio et al. (2016), explored the role of integrated reporting principles in improving internal management control systems. They concluded that the implementation of these principles could effectively facilitate the communication and sharing of long standing corporate values. Significantly, there was no evidence suggesting that integrated reporting could change the intrinsic values of the organisation. Dumay and Dai (2017) reached similar conclusions regarding this point. In their study, they did not use Laughlin's framework to examine organisational change, but instead analysed integrated thinking as a form of cultural control. A pertinent finding was that integrated thinking as cultural control had limited impact on the inherent culture of the company. Corporate values and culture tend to be inherently inertial. Dumay and Dai (2017), for instance, found that instead of changing the inherent culture of a company, integrated thinking as culture may even conflict with it. However, if not as an organisational culture, the case study in Mio et al. (2016) suggests that in terms of improving the

overall management control system (MCS) of the organisation, along with the internalisation of the principles of integrated reporting, the integrated thinking approach appears to be accepted by members of the organisation. This tendency helps the organisation to understand the process of causality, particularly in terms of helping newcomers to understand and facilitating stakeholder dialogue.

In another study, McNally et al. (2017) interviewed 26 preparers in South African companies. In contrast to the above findings, the study concludes that integrated reporting is not a natural part of business processes. Moreover, it is argued that the imposition of integrated reporting into existing organisational processes may actually hinder a broad understanding of the purpose of integrated reporting, and thus limit the development of corresponding management control systems and accounting infrastructure. This may be explained by the fact that the case of Mio et al. (2016) does not require the mandatory issuance of integrated reporting, but only applies the principles of integrated reporting to internal management. These can often be subject to further analysis, suggesting that there is no necessary link between mandatory implementation and improved quality of corporate reporting. In brief, the implementation of integrated reporting should not be an end in itself. Furthermore, McNally et al. (2017) also argue that without changes to the corresponding sustainability management and accounting systems, integrated reporting is only a result of compliance efforts. The authors emphasise the point that integrated reporting should be considered disconnected and thus separate from the internal mechanisms of the organisation.

Furthermore, in addition to Laughlin (1991), Bebbington and Fraser (2014) identify other theories that explore the potential for organisational change from different perspectives, namely managerial, process, and semantic. Different aspects have also been investigated through various theoretical lenses in the integrated reporting context.

For example, Higgins et al. (2014) conducted a survey of early adopters in Australia. They interviewed the first fifteen companies to implement integrated reporting to gain a better understanding of the process by which integrated reporting was institutionalised and to highlight the importance of role models. Using institutional theory, they argue that in the early stages of integrated reporting, explanations and implementation from credible companies would facilitate the spread of awareness and implementation of integrated reporting. The institutionalisation of integrated reporting was apparently underway and would contribute to isomorphism. However, no fundamental changes were expected in companies due to the institutionalisation of these practices. In addition, future integrated reporting practices were likely to be influenced by the activities and experiences of early adopters.

A more recent study conducted by Esch et al. (2019) used a scenario-based experiment testing to explore how the diverse information could result in different internal decisions. The financial information, unlinked financial and non-financial information and integrated information respectively correspond three different corporate reporting systems. These include the financial report, financial report and standalone non-financial report and latest integrated reporting. Consistent with previous studies, the result of the experiment also showed that integrated information would often contribute to more sustainable decision-making. Argento et al. (2019)

highlighted the role of the key actor in promoting integrated reporting and stimulating changes in the process. With an explanatory case study, they investigated how the CSR manager carried out the legitimising activities to achieve a substantial change by dealing with the emerging tensions over time.

Borrowing Morgan's metaphor (1986), Higgins et al. (2019) argue that if integrated reporting is a journey, then during that journey, the organisation has to achieve change in at least its structure, culture and reporting practices. However, the evidence they obtained suggests that integrated reporting seems to fit the metaphor of toolbox better in practice. Rather than an organised journey, the researchers observed that the integrated reporting were implemented with "piecemeal and localised" approaches (ibid, p.1664). In addition, while not all concepts could be used as tools, practitioners can, and often do, selectively use principles or frameworks to suit their particular background and context. Rather than systemic implementation, it was found that hat integrated reporting actually caused very little internal organisational change. The conclusions are similar to those drawn using Laughlin's research framework.

The above studies draw similar conclusions, namely that the implementation of integrated reporting does bring about changes in organisations. Although these changes manifested themselves in different forms and to different degrees in different country contexts and organisational situations, the researchers all agreed that they were not revolutionary or fundamental. The researchers are relatively optimistic about these changes, suggesting that this is largely due to the fact that integrated reporting is still in its early stages. It is well documented that organisations are often constrained by inertia and tend to stay the same. Accordingly, they invariably find it difficult to make the necessary changes in a short period of time. However, these studies also point out that without changes in organisational structures or accounting systems, further changes can be difficult to achieve.

3.5 Integrated thinking as internal practices and consequentiality

In a relatively specific position within the claims of integrated reporting, it is difficult to clarify whether integrated thinking is an expected change or a corporate practice. It may well be a combination of both. This chapter therefore devotes a separate section to the examination of existing research on integrated thinking. In line with the growing interest in integrated thinking from the practice side, there is an increasing body of research evaluating integrated thinking and its impact on organisations. In particular, several scholars (de Villiers et al., 2014; Dumay et al., 2017) have pointed out the importance of the internal process and management change it could potentially lead to as well as the mutually reinforcing relationship between integrated reporting and integrated thinking. Based on prior practice and the results of previous research, this section aims to illustrate how integrated thinking is understood and how it affects corporate activities in response to the guidelines provided by the IIRC and relevant organisations.

Generally, according to the literature identified, it is found that integrated thinking has been investigated through two different context, which is closely related to the two functions of integrated reporting, i.e., informative function and transformative function (Tirado-Valencia et al., 2021). Different terms were used to describe these two functions with similar classification, such as externalisation vs internalisation (Maniora, 2017), information function vs transformation

function (Quarchioni et al., 2021), accountability vs managerial purpose (Eccles and Serafeim, 2014) etc. Integrated thinking requires “internal dynamics”, which are difficult to be expressed in a document (i.e. integrated report) or identified through organisational behaviours (Tirado-Valencia et al., 2021, p.332). As suggested by IIRC (2013), integrated reporting and integrated thinking are mutually reinforcing, which implies that the mission of integrate reporting is not only to help convey companies’ integrated thinking, but also “to encourage companies to develop integrated thinking in the first place” (Knauer and Serafeim, 2014, p. 59).

Concerning the effects on organisational behaviour, in addition to the changes that integrated thinking brings to organisations and management, the changes in integrated thinking were also considered one of the organisational changes. However, there is a considerable disagreement among the existing studies on the extent to which integrated thinking influences corporate behaviour. There is also a gap between the current research and the claims of the Framework regarding the extent of change brought about by integrated thinking. This section examines what conclusions have been reached from previous research on the impact of integrated thinking on organisational behaviour, both in terms of the changes it brings about in organisations and integrated thinking itself.

The impact of integrated thinking on organisational behaviour has been most discussed in terms of breaking down silos through “linkages between functional departments” (WICI, 2013, p.4). IIRC argues that integrated thinking bridges organisational silos. It identifies the relationship between non-financial performance and shareholder value, and also changes corporate culture by instilling an investor’s perspective in crucial managerial decisions (BlackSun, 2019).

In contrast, Dumay and Dai (2017) conducted a case study on a small Australian bank to test whether integrated thinking would function as the IIRC claimed. In this case, the responsible banking culture that had been formed before the pilot programme became a more robust cultural control, alongside control through personnel, results and behaviour. They found that while integrated reporting provides more precise reporting direction and helps management identify the limits of strategic planning, the process does not affect employees’ day-to-day work. The existing culture is embedded in the organisation, and integrated thinking conflicts with the current organisational culture, rather than promoting a new one; thus, integrated thinking as a cultural control tends to be limited. In addition, different managers also expressed opposing views on how integrated thinking could overcome organisational silos by addressing integrated reporting. The authors also point out that silos can foster independent thinking. It is therefore questioned whether the elimination of silos advocated by integrated thinking is necessary for all organisational functions.

Similarly, Williams and Lodhia (2021), examining in an Australian context, conducted a survey into the integrated reporting processes of public bodies using a mail survey approach to local councils. The results revealed that local councils became more integrated in their reporting but limited organisational change and a low level of integrated thinking because of the external motivation for integrated reporting.

On the other hand, Guthrie et al. (2017) analysed internal structures and processes changes after the implementation. They suggest that the adoption of the Framework did indeed bring about integrated thinking, although the differences were not revolutionary. They studied the relationship between integrated reporting and internal organisational processes in five public sector companies in Italy, specifically³⁰ examining the mechanisms of internal organisational change that can facilitate the adoption of integrated reporting and how this affects integrated thinking. The changes were found to come from the involvement of finance and risk management directors in the integrated reporting process and from extending non-financial information reporting activities beyond the sustainability committee to incorporate sustainability into strategy and value creation.

Similarly, Stacchezzini et al. (2019) argue that integrated report preparers assign functions to intellectual capital. They emphasise that fact that integrated thinking facilitates the sharing of ideas about intellectual capital between internal departments. It also provides a way to consider what is essential as intellectual capital in the context of integrated reporting. This process offers an opportunity for siloed departments to share their understanding verbally and understand their role in the company's value creation process. Favato et al. (2021) also found that the perspectives of internal actors changed from a department-centred perspective to a multi-dimensional view. These studies argue that integrated thinking can bring about change in organisations by incorporating diverse perspectives into the decision-making or reporting process. However, this change is incremental, and the extent to which it occurs depends on how companies approach integrated reporting.

Herath et al. (2021) emphasise the importance of top management and evaluate CEOs' integrated thinking in orchestrating six capitals. Depending on which capital the CEO focuses on in the pursuit of organisational value creation, the company might adopt a broader perspective on integrated thinking or a constrained perspective of integrated thinking. Specifically, Alpha was found to perceive the relationship between capitals as a relationship with all stakeholders and to influence the management system by setting KPIs for all stakeholders under the six capitals for strategic decision making and goal setting. On the other hand, the CEO of Beta recognised that value was created for shareholders through the interaction of the main capitals, which were perceived to have a significant impact on the company's value creation. This leads to a business view of value creation, as organisations focus primarily on critical areas of responsibility to improve operational efficiency. They argue that these differences in integrated thinking can lead to differences in value creation in organisations over time. Knauer and Serafeim (2014) define integrated thinking as "the systematic management of all forms of corporate capital" (p.59). They use the case of a pharmaceutical company to identify top management commitment. The study considers the maintenance and enhancement of diverse capital as policies and practices that are likely to lead to a long-term oriented investor base. Their main argument is that integrated thinking

³⁰ Stubbs and Higgins (2014) interviewed early adopters in Australia about the internal mechanisms they adopted at the time of implementation. They identified cross-functional teams (e.g. strategy, finance, accounting, sustainability, human resources, legal, risk and investor relations) as key mechanisms in implementing integrated reporting and argued that these teams need to work together on a daily basis.

needs to be embedded throughout the company in order to be relevant to users of integrated reporting.

Integrated thinking does not emerge solely from the practice of integrated reporting; NIBR (2018) suggests that integrated reporting and integrated thinking have a “chicken and egg” relationship. Similarly, in an online survey of <IR> Business Network participants, 45% of respondents said that integrated thinking actually existed prior to the integrated reporting (ACCA, 2018). There is also a view that well-managed organisations would have implemented integrated thinking as a matter of course. It has been suggested that this was the reason why such organisations were successful (SAICA, 2015). Rossi and Luque-Vílchez (2020) examined the process by which sustainability is integrated into the organisational practice of accounting. It was found that top management’s commitment to sustainability, emphasis on value creation, incorporation of ESG indicators, and responsiveness to stakeholders showed signs of integrated thinking. This appears to indicate that the concept of integrated thinking is derived from organisational cultures even before the Framework gave momentum to integrated reporting.

Based on Bourdieu’s theory of practice, Al-Htaybat and von Alberti-Alhtaybat (2018) show how integrated thinking in the case company³¹ is implemented in practice. This thereby demonstrates that this company is not only a leader in integrated reporting in the region at that time, but also a pioneer in integrated thinking. The concept was thus considered important and it was developed long before the term was coined. They considered what could be done with regard to the practice of integrated thinking and integrated reporting against the background of the particular habitus of the case organisation. This is especially in regard to how it has been developed since its foundation. This habitus reflects three main elements: the education and experience of the founders, the developments the company has undergone, and the ongoing organisational approach to dealing with disruption and uncertainty. Using the concept of practice theory, they explain that the need to deal with uncertainty and disruption based on the disposition of individuals and organisations is a critical factor in the development of integrated thinking.

This habitus reflects the education and experience of the founders, the developments the company has undergone, and the ongoing organisational approach to dealing with disruption and uncertainty. Using the concept of practice theory, Al-Htaybat and von Alberti-Alhtaybat (2018) draw attention to the need to deal with uncertainty and disruption based on the disposition of individuals and organisations and their relevance to the field is the basis for organisations to become *integrated thinkers*. Although there was no explicit reference to integrated thinking from the analysis material, the integrated thinking mind-set of the organisations emerged from the data analysis from the habitus. The central aim is to deal with uncertainty and confusion and the business model of the case organisations adopted to deal with the unknown. It has been argued that integrated thinking was already present before organisations engaged in integrated reporting.

³¹ The case companies are anonymous, global service companies that originally operated as private companies, serving mainly Asia and Africa.

By investigating integrated reporting practices, previous studies have presented measures that were considered essential in promoting integrated thinking³². As in earlier studies of the IIRC and related organisations, the involvement and commitment of top management have been emphasised. For example, Williams and Lodhia (2021) argue that top-level management support and a strategic vision for the approach are necessary for integrated reporting practices to bring about organisational change. Similarly, Feng et al. (2017) emphasise the involvement of an active board of directors and management team in preparing integrated reporting to develop integrated thinking. In addition, several studies have highlighted cross-organisational teams as an important mechanism leading to integrated thinking (Feng et al., 2017; Guthrie et al., 2017). The research findings, however, tend to be conclusive, especially regarding whether integrated thinking breaks down organisational silos. The role of these organisational actors has also been highlighted. Nevertheless, how they relate to and influence integrated reporting and thinking processes, respectively, needs to be further examined in an organisational context through practice.

These studies show that integrated thinking has the potential to influence value creation. This can be achieved through organisational behaviour by incorporating more factors into the decision-making process than just financial information. It can also involve different organisational actors, which can lead to a common understanding between departments. In addition, change in integrated thinking is still limited as one of the organisational changes. Insufficient consideration has been given to how integrated thinking can become more embedded in management by engaging in integrated reporting.

Non-financial capital accounts for a growing proportion of corporate value. It is therefore not difficult to imagine that if investors and managers rely solely on information about financial capital when making decisions, they would be unable to accurately and appropriately evaluate the *value* of the companies. This shortcoming thus hinders the medium to the long-term value creation of companies. Integrated thinking is considered necessary in changing the current reporting landscape and facilitating sustainability management in organisations. This section focuses on how integrated thinking was understood through integrated reporting and organisational activities and how it influenced value creation through organisational behaviour, based on previous research.

To sum up, existing research has yet to reach an agreement on the extent to which integrated thinking could bring about change in organisations and management. It certainly has the potential to impact on value creation through organisational behaviour by incorporating many elements into the decision-making process or involving different organisational actors. However, its impact remains rather unclear in many cases. The organisational activities may change depending on what purpose the initiative was carried out for, rather than the application of the framework. The involvement of top management, as well as the existence of cross-organisational teams, is highlighted as necessary in promoting integrated thinking. This is especially evident in the research conducted by the IIRC and related organisations. However, as with the six capital

³² Other topics include the relationship between strategy and risk opportunities (Moolman et al., 2016), the interrelationship between ESG risks, corporate strategy implementation, non-financial reporting and board oversight (Adams, 2017), the relationship between management control systems and integrated thinking (de Villiers and Dimes, 2021), the relationship between sustainability performance, sustainability management and integrated reporting (McNally et al., 2017), and the interpretation of integrated thinking by key stakeholders (Feng et al., 2017).

disclosures, involvement alone, whether by top management or associated departments, did not mean that integrated thinking was enacted or provoked. There are also certain areas which require further investigation: the assumption that well-managed organisations naturally have integrated thinking; how new integrated reporting initiatives can promote integrated thinking and how these factors can influence corporate management.

3.6 Summary

This chapter begins with an investigation on how previous studies examine the motivation of the adoption in the beginning of organisations' integrated reporting journey. As an initiative in the frontier of the corporate reporting landscape, it is not surprising that early studies focused on the rationale of the adoption of the practice. It was revealed from the literature that the decision to adopt integrated reporting is accompanied by various reasons and motivations, which could be dominantly quantitatively explained in parallel with multiple theoretical lenses. The qualitative studies on the other hand seem to suggest that it is a process of rationalising the decision during the adoption and adaption, which entails the multiple and not necessarily consistent motivations.

With the development of integrated reporting and more practical challenges arising in the implementation process with the diffusion, increasing attention have been paid to the internal process of integrated reporting and its consequences to the adopters, especially integrated thinking as it could be both an internal practice and a potential consequence. This can be exemplified by a stream of studies on internal mechanisms and integrated thinking within the integrated reporting context in recent years (Stubbs and Higgins, 2014; Higgins et al., 2014; Feng et al., 2017; McNally et al., 2017; Al-Htaybat and Alberti-Alhtaybat, 2018; Higgins et al., 2019; La Torre et al., 2019; de Villiers et al., 2021). It can also be considered proof of recognition of importance in understanding the value of integrated reporting in stimulating changes within the organisation.

The internal process includes both the disclosure activities concerning the preparation of an integrated report and how these activities affect the internal decision-making process (Dumay et al., 2017). To clarify how integrated reporting processes connect to the integrated decision-making process underpinning the creation of value over the short, medium and long term, it is important to investigate the internal process and activities surrounding the preparation and internal use of integrated reports. As highlighted in [Section 2.2.3](#), it is difficult to criticise the Framework of not providing detailed rules since it is principles-based. Instead, how the practice of integrated reporting is factually organised needs more evidence by engaging with *insiders* within the organisations.

Concerning the internal practices, it is found that there was no necessarily shared understanding of the preparers and the corresponding organisational structure and accounting system in place. This partly explains why companies that have introduced integrated reporting have not seen radical changes. The majority of researchers are relatively optimistic about these changes. They suggest that this is largely due to the fact that integrated reporting is still in its early stages and that organisations. Significantly, these tend to be constrained by inertia and often stay the same. It was also seen that organisations may find it difficult to make significant changes over short periods of time. However, these studies also point out that without changes in organisational structures or accounting systems, further changes can be difficult to achieve.

Therefore, with regard to the consequentiality of integrated reporting, prior studies (e.g. Stubbs and Higgins; Dumay and Dai, 2017) have gained relatively consistent insights and suggested the limited influence of integrated reporting on internal management. These discussions undoubtedly reflect the concerns and expectations of academics and practitioners about the practice of integrated reporting and therefore have a reflective and positive bearing on the further development of integrated reporting. What seems to be missing from this momentum, however, is further exploration of how integrated reporting and thinking has internally developed as practices and what these practices have added up to by investigating how integrated reporting is shaped by and shapes organisational activities. This is important in addressing the complex challenges of facilitating embedding sustainability in the management through integrated reporting initiatives. It is clear that more empirical evidence is needed to investigate how the integrated reporting unfolds as practices in different organisational contexts.

Chapter 4 Theoretical Perspective on Integrated Reporting: Applying a Practice Lens

4.1 Introduction

This chapter formulates the theoretical foundation for the research. The *practice turn* has emerged in various social science fields, including accounting studies (e.g. Ahrens and Chapman, 2007; Jorgensen and Messner, 2010; Nama and Lowe, 2014; Stacchezzini et al., 2020). Practice theory develops a series of concepts to capture the dynamic aspects of social practice (Shove et al., 2012). The practice lens provides an approach to understanding the “complex, dynamic, distributed, fluid, transient and unprecedented” phenomena within organisations (Feldman and Orlikowski, 2011, p. 1240). As explained in preceding chapter, some previous studies (Lodhia, 2015; Al-Htaybat and von Alberti-Alhtaybat, 2018; Abhayawansa et al., 2019) have emerged to elucidate the potential of a practice lens to investigate several context specific issues in integrated reporting practice. Nonetheless, in line with previous research on social and environmental accounting and reporting (SEAR), most of the relevant research still tends to examine integrated reporting with traditional, predictive and perhaps predominantly quantitative approaches, focusing on organisational/social structures as a whole or individual incentive (Gerwanski, 2020). Therefore, this research follows the practice turn to shed light on the practices and focuses the “dynamics, relationships and enactment” (Feldman and Orlikowski, 2011, p. 1240) within the integrated reporting process as it unfolds as practices.

The present chapter starts with a brief introduction of central concepts and critical assumptions in practice theory by explaining the *practice turn* in social theory. From various practice approaches, this study employs Schatzki’s (1996, 2002) practice theory and section 4.3 attempts to suggest the way that his approach, which he calls *site ontology*, can be used to explain and interpret how different activities are *organised* and hang together with the *material arrangements*, followed by a summary of this chapter in section 4.4.

4.2 Practice turn in social science

Generally, social theories provide the analytical framework or paradigm for the study of social phenomena, addressing how “any social order or practices of ordering” are enacted (Clegg and Cunba, 2019, p.1). It addresses a variety of issues ranging from micro activities to macro phenomena, with recurring themes including knowledge, structure and agency, and modernity (Inglis and Thorpe, 2012). Social theory began to emerge during the *Enlightenment* in 18th century and was further established with the work of Karl Marx, Max Weber and Emile Durkheim, whose work was also labelled as classical social theory (Ransome, 2010; Inglis and Thorpe, 2012). Key paradigms that emerged onwards include but are not limited to: structural functionalism/systems theory (e.g. Talcott Parsons), critical theory (e.g. Jürgen Habermas), structuralism (e.g. Claude Lévi-Strauss), post-structuralism (e.g. Jacques Derrida) and Feminist (e.g. Heidi Hartmann).

Since the 1970s, social theory has witnessed a *practice turn*, making the practice-oriented approaches increasingly significant and expanding the range of phenomena they can handle (Nicolini, 2012). Until then, when it comes to what constitute social life, most discussions have focused on structures, systems, meanings, languages, actions and events (Schatzki, 2001a). The turn to practice sheds light on the practical activities and the relationship between the activities and the context in which it is embedded, challenging the “detached scientific rationalism

established by the Enlightenment” (Johnson et al., 2007, p.34)

The label *practice theory* was first used in Ortner (1984) to name the work of Pierre Bourdieu and has come to describe a stream of thoughts contributed by various theorists (Schatzki, 2018). The family of practice theory can embrace the work of two generations of “practice theorists”: Pierre Bourdieu, Anthony Giddens and Charles Taylor as the first generation and the second generation, including but not limited to Andreas Reckwitz, Elizabeth Shove, Stephen Kemmis, Wanda Orlikowski and Theodore Schatzki, who have been testing and extending the theoretical foundation formulated by the first generation (Schatzki, 2001a, 2016; Postill, 2010). Different foci currently exist when analysing practices, including agency, competence & learning, connections & edges, objects, materiality & digitality, space and time, etc.

Along with the practice turn, different theoretical approaches share “historical and conceptual similarities and dissimilarities” (Nicolini, 2012, p.1) have contributed to the broad family of practice theory, which develops a series of concepts to capture the dynamic aspects of social practice (Shove et al., 2012). Various terms such as practice, praxis, interaction, activity, performativity and performance have been employed in the increasing literature utilising a practice approach. Rather than a dominant cognition of theory as an explanation, prediction or even hypotheses, practice theory, although it often indeed delivers answers, as Schatzki claims, “either proffers a general and abstract of practice [...] refer to whatever it offers a general and abstract account of to the field of practices” (ibid, p.3), addressing not only why- and how-questions but also inquiring what things mean and what they add up to (Schatzki, 2018).

However, there is no *one* unified version for practice theory, nor is there one common understanding of what practice theory is (Schatzki, 2001a). A comprehensive review of the various approaches in the broad family is also beyond the scope of this section. To illustrate how this theoretical lens came about, the following presents some common perceptions of practice theories that distinguished the practice lens from other approaches. Moreover, the dissimilarities are also summarised to manifest the way of different approaches within the family of practice theory to address what is deemed deficiency in other social theories.

Schatzki (2001a) synthesised three core themes in practice theories. First, practice theory is centrally concerned with the activity of all kinds, especially providing an opportunity to examine the micro-foundations of social reality and its construction in a particular contextual setting (Loscher et al., 2019). Second, practice theory situates this activity within fields of practice, in which human actors draw on the shared understandings, skills, language and technologies of broader society. Although views on the organisation of practice and its link with the embodied material, most scholars emphasise “the potential of the concept of practice to explain why and how social action sometimes follows and reproduces routines, rules and norms and sometimes [does not]” (Golsorkhi et al., 2015, p.3). The third core theme of practice theory is attention to the tacit and improvisatory skills and accomplishments of human actors as they go about the ordinary activities of their daily lives. In this view, activities are not dictated or determined by social structures; rather, social structures are enacted by skilled and reflexive performers. Furthermore, the practice approach breaks with methodological individualism by emphasising that activities need to “be understood as enabled or constrained by the prevailing practices in the field in

question” (Golsorkhi et al., 2015, p.3). Practice theory represents an intermediate position between individualism and socialism (Whittington, 2006), which focuses on institutional and social structures and human actors.

Generally, practice theory emphasises the embodiment of activities that form practice, although the nature of embodiment might differ from different approaches (Schatzki, 2001a). They agree that practice is the primary generic constituents of social life (Seidl and Whittington, 2014). Social life is principally composed of practices, which are not merely regularities or the constant repetition of certain features, but “a tangle of sameness and similarities among the activities involved” (Schatzki, 2001b, p.51). In addition, most of them conceive of practices “minimally, as arrays of activities” (Schatzki, 2001a, p. 2) and draw attention to the logic and reason under the situated human activities (Reckwitz, 2002).

Practice theory highlights how the unfolding of everyday activities does not strictly follow “intentional actions, formal knowledge or theoretical concepts”, but rather is guided by “routine activities, know-how, tacit knowledge or informal rules”, with all of which can be “diffuse, indeterminate or unreflective” (Caldwell, 2012, p. 284). Various approaches differ in how they are organised and govern activities (Chotiyanon and Joannidès de Lautour, 2018). For example, Giddens (1984) emphasises the determining influence of structuration process based on his concept of *practice consciousness*, while Bourdieu (1977) proposed the idea of *habitus* to refer to internalised experiences, values, rules etc. that “organizes practices and the perception of practices” (p.170). Schatzki (1996, 2002), by contrast, emphasises the meshing of activities and argues that nothing prior to action can determine the activities (Caldwell, 2012).

Along with the influence of practice turn in contemporary social theory on diverse disciplines, practice-based analysis is also increasingly prevalent in the field of management research as “it helps to understand how organisational behaviour is enabled or constrained by prevailing organisational and social practices” (Feldman and Orlikowski, 2011). The phenomena involved in management research are social activities and can therefore be approached with social theory. In management and organisational studies, practice-based research is increasingly drawing attention as in the field including technology, learning at work, institutional change, marketing, accounting and, perhaps most developed as a sub-discipline “strategy-as-practice” continues to get hold of attention (Johnson et al., 2007).

Contemporary social theories can and have provided insightful approaches to manifold and complex concerns in contemporary management and organisational studies, which do not directly act as management or organisational theories, but “address the social practice that constitutes these theories” as well as “having implications for what these theories take for granted” (Clegg and Cunba, 2019, p.1). As pointed by Spaargaren et al. (2016), instead of the theoretical focus on individual motivations or organisational features, “a more in-depth investigation of ‘context’, or the activities, the social practices, they engage in” should have been given more priority (Spaargaren et al., 2016, p.4). The common theme across this work is an emphasis on understanding the various fields in terms of the activity that constitutes them in contrast to abstract representations of process (Pettigrew, 1992). In the context of management studies, practice theory has offered the promise of a departure from analyses of whole organisations to a focus on

the role of human actors, materials and artefacts in strategic and organisational activity (Johnson et al., 2003).

As mentioned above, various practice approaches have been used in management and organisational studies. Theodore Schatzki, as one of the leading promoters of the *practice turn* in contemporary social theory, is regarded to have developed one of the most potent versions of practice theories (Nicolini, 2012). His approach provides the opportunity to elucidate the complexities within specific practice, while having potential to identify “the complex intertwining of various organisational and/or social practices” (Nama and Lowe, 2014, p.285). This study uses Schatzki’s approach to investigate integrated reporting practices due to its compelling potentials in studying organisations in terms of fertilising the understanding of “micro-foundations of the organisational phenomenon”, “embeddedness of organisations in their wider social context” and “temporo-spatial dimensions of organisations” (Loscher et al., 2019, p. 123). In what follows, the section focused on the key concepts developed by Schatzki and how his approach has been used in management studies.

4.3 Schatzki’s practice theory

Influenced by the work of Wittgenstein and Heidegger, Schatzki firstly systematically introduced his version of practice theory in his seminal book published in 1996, entitled *Social Practices: A Wittgensteinian Approach to Human Activity and the Social*. In his second book, *The Site of the Social: A Philosophical Account of the Constitution of Social life and Change* (2002), he developed his previous ideas into an original theoretical apparatus, which he refers to as *site ontology* (Schatzki, 2002), relating it to “the constitution and transformation of social life more generally” (Loscher et al., 2019, p.116). Subsequently published work of Schatzki further refined his approach by addressing diverse aspects of the social domain such as space (2011), change (2013), large social phenomena (2016), discourse (2017a), learning (2017b) and the relationship of people to enveloping social phenomena (2017c). Schatzki has developed and is still developing his theory over the past twenty years or so, a process that has been accompanied by a number of conceptual modifications, enrichments and additions, which is probably why his theory has sometimes been considered confusing (Nama and Lowe, 2014; Loscher et al., 2019; Stacchezinni et al., 2020).

This section does not aim to provide a full account of Schatzki’s practical theory or to delve into its philosophical debates. Rather, it provides a brief introduction to the basic concepts in Schatzki’s practice theory, namely what practice is, what organises it, and how it changes. Schatzki (2002) defined practice as “a temporally evolving, open-ended set of doings and sayings linked by practical understandings, rules, teleoaffective structure, and general understandings” (p.87). The section continues to explain this quote in greater detail and introduce the main concepts upon which his practice lens is based. By reviewing previous Schatzkian studies, it focuses on how the derived concepts or propositions can be used in empirical research to explore a variety of context-specific enquiries, with attention to the potential difficulties of applying philosophical accounts in empirical analysis (Warde, 2005).

4.3.1 Site ontology

According to Schatzki’s typology, site ontology is a new form of social ontology, which steers a

path between the traditional camps as “individualism and societism” (Schatzki, 2005, p.465). The social site, as explained by Schatzki, is “a specific context of human coexistence: the place where, and as part of which, social life inherently occurs” (Schatzki, 2002, p. XI). According to Schatzki, “the plenum of practices is the entirety of the linked practices and material arrangements that exist at a given moment or period of time” (Schatzki, 2017c, p.26). Material arrangements are regarded as a constellation of material entities that attaches meaning to the individual entities of the constellation (e.g. a bed in a house vs in a hospital), which includes artefacts, humans, things and organisms (Schatzki, 2002). He claims that practices and material arrangements necessarily hang together, constituting *practice-arrangement bundles*. They generally form the *frame* or *context* in which activities are performed and in which entities and activities gain their meaning. Therefore, Schatzki (2002) refers to this as the *site* of activity. Thus, the elements of practice-arrangement bundles constitute the site, and provide entities and activities with their particular meaning through their specific constellation (Loscher et al., 2019).

In line with all theories of social practice, the core of Schatzki’s proposition is based on the perspective that all social phenomena are rooted in practices. Practice cannot be reduced to regularity and routine alone as “open-ended” suggest that actions perpetuate and continually extend practice temporally and that practices inevitably entail irregularities and unexpected elements (Nicolini, 2012). Bodily *doings* and *sayings* act as the essential elements of a practice, both of which are also called *activities*. The same or similar sayings and doings can be mobilised within different *tasks* or *projects*, which Schatzki uses to describe the increasingly complex wholes. Therefore, the sayings and doings within different tasks and projects may come to mean different things. Doings, sayings, tasks and projects hang together to constitute integral and meaningful blocks of practices (Schatzki, 2002).

Another distinctive feature of Schatzki’s version of practice lies in his emphasise on the temporal and spatial dimensions for the activities (Schatzki, 2009). They are relative to the practice-arrangement bundles through particular teleology of the practice, which concerns the teleoaffective structure (Loscher et al., 2019). By temporality and spatiality, Schatzki (2009) does not mean the objective time and space. The temporal dimension of the activity, conceptualised as past, present and future, is connected by the teleology. In other words, the present acting may be informed by the past situation and be oriented by future ends. Spatiality entails the spacious settings of the activity, which includes the place where it occurs and the paths that connect different places. Schatzki coined the term *timespace* in his book: *The timespace of human activity* published in 2011, and further elaborated temporality and spatiality to explain the “interconnectedness of the time-spaces of different people’s activities” (Loscher et al., 2019, p.122).

4.3.2 Organisation and re-organisation of practices

The individual activities are supposed to be guided by what Schatzki calls *practical intelligibility*, which means that people do what makes sense for the individual person to do (Schatzki, 1996, 2002). Based on practical intelligibility, specific activities are signified to the individuals as what to do next. Thus it is an “individualist phenomenon” as specific actions always make sense to an individual (Schatzki, 2002, p.75). Features of individuals, such as ends and affectivity, primarily

determine what makes sense to them. The practices determine the practical intelligibility “by molding such features” (ibid, p.75). Therefore, practical intelligibility is also a “teleological phenomenon” although it is not equivalent to, but potentially partly determined by, rationality, normativity or scientific correctness (Caldwell, 2012, p.289).

As the core of social phenomena and social order, practices are “collective and need collectively shared links” (Gram-Hanssen, 2009, p.47) to hold together the various components of certain practices. In other words, the range of doings and sayings are restricted by the ways in which they are tied to a particular practice. According to Schatzki (2002), practices are organised activities, linked through four elements. They are rules, practical understanding, teleoaffective structure, and general understanding.

Rules are “explicit formulations, principles, precepts, and instructions that enjoin, direct, or remonstrate people to perform specific actions” (Schatzki, 2002, p.60). They connect people to practice, which all members comply with and respect. They are designed and applied to control certain activities or bring about specific effects. Rules relate the actions of practices to the extent that an actor complies with them. Nevertheless, rules “do not determine what people do; rather, what people do determines what following rules amounts to” (Schatzki, 2011, p.181).

Practical understanding includes the abilities associated with the actions that make up practice, i.e. “knowing how to X, knowing how to identify X-ings and knowing how to prompt as well as respond to X-ings” (Schatzki, 2002, p.60). In other words, individuals with these abilities know what to do to perform a particular practice. However, practical understanding is not limited to what can be articulated in words, although it remains “knowable” within the empirical context (Caldwell, 2012, p.289). In addition, similar to rules, practical understanding also does not determine what people do.

Teleoaffective structure is “a range of normativized and hierarchically ordered ends, projects, and tasks, to varying degrees allied with normativized emotions and even moods” (Schatzki, 2002, p. 61). By normativity, he means “oughtness or rightness”, which is gained through the enactment of practical intelligibility that underpins all practices (Schatzki, 1996, p.101). Teleoaffectivity is a composite term that involves both teleological and affective aspects. Teleology refers to the goals of practice and is the direction toward the ends. Affectivity includes accepted or defined emotions and moods that indicate the importance of things. Therefore, it involves a number of constituents: “intentions, actions, emotions, and moods as well as ends, purposes, projects, and tasks” (Caldwell, 2012, p.289). Each activity is associated with a specific personal/organisational goal, not just an event at some point in time, and is imbued with affectivity/emotion-in-action. In the process of adjusting short-term and long-term goals, purposeful actions are also coordinated and promoted by the motivation towards the final goal (decision of what is important). Schatzki’s teleoaffective structure links various activities over time to individual/organisational goals. Nonetheless, practitioners can be involved in the teleoaffective structure of certain practice without necessarily being aware of the ends or intentions. Even if incorporated evenly into the practitioner’s mind and behaviour, teleology and affectivity are characteristics of practice, not practitioners.

For the fourth organising element, Schatzki firstly introduce *general understanding* in his book: *The site of the Social: A philosophical Account of the Constitution of Social Life and Change* (2002). As perhaps “the most opaque and underdeveloped idea” (Caldwell, 2012, p.289), a general understanding represents an overall comprehensive understanding and is the way people perform a project or task (Schatzki, 2002). For example, common concerns about profitability in the practice of management control (Ahrens and Chapman, 2007; Jørgensen and Messner, 2010). General understanding is not something unique to a certain practice. It may relate to an understanding of a particular field shared by many practices, such as accountability of managers and management accountants in the practice of management control (Jørgensen and Messner, 2010). Moreover, general understanding should have “helped organized most temporal practice” in the context of an organisation (Schatzki, 2002, p. 86), which is quite similar to the corporate culture/values/habits/way of thinking that is shared by the organisational members. In the example (Shaker) given in his book, religious conviction and sense of community are regarded as the general understanding of practitioners in medicinal herb production practices. Such understanding can be expressed in how people conduct projects and tasks, as well as doings and sayings.

As a final concept that Schatzki adds to the discussion of what holds the organisation of a practice together, general understanding is considered to be vaguely defined and least developed (Caldwell, 2012; Nama and Lowe, 2014; Loscher et al., 2019). As seen in Table 4.1, general understanding seems to have been relevant to the teleoaffective structure in the form of shared goals or values within a social community (e.g. organisations). Schatzki also seems to have dropped the term in some of his work (without explanation), and this also occurs in empirical studies that use Schatzki’s theory of practice to explore social practices (e.g. Lodhia, 2015; Ahrens and Ferry, 2018).

Table 4.1 Summary of Teleoaffective Structure and General Understanding in Existing Studies³³

Example/Study	Teleoaffective structure	General understanding
Shakers (Schatzki, 2002)	Religious conviction, sense of community (p.86) Hierarchical authority (p.82) Making and maximizing profit, meeting demand, keeping the machinery functional, maintaining sufficient stock (p.81)	Religious conviction, sense of community (p.86)
Nasdaq (Schatzki, 2002)	Making money, as much as possible (p.162) Success, or winning (p.163) Enhancing the sense of self worth/ self esteem goals (p.163)	Wonder and goodness of the free pursuit of individual gain Sense of community(p.166)
Menu design	Achieving target food margin (pp.	Strategic message (Jorgensen and

³³ Of the studies listed in the table, the summaries up to 2010 were taken from Nama and Lowe (2014, p. 300), with subsequent studies summarised by the author.

(Ahrens and Chapman, 2007)	13, 15, 19, 21) Achieving target labour cost percentage of sales (p.17) Strategic priority of growth-13 key tasks (pp. 19, 24)	Messner, 2010, p.187)
New product development (Jorgensen and Messner, 2010)	Strategy of modularisation (p.191) Doubling revenues in 5 years (p.193) Overall concern with profitability (p.201)	Strategic objective of the division (p.195), overall concern with profitability (p.201)
Private equity (Nama and Lowe, 2014)	Making money (p.289), secure commitment (p.290), source investment opportunity (p.292), evaluate the various investment opportunities (p.292), desired rates of return (p.293)	The joy, intrinsic reward and motivations of earning performance fees or carried interest (p.301)
Integrated reporting (Lodhia, 2015)	Acknowledgement of economic, social and environmental issues (p.587)	Not used
Compliance programme (Stacchenizzi et al., 2020)	Alignment with the law and emerging best practices (p.898) Concern for potential incorrect actions and to avoid misconduct (p.901) Fair behaviour (p.903)	Confusion regarding the overarching system (p.898) A fear of penalty (p.901) Safeguard each action's corporate legality (p.903)
Assessment based on integrated reports (Abhayawansa, et al., 2019)	Seeking information continuously about the company, build a mosaic of information and continuously interpret new information (p.1632)	Corporate communications are biased (p.1632).

As Schatzki indicated, the four elements are the property of practice instead of practitioners or at least not individuals. The distinctiveness of different practices lies in the distinctiveness of the package of doings and sayings plus organisation that each is: a particular set of doings and sayings expressing a particular array of cross-referencing and interconnected rules, teleoaffective structures, and understandings. The change in these two process, i.e the organisation and the doings and sayings that constitute these practices, is called “reirganizaton and re-compostion” (Schatzki, 2002, p.240).

Schatzki (2011) suggests that perpetuity is the default mode of practice. He reckons that the essence of human is to obey the norm, but he does not equate continuity with the *status quo* forever without any change (Schatzki, 2002). Rather, the continuity of practice and the emergence of new ones occur because practice enables change: the “constant flow of human and non-human actions” changes and sustains practice (ibid, p.240).

Changes in these principles determine the direction of practice evolution as they also evolve over time in response to practice-related events (Schatzki, 2002). Regarding the four organising elements, Schatzki (2006, 2011) suggests that some actions may or may not exist when action unfolds. The structure of the new practice is incorporated while the traces of the old are preserved. Therefore, dramatic changes can only be exogenous (Schatzki, 2005). It is the persistence of the practice structure from the past to the present that actually permeates practice (Schatzki, 2006). The part of the practice structure that does not control the performance of the current behaviour, but continues to exist in the meantime, is called *practice memory* (Schatzki, 2011, p. 216). This term does not refer to a collection of people's memories. It consists of ways of doing things, rules that impose obligations on people, something important to an organisation or group that everyone understands, and unites everyone during the continuation of practice. To continue the practice, Schatzki reckons that some members, if not all, suffice to have a memory of practice. Most importantly, it is available and understandable in practice. Such memories are distributed among the members according to status and experience.

Schatzki (2002) also highlights the *intentionality* of the elements when discussing practice change or persistence. He suggests that in general, in most cases, subtle changes involving the doings and sayings that constitute practice are the *unintended* result of intentional seeking. Projects and tasks in practice are added over time for different types of events, and rules undergo changes in various contexts, while purposes change *little* in comparison. Where the changes in rules and teleoaffective structures is "an occasional and largely intentional", the recombination of practices (doings and sayings, projects, tasks) and the change in practical understanding is "continual and largely unintentional", so are the general understandings (ibid, p. 240). The general understanding is often reinforced by making explicit further developments or refinements. It underpins the shift in understanding - not only because the clarification makes the argument possible, but also because the event of articulation itself changes the situation. "What was before unspoken, not thought through, or forgotten suddenly stands open to view (ibid, p. 243)". However clarification in itself does not necessarily change understanding, nor does it necessarily change outcomes. In addition, Schatzki (2002) also highlights the role of non-humans (i.e. artefacts, organisms and things) in the reorganisation and recombination of practices.

Furthermore, Schatzki (2002) explained that the temporal unity of practice, in which practice persists in its asynchronous changes in its constituents as well as organisational elements, is the result "when the components of its extant organisation of practice change sporadically", or "when mutations are accompanied by continuities in other components". In any case, over time, different sayings and doings constitute a particular practice "when and only when they express elements of a slowly modulating collection of understandings, rules, and structure" (ibid, p.244). The continuation or extinction of a practice (and its replacement) is sometimes a judgement based primarily on the point of comparison chosen and the context of change involved, without fixed boundaries. This slow change ensures that practices are uniform over time; while the dominant and default states are slow and small changes, given a sufficiently large time frame, this evolution can produce practices that are very different from those that existed before, and incremental evolution is simply "a process through which different practices arise"(ibid, p.245).

Management research under Schatzki's theory of practice tends to focus on practice, not

practitioner (Hui et al., 2017). This theoretical framework is effective in that it can be used systematically not only for analysing activities over time but also for explaining changes in those activities. The next section continues to present several attempts in using Schatzki’s approach to investigate different management and organisational practices.

4.3.3 Schatzki’s approach in management studies

Schatzki’s practice lens has been found to be “very helpful with regard to theoretical clarification and debate” (Spaargaren et al., 2016, p.8; Buch and Elkjaer, 2020). The relevance and usefulness of his approach is also evidenced by its wide application in exploring accounting and other organisational practice, part of which is summarised in Table 4.2. Nonetheless, the difficulty in operationalisation and application in empirical investigation has also been observed (Spaargaren et al., 2016; Nama and Lowe, 2014; Loscher et al., 2019; Stacchezzini et al., 2020). It is important to note that no one theory, if any, would perfectly capture the features of every practice. Against the development of Schatzki’s main work, the management studies employing this particular practice approach in different ways. Although Schatzki’s work has provided an insightful approach to further the understanding in management studies in various empirical settings, it can be seen that as Schatzki’s approach has been evolving, different authors refer to his work of different periods to explore different aspects of practice. This section thus presents several studies that used Schatzki’s approach to investigate various context specific issues in different organisational setting and its potential application in the present study for the integrated reporting practices.

Table 4.2 Different Concepts Used in Schatzkian Studies

Article	Practice	Concept	Relationship/focus of different concepts
Ahrens and Chapman (2007)	Menu design in chain restaurants	Organising elements	Structures of <i>intentionality</i> arise from the four elements
Jørgensen and Messner (2010)	New product development projects	Organising elements	Accounting information/ profitability as <i>rules</i> and <i>general understanding</i>
Nama and Lowe (2014)	Private equality	Organising elements, material arrangements, prefiguration	<i>Teleology</i> Mutually constitutive relationship between <i>general understanding</i> and <i>teleoaffective structure</i>
Lodhia (2015)	Transition to integrated reporting	Organising elements (not including general understanding)	The combination of rules, practical understandings and teleoaffective structures

Sawabe (2017)	Recovery support activities by financial institution	Organising elements and material arrangements	Inconsistency between <i>telos</i> and <i>affectivity</i> of the activities
Ahrens and Ferry (2018)	Public sector budgeting	Organising elements (not including general understanding), practice memory	<i>Telos</i> and <i>affectivity</i> of the activities Top-down <i>rules</i> Bottom-up <i>teleoaffective structure</i> imbued by <i>memories</i>
Bui et al. (2019)	Risk management	Organising elements, practical intelligibility	Mutual influence of <i>general understanding</i> and <i>practical intelligibility</i>
Stacchezzini et al. (2020)	Compliance programme implementation	Organising elements, Artefacts	Mutually constitutive relationship with practical understanding and general understanding The role of artefacts
Abhayawansa et al. (2019)	Firm assessment with integrated reports	Organising elements	Equally addressed

A common focus of approaches from practice theory to organisational practice is the question of why practice maintains a constant goal orientation while exhibiting variable diversity (Whittington, 2011; Sawabe, 2017). In an organisational setting, accounting is a particular practice as it “constructs an object to be explained by explaining it” (Sawabe, 2017, p. 43), and through accounting practice, the whole image of an organisation becomes a socially existing object. Ahrens and Chapman (2007) is one of the earliest attempts in applying Schatzki’s practice lens in the accounting practices. To investigate management control practices in a British restaurant chain, Ahrens and Chapman (2007) show how the diverse teleological behaviours of organisational actors were coordinated through overarching organisational goals. They conceptualised management control practices as *a bundle of practices and material arrangements* that composed of machines and computers in offices and workshops. The management control-related actions performed by various organisational members, such as negotiating strategies, budgets, and performance goals; discussing how to achieve them; cautioning others against contingencies; instructing, objecting, and directing avoidance; preparing reports; and implementing corrective actions, were all related to the specific goals of the organisational players. These goals were aligned with the overall strategic goals of the enterprise through the business review process.

Using Schatzki’s practice lens, a variety of past and present activities relevant to practice can be conceptualised in the teleoaffective structure and over time. In line with the various goals at the weekly business review meetings, restaurant managers and area managers negotiate a course of action based on their own teleoaffective structure and a normative general understanding of

how to run a successful restaurant chain. To achieve overall food margins, restaurant managers can choose a compliance strategy by carefully monitoring food costs and reducing waste, such as burnt steaks, or they can be a little more rebellious and choose to direct it toward their own objectives. For example, higher expenses and lower profit margins but with the reputation of running a great restaurant with the best chef with the pride (emotion) of being recognised as a legendary manager will bring higher sales volume and contribution to profits. These end-oriented activities, laden with emotions, are discussed and agreed upon in meetings and constitute a new general understanding. For example, there is nothing wrong with increasing spending and creating *new* variations on a practice as long as it increases profits. Overall, this case study demonstrates how to coordinate activities through goal coordination mechanisms and the different ways in which restaurant managers can be directed toward the same corporate goal, as described through the concept of the teleoaffective structure.

The adjustment of the teleoaffective structure can be vertical or horizontal, top-to-bottom or bottom-to-top. Ahrens and Chapman (2007) presented a case where the hierarchy of the teleoaffective structure was adjusted towards the unified direction of a single overall goal of a restaurant chain. By contrast, Jørgensen and Messner (2010) focused on bottom-up collaboration activities and showed the alignment of the teleoaffective structure among colleagues in a new product development process to clarify the overall project goals.

Similarly focusing on teleoaffective structure, Sawabe (2017) examined how the teleological and emotional dimensions give meaning to a series of rehabilitation activities. In the teleological dimension, there is a dilemma between the discontinuity and feasibility of corporate revitalisation, which is overcome by the significance of the emotional dimension. How the unified strategic agenda of the organisation as a whole is linked to individual concrete activities through accounting practices is clarified through a case study of a financial institution's rehabilitation support activities (p. 60).

In addition to private organisational settings, Schatzki's practice lens has also been applied in public sectors. Ahrens and Ferry (2018), for example, adopted the concept of *practice memory* (Schatzki, 2010) to add a past dimension to activities, and the teleoaffective structure to show how current activity was influenced by past activity. They investigated the practice of Newcastle City Council (NCC) to respond to the central government's decision in 2012 to cut local government budgets by 30% between 2013 and 2016. NCC developed a heat map to locate the areas that would be most hurt by budget cuts in statutory community services and released a new three-year local budget. This case study showed how this action to change local budget practice incorporated sentiments related to unfair treatment by central government. As indicated by Schatzki (2010), practice is temporary, which does not refer to the objective time, rather connects past, current and future. In addition to past activities, the study found that the broader culture can influence current practices in the same way. In a broader context, the NCC, by combining a broad cultural template related to the tensions between the poorer north, of which Newcastle is a part, and the richer south, of which Westminster is a part, and past practices of how central local budgets are prepared, has been able to ally the emotion of the local population in an attempt to change the field. Their case study, which complements the aforementioned research, emphasises the important role of emotions in the teleoaffective structure in both influencing and explaining

change (Ahrens and Chapman, 2007; Jørgensen and Messner, 2010). It also shows how broader external forces, such as history and culture, can influence change through emotions. It can be seen that not each element in the approach was not equally addressed in the empirical studies and the teleoaffective structure might be the most frequently discussed element as it involves “intentions, actions, emotions, and moods as well as ends, purposes, projects, and tasks” (Caldwell, 2012, p.289) as the feature of individuals.

Similar in a public sector context, Bui et al. (2019) developed comparative case studies of two New Zealand local authorities that both experienced earthquake to investigate risk management practices in organisations. Instead of focusing solely on the organising elements, Bui et al. (2019) showed how practical intelligibility, which is informed by the individual features, influenced the organising elements to enable changes. In particular, they highlighted the *mutually affecting* relationship between practical intelligibility and general understanding in organising and reorganising activities.

Another typical research that highlighted general understanding was conducted by Nama and Lowe (2014). They investigated the situated functionality of accounting by examining the meshing of various activities in private equity (PE) practices. They analysed the activities that formed the value chain of PE practices and stressed the role of general understanding. They pointed out that among the four organising element, general understanding was the least defined concept, which was very difficult in applying in the empirical analysis. By illustrating general understanding and teleoaffective structure in existing studies, they further identified the *mutually constitutive* relationship between them.

In the field of management studies, corporate governance is also a relative profound area that employs a practice lens to address different context specific questions (Ahrens et al., 2011; Ahrens and Khalifa, 2013; Bremnan and Kirwan, 2015; Stacchezzine et al., 2020). Although not applying in an empirical setting, Ahrens et al. (2011) emphasises the importance of practical understanding in the corporate governance practices and asserts that the requirements of rules and objectives in relation to integrated reporting can impose heavy demands on the practical understandings of the practitioners, i.e. knowing how to act in a particular practice (Schatzki, 1996, 2002). Stacchezzini et al. (2020) further investigated the implementation of compliance programs (CPs) to examine how practitioners think about and implement responsibilities arising from corporate governance mechanisms in an Italian company with long-term compliance experience. They found that the practices of CP evolved over time. The practical understanding of the daily actions needed to achieve CP, and the general understanding of the responsibilities associated with CP, such as the attitudes with which CP is performed, were *mutually constitutive* and jointly facilitated this evolution. In addition, they also highlighted the role of material arrangements by indicating that dedicated artefacts such as IT platforms, training seminars, and compliance performance indicators could help disseminate both these types of understanding. These artefacts, as they suggested, also aligned the practitioner’s general understanding with the CP’s imposed teleoaffective structure, which includes the CP’s assigned objectives and desired responses to them. Their study was of particular interest as they addressed the change in the four elements over time and also shed light on the role of materiality in moulding the practices.

Although Schatzki's work has provided an insightful approach to further the understanding of practice investigated in management studies in various empirical settings, it can be seen that as Schatzki's approach has been evolving, and different authors refer to his work of different periods to explore different aspects of practice. In addition, the four organising elements did not seem to be addressed evenly. Part of his current framework is used in some studies and even only certain concepts (e.g. teleoaffective structure) of his practice theory is emphasised. The potential reasons could be, as indicated in a recent introductory chapter of Schatzki's theory by Loscher et al. (2019) [*Management, Organizations and Contemporary Social Theory*], Schatzki's work is still ongoing, with some concepts changed, some specified, and some emerging. Under such a background, it might be difficult to grasp a clear picture of his work with fully understanding the ongoing development, which might also be the potential difficulty in applying in specific situations (e.g. Nama and Lowe, 2014). Nonetheless, Schatzki's practice lens also provide several clues to elaborate specific aspects such as ends, things, emotions in the context of practice theory, providing implications for what might has been taken for granted in traditional management and organisational studies.

Along with the discussion above, it comes to the question: how the practice lens has been and can be used in the integrated reporting context? The practical implementation has increasingly been emphasised since the release of the Framework due to its principle-based nature and the effort of worldwide organisations in putting it into practice. However, to the best of my knowledge, only three previous works have shown the potential of the practice lens approach in the context of integrated reporting (Lodhia, 2015; Al-Htaybat and Alberri-Alhtaybat, 2018; Abhayawansa et al., 2019). As a more periphery domain of practice-based studies (Schatzki, 2016), actor-network theory also has been utilised to investigate the emergence of the integrated report at a conceptual level (Rowbottom and Locke, 2016).

These studies have demonstrated the potential of a practice lens in investigating the integrated reporting context concerning different aspects of the practice. They also provide clues and illustrate opportunities in further investigation on the unfolding of integrated reporting practices in different organisational context.

Different from the other two studies, Abhayawansa et al. (2019) addressed investors/analysts, the audience of the integrated reports instead of preparers. They attempted to verify if the integrated reports provided met the need of analysts and found that the improvement brought by the introduction of integrated reporting practices was not relevant to its intended audience.

Although not using Schatzki's practice lens, Al-Htaybat and Alberri-Alhtaybat (2018) employed Bourdieu's approach to investigate the link between integrated thinking and integrated reporting, illustrating how integrated thinking developed naturally and fostered integrated reporting. They illustrated the underlying organisational concepts that led to the case company becoming "an integrated thinker", which was the need to deal with uncertainty and disruption, based on individual and organisational dispositions and associations with the field. As the author indicated, the habitus in the case stands for the embodied collective corporate culture that governed integrated thinking and integrated reporting "sub-consciously". However, the habitus is constantly changed as a response to new impressions and experiences.

Lodhia (2015)'s attempt to apply Schatzki's practice lens in integrated reporting context is very inspiring. This was the first practice-based study in exploring integrated reporting practices. He explored the transition to integrated reporting by a customer-owned bank in Australia, identifying the drivers of the transition in a particular context (site ontology). Lodhia (2015) emphasised that the transition to integrated reporting was not a result of the creation of an integrated report, but a practice involving multiple activities, which together constituted a new practice. In his analysis, he identified rules as general rules in relation to banking and reporting, including financial regulations, GRI guidelines and specific requirements provided by IIRC as informal rules. Accordingly, the practical understandings involved how business practices work and how to conduct financial and sustainability reporting. The teleoaffective structure in his case concerned with the company's recognition of economic, environmental and social issues, which is relevant to the responsible banking context as the corporate culture. He concluded that in this case the company's understanding of reporting, its awareness of the potential value of integrated reporting, its basic guidelines for such an approach, and its organisational ethics and objectives based on integrated economic, social and environmental considerations, were consistent with an organisational structure that incorporated these responsibilities. This will help this bank to conduct integrated reporting and differentiate it from its competitors and other organisations. Simply put, pure profit-making perspectives and short-term orientations can hinder the goal of integrated performance. There is a need to recognise economic, social, and environmental issues through strategies and operations that facilitate the actual reporting process, and this set of activities will lead to the emergence of integrated reporting as a practice. In this sense, he confirmed the importance of integrated thinking in driving the integrated reporting process.

Nonetheless, it seems that the organising elements were not fully addressed in his analysis. General understanding was not mentioned in his analysis although it seems that in his case the recognition of economic, environmental and social issues could be identified as general understanding because this seems to be embedded into the corporate culture in organising the practices. This might be relevant to the critics of general understanding raised by Nama and Lowe (2014) as mentioned in [Section 4.3.2](#).

Another insufficiency lies in his analysis on the rules, in particular, the Framework. It is understandable that when discussing the organising elements, Lodhia (2015) did not address the Framework as it was officially released in 2013 and he focused only on the transition of the practices. The case built by Lodhia (2015) was relatively an early adopter and was also involved in the IIRC pilot programme, which could develop their understandings through the interactions with professional bodies. As discussed in the previous chapter of the literature review on integrated reporting and thinking, it is difficult to criticise Framework of not providing detailed rules since it is principles-based. The advantages of principles are recognised as the disadvantages of rules, and vice versa. However, it is without doubt that in the context of integrated reporting, how integrated reporting unfolds as a practice is greatly affected by practitioners' know-how, motivations and perceptions whether they are trying to comply with the Framework or not. Meanwhile, principles may become more rule-like by the addition of best-practice and request from the reporting audience.

Nonetheless, the principle-based model do leave several challenges in the adoption and

adaptation of the integrated reporting. Firstly, because of the lack of precise guidelines, companies might not be able to translate the framework into concrete measures. Secondly, although the pursuit of mid- and long-term value creation through integrated thinking might be an attractive idea for many companies, it might not be attractive to others. Thirdly, the breadth of possible interpretations allows different groups and stakeholders to understand it subjectively. Therefore, in the context of integrated reporting, how integrated reporting is implemented is greatly affected by practitioners' know-how, motivations and perceptions.

Practice perspective is certainly relevant to both the thinking and the acting aside. However, there may be a tendency for the latter to be overemphasised (Johnson et al., 2007, p.216). The thinking dimension of practice in an organisational setting, as Johnson et al. (2007) claimed for strategy as practice, can be generalised in the practice-based research at least with three reasons. First, how practitioners think is a crucial part of a micro perspective on practice. Second, to regard think as practice makes sense, modes of thinking tends to become routinized and institutionalised as most practices are. Third, the link between practitioners' micro process of thinking activities and the organisational process of intended or emergent outcomes needs more investigation.

Therefore, how the practices of integrated reporting are factually organised needs more evidence by engaging with *insiders* or organisations as well as more careful considerations about its functioning and effectiveness. How the organisations may develop their practices over time need more evidence with those who have adopted the practices for a period.

4.4 Summary

This chapter discussed the justification of an acceptable way to explore the practice of integrated reporting and thinking with Schatzki's practice theory. Informed by previous Schatzkian studies, integrated reporting as practices, can be investigated as a bundle of practices and material arrangements. Situated in offices and meeting rooms, using projectors and computers, organisational members negotiate plans and goals, discuss ways of realising them, alert others to contingencies, give orders, follow, dispute, or circumvent instructions, generate reports and make comparisons, give and receive advice, find excuses, take corrective action, etc. Those activities occur in chains of actions and within integrated reporting practices.

Practice is an increasingly noticed concept that allows researchers to involve directly with practitioners in multiple ways including but not limited to archival data, conversation and observation. Focusing on the practice in the context of integrated reporting, this study concerns less with techniques in preparing an integrated report and their application but more with how these techniques and application do/unfold as a bundle of practices and material arrangement "organized mentally" (Schatzki, 2001b, p. 56) by practitioners along with the contextual dynamic evolvement of integrated reporting as it is a social construction which continues to adapt to specific organisational settings over time.

Therefore, investigating integrated reporting with a practice-oriented approach requires one to examine issues that are directly relevant to those who are dealing with preparation and decision-making in integrated reporting process, either as leading divisions engaged in planning or other activities linked with integrated reports, or as the cooperative divisions who have to cope with

different needs regardless of it is their own work. By so doing, studies under this broad umbrella promise to accomplish something, which is rare in contemporary management and organisation research: to advance our theoretical understanding in a way that has practical relevance for managers and other organisational members. The way in which the integrated reporting practices are factually organised needs more evidence by engaging with insiders within the organisations and how the empirical data has been collected will be further explained in the next chapter.

Chapter 5 Methodology

5.1 Introduction

The present chapter explains the methodology employed to investigate how integrated reporting unfolds as practices, attending to transparency and accountability regarding the empirical data collection and analysis process. As described in the preceding chapter, this study investigates integrated reporting by exploring everyday activities in the real-life setting rather than statistically representing the practice. The qualitative nature of this study inevitably requires engaging with different actors involved in the integrated reporting process in order to gain a better understanding of how the practitioners conceive and develop various activities over time and the consequentiality under the respective organisational settings.

With the research onion adopted from Saunders et al. (2019) as shown in Fig. 5.1³⁴, this chapter starts with a brief discussion of the philosophical assumptions that underpin the choice of research methods and the way to collect and interpret data. Section 5.3 presents the overall research design. Sections 5.4 and 5.5 describe how data for the multiple case studies (Machine, Device, Pharmacy and House) and the longitudinal case study (Energy-tech) was collected, highlighting the strengths underlying the respective research techniques used, while noting the limitations. Section 5.6 explains the data analysis process, and Section 5.7 adds some further methodological considerations, including the ethical issues in obtaining and using the data, along with a discussion of reflexivity, which is especially important given the ethnographic approach to research adopted for this study. The chapter concludes with a summary in Section 5.8.

5.2 Reflection on philosophical foundation

The research philosophy has been discussed in different terms including philosophical foundation/stance/assumption/engagement, paradigm, belief system, and worldview, which all pertain to comparable disputes (Guba and Lincoln, 1994; Duberley et al., 2012; Yin, 2016). Knowing or unknowingly, researchers would develop knowledge based on various assumptions, including but not limited to ontological and epistemological assumptions (Burrell and Morgan, 2017; Saunders et al., 2019). By combining the ontological and epistemological assumptions, different philosophical positions have been used and informed various studies. These philosophical stances are linked to consequent methodological assumptions to underpin the research (Duberley et al., 2012). In other words, the researcher's evaluation of the philosophical foundations has a significant role in the selection and exclusion of research methods or procedures. The design of a successful and rigorous study undoubtedly needs to be built on consistent philosophical assumptions. Therefore, clarifying the researcher's stance is required to demonstrate an understanding of their position in conducting the research and justify the research design and methodological choices.

The philosophical debate has been provoked and intensified with the emergence of three methodological communities, i.e. quantitative-, qualitative- and mix methodological community, as "the qualitative community's positions gained acceptance, challenging the pre-eminence of the quantitative community" (Teddie and Tashakkori, 2009, p.14). With the emergence of different

³⁴ It is adopted from from Saunders et al. (2019), p.130. Terms in red indicate the methodological choices of this study.

communities in favour of distinct research methods, the competing “bipolar extremes” of positivism (single reality, value-free, time- and context-free, primacy of cause-effect investigation) and constructivism (multiple realities, value-bound, time- and context-specific, irrelevance of cause-effect investigation) have been discussed intensively, particular when the qualitative community emerged and posited constructivism as a better theoretical perspective for conducting research as opposed to positivist paradigm favoured by quantitative community (Yin, 2016, p.22; Teddie and Tashakkori, 2009). This dogmatic either-or debate has been resolved with the emergence of mix methodological community and increasing tempered paradigms, which are also defined as middle ground, including post-positivist, critical theory, pragmatism, transformative perspective, interpretivism and so forth.

Ontology is a term combined of two Greek words, namely *ontos* and *logos*. The former refers to *beings* and the latter means ground, opinion, reason, or theory, etc. To put it simple, ontology involves perceives to the nature of reality or beings (Denzin and Lincoln, 2000; Duberley et al., 2012; Saunders et al., 2019). One of the key ontological debates is whether a social reality independently exists, awaiting for people to discover, or it is actually created or constructed. Ontological assumptions shape the way how we view the world, in particular, the way in which we approach the social phenomenon we are interested in. In management and organisational studies, these objects may include organisations, management, the working lives of individuals, and organisational events and artefacts (Saunders et al., 2019).

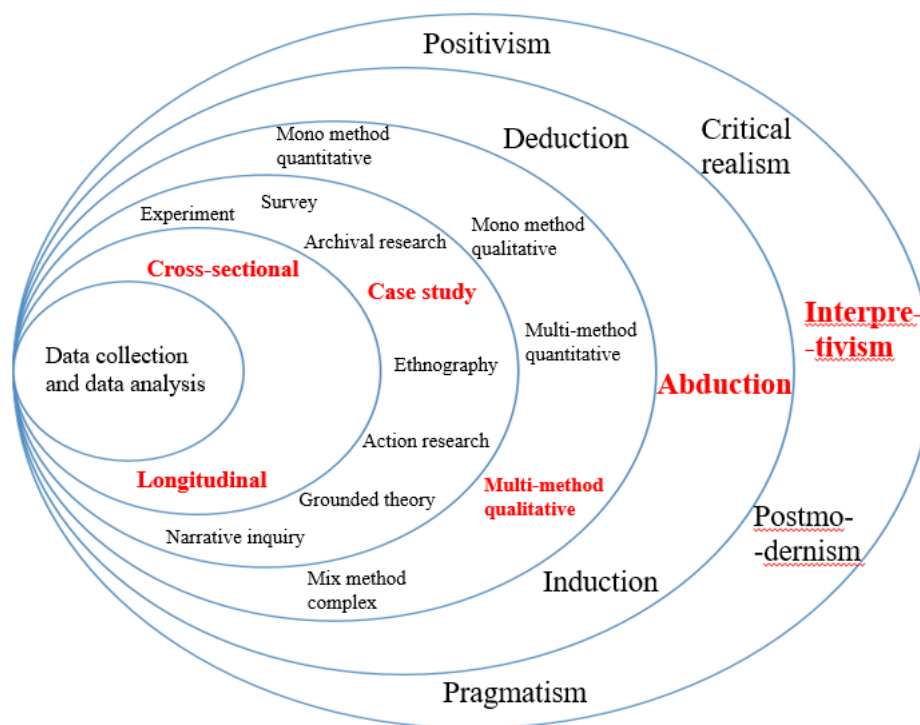


Figure 5.1 Research methodology

Source: Adapted from Saunders et al. (2019), p.130

Although multiple research paradigms and corresponding methods are available to refer to but it is not a random choice of the researcher. Rather, the social inquiry addressed and the way to investigate the social phenomena implies the worldview of the researcher. In other words, the decision of methods to be employed depends on the nature of the research inquiry. This study has its roots in interpretivism, which assumes that *reality* is only perceived with or set in social constructions, such as language, consciousness and shared meanings (Denzin and Lincoln, 2000; Duberley et al., 2012; Saunders et al., 2019). The research is exploratory and descriptive because it tends to explore the everyday activities bounded to the integrated reporting practice in real-life setting. This enquiry leads me to take an interpretative and socially constructed ontological position.

Similar to the term ontology, epistemology is also a philosophical term that derives from two Greek words: *episteme* -which means knowledge or science- and *logos*. Therefore, epistemology concerns the nature of knowledge, including what we know and how we can know it (Denzin and Lincoln, 2000; Duberley et al., 2012; Burrell and Morgan, 2017; Saunders et al., 2019). Epistemology, in other words, is “the study of the criteria by which we can know what does or does not constitute valuable knowledge, or scientific knowledge” (Duberley et al., 2012, p.16). What we have to do is to inquire for relevant evidence to support or dispute the corresponding claims. In the management and organisational studies, knowledge can be gained through the legitimate source including “numerical data to textual and visual data [...] facts to opinions, and [...] narratives and stories” (Saunders et al., 2019, p. 133). Epistemology is thereby closely related to ontology and, by combining with its competing assumptions, determines the different philosophical positions of research and consequently influences the choice of research methods.

As explained in previous chapter, this study focuses on the practice in the context of integrated reporting, and sheds light on how different activities “organized mentally” (Schatzki, 2001b, p. 56) by practitioners unfold along with the contextual dynamic evolution of integrated reporting as it is a social construction which continues to adapt to specific organisational settings over time. Epistemologically, an interpretivist stance was therefore taken and assumptions were made that subjective understanding of participants’ doings and sayings was possible. In addition, verbally given information is also necessary to help reflect the practitioners’ intentions and motivations behind the activities. Therefore, legitimate knowledge can be obtained through multiple data collection methods to gain an in-depth understanding of the practices, which also reflects methodological triangulation (Johnson and Duberley, 2000).

As summarised in Fig. 5.1, this study has its roots in interpretivism, which emphasises the necessity of understanding the actor and the reality being studied. This research paradigm was chosen because of the exploratory and descriptive nature of the study, of which the analysis would be based on perceptions and activities of practitioners. In line with previous practice-based research, the analysis in this research follows the abductive approach, namely “moving back and forth between data and theory” (Ahrens and Chapman, 2006; Jorgensen and Messner, 2010, p.189). The study applies a multi-methods analysis with data obtained from participant observation, interviews and document analysis. Both cross-sectional and longitudinal analyses were used, which will be further explained in the next section.

5.3 Overall research design

The practices, as the focus of this study, need to be analysed contextually in the specific organisational setting. The case study approach was chosen as it allows the researcher to directly investigate the case in its “actual context” (Bromley, 1986, p.23), while exploring the “inner life” of practitioners in developing the practices (Travers, 2001, p. 8; Scapens, 2011; Yin, 2018). Furthermore, multiple methods were used in order to obtain a rich, detailed set of empirical data, to fully understand the interaction between the practices and its context, and to ensure the data triangulation (Dubois and Gadde, 2002; Saunders et al., 2019).

As a practice-based study, extensively engaging with the field is essential in order to explore the activities and material arrangements associated with the practice of integrated reporting. Ethnography is considered to be the best method to develop understanding in real-life settings (Schatzki, 2012). As seen from Table 5.1, the combination of observation and interview seems to be the best way to develop a deep understanding of the practice while analysing the “normativity” of the practice in terms of how they recognise how and why should the practice be implemented, to examine the intentions of practitioners at the same time (Schatzki, 2012; Loscher et al., 2019, p.124). This qualitative multi-method research involved the collection of empirical data based on three research methods: 1) participant observation; 2) interviews and 3) document analysis.

5.3.1 Observation as a research method

As summarised in Table 5.1, observation has been one of the dominant research methods used in previous Schatzkian studies. Observation, as part of our routine interaction with the world, is a largely unconscious and unsystematic act in the daily life of each individual. However, when it comes to work as a research method, it should be planned systematically to address specific research questions by a trained and mentally prepared observer (Patton, 2015; Merriam and Tisdell, 2016). Therefore, research observation generally should involve: “systematic viewing, recording, description, analysis and interpretation of people’s behaviour in a given setting” (Saunders et al., 2019, p.378).

Although there may be overlap in the practical application, depending how it is conducted, observation can be further labelled as direct observation, participant observation, structured observation and Internet-mediated/online observation (Merriam and Tisdell, 2016; Yin, 2018; Saunders et al., 2019). Structured observation is usually quantitative, which focuses on frequency of actions. Internet-mediated observation concerns data collected from online community. Participant observation can incorporate different level of structure but it is qualitative and requires the researcher to be more than a passive observer. As suggested by its name, the research need to actually *participate* in the actions being studied (DeWalt and DeWalt, 2002; Yin, 2018). Participant observation requires the researcher to immerse himself or herself in the circumstance and the researcher becomes the research instrument (Brannan and Oultram, 2012).

This research employed participant observation to investigate how integrated reporting unfolds as practices in an organisational context. This choice is in line with the research objectives and nature of this study because, as Schatzki asserts, to uncover how different activities is organised in certain context, researchers need to “watch participants’ activities, interact with them (e.g. asking questions), and -at least ideally- attempt to learn their practices” (Schatzki, 2005, p.476).

Participant observation derives from the work of social anthropology and emphasises the discovering of “meanings that people attach to their actions and social interactions” (Merriam and Tisdell, 2016, p.378). Different from other research methods, knowledge is gained through the direct experience of the temporal and spacious settings and related activities.

Nonetheless, participant observation entails both advantages and limitations. For example, participant observation allows for detailed descriptions of a wide range of events, the access to the “backstage culture”, and the investigation of unexpected events (deMunck and Sobo, 1998, p. 43). These advantages yield opportunities for improved quality of data collection and interpretation, as well as the possibility of developing new research questions (DeWalt and DeWalt, 2002). Mio et al. (2016) is found as the only study that has used this method in the integrated reporting context to the date. They favoured this approach as the data gained enabled the researcher to capture the “participants’ subjective reporting of what they believe and do” and get a familiarity of the context in which the participants operate. This is precisely why many empirical studies (Ahrens and Chapman, 2007; Nama and Lowe, 2014) using practice theory tend to employ this approach.

However, it has not always been trivial to empirically apply this technique. Firstly, research access is essential to gain insights from practitioners, but this may be difficult to achieve in different contexts, particularly in organisational settings, for a number of different reasons, such as issues of research ethics. This may partially explain why not all previous studies have used observation as a research method (e.g. Lodhia, 2015; Stacchezzini et al., 2020). Although these studies did not explain why this method was not applied, it is clear from our experience that it was not easy to obtain approval from companies to conduct such investigations precisely because of the need to engage with practitioners inside the company, which entails ethical issues regarding the security of the company’s information. In addition, the investigation over a long period of time requires a great deal of time and effort to participate in the practice and collate and analyse the data, which is a significant amount of work.

In addition to the accessibility of the field, the limitations or disadvantages relate to the potential bias that may arise from the process. Firstly, focus on the bias of researchers whether it is something related to the interpretation or the personal interest of the researcher or the selection of key informants (deMunck and Sobo, 1998; Johnson and Sackett, 1988). In addition to the research relationship, Barnnan and Oultram (2012) identified another two debates and controversies in participant observation, including the convertness and openness of a participant observation research on the political nature. Regardless of the type of observation, the researcher will also need to make a number of choices, which include the structure and formality of the observation, the role of the research and the nature of the observational setting (Saunders et al., 2019).

Table 5.1 Data Collection Approaches in Schatzkian Studies

Article	Research design	Interview	Observation	Others
Ahrens and Chapman (2007)	Single case study	45 interviews	Two-year observation (19	Archival records

			meetings)	
Jørgensen and Messner (2010)	Single case study	28 interviews	16-month observation	Archival records
Nama and Lowe (2014)	The practice of the PE sector	17 interviews with several professionals, including large and some small companies	Observation of part of the process in a large company	Public talks by practitioners
Lodhia (2015)	Single case study	Four interviews with follow-up telephone and email communication	None	Public reports
Sawabe (2017)	Single case study	39 interviews	21-day participant observation	Internal and public documents
Ahrens and Ferry (2018)	Single case study	50 interviews	Office visits during interviews and several public meetings	Documentation review
Bui et al. (2019)	Two case studies	16 interviews across two organisations	Observation of two public meetings	Publicly available websites, annual reports and risk documentation provided by the interviewees
Stacchezzini et al. (2020)	Single case study	21 interviews over two years	None	Not mentioned
Abhayawansa et al. (2019)	Users' perspectives on integrated reports	23 interviews	None	Not mentioned

5.3.2 Interviews as a research method

As shown in Table 5.1, academic interviewing is another predominant research method used in practice-based studies, which is perhaps relevant to Schatzki's (2012) suggestion that interview, is also needed to examine the intentionality behind the activities. As a research method, an interview is a purposeful conversation conducted between two or more people. In the process, the interviewer is expected to ask concise and clear questions and to listen carefully to what the interviewee responds. With interviewing, researchers are able to focus directly on the research

topics, of which the explanation and personal views could be gained depending on “the level of rapport” between the interviewer and the interviewee (Saunders et al., 2019, p.435). Thus interviews is helpful in collecting valid and reliable data relevant to the research topics and providing important insights and realistic perspectives on human affairs or actions (Yin, 2018).

In addition, interview, which includes a variety of forms and uses, has been one of the most common and well-built methods to investigate various social phenomena, particular in trying to understand human behaviours in social science. Organisational studies has no exception to use interview as a central technique of getting to know what is going on in the organisation. To gain high-quality empirical data, researchers are expected to conduct the interviews in a way that make the appropriate interviewees “feel compelled to share openly their considerable knowledge” (Alvesson and Ashcraft, 2012, p.239). There are several types of interviews. Depending on the level of standardisation or structure, interviews range through a continuum, from structured, through semi-structured, to unstructured, although Mason pointed out that the term *unstructured* might be a misnomer as “no research interview can be completely lacking in some form of structure” (Mason, 2002, p.62).

Structured interviews, aimed at collecting data as uniformly as possible, carefully script the interaction between the interviewer and interviewee(s) with a formal questionnaire that lists every question to be asked (Merriam and Tisdell, 2016; Yin, 2016; Saunders et al., 2019). Wording and order of questions is predetermined. In addition, the interviewer’s role and behaviour are also scripted in terms of formally and consistently conducting the interview to elicit responses from different interviewees. Therefore, if a study only uses structured interviews, it is more likely to be a survey or poll (Yin, 2016), which is beyond the scope of this study.

A less structured type is semi-structured interviews, which differs in key aspects from structured interviews. In a semi-structure interview, there should be a guide that involves a pre-determined list of themes and several key questions accordingly (Saunders et al., 2019). Usually, the interview guide would involve a mix of more or less structured questions. Therefore, there is a more structured focus in the interview to obtain specific information from interviewees. However, all of them are flexibly used and neither the exact wording nor order of questions is predominately decided (Merriam and Tisdell, 2016). Under an interpretivist approach, the approach to the intended themes may be more flexible and depend on the specific responses of the interviewees, which also inform the order of questions. These themes or corresponding questions may be omitted or modified, considering the context of the interviewees or the responses that emerged or did not emerge from the interviews. This allows the researcher to engage respondents with more emerging ideas arising from the conversation (Saunders et al., 2019).

The least structured alternative is unstructured/in-depth interviews, which is usually informal, exploratory and emergent. Similar to the semi-structured interview, it is also non-standardised and both are often referred to as qualitative research interviews (Yin, 2016; Saunders et al., 2019). The difference lies in that open-ended questions are more important in the unstructured interviews and the conversation mode allows for mutual interactions between interviewers and interviewees (Yin, 2016). Neither the questions to be asked nor the relationship between interviewers and

interviewees is strictly defined in advance. While there are no pre-determined themes or questions in an in-depth interview, some idea of the topic, event, experience or aspect that is to be explored with the participant is required. In an in-depth interview, participants have the opportunity to engage freely in talking about the topic or event being explored, or about their experiences, activities and opinions (Saunders et al., 2019). The interviewing process is flexible and exploratory in nature and more like a conversation (Merriam and Tisdell, 2016). Therefore, unstructured interviews tend to “provide a greater breath of data [...] given its qualitative nature” (Fontana and Frey, 2000, p.652). Although unstructured interviews are informal, the process follows in most studies as a result of formal arrangements whereby the interviewer and interviewee come to meet at a specific time and in a specific place for an agreed period of time.

The way to conduct interviews can be chosen based on the research purpose, the nature of research questions, the significance of forming ties with individuals and the time allowed (Saunders et al., 2019). Depending on the number of interviewees and the interview mode, interviews can be grouped into more specific categories and applied to different purposes and conditions. Interview as a research method is preferable as it tends to be more convenient, accessible and less costly, but there are also many factors challenges to achieve the expected quality of the results. As suggested by Yin (2018), the response of interviewees is verbal reporting and the narratives about “such events or explaining how they occurred [...] are subject to the common problems of bias, poor recall and poor or inaccurate articulation” (p.121). One reasonable approach would be to supplement the interview data with information from other sources.

5.3.3 Documentary analysis

Analysis of archival data, as supplement to the primary evidence gathered through interviews or observations, has been also incorporated into the data collection process in previous practice-based studies. These data can be further analysed to provide additional or alternative insights, explanations or interpretations (Saunders et al., 2019). In an organisational setting, these data could include organisation charts, minutes of meetings, coverage of corporate events, public reports, interviews with managers and alike.

The fieldwork in qualitative research is usually costly, while documentary analysis is relatively in expensive but also requires a great deal of time from the researcher. Documents are important in organisations because policies, procedures, plans, etc. are always defined and retained in textual form, providing researchers with important knowledge and allowing for the possibility of expanding the research over time (Lee, 2012). Documents can be unobtrusive and stable as it can be reviewed repeatedly (Saunders et al., 2019; Yin, 2018). In addition, documentary data permitted triangulation, which could help ensure the trustworthiness of the research (Mio et al., 2016).

However, the data collected does not necessarily match exactly what is needed to answer the research questions (Denscombe, 2007). The initial purpose can also affect the data collected, which relates to bias in selectivity and reporting. In addition, the access to the data may also be difficult or costly (Saunders et al., 2019; Yin, 2018) and uncontrollable data quality is also one of the drawbacks of documentary analysis. Highlighting the advantages and bearing the limitations

of each research method in mind, the following section presents an overview of the research design.

5.3.4 Case study strategies

Generally, the research was designed according to the nature of the research inquiries and the accessibility of sources for the empirical data. To obtain an in-depth understanding of how integrated reporting unfolds as practices, the present research follows a multi-method qualitative case study approach (Saunders et al., 2019) and involves a multiple-case design with four case companies and a single-case design with a longitudinal case. In line with McNally et al. (2017), cases were chosen from those, which at least had four years of experience in preparing the integrated reports to guarantee well-established cases for examining how the companies have developed the practices over time.

To “engage extensively with the field in order to uncover the activities and the material arrangements bound to a practice” (Loscher et al., 2019, p. 126), participant observation seems to be the best methods to collect data. Most previous Schatzkian studies focused only on one organisation as the empirical setting and use ethnographic method such as participant observation to fully engage in the activities. Depending on the period of participant observation, the activities to be observed could be part of the practice or the whole process. In addition, interviews to internal players are supplemented to define the purpose, perceptions and motivations of practitioners.

However, there are exceptions due to different research purposes. For example, to analyse the role of accounting in the context of various organisational practices, Nama and Lowe (2014) combined interviews to different organisations and experts with participant observation to specific activities in a specific organisation. Lodhia (2015) only use in-depth interviews to define the drivers of transition to integrated reporting. Similarly, to investigate self-orienting process of management accountant, Chotiyenon and Latour (2018) only interview four finance practitioners from different career tracks.

In the context of integrated reporting practice, most companies would follow a principle-based framework on a voluntary basis. Although similar procedures might be used for preparing an integrated report, to investigate the integrated reporting practice by clearly defining a uniformed process deviates from the original purpose of this research. Therefore, in line with previous studies, this research uses a case study approach, which “deals directly with individual case in its actual context” (Bromley, 1986, p.23). Consistent with previous Schatzkian studies (see more in Table 5.1), this study conducted longitudinal research, which entails the collection of data from more than a single point in time (Yin, 2018). Despite time and capacity constraints, and the fact that not all companies are willing to provide opportunities for researchers to participate in internal meetings, I was able to obtain access to a Japanese manufacture company (Energy-tech) to conduct longitudinal case study. Although as indicated by Fontana and Frey (2016), many qualitative researchers differentiate between unstructured interviews and participant observation, they are usually used together as many of the data gathered in participant observation come from formal and informal interviews (conversations) in the field (Lofland, 2005). In the context of integrated reporting, to the best of our knowledge, Mio et al. (2016) was the only study that has employed the participant observation (on actions of the working group on integrated reporting

during one month) to obtain empirical evidence from the field. This study, by contrast, extends the knowledge further by establishing a longitudinal case study, with participant observation for approximately two years.

Moving beyond a single case study, multiple-case study with different organisations (Machine, Device, Pharmacy and House) were also conducted with interviews and document analysis to provide a holistic picture of how integrated reporting unfolds in practice in a Japanese context. The case companies are widely acknowledged as the leading players in the respective industry and include companies both *before* and *after* the release of the Framework. Extending from one case analysis, in this way, the whole research design provides an opportunity to examine integrated reporting practices by investigating the “sameness and similarities” (Schatzki, 2001b, p.51) in the different organisational contexts. In line with previous integrated reporting studies (Lodhia, 2015; Al-Htaybat and Alberti-Alhtaybat, 2018; Abhayawansa et al., 2019) that have used a practice approach, this study collects data including publicised material, both document and video, and are triangulated through data collected by in-depth semi-structured interview with managers in the department that is in charge of the integrated reporting process in each case organisation (Yin, 2018).

These two empirical studies both explore integrated reporting with a practice-based approach, each with its own focus while complementing the other in order to provide a holistic picture of the dynamics of the integrated reporting practice. Multiple cases provide the perspectives of key practitioners in the integrated reporting process, allowing the researcher to examine integrated reporting practices by investigating the “sameness and similarities” (Schatzki, 2001b, p.51) in different organisational contexts. With the engagement and real-time observation of practitioners in the longitudinal case study, it offers more in-depth empirical data to help understand the development of practice over time. The insights gained from each can inform and be informed by that of the other to further embody the richness of practice. Moreover, there is no chronological sequence in the implementation and analysis of the empirical studies. For ease of understanding, this research presents the multiple case studies first, followed by the more specific and in-depth longitudinal case study.

5.4 Data collection: Multiple-case study

5.4.1 Company profile

Four case companies were chosen based on the reporting diversity, longevity and accessibility. To maintain the confidentiality of the organisations participants, the companies are identified by their main product or service (Machine, Device, Pharmacy and House) and participants are denoted with their job role (see more in Table 5.3). Firstly, these companies were regarded as leading players in the industry and self-declared that they had adopted integrated reporting practice whether they had strictly followed the Framework. In the same time, they were also selected for this research as their sustainability performance and reporting practice had been highly evaluated in terms of being incorporated into ESG indexes³⁵ and receiving awards for their reports (see

³⁵ ESG indexes are provided by ESG rating agencies, such as MSCI, FTSE Russell, S&P Global, Sustainalytics, etc. With various ESG rating systems set up by different rating agencies, ESG indexes, as they claim, aim to help capital market “more effectively benchmark ESG investment performance and manage, measure and report on ESG mandates”

more in Table 5.2). In addition, the economic context for four companies are featured with different product portfolios, market capitalisation and turnover. Secondly, they adopted integrated reporting in different periods. In terms of the time of adoption, two of the case companies are early adopters who started their integrated reporting journey before the release of the Framework, while the other two adopted after that.

Table 5.2 External Evaluation on the ESG Performance and Integrated Reports

Company	MSCI ESG ratings ³⁶	ESG Index ³⁷	External evaluation ³⁸
<i>Machine</i>	AA	DJSI Asia Pacific	GPIF Highly Improved Integrated Report
		FTSE4Good Index Series	
		FTSE Blossom Japan Index	
		MSCI ESG Leaders Indexes	
		MSCI Japan ESG Leaders Indexes	
		S&P/JPX Carbon Efficient Index	
		ISS-oekom Corporate Rating	
<i>Device</i>	AAA	DJSI Asia Pacific	WICI IREA
		FTSE4Good Index Series	Nikkei NIRA
		FTSE Blossom Japan Index	GPIF Highly Improved
		MSCI World ESG Leaders Index	Integrated Report
		MSCI SRI Indexes	GPIF Excellent
		MSCI Japan ESG Leaders Indexes	Integrated Report
		MSCI Japan Empowering Women Select Index	
		S&P/JPX Carbon Efficient Index STOXX Global ESG Leaders Index	
<i>Pharmacy</i>	AA	DJSI Asia Pacific	GPIF Highly Improved
		FTSE4Good Index Series	Integrated Report
		FTSE Blossom Japan Index	GPIF Excellent
		MSCI Japan ESG Leaders Indexes	Integrated Report
		MSCI Japan Empowering Women Select Index	
		S&P/JPX Carbon Efficient Index	
<i>House</i>	A	DJSI Asia Pacific	WICI IREA
		FTSE4Good Index Series	Nikkei NIRA
		FTSE Blossom Japan Index	GPIF Highly Improved
		MSCI World ESG Leaders Index	Integrated Report
		MSCI SRI Indexes	GPIF Excellent
		MSCI Japan ESG Leaders Indexes	Integrated Report

(MSCI, 2020).

³⁶ As of May 30th

³⁷ The industry specific index is excluded.

³⁸ For reasons of anonymity, the year and frequency of awards for each case are not listed here. The external evaluation included here only referred to WICI IREA, Nikkei NIRA and selected reports by GPIF as summarised in [Sec. 2.3.2.](#)

MSCI Japan Empowering Women
Select Index
S&P/JPX Carbon Efficient Index

Machine is a global manufacturer with a history of more than 100 years, which has provided a wide range of products related to food, water, and the environment. According to its latest integrated report (2020), Machine is a highly internationalised company with an overseas sales ratio of over 60%, among which the American market is the largest. Despite changes in the economic environment both in domestic and overseas markets and the impact of the global pandemic, Machine has been able to achieve steady growth in sales and profits overall. The farm and industrial machinery business accounted for more than 80% of its sales, and in the fiscal year ended December 2020, sales were approximately ¥ 1,853 billion.

Founded in 1933, Device operates as a major electronics manufacturer that has been engaged in the control equipment, healthcare, in-vehicle, social systems, and electronic components businesses. According to its latest integrated report (2021), Device achieved a turnover of approximately 656 billion yen in the fiscal year ended 31 March 2021. The company is committed to reducing its environmental impact from the product life cycle perspective throughout the entire value chain. It claims to solve social issues with its core business activities by addressing specific issues, setting detailed goals and reporting the progress in its report.

Founded in 1941, Pharmacy is a pharmaceutical company with a global presence in research and development, production, distribution and sales, with a focus on prescription medicines. The key therapeutic areas of its focus are neurology and oncology, where Pharmacy has the greatest strength and where there are many diseases still without inadequate treatments. Documents and interview indicated that Pharmacy is a highly internationalised company with an overseas sales ratio of nearly 60% and more than 10,000 employees globally. According to its latest integrated report (2021), the company has achieved steady growth overall and approximately realised a sales of 646 billion yen in the fiscal year ended March 2021.

House was founded in 1955, with its first product as pipe house and prefabricated housing later on, aiming for the “industrialisation of construction”. Since then, it has expanded across a wide range of business in construction-related field by providing single-family houses, rental housing, condominiums, commercial facilities, and general business-use buildings. According to the company’s statistics, House has achieved steady growth in its sales and profits and has supplied more than 1.6 million residences, over 39,000 commercial facilities, and 6,000-plus medical and nursing care facilities across the world.

5.4.2 Data collection process and data collected

To provide a holistic picture of integrated reporting “industry” in a Japanese context, empirical data were conducted with several best practice reporters in Japan, which is consistent with Nama and Lowe (2014) that used Schatzki’s approach to investigate the private equity practice. To ensure both of flexibility and comparability, semi-structured interviews were used. A pilot interview was conducted in September, 2019 to one of the company to gain a broad understanding of how practitioners perceive the practice of integrated reporting and the concept of integrated

thinking. To maintain the focus and consistency of the interview, the purpose and broad topic of the interview were informed by email and guiding questions were defined in advance, including the background of transition, the process of preparation, and the internal and external influence of integrated report.

The interview theme/questions (Appendix I) were further specified and finalised after the pilot interview and another three companies from different industries were interviewed afterwards during the first three months in 2020. The interviews were semi-structured, which meant that a list of questions was available on the topics to be covered, but it was left to the interviewees to freely raise issues and topics that had not been included. Questions may also be changed according to the response of interviewees.

Sustainability related departments in each company were firstly contacted to refer to relevant practitioners to take the interview. The interview guide including the purpose of research and broad topic and potential questions to be addressed were sent to the interviewees by email in advance. As different companies has different background to adopt and develop integrated reporting practice, company-specific questions might be asked according to the response of the interviewees during the interview. All the interviewees were from the departments that coordinate the preparation of integrated reports but number of interviewees varied among companies (see details in Appendix II). All the interviews were conducted individually at the headquarters of each company. The interviews were finished before the first round of state of emergency in Japan initiating from April 2020 due to Covid-19 pandemic, so all of interviews were conducted face-to face in Head Office of each company. All the interviews have been recorded and transcribed by the researcher into Japanese in order to accurately quote the statements of the interviewees. Notes were taken during the interview and recorded in the research diary for reflection. In addition, follow-up interviews were also conducted in the first pilot company focusing on the involvement of practitioners from different departments. The details of the data collected through interviews were summarised in Table 5. 5. Regarding the interviewees, the department that is in charge of the integrated report creation was the primary contact in the organisation. Interviewees are denoted as Department-company (e.g. CSR-m1).

Table 5.3 Data Collection: Interviews (Multiple cases)

<i>Date</i>	<i>Company</i>	<i>Interviewee (department)</i>	<i>Duration</i>
2019/9/3	Machine	CSR Planning (CSR-m1, CSR-m2)	42mins* ³⁹
2020/1/24	Device	Brand Communication (BC-d)	93mins
2020/2/6	House	CSR (CSR-h) and IR(IR-h)	85min
2020/3/19	Machine	CSR Planning (CSR-m2)	68mins
2020/3/23	Pharmacy	IR (IR-p1, IR-p2)	85mins
2021/6/4	Machine	ESG Promotion (CSR-m3)	85mins

³⁹ The interview lasted about 90 minutes. The interviewees spent 45 minutes in introducing their practice freely with notes taken by the researcher without recording. The first half of the interview was therefore more like a conversation (unstructured interview). In the second half, the interviewees responded to the topics I had given them in advance by email, and were recorded.

As supplementary empirical evidence, publicised material, both document and video, were also used as qualitative data (see details in Table 5.4).

Table 5.4 Data collection: Other Empirical Data (Multiple Cases)

<i>Company</i>	<i>Content</i>	<i>Period/Date</i>	<i>Type</i>
<i>MACHINE</i>	Environment report	1999-2005	Document, public report
	CSR report	2006-2011	
	Annual report	1999-2011	
	Integrated report	2012-2021	
	Shareholders' Meeting Presentation	2021	Document, public material
	Public talk material(CSR-m3)	2021	Document, obtained from interviewee
<i>DEVICE</i>	Environment report	2000-2003	Document, public report
	CSR report	2004-2011	
	Annual report	1998-2011	
	Integrated report	2012-2021	
	Publication by IR manager	2014	Document, publication
	ESG seminar	2017-2021	Document, public material
<i>HOUSE</i>	Sustainability report	2005-2021	Document, public report
	Annual report	2000-2015	
	Integrated report	2016-2021	
	Public talk	2018	Material for seminar
<i>PHARMACY</i>	CSR Report	2008-2014	Document, public report
	Environment databook	2015-2021	
	Annual report	2008-2014	
	Integrated report	2015-2021	
	Exchange of views on integrated reporting and ESG	2017-2021	Presentation slides
	ESG seminar	2021	Video

5.5 Data collection: Longitudinal-case study

Schatzki argues that considerable participant observation is needed by “watching participants’ activities, interacting with them (e.g. asking questions), and -at least ideally- attempting to learn their practices” (Schatzki, 2005, p.476). Guaranteeing the access to Energy-tech, the longitudinal case study was formed, involving the collection of five sets of empirical data based on three research methods: 1) semi-structured interviews with *coordinating departments*⁴⁰; 2) unstructured

⁴⁰ Throughout this study, the coordinating departments are those responsible for the preparation of the integrated report.

interviews with coordinating departments; 3) semi-structured interviews with *cooperative departments*; 4) participant observation of meetings for integrated reporting; 5) documentary analysis of publicly available reports and internal meeting material.

5.5.1 Access to the field

As explained in [Section 5.3.1](#), it is rare for researchers to gain and maintain access to the field to participate in the integrated reporting process. To my knowledge, this is the first study to collect data through participant observation over a long period with a practice lens in the context of integrated reporting. The access to the case company (Energy-tech) was initially obtained and maintained through the research internship programme⁴¹ at the Kobe University Career Centre to investigate the company.

Energy-tech is a traditional Japanese manufacturer, with Head Office in Kyoto (KHO) and Tokyo (THO). The research internship was conducted in KHO, and the Facility Environmental Department (FED) was responsible for engaging with the researcher, including defining appropriate meetings to attend and deciding on specific activities in collaboration with the researcher. The longitudinal research lasted approximately over two years, starting from November 2019.

Due to the impact of the pandemic, participant observation was conducted in two periods. The first phase began in November 2019. Since its adoption of integrated reporting, Energy-tech's integrated reporting process is coordinated by two departments, the communication department (CSO) and the corporate social responsibility department (ESPO/FED)⁴². During this period, the researcher followed the CSR department and participated in all its activities related to the integrated reporting. This mainly included the analysis of the company's ESG performance and the evaluation of the integrated report by external agencies. At the same time, the researcher also participated in the relevant coordinating meetings of the integrated report involving other departments, including the review and reflection of the previous integrated report (IR2019) and the development of the approach for the following integrated report (IR2020).

The second phase started in November 2020, when researchers were allowed to be more involved in the preparation process of the integrated report, including the preparation of the integrated report (IR2021), the materiality analysis process and activities aimed at improving ESG-related disclosure. In line with Ahrens and Ferry (2018), the research relationship with Energy-tech has been maintained up to the submission of this thesis in the form of observation of Energy-tech's online regular meetings with its consultant on the preparation of integrated reports (IR2022), for "a sense of ongoing developments in the institutional field" (ibid, p.16).

In the original research plan, the researcher was due to travel to the UK in April 2020 to continue the study and collect empirical data locally to study the development of integrated

They are the main actors in coordinating activities with internal and external practitioners. The collaborative departments refer to those who are involved but do not play a leading role in the integrated reporting process

⁴¹ The research internship has initially been designed to allow PhD students to gain work experience in a company to encourage PhD students to consider working in the industry as one of their career development options.

⁴² The previous top manager (CSR-e4) of Brand Strategy Department (BSD) in THO, who has also been one of the executives of the company, was transferred to KHO to take up the position of top manager in FED from April 2020, which was renamed as Environmental Sustainability Promotion Office (ESPO) since then.

reporting practices in different national systems. Accordingly, the first round of participant observation finished by the end of March 2020 as previously decided. However, due to the pandemic, the original research plan was disrupted. Nonetheless, the seminar for reporting the outcome of the internship activities to both Kobe University and Energy-tech was also postponed, and the researcher gained more time to further discuss with practitioners in FED regarding the reflection of the integrated reporting process. Therefore, the researcher continued to maintain contact with the company from April to the end of the internship briefing in August 2020.

In addition, the previous top manager (CSR-e4) of Brand Strategy Department (BSD) in Tokyo, who has also been one of the executives of the company, was transferred to Kyoto to take up the position of top manager in FED from April 2020, which was renamed as Environmental Sustainability Promotion Office (ESPO) since then. Therefore, although not involved in the practice of integrated reporting during this time, by reflecting and summarising the results of the internship with ESPO, opinions from the top management were added in the discussion and feedback from the first round of observation was timely shared with the practitioners. Meanwhile, discussion with the new member enabled him to understand the previous period of the internship on the one hand and deepened the relationship of trust with the ESPO on the other, which led to the second phase of the participant observation study. A reflection on IR2020 with ESPO was conducted on November 2020 to confirm and exchange opinions on the newly issued report.

The second round of participant observation started from December 2020 with the participation of the meeting to review the previous integrated report (IR2020) as the same as in the first round. The organisation entity at the same level (ESPO in KHO) was guaranteed to facilitate comparison. Re-entering the same organisation to study the same process revealed inter-linkages between different periods, as several issues were identified in the first round of participant observation (whether issues pointed out by the external parties including the researcher or those were recognised by the internal practitioners); changes were expected to occur although with the possibility of the same ideas reappearing or even being reinforced in the second stage (Adams and McNicholas, 2007). The following section explains the data collection process and summarised the sources of data collected.

5.5.2 Data collection process and data collected

In the first round of internship, the researcher participated in the integrated reporting process at a rate of once a week from December 2019 to March 2020. The researcher attended key meetings of the integrated reporting process, observing in real time how participants from different sectors participated in the meetings: which departments were present, which departments were active or silent, which aspects of the integrated reporting were covered and how other departments reacted to the comments etc. In addition, I was also fully engaged in the reflection process of previous integrated report by the CSR department, which includes result analysis of MSCI ESG ratings and Nikkei Annual Report Award in Japan. The results were organised with the CSR department and shared with the relevant departments. Interviews with relevant cooperative departments and discussion with members from the CSR departments were conducted in the following several month by August.

The details of relevant semi-structured interviews conducted are listed in Table 5.2. All

participants were in middle and senior management positions with “manager” or “group leader” as their job title (Gunarathne and Senaratne, 2017). The researcher first conducted interviews with the coordinating departments during the participant observation period. After the first phase of the participant observation had been completed and the researcher had gained an overview of the company’s production process and departmental relationships, in August 2020, when the content required for the production of the IR2020 had been collected, the researcher conducted interviews with other relevant departments for around 30 minutes each. Participants were interviewed on the basis of a semi-structured interview schedule, which focused on their perspective of integrated reporting position, reflection on the adoption of the integrated reporting practice and how they actually implement it by involving different departments. The statement of the purpose of the interview was sent by email before the interview.

In the second round of participant observation, the researcher has been allowed to participate in the full process of integrated reporting including the preparation of integrated report, materiality analysis and activities aiming to improve ESG ratings. Due to the restructure of the organisation, the two coordinating departments were renamed Corporate Strategy Office (CSO, communication department) and Environment Sustainability Promotion Office (ESPO, CSR department). There were slight changes in the composition of practitioners, of which the details are given in Chapter 7. The preparation of integrated report includes regular and irregular meetings with editorial company (hereafter, Editor). In the first stage, BC-e1 was the key person to discuss with Editor. Although in the second stage, BC-e1 was still responsible for the communication with Editor, a cross-functional team was formed and relevant members were also required to attend to share the progress and challenges of integrated reporting preparation.

The materiality analysis were outsourced and a consulting company (hereafter, Consultant) was responsible for arranging different activities necessary for identification process. Lack of materiality analysis has been one of the key issues pointed out by the relevant institutional investors. Energy-tech decided to address this issue from 2020 but failed with insufficient time and skills. As explained by the ESPO (CSR-e1/e4), the outsourcing of materiality analysis was decided in need of external professional skills, efficient work flow and objectivity. The researcher has been involved in the process from the selection of consulting companies, through all the relevant meetings with Consultant and internal activities to identify the materiality.

Activities aiming to improve ESG ratings related to the relevant activities in previous year. The evaluation service was also outsourced (Advisor) with the idea that let professional people do professional things, which might make the more targeted improvement available and be implemented more efficiently. The researcher was also fully engaged in the result analysis and discussion of improvement.

In addition to the activities explained above, a routine meeting for unstructured interviews with ESPO was held every Tuesday to discuss the details of the research internship and any concerns or questions regarding the above activities. During the state of emergency due to Covid-19 pandemic in Japan (late April 2020 to early May 2021), the meeting was conducted online. Although conducted in different themes, these activities were fully connected and the involvement of different activities helped the researcher immerse herself in the empirical setting meanwhile

identifying the connections of different activities. During this routine meeting, interviews were conducted in an unstructured way informally and formally. To encourage free discussion on any concerns regarding the integrated reporting preparation or the materiality analysis, no audio recording was made but the research took note for each meeting and reflected it in the research diary. In addition, the content of the discussion was recorded with meeting minutes and shared with relevant departments.

In the second round, the researcher was more engaged in the integrated reporting process and relevant organisational activities as explained in the preceding section. A more structured research note was taken, developed and organised for the daily activities (see the finalised structure in Appendix II). Documents used in the analysis included public corporate reports, minutes of meetings, materials used in the meetings, emails and research note. The researcher attended all of the above meetings (see table 5.5 and 5.6 for more details) whether it is online or in person, which allowed research to observe how decisions were made as a result of interactions with participants from different participants.

Table 5.5 Data Collection: Semi-structured interviews (Energy-tech)

Date	Interviewees	Code	Location	Duration
2020/1/6	Facility Environmental Department* ¹ (FED)	CSR-e1,e2,e3	Kyoto	63mins
2020/1/22	FED	CSR-e1,e2,e3	Kyoto	103mins
2020/1/27	FED	CSR-e1,e2,e3	Kyoto	101mins
2020/2/5	Brand Strategy Department(BSD) * ²	BC-e1	Tokyo	79mins
2020/8/11	Purchasing Department(PD)	PD-e1,e2	Kyoto	39mis
2020/8/11	Quality Assessment Department(QAD)	QA-e1,e2	Kyoto	39mins
2020/8/11	R&D Centre(RD)	RD-e1	Kyoto	42mins
2020/8/11	HR Department(HR)	HR-e1	Kyoto	54mins
2020/8/11	Corporate Legal Department(CLD)	CLD-e1	Tokyo	30mins
2021/10/13	ESPO	CSR-e1	Kyoto	60mins
2021/10/13	CSO	BC-e1	Kyoto	45mins

*¹: Renamed as Environmental Sustainability Promotion Office (ESPO) from April, 2020.

*²: Restructured as a department of Corporate Strategy Office (CSO) from April, 2020.

Table 5.6 Data Collection: Participant Observation (Energy-tech)

Activities/Themes of Meetings	Duration/Frequency	Practitioners Involved
2019/12~2020/3		
Reflections on previous integrated report (2019)	1h (2019/12/11)	FED, BSD, PD, QAD, editorial company(Editor)
Information sharing for shareholder relation activities	1h (2020/1/27)	FED, BSD
Analysis of the results of evaluations	Half day/once a week (5	FED

by external ESG rating agencies	times)	
Information sharing for the ESG ratings analysis	1h (2020/2/18)	FED, BSD
Analysis of external evaluations of integrated report	Half day/once a week (5 times)	FED
Information sharing for integrated report evaluation analysis	1h (2020/2/28)	FED, BSD
Interview with former parent company	1.5h (202/3/25)	FED, Energy-H
Planning and policies on next integrated report (2020)	1h (2020/3/11)	FED, BSD, PD, QAD, Editor
2020/11~2021/10		
Reflections on previous integrated report (2020)	1h (2020/12/3)	ESPO, CSO, Editor
Presentation given by different consulting companies on materiality analysis	30mins (4 times)	ESPO,CSO
Meeting with Energy-N on materiality analysis	1h	ESPO, Energy-N
Planning and policies on next integrated report (2021)	1h (2021/2/22&2021/3/4)	ESPO, CSO, Editor
Regular meeting/ unstructured interviews with ESPO	1h (28 times)	ESPO
Meetings with consulting company on materiality analysis	0.5~1h(13 times)	ESPO, CSO, consulting company (Consultant)
Presentation to top management on materiality analysis	1h (2021/5/6)	Executives, ESPO, CSO, Consultant A
Communication with other companies in the same industry on sustainability initiatives	1h (2021/3/11)	ESPO
Interview with top management for top messages on integrated report	Full day (2021/7/9)	CEO, CFO, managers of new departments, Editor
Training programs on sustainability initiatives given by external lecturer	1.5hs (4 times)	All employees and managers who have registered, Executives
Analysis of the results of evaluations by external ESG rating agencies	1~1.5h (3 times)	ESPO, consulting company (Advisor)
Regular internal meetings on integrated reporting	0.5~1h (7 times)	ESPO, CSO
Regular meetings with editorial company	1h (11 times)	ESPO, CSO, Editor
2022/2~		
Discussion on recent progress	1h (2022/2/8)	ESPO
Reflections on previous integrated	1h (2022/3/1)	ESPO, CSO, new consultant

report (2021)		
Regular meetings with editorial company	0.5-1h (every two weeks)	ESPO, CSO, new consultant

5.6 Data analysis

The primary goal of data analysis is to locate answers for research questions, which can be called categories, themes, patterns or findings in different situation and reflect the focus of the research (Merriam and Tisdell, 2016). Qualitative research often involves large amounts of non-standardised data that need to be analysed and synthesised in order to achieve research objectives and answer research questions. The simultaneous process of data collection and analysis is “recursive and dynamic” (Merriam and Tisdell, 2016, p.195). In qualitative research, meaning is largely derived from linguistic or visual material that may have multiple, or even ambiguous implications, which need to be explored and clarified with great care. Data analysis therefore involves analytical techniques, including the summarisation of data, coding and categorisation, linking to themes and so forth. The absence of these techniques would yield, at best, an “impressionistic view” of the meaning of these qualitative data (Saunders et al., 2019, p. 641).

In general, the data analysis was carried out along the following steps primarily derived from Saunders et al. (2019). These steps are performed in *no* absolute order and often move back and forth between steps. They were “overlapping and iterative” in practice (Ahrens and Chapman, 2007, p.12). This is because, as mentioned earlier, data collection and data analysis in qualitative research are often carried out in parallel, although there is a systematic and focused analysis after data collection has been completed.

- 1) *Case description*. The first step in the data analysis for case studies, as suggested by Buchanan (2012), was to develop a case description for each case to provide the platform for analysis. This step is an ongoing process, starting with the identification and obtaining of case access and continuing through to the final, intensive analysis.
- 2) *Data preparation*. Generally, there are three sources of data for analysis: interviews, observations and documents. The presence of multiple types of data makes this step very important, as qualitative data needs to be converted “from verbal or handwritten form to word-processed text” before the content can be classified, analysed, synthesised and interpreted (Saunders et al., 2019, p. 645). All semi-structured interviews were recorded and transcribed as a Microsoft Word document as soon as possible after the interviews were completed. Transcriptions were compiled with notes taken during and after the interviews. Participant observation of meetings in Energy-tech and unstructured interview with the CSR department were not recorded. Instead, notes were taken during the meetings and a research diary was written later on that day. Documents for analysis include corporate reports, meeting minutes and presentation slides for meetings etc. As this study did not intend to evaluate the quality of the reports but to focus on the activities, the editorial notes and a summary of the content for each report were used for analysis. The length of the report was also recorded to get an overall sense of reporting changes. In addition, all the data were transcribed and analysed in its original language (Japanese) to avoid any loss of original language details due to translation. Formal analysis was executed with a

combination of software and traditional paper annotation.

- 3) *Coding*. Having the data ready, thematic coding was undertaken and the analysis was conducted with a careful focus on how the interviewees described and rationalised the decisions they had made for the implementation of integrated reporting (Orlikowski, 2002). As a method of qualitative data analysis, thematic analysis is considered to be “a systematic yet flexible and accessible approach” (Braun and Clarke, 2006; Saunders et al., 2019, p.652). In line with previous practice-based research, the analysis in this research follows an abductive approach, namely “moving back and forth between data and theory” (Ahrens and Chapman, 2006; Jorgensen and Messner, 2010, p.189). Under the abductive approach, analysis begins with theoretically derived codes, which are then modified or replenished as the dataset is explored. In this study, the thematic analysis was initiated with codes derived from previous literature and theoretical framework. Codes from literature included environmental, social and economic context, background of transition, various activities (in vivo codes as actual term from participants might be used), and different actors involved in the process. From theoretical framework, themes derived from the four organising elements and material arrangements (Schatzki, 2002), including activities, ends, intention, emotion/attitude, rules, understanding etc. Any emergent themes arising from the data were also coded.
- 4) *Searching for themes and recognising relationships*. Usually the search for and linking of themes occurs after all the data has been coded, although in practice the search for relevant themes, patterns and relationships also begins during the process of collecting and coding the data; this is a process of “condensing the raw data” (Saunders et al., 2019, p.657). Themes can be either broad categories that include multiple associated codes or a single code of general importance. Once themes are identified, further reflection on the nature of the themes and analysis of the relationships between them is required; this is also an iterative process.
- 5) *Re-examination and refinement of themes and the relationship*. The themes were re-examined and refined in conjunction with the literature reviewed in order to place them in an appropriate context and to relate them to theory (Ahrens and Chapman, 2007).

5.7 Further methodological consideration

5.7.1 Ethical issues

It has become an increasingly explicit, even formal, concern to appreciate how research affects the people it reaches, to measure the rightness or wrongness of that impact, and to consider the harm or benefit that may result (Holt, 2012). In qualitative research, academic ethical issues are likely to arise in relation to data collection and the publication of results (Merriam and Tisdell, 2016).

For the longitudinal case study, as mentioned previously, it was conducted under the research internship programme provided by the Kobe University Career Centre. The researcher has submitted a written pledge and has signed an agreement and memorandum of understanding with the company to be studied under the research internship programme. The researcher must respect

the work rules and regulations of the companies involved, follow the guidance of the person in charge, and participate in the research internship in good faith.

With regard to the cross-sectional interviews, the research aims to identify how practitioners understand and implement integrated reporting and integrated thinking, without any intervention or invasion and without any burden or risk to the research subjects. Companies has been contacted by email to ask if they are willing to accept the interview. If yes, they would allocate a person to take the interview. Following this, a statement of research purpose has been sent to the person in charge by email, and a date would be arranged for the interview. Any additional questions would be answered by email. The methods of seeking understanding and obtaining consent from research subjects were verbal declaration of intent, receipt of written documents, and receipt of emails. A final email will be sent stating that the data will be used anonymously for research purposes only.

This study has been conducted in accordance with Article 7 of the Bylaws of the Committee for Ethical Review of Experiments and Survey Research on Human Subjects at the Graduate School of Business Administration (GSBA), Kobe University. Ethical approval of research were obtained from GSBA, Kobe University and Sheffield University Management School (SUMS).

5.7.2 Reflexivity.

In contrast to quantitative research where analysis occurs after data collection, in qualitative research the collection, analysis and interpretation of data often occur simultaneously (Merriam and Tisdell, 2016; Saunders et al., 2019). For this reason, the quality of qualitative research depends in part on “the interaction between data collection and data analysis” (ibid, p. 640). This process helps shape the direction of data collection and ensures relative flexibility. In parallel this interactive nature of data collection and analysis enables the researcher to recognise important themes, patterns and relationships throughout the data collection process so that future data collection can be refined.

In the data collection process of this study, this interaction of data collection and analysis did not only occur in the data collection of individual cases, but also in the interaction between different cases. The pilot survey of Machine helped me to gain a first insight into how companies understand integrated reporting, which departments are responsible for integrated reporting, what motivations exist for them and so forth. These initial analyses of the data also influenced subsequent interviews and observations in other companies. Moving beyond the limited access to activities within organisations, in the longitudinal case study I was able to employ participant observation to provide richer empirical data in real-life setting, which also help me build a broad understanding of what is happening within the organisations. It can be said that the whole process of the investigation was accompanied by a deepening of my understanding of the practice and a clarification of the research focus.

In this way, the empirical data gained through the fieldwork and engagement with different organisations allowed me to explore the practitioners’ “subjective experience and the meanings those people attribute to them” (Mio et al., 2016, p. 209), providing me an opportunity to investigate how integrated reporting practices unfold in real-life setting and develop in different

organisations.

5.8 Summary

Different research designs provide a portrayal of different facets of the research subject. This research has combined the following research designs to provide a fuller understanding of Japanese integrated reporting practices by examining practices that have evolved over time in one organisation and by surveying different organisations' practices in comparison. Consistent with previous studies employing a practice lens, ethnographic methods were used, including participant observation, interviews and document analysis.

With data collected and analysed above, the way to present the findings follows the previous practice based studies to provide a theoretically informed account of the integrated reporting practices in each case. Generally, following the practice of Jorgensen and Messner (2010), the presentation of data follows the narrative approach to writing (Czarniawska, 1999). Moreover, in line with Lodhia (2015), the within-case analysis firstly starts with framing the environmental, social and economic context for each case company. With analysis of public documents and interviews with the managers of each company, the development of the integrated reporting practice and how the internal actors rationalise the decisions made over time is then defined. The following two empirical chapters present findings from the longitudinal case study and multiple case studies respectively.

Chapter 6 Multiple Case Studies

6.1 Introduction

This chapter presents the findings based on empirical data collected from multiple cases (i.e., Machine, Device, Pharmacy and House⁴³) by interviews and document analysis. The four case companies, i.e., Machine, Device, Pharmacy and House, are leading players in their respective industry (i.e. machinery, electric equipment, pharmaceuticals and construction) and also have a good performance in ESG aspects in terms of ESG ratings and evaluations by external parties (see more in [Section 5.4](#)). Among the four case companies, Machine and Device adopted integrated reporting *before* the release of the Framework, while Pharmacy and House are new adopters of the practice. They developed integrated reporting at different times and adapted to their own organisational settings.

The following analysis starts with a within-case analysis of each selected organisation. In line with Lodhia (2015), the within-case analysis begins with briefly framing the environmental, social and economic context (site) for each case⁴⁴. With analysis of public documents (various corporate reports, management plan, and other information disclosed on sustainability/investor relations website) and interviews with the managers in charge of the integrated reporting process, the development of the integrated reporting practice and how managers understood the practices is then presented. Building upon the findings above, this chapter ends up with a cross-case synthesis using a practice lens approach and focusing on the organising elements, i.e., rules, practical understanding, teleoaffective structure and general understanding, and material arrangement (Schatzki, 2002).

6.2 Machine: a revisit to the role of corporate disclosure

6.2.1 Development of integrated reporting practices

Machine is a global manufacturer with a history of more than 100 years, which has provided a wide range of products related to food, water, and the environment. According to its latest integrated report (2020), Machine is a highly internationalised company with an overseas sales ratio of over 60%, among which the American market is the largest. Despite changes in the economic environment both in domestic and overseas markets and the impact of the global pandemic, Machine has been able to achieve steady growth in sales and profits overall. The farm and industrial machinery business accounted for more than 80% of its sales, and in the fiscal year ended December 2020, sales were approximately ¥ 1,853 billion.

According to its first environmental report (1999), since the Pollution Control Department (renamed as Environment Management Department) was set in the head office and pollution control sections in the factories in 1972, Machine has been coping with environmental issues from early on. Concerning its non-financial information disclosure, the first official platform was its environmental website, launched in 1996. As shown in Fig. 6.1, Machine released its environment report from 1999 and transitioned to CSR report in 2006.

The demonstration of “doing everything right”, or to be more specific, the accountability on a

⁴³ The cases are sorted by the order in which each company introduced the integrated report.

⁴⁴ More information on the case company and why these cases were chosen were explained in [Chapter 5](#).

compliance basis, was the primary motivation behind the corporate reporting practice at that time, as noted by CSR-m1:

That is [the transition from environmental report to CSR report] where we originally started. It was more of an obligation [at that time]. The reality is that the world has come to take a severe look at the environment, and we disclosed information as a way to show that we are doing everything right. It was around that time that we started talking about CSR.

-- CSR-m1

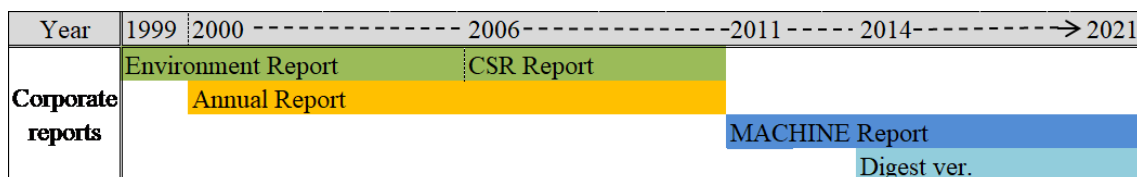


Figure 6.1 Corporate Reporting Timelines at Machine

Although recognised as adopting integrated reporting from 2011, it can be seen that Machine has not developed its integrated reporting based on a consistent understanding. As indicated in the editorial note⁴⁵ in its first integrated report (2011), the combination of the reports was initially born due to the improvement of corporate communication regarding the various information disclosed in different media. To enhance corporate communication, the Corporate Communication Department, which has a function in public relations, advertising, and social contribution activities, was set up in 2010. At the time, the company had three reports: annual report, CSR report, and corporate brochure, and decided to integrate them into a single document called the Machine Report in order to re-evaluate how it should disclose information as a whole.

From fiscal year 2011, we have been enhancing our business and economic activity reports and have decided to publish them together with our social and environmental reports as the “Machine Report”, a single volume that provides an understanding of the CSR management and global development promoted by the Machine Group.

--Machine Report 2011

Several changes were made since 2014; notably, they started to issue a digest version for the booklet and a full version online. As explained by the interviewee (CSR-m1), Machine changed its editing company for corporate reports at that time. As proposed by the new partner, the company came to realise the external expectation of information disclosure and started to change the way it provides information. They had come to understand that they need to be more proactive and aggressive in their approach to disclosure, rather than the original obligatory and defensive way to make it:

It was also around this time that the world started to become aware of the need for information disclosure and the need for as much information disclosure as possible, which we hadn’t really

⁴⁵ In the integrated report, all companies observed so far add the editorial note at the beginning or at the end of the report, in which most companies outline the content of the report, what reference has been made, the time frame for the disclosure and a disclaimer.

been aware of before. The consulting company, our partner, changed, and they came up with various proposals. They said it would be better to separate the digest and web versions.

--CSR-m1

The full version and digest version were designed for different reasons and audiences. The digest version was used as a combination of the company brochure, recruitment brochure, general product catalogue, CSR report, and annual report in one volume, in order to arouse the interest of people with low awareness of Machine. The target audience were students, individual shareholders, event visitors, business partners, institutional investors and rating agencies. The full version was available for those who needed detailed information to evaluate Machine's performance, including institutional investors, rating agencies, auditing firms, and academic experts. The purpose is to have institutional investors and rating agencies assess the company, i.e., to invest in the stock long-term. Several stock indexes, ESG ratings and rankings were used to measure how external parties evaluated the performance.

It is interesting to note that these rankings and ratings, as a way to measure external evaluation, were used both as a basis for requesting cooperation from other departments and as a reason for refusing to make further improvements over and above this. CSR-m1 mentioned that other departments, particularly the Environment Management Department, would require them to make additional efforts to improve the disclosure when producing their reports, such as applying certain frameworks or guidelines. Nevertheless, as they could “only improve as much as they could with the limited manpower they had”, external evaluations were utilised to show that they were “doing a good job now”. Therefore, where there was no certainty that the improvements would enhance the company's evaluation, the requests were not legitimate.

However, the situation seemed to have changed in 2021. As explained by CSR-m3, this was the first time that Machine has published a long-term vision since 1990. It was also the first time the company has published its medium-term management plan externally, although it has always had an internal medium-term management plan. Moreover, it was also the first time that the company had stated its intention to achieve ESG management, which, as explained by CSR-m3, refers to management that creates long-term, sustainable corporate value by placing the environment, society and corporate governance at the core of management. Meanwhile, Machine also published an environmental vision for 2050.

One of the reasons for this change, as explained by CSR-m3, was due to the change in the management structure. In 2020, Machine celebrated its 130th anniversary, and the new management team discussed for one year (2020-2021) about what the company should be for the coming 140th year (2030) and 150th year (2040). In terms of external communication, there was a debate as to whether the integrated report, which was essential for conveying its future direction, strategies and current strengths within the company to meet the demands of society, should remain the same. This question was raised as one of the themes for discussion across divisions:

We have been running the medium-term management plan for three years, and 2020 was just the third year of the medium-term management plan, so we have to make the next medium-term management plan [...] The question was whether Machine's brand value, including its prospects,

could be communicated to the many stakeholders that we have in our communications. In this context, we came to the conclusion that there are still issues to be addressed.

--CSR-m3

During the discussion, the CSR department raised the following issues:

- the absence of a group-wide brand policy and strategy
- inconsistent internal understanding
- lack of KPIs for specific targets and results
- the lack of an integrated response within the company to changes in [the need of] social stakeholders

They pointed out that it was a problem since the company was operated by different functional units, where each department was doing its own individual job in communicating the story of Machine. They proposed a cross-organisational system for corporate communication, which was not just about communicating the company as a whole and selling products but also aimed for internal communication. The top management considered it and formed a new department named MESH (Machine's ESG) to facilitate the overall understanding of ESG issues of the company and think for the long-term value creation.

Regarding why they thought these changes were in need, CSR-m3 further explained that Machine's current financial performance was excellent and profits were rising, based on which the management team believed that they would be fine for another five years. However, they had significant doubts about whether the company would be able to continue in its current state ten years from now. Compared to 30 years ago, the business portfolio has also changed dramatically due to the market fluctuations. They would definitely survive with the current business model in the short term, but forward-thinking in the long term is needed. That is also why they extended the period of the medium-term management plan from 3 years to 5 years. Meanwhile, positioning ESG as a pillar of its corporate management, Machine has formulated its "Environment Vision 2050" as its long-term vision for the environment and enacted the "Medium-Term Environmental Conservation Targets 2025" accordingly.

The integrated reporting practices in Machine unfolded with a constant revisit to the role of corporate information disclosure. The *teleoaffective structure* evolved with a *general understanding* of non-financial information disclosure and ESG initiatives (Shcetzki, 2002). However, it can also be seen that the ultimate aim with the production of a report is always related to the disclosure of information.

6.2.2 Implementation of integrated reporting practices

As Machine adopted integrated reporting practice *before* the release of the Framework, it did not implement it as defined by IIRC. Actually, Machine has never referred to the Framework to prepare for its report. It is also interesting to note that Machine did not voluntarily promote their report as an integrated report as they "did not prepare reports per the rules" (CSR-m1/m2); rather,

the Corporate Reporting Lab took their report as an integrated report⁴⁶.

The issue that arises here is how the company's report is regarded as an integrated report. The application of the IIRC Framework is clearly not a criterion for integrated reporting because of the voluntary nature of the Framework adoption. Moreover, not all companies use the Framework on a factual level (KPMG, 2018). Although the Corporate Value Reporting Lab refers to it as *self-declared* in its survey of integrated reporting, not all companies would indicate it in their editorial note, and the identification also includes those with "the comprehensive inclusion of both financial and non-financial information" (Corporate Value Reporting Lab, 2015, p.3). The initial integrated report was named "Machine Report (business and CSR report)". Compared to the CSR report issued before, this version of report started to include more information about economic performance and narratives on strategies. To date, the company has not referred to the Framework in the preparation of the company's report.

Being "regarded" as an integrated reporting adopter, Machine has since added reports from 2011 onwards to the integrated reporting category. Therefore the significance of this case is to explore how a company that had *no intention or awareness* of introducing integrated reporting, but was perceived to be doing so, understood and developed its own reporting in this context.

As indicated by CSR-m1, with efforts to respond to increasing external expectation, various information were needed, and thus the involvement of different departments and business units were unavoidable. This makes the report "a representative of Machine" (CSR- m1, previous report manager), which means it can provide a comprehensive illustration of the company's performance. That is why they named it Machine Report.

Until then, the CSR Planning Department and the Environmental Management Department were the two main divisions in charge of creating the report. Now, however, as you can see from the contents, it is impossible to generate the report without the cooperation of various departments. Not only the environment but also human resources, research and development, and many other departments formed a working team to create the product. The fact that we named it Machine report as a representative of Machine is also rooted (basically) in this point.

-- CSR-m1

Unlike the target audience defined in the Framework, Machine's reports are addressed to a broader target audience, i.e. stakeholders, rather than being limited primarily to providers of financial capital (IIRC, 2013). As described in the editorial note, *rules* for integrated reports in Machine regarding the application of guidelines were in line with its previous non-financial reports, such as GRI Sustainability Reporting Guidelines, ISO 26000, and Environmental Reporting Guidelines provided by the Ministry of the Environment etc. As the primary market is the USA, they prepared following US GAAP (Generally Accepted Accounting Principles) for the

⁴⁶ The Corporate Reporting Lab identifies and discloses companies that issue integrated reports on a self-declared basis. It notes that Machine has issued an integrated report since 2011 (http://cvrl-net.com/archive/pdf/list2020_202102.pdf). In addition, its report has been also selected as an integrated report with a high degree of improvement by GPIF.

financial information.

However, the connection between financial and non-financial information, which is closely related to integrated thinking, did not seem to be relevant. As explained by CSR-m1, ESG initiatives should be a given and something that “any good company should tackle with”. They believed that if they could protect the environment, adequately educate people from various perspectives, and focus on research and development, business performance would definitely be enhanced. It did not matter whether it was presented as a story, and if they performed poorly in their financial aspect, investors would not buy their story either. Therefore, the Framework was thought to provide “a concept rather than regulations” and should not be a must for an integrated report. The resistance to the application of the guidelines was firstly related to the lack of staff. Furthermore, they were unsure of the consequences of using the guidelines, which was also related to their *general understanding* of non-financial disclosures (Schatzki, 2002):

It seems that if we follow the guidelines of GRI, IIRC, SASB, etc., we have to do it in more detail [for reporting purposes]. If we wanted to do it that way, it would be more *costly* in terms of people and money. However, since our company has a relatively good reputation [in terms of the reaction from capital markets], we don’t feel inclined to follow the guidelines too much because there is a question of how much more effective we will be when we weigh those balances.

-- CSR-m2

Table 6.1 Guidelines Noted in Each Report at Machine

Year	Referred guideline(s)
2011-2012	Environmental Reporting Guideline ⁴⁷ (2007) GRI G3
2013-2015	Environmental Reporting Guideline (2012) GRI G3.1
2016-2017	Environmental Reporting Guidelines (2012)
2018	Environmental Reporting Guidelines (2012) GRI Standard
2019-	Environmental Reporting Guidelines (2018) GRI Standard ISO26000

The full and digest versions were also made in different ways for different audiences—around 120,000 copies of the digest version were published (CSR-m2). However, the full version was only available online and was not designed as a cohesive and well-connected story for the readers. Machine Report has been provided with a complementary data book since its release, and the total number of pages of the report has been increased. A digest version has been released instead of the previous complementary data book from 2014. In the full version, they “put in whatever they

⁴⁷ The Ministry of the Environment of Japan published the earliest guidelines in 1997, and thereafter issued guidelines for environmental reports in 2001 (2000 edition), which have undergone several revisions since then (see more in [Section 2.3](#)).

want” to disclose as much information as possible. They believed that the readers just needed information and could find what they wanted by searching keywords or checking the content instead of reading it “in series”.

The full version is not really a very well designed book, but rather is based on the layout on the web, so if we had squeezed everything in, it might not have as many pages as it does. Anyway, to be honest, I think it’s OK to include everything. The web doesn’t really need to be concerned with this number of pages. I don’t think people read in series. It’s almost always a keyword search or a table of contents search, so it doesn’t matter how thick it is or how many pages it has. In the first year, we made it in Html format, not PDF, so it’s really clickable and selectable, so it doesn’t matter how big the volume is.

-- CSR-m1

Although Machine has changed its approach to the information disclosed by integrated reporting, it is currently still on its way to figuring out how it would be like. It is also worth noting that they use the phrase “making the report an integrated report” below, to describe the direction for the future integrated report they are going to make:

In 2020, we had one year to think about what Machine should be in the future. In the process of developing the medium-term management plan, we asked ourselves whether Machine’s communication with stakeholders and the relationships between us are good and whether the integrated report has facilitated it. This is why the term “making the report an integrated report” was chosen as the starting point for the review of the Machine Report in response to the demands of society.

-- CSR-m3

6.2.3 Summary

In summary, in the case of Machine, the *teleoaffective structure* aimed for corporate communication seems to develop with a *general understanding* of corporate information disclosure. During the preparation of integrated reports, the practice only consisted of abiding by regulations explicitly established by the corporate reporting *rules*, which in this case was limited to financial information. Due to the voluntary nature of non-financial information, relevant disclosure in the integrated reporting practices tends to maintain as the repetition of previous practice. The development of integrated reporting practice reveals as a revisit to the role of corporate information disclosure, and the *practical understanding* evolved accordingly.

6.3 Device: a dialogue tool for the value creation story

6.3.1 Development of integrated reporting practices

Founded in 1933, Device operates as a major electronics manufacturer that has been engaged in the control equipment, healthcare, in-vehicle, social systems, and electronic components businesses. According to its latest integrated report (2021), Device achieved a turnover of approximately 656 billion yen in the fiscal year ended 31 March 2021. With regard to environmental and social activities, the company is committed to reducing its environmental

impact from the product life cycle perspective throughout the entire value chain. It claims to solve social issues with its core business activities by addressing specific issues, setting detailed goals and reporting the progress in its reports.

As can be seen in Fig.6.2, Device has considerable experience with voluntary reporting. These reports possibly date back to the annual report issued in 1998, which was published in English⁴⁸ and aimed primarily for foreign investors, but solely provided financial information such as management vision, corporate strategy and financial position. As for non-financial reports, the first environment report was accessible from 2000, and since 2004, they issued a CSR report, which they refer to as a “corporate public entity report,” emphasising the social role of the company. Device, the same with Machine, published its first integrated report before the release of the official IIRC Framework.

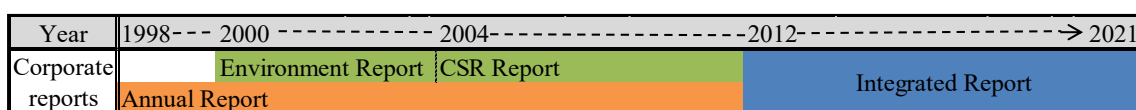


Figure 6.2 Corporate Reporting Timelines at Device

While the influence of the external environment at the time was briefly highlighted in the motives for the corporation to adopt integrated reporting practices, the current manager of the brand communication department (BC-d) emphasised more on the “enhancement of corporate value.” The integrated report is recognised as a dialogue tool to facilitate communication between various stakeholders in terms of illustrating how the company integrates financial and non-financial aspects to develop and enhance its corporate value, which is likely its most highlighted role. The manager (BC-d) further explained the significance of corporate value by tracing it back to when the present CEO initially took power. The present CEO was the company’s first CEO who was not a member of the founder’s family. The company’s market value was substantially lower than its turnover at the time, which top management, including the present CEO, believed signified the company’s corporate value was not adequately acknowledged or favourably embraced by the market. As a result, the company’s top executives spent a day discussing the problem and eventually came to the decision that they needed to return to the company’s corporate philosophy. Although the company is now a major corporation with a market capitalisation of over 2.43 trillion yen⁴⁹, it started as a venture company, and the fundamental problem with the lack of technological innovation at that time, according to the manager (BC-d), was that the company had lost touch with its founding philosophy.

Device developed its corporate philosophy systematically in 1990 and revised it three times to adapt to evolving trends. As indicated on its website, Device is committed to contributing to a better and prosperous society where people can thrive by quickly grasping changes in society and solving social issues through the business, which is also currently indicated in its management philosophy:

⁴⁸ Since 2000, both Japanese and English versions have been published.

⁴⁹ This is the total market value on 4 November 2021, which is almost four times its turnover (year ended in March 31th, 2020)

We believe a business should create value for society through its key practices. We are committed to sustainably increasing our long-term value by putting Our Mission and Value into practice.

-Management Philosophy (disclosed on its global website)

Recognising that practising the company's corporate philosophy, which is to create a better society, could not be a short-term goal, it developed its first long-term plan and divided the 10-year long-term plan into three (3+3+4) medium-term plans in 2012. At the same time, it launched an internal initiative to encourage employees in order to put the company's philosophy into practice at a global level, thereby promoting the penetration of the company's philosophy into the daily activities of the organisation.

To clearly convey what it aimed for and its efforts, the integrated report was adopted as a new form of corporate reporting to improve the understanding of the company's long-term value creation story. Therefore, the integrated reporting practices in Device have been organised by the *teleoaffective structure* as an enhancement of accountability from the very beginning.

Along with the communication function, the manager also mentioned that the integrated reporting process could also help themselves to understand the company's organisational activities, recognise its strengths and weaknesses, thereby providing an opportunity to reallocate management resources. Although the manager did not give direct examples to support this view, her accounts included examples where the preparation of integrated reports changed some internal company practices. For instance, in the introduction to the themes of the IR2020⁵⁰, the issue of improving corporate governance was mentioned. In order to enhance the effectiveness of the board of directors, a dialogue between external and internal directors was enabled by arranging a roundtable discussion bringing together all independent non-executive directors.

6.3.2 Implementation of integrated reporting practices

Current practices transitioned from a separate reporting system with a standalone CSR report and an annual report to an integrated report as *one report*. In contrast to previous corporate reporting, the manager (BC-d) argued that integrated reporting could tell the story of how the company was creating value by combining both financial and non-financial aspects. Furthermore, previous reports, particularly financial reports, have tended to focus on disclosures about matters that have already occurred. The "storytelling nature" of integrated reporting, as indicated by the manager, did not mean reporting on what had been done in order to enhance corporate value, but rather entailed a retrospective look at a vision of the future and telling this future-oriented story to different stakeholders.

Concerning the *rules* and *practical understanding* for integrated reporting, in preparing its first report, as indicated in the editorial note of its first report, Device received advice from a study group. It was the "Survey on the Disclosure of Non-Financial Information that Contributes to the Creation of Sustainable Corporate Value", a research study commissioned by the Corporate

⁵⁰ The interview took place on February 2020, when they were discussing and developing directions for the preparation of the Integrated Report for 2020.

Accounting Office, Economic and Industrial Policy Bureau, METI. It was conducted between November 2011 and March 2012, during which Device participated as a member.

In Japan, the Corporate Reporting Lab was established in July 2012 by the Corporate Accounting Office of the Economic and Industrial Policy Bureau of the METI to examine various aspects of corporate governance and dialogue between companies and investors. As Device’s head of integrated reporting at the time was one of the planning committee members of the lab, the discussions were used as a reference when preparing the 2013 integrated report.

More guidelines for integrated reporting were developed later, and as shown in Table 7.2, Device started to apply the Framework from 2014. They started to use the term “value creation story” in their reports since then and adopted the business model from IR2015 and kept refining it ever since. The classification and incorporation of six capitals was observed from IR2017, of which the content was more or less the same since then. They use several KPIs to illustrate the input of different capitals, such as number of employees for human capitals, investment on equipment for manufacture capitals, stock index for financial capitals etc. From 2018, another typical guidelines provided and recommended by the METI (METI Guidance) was adopted. The specific content follows relevant guidelines, including GRI for ESG information and GAAP for financial information.

Table 6.2 Guidelines Noted in Each Report at Device

Year	Referred guideline(s)
2012-2013	Not mentioned
2014-2015	IIRC Framework
2016-2017	IIRC Framework GRI G4
2018-	IIRC Framework GRI Standard The Guidance for Collaborative Value Creation (Ministry of Economy, Trade and Industry)

According to the editorial notes in previous integrated reports and explanation by the manager (BC-d), the planning and editing of the company’s reports involve three main departments, namely Investor Relations, Brand Communications (formerly Public Relations) and Sustainability Promotion. The head of the issuance of the integrated reports is a relevant executive director. The Brand Communications department was launched in 2017, formerly the Public Relations Communications department, was renamed as a result of a fine-tuning of the operations, i.e. being given the responsibility for brand marketing communications. However, the department, like the Investor Relations department, is also under the direct control of a division called the Global Investor and Brand Communications Headquarters. Until 2017, the primary department responsible for the preparation of the integrated report was the Investor Relations Department, and in 2018 was led by the Sustainability Promotion Department, as the theme of the 2018 report was to define the relevance of the SDGs to the company’s business. However, according to BC-d1, although it appears that ownership has shifted, it is actually only the affiliation of the people

involved in the discussion and preparation that has changed; the people themselves have not changed. From 2019 onwards, the integrated report is officially planned under the leadership of the Brand Communication department, for the reason that the other two departments do not have the function of communication per se, as the business manager notes:

One of the reasons why brand communication was put in charge this year was to focus on telling a unified story, not only financial but also adding non-financial information. The second is the target audience. We have expanded our target to multi-stakeholders, not just investors. IR and the Sustainability Office have a very limited role in communication in their regular work. In our department, we are also responsible for business PR and corporate communications, so we are able to work out what we should be communicating as a company.

--Brand Communication manager

Following the release of the annual report, the three departments seek and collate feedback on the report from the appropriate stakeholders and, based on the feedback, recent regulatory reforms and changes in the external environment, develop the theme and direction of the report for the following year. The results of the collation, the perceived status of the report and the direction for the next year will be presented and discussed at the Executive Meeting with the top leaders of each business unit and function, including the President. The leaders will make their own recommendations and, based on the approved direction, each department will be assigned the appropriate staff to support the production of the report. These departments include the various business units and related indirect departments such as risk management, finance, patents and technology. For example, the strategy department has been added to the 2020 production due to the need to produce and communicate the new long-term strategy.

Thereafter, the editorial team held weekly meetings to follow up on the production of the content for the release of the second year of the integrated report. Each member of the editorial team has his or her own corresponding module and communicates separately with the corresponding department to confirm the content. Drafts are provided by the editorial team, not by other departments, in order to ensure consistency and objectivity throughout the report.

We create the whole story at once. Otherwise, if we ask each business unit to write their own story, it would just be a list of what they want to say [...] That's why we do the structure based on the purpose to make the page look the same in each business on the premise of communication, while the facts and examples are discussed with each business unit.

--Brand Communication manager

It is worth noting that there is very little external production company involvement in the whole process, from directional discussions to the production of specific content, and according to the department manager, the editorial company is generally only responsible for the design and process management of the production, and some feedback from other stakeholders:

The editorial company is not involved [...] but in parallel, they will ask key opinion leaders who are not related to us to tell us what they think of our report.

--Brand Communication manager

However, from 2019 onwards, for interviews with top management (CEOs, CFOs and CTOs), the company decided to engage an external production company, in order to ensure consistency in the stories told and to improve readability. This is because the interviews used to be conducted by the editorial team; however, as the interviews were conducted by in-house staff, there was inevitably an unconscious use of content that only the insiders would understand, such as technical jargon, and the use of external professionals to conduct and edit the interviews improved the readability of the stories.

Furthermore, as a dialogue tool, storytelling is not unidirectional; the company sends the report to stakeholders, including investors, analysts, media, etc., through several relevant departments to seek feedback and to initiate a dialogue with stakeholders after the report is released. The results of these conversations are reflected in the preparation of the next year's report, thus enabling a routine to be followed.

Not only are the completed reports sent to the relevant stakeholders, but internally they are used as a company brochure to be taken by the marketing department to clients or during the orientation of new recruits. In order to increase the readership of the integrated report within the company, the editorial team has endeavoured to include photos of "ordinary" company employees, i.e. non-senior management, such as those who have won awards for their participation in the corporate philosophy practice programme, not only from the Japanese headquarters, but also with the faces of many employees from overseas branches. In fact, some foreign employees did send emails saying that "their family members were very happy to see their photos in the report" (BC-d1).

In terms of integrated thinking, Device stated clearly in its integrated reports that integrated thinking was something that had already been embedded in its management, which was closely connected to its corporate philosophy and required a long-term perspective. This was firstly explained in its integrated report issued in 2013 as follows:

Device's motto is to contribute to the development of global society through its business, and the company's management takes a long-term perspective; so-called "Integrated Thinking" has already been incorporated into the company's management.

--Editorial note in its integrated report (2013)

In the editorial note in its report (2004), Device further explained why they thought integrated thinking was inherently built in the corporate management and tried to demonstrate its existence by listing the points that are valued in management:

Our motto is [...], we place importance on (1) management based on a solid corporate philosophy, (2) the establishment of highly transparent and effective corporate governance, and (3) constructive dialogue with stakeholders based on voluntary information disclosure (so-called "engagement") [...] Therefore, it is no exaggeration to say that integrated thinking is already built-in in our management.

--Editorial note in its integrated report (2014)

The current manager (BC-d) further explained that in terms of practising corporate philosophy, it entailed that the company should work towards the same objective as a whole. In other words, the functioning of integrated thinking presupposed the practices of corporate philosophy. Nonetheless, she also recognised that it was an opportunity for those who were involved in the preparation of reports to be more aware of integrated thinking.

The integrated report was published as a booklet until 2018, from 2019 onwards, the company has no longer published the integrated report in print, except on a case-by-case basis, opting instead to publish it electronically, in view of the needs of the younger generation.

6.3.3 Summary

In summary, in the case of Device, integrated reporting is recognised as a tool for dialogue between different stakeholders concerning its future-oriented value creation story. The practices during the preparation of integrated reports were organised by *rules* set for specific content as guidelines for non-financial information and GAAP for the financial report. For the Framework and the Guidance, it seems to abide by restrictions explicitly established, such as the combination of financial and non-financial information, the adoption of the value creation model with illustration of six capitals as required by the Framework. However, due to the principle-based nature of the Framework, the practice reflected not only a practical understanding limited to what is explicitly indicated in the *rules*, but also a *general understanding* of the need to practice corporate philosophy to enhance corporate value. Therefore, the *teleoaffective structure* aimed for communicating its long-term value creation story seems to maintain in a consistent way. Integrated reporting is not considered as a tool to drive organisational changes; rather, it is a platform to demonstrate the organisation's ability to create value in a sustainable way; furthermore, the company is able to receive opinions from various stakeholders to recognise its deficiencies, which might bring about changes in organisational activities.

6.4 Pharmacy: storytelling with a focus on strengths by engaging with the “readers”

6.4.1 Development of integrated reporting practices

Founded in 1941, Pharmacy is a pharmaceutical company with a global presence in research and development, production, distribution and sales, with a focus on prescription medicines. The key therapeutic areas of its focus are neurology and oncology, where Pharmacy has the greatest strength and where there are many diseases still without adequate treatments. Documents and the interview with the managers that are responsible for integrated reporting indicated that Pharmacy is a highly internationalised company with an overseas sales ratio of nearly 60% and more than 10,000 employees globally. According to its latest integrated report (2021), the company has achieved steady growth overall and realised sales of 646 billion yen in the fiscal year ended March 2021.

As indicated in Fig. 6.3, the annual report and CSR report released by Pharmacy are available from 2008. Since 2015, these two corporate reports have been combined together as an integrated report, which was renamed the Value Creation Report in 2021. The interviewee (IR-p1) explained that the company had recognised integrated reporting as a new form of corporate reporting before 2015 but spent quite a long time on the discussion of how to express their “own colour” to make

it as Pharmacy's report:

Basically, the trend was for financial and non-financial reporting to be integrated. Actually, we had been preparing for this trend for quite some time, but it took us a few years to be able to express our own colours.[...] it was our colour to follow the trend and create something that meets the needs of long-term investors, so we switched to this from 2015.

--IR manager (IR-p1)

Year	2008	-----	2015	-----	>2021
Corporate reports	Annual Report		CSR Report	Environment Report	Integrated Report

Figure 6.3 Corporate Reporting Timelines at Pharmacy

In addition to this, he explained that there was a lot of overlap between the CSR report and the annual report at the time, so a major motivation for creating the integrated report was that it would be easier to reduce unnecessary duplication if they were combined. Moreover, there was also an “impure motive” at the beginning, as it required a lot of work to prepare both an annual report and a CSR report, so it was thought that it would be easier to prepare an integrated report.

Over a period spanning around a year, Pharmacy considered what its colours were in terms of publishing an integrated report. As for what that colour was, it was thought that just sticking a CSR report and an annual report together and making it thicker would not make sense, so they discussed who they should target and finally started issuing an integrated report in 2015.

It was decided that the target audience for integrated reporting was long-term investors. As explained by IR-p1, long-term investors enjoy residual profits, so they are not powerful. However, if the needs of those investors are met, it is possible to meet the needs of the various stakeholders, such as patients, employees:

For example, sales are related to patients, and costs are related to suppliers. We also pay taxes, so we think that we can meet all the needs of the state, trade and industry, local authorities and so on. The basic idea is that if we focus on this, we can take all stakeholders into account.

--IR-p1

This target audience was determined primarily by the CFO. Different from other companies, CFO, who is also responsible for the IR department, has been playing a key role in the adoption and adaption of the integrated reporting process. Therefore, one of the features of its integrated reporting is that it is led by the IR department.

In other places, ESG-related people prepare the report, and in some cases, it is unclear to whom or for whom the integrated report is intended. However, Pharmacy's characteristic is that it focuses on long-term investors. It took some time for us to settle on this idea, but we have been working in this way since 2015.

--IR manager (IR-p1)

As stated by IR-p1, the *ownership* of integrated reporting by the IR department (Stubbs and Higgins, 2014) has led them to reflect on who the integrated report is for, rather than setting it to a broad range of stakeholders. However, this may also be the reason why the company's integrated report has chosen long-term investors as its target, given the proximity of the IR department to investors. Nevertheless, as explained by IR-p1, it is also recognised as a very important tool for other stakeholders as well as for employees to know about the company.

Pharmacy's identification and understanding of the target audience for reporting is very close to what is defined in the Framework, which specifies that integrated reporting is primarily for the providers of financial capital. Nonetheless, the Framework also emphasises that "an integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers" (IIRC, 2013, p. 7).

This has been controversial, especially at the beginning of the release of the Framework. Some researchers have argued that the emphasis on financial capital providers deviates from the original intent of integrated reporting and from the practice at the outset of integrated reporting, with limited impact on sustainability (Cheng et al., 2014; Flower, 2015; Dumay et al., 2017). Some studies have also pointed to the need to change the mind-set of investors for the long-term value creation of companies (Humphrey et al., 2017). Thus, Pharmacy's emphasis on long-term investors is actually grounded in the presence of investors who have changed their mind-set. As a result, the integrated report was made to explain how the company creates value for long-term investors.

6.4.2 Implementation of integrated reporting practices

However, the fact that Pharmacy decided who to report to at the outset of the introduction of the integrated reporting did not mean that Pharmacy had really found its "colours". Pharmacy has endeavoured to apply the Framework to prepare for their reports. As shown in its integrated report, the value created by corporate activities is accumulated as "capital" and is increased, decreased, and converted through business models. They have defined the six capitals in a qualitative way and linked different contents to the specific content. From 2019, they added KPIs to certain capitals (e.g. CO₂ emission to illustrate natural capitals). In accordance with the Framework, the process of investing capital in business activities, creating added value, and increasing capital beyond the input is regarded as a "value creation process". According to Pharmacy's integrated report, in view of capital efficiency (ROE and equity spread) and sustainability (importance of non-financial capital), Pharmacy has proposed a model for the value link between financial and non-financial capital even before the Framework was published, and has sought to improve corporate value by pursuing that link. Therefore, to demonstrate the link between financial and non-financial performance, Pharmacy developed its own Price Book-Value Ratio (PBR) model and its connection with the IIRC business model, which has been mainly led by its CFO.

On the other hand, the process of the value creation, such as how value is created through business activities, is based on the four perspectives of the Balanced Scorecard and is ultimately understood in a way that focuses on the financial perspective. This is in line with Pharmacy's corporate philosophy, which states that the sole purpose of business activities is to create social

value by increasing customer satisfaction, which in turn creates economic value in the form of sales and profits.

Table 6.3 Guidelines Noted in Each Report at Pharmacy

Year	Referred guideline(s)
2015-	IIRC Framework, GRI Guideline ⁵¹

IR-p1 mentioned that it took them two to three years to be able to develop Pharmacy’s own colours. They thought, however, that if they had gone to the trouble of creating it, it would be better to listen to the opinions of readers, especially investors, so they started holding opinion-exchange meetings. They initiated a seminar to exchange opinions with stakeholders regarding the integrated report and ESG issues every year since 2016. To explain the strategy of Pharmacy, an information meeting is held once a year, in addition to the financial results briefing. After the publication of the integrated report, an investor dialogue meeting on ESG issues, led by the CFO, is held for analysts, institutional investors and the media who are interested in ESG. In addition, from time to time, they hold briefings dedicated to the topic of research and development, in which the leader in charge of research and development explains the current status, results and strategy of research and development, and answers questions.

Hearing various opinions there, a number of different ideas began to grow in their minds and they recognised that “surely things had to be done differently” (IR-p1). According to IR-p1, from that point on, they have started to work diligently on the integrated reporting, and it is recognised that the quality of the content had changed a lot since around 2017. The feedback they received from the investor dialogue meetings was recognised as very important. According to IR-p1, the integrated thinking advocated by IIRC, namely the integration of finance and sustainability, its importance can be understood as a concept, but it is difficult to put into practice. In the first two years after the integrated report was launched, in line with the CFO’s thinking, they compiled the contents based on the six capitals and following the value creation model, but were told that it was still difficult to understand what they were talking about. This is also consistent with the findings⁵² from the survey conducted by KPMG Japan, which illustrated that even if the elements required by the Framework were covered, integrated thinking is not necessarily clearly understood (KPMG, 2018). Based on the opinions of investors, they decided to simply present Pharmacy’s strengths and introduce the various strengths in the form of non-financial capital, and in doing so, the contents of the report became much more integrated.

I think we are finally starting to get people to understand our strengths by explaining our corporate culture and why we have developed these strengths in as simple a way as possible. However, we are still groping around, and I think that all companies are struggling with the same issues. I don’t think the IIRC model can ever explain integrated thinking.

⁵¹ It is stated that this report contains information on standard disclosure items according to the GRI Sustainability Reporting Guidelines, but it was not stated which version of the guidelines was being followed. The reference to different guidelines/frameworks was not included in the editorial notes since IR2016.

⁵² This year’s survey placed one of its emphases on integrated thinking and investigated whether the seven elements that KPMG deems as integrated thinking were mentioned in the integrated report.

--IR-p1

In addition, the previous reports were made in a disjointed way. Before the introduction of the integrated report, the annual report was prepared by the investor relations department and the environmental and social report was prepared by the PR department. The annual report was aimed at investors, while the environmental and social report was aimed at the media and various stakeholders related to CSR issues. However, there was a lot of overlap, so they thought it would be better to combine them to reduce unnecessary duplication, which was one of the main reasons for creating the integrated report. The environmental and social report of that time is quite different from the current environmental report, which is just a collection of data. The pre-2014 Environmental and Social Report was much more comprehensive in its content, and that part of the report has been retained in the current integrated report.

The most distinctive feature of its integrated report, as explained by IR manager (IR-p1), is “hand-writing”:

All the basic story drafting and writing is done in-house. (The vendor company only created the design and suggested ideas)

Two core members of the office are involved in almost all coordination (including attending meetings and coordinating drafts)

-- Material for a public talk by IR-p1 (2019)

IR department would work with PR department to coordinate with various departments, including CEO, secretariat, production units, board secretariat, marketing department, financial department, strategy department, HR and CSR department etc. The editorial company is only responsible for the design of the reports rather than providing content. As explained, “hand-writing” by the company instead of relying on editorial company is also one way to develop integrated thinking:

I think this is where the integrated thinking comes in. However, in the past, in 2015 and 2016, the coordinating department was not that involved, we just received a draft and made some minor changes. Investors would know that, after all. They said that the report didn’t retain its “soul”, it didn’t contain any feeling, and it wasn’t interesting, so we changed it.

--IR-p1

In doing so, Pharmacy has started creating the whole story, with the coordinating department committed to putting together the entire integrated report with a strong focus on strengths. IR-p1 experienced that in this way, investors began to comment that they were now able to understand the content very well. In addition, it was decided to state the weaknesses as well, because it is not good if it is only about strengths, and in doing so, the content became more understandable.

However, the views of long-term investors may be considered a double-edged sword. On the one hand, the opinion of long-term investors can help the company to improve its integrated report. On the other hand, even if the integrated report is improved in accordance with the investors’ comments, it seems that the investors will not be satisfied if the report does not contain anything new in the following year.

In terms of the internal opinions of the integrated report, until 2018, they used to ask employees to read the booklet in PDF format and to give their opinions on it, but from 2019 they started to distribute the booklet itself although there were some critical opinions. They are also still in the process of developing policies to make employees raise their awareness of the company by understanding the integrated report.

While acknowledging the importance of integrated thinking, they argued that it was meaningless unless long-term investors understood it. The practical understanding followed a general understanding of disclosure that information should improve investors' understanding. As a result, they turned to emphasise the strength of the company to connect the story, which was also an advice given by investors. Similarly in Machine, the performance of practices and practical understanding followed the general understanding towards the role of information disclosure. It is worth noting that, as Schatzki pointed out that changes in organising elements could possibly “involve borrowing elements of other practices or creating analogues to them” (Schatzki, 2002, p.241).

6.4.3 Summary

In summary, in the case of Pharmacy, integrated reporting is recognised as a tool to communicate its value creation story by focusing on strengths, which is in line with the requirement of the “readers”, i.e., long-term investors. The practice during the preparation of integrated reports consisted of following *rules* set for specific content in previous reports. For the Framework and the Guidance, it seems to abide by restrictions explicitly established, such as the combination of financial and non-financial information, the adoption of the value creation model etc. However, following the Framework did not seem to help improve the understanding of the readers, therefore, the practice reflected not only a *practical understanding* limited to what explicitly indicated in the *rules*, but also a *general understanding* of the need to reflect the requirement of stakeholders. Accordingly, the *teleoaffective structure* aimed for communicating its value creation story to long-term institutional investors seems to maintain in a consistent way. Integrated reporting is not expected as a tool to drive organisational changes; rather, it is a platform to engage with its stakeholders. Nevertheless, the company is able to receive opinions from various stakeholders to recognise its deficiencies in the story, which might bring about changes in organisational activities.

6.5 House: a communication tool to drive internal changes

6.5.1 Development of integrated reporting practices

House was founded in 1955, with its first product as pipe house⁵³ and prefabricated housing later on, aiming for the “industrialisation of construction”. Since then, it has expanded across a wide range of construction-related businesses by providing single-family houses, rental housing, condominiums, commercial facilities, and general business-use buildings. According to the company's statistics, House has achieved steady growth in its sales and profits and has supplied more than 1.6 million residences, over 39,000 commercial facilities, and 6,000-plus medical and

⁵³ According to the website of House, pipe houses are standardised temporary buildings with a steel pipe structure, which were developed after World War II when many houses were destroyed by typhoons and were inspired by rice and bamboo that could not be broken by strong winds.

nursing care facilities across the world.

As shown in Fig. 6.4, different from Machine and Device, House adopted integrated reporting practice *after* the release of the Framework in 2016. The CSR department initially proposed the adoption of the integrated report in House, as they “captured the movement” that investors would increasingly pay attention to the sustainability performance of the company instead of merely focusing on financial performance such as sales and profits:

The initiator was the CSR side. I explained the ESG issues to the IR Office, Accounting Department, Corporate Planning Department, General Affairs Department, Environment Department and other ESG-related departments in the company to see how they felt. Five years ago at the beginning [upon the adoption], many of them were sceptical. This was the case even among board members and general managers, wondering if investors would really be so, [concerned] not just about sales and profits. Well, it’s not surprising that at that stage the institutional investors were also in a state of skepticism, or at least in a state of exploration.

-- CSR manager (CSR-h)

Year	2000	-----	2005	-----	2016	-----	→2021
Corporate reports	Environment Report		CSR Report/Sustainability Report		Integrated Report		
	Annual Report						

Figure 6.4 Corporate Reporting Timelines at House

It is worth noting that House is the only case company that started the integrated journey with the aim of integrated thinking:

The main objective of the cross-functional project we launched in the first place was to introduce and spread ‘integrated thinking’. As one of the missions of the project, we made the integrated report as a start and positioned it as a kick-start to promote discussions on integrated thinking, while also asking institutional investors for their opinions.

-- CSR-h

Unlike most other companies, where to produce an integrated report is a task assigned by the top management, the CSR manager in House, as he explained, launched the project to facilitate integrated thinking at the top management level; the integrated report is just a product of the process. CSR is not a job for one specialised department; rather, as he argued, it should be regarded as a management issue for the whole company. They defined integrated thinking as below:

Exploring the relationship between business activities and invisible assets (intangible assets, non-financial information, ESG) and how this links to value creation over time.

Integrated thinking requires to think, in order to create value

What long-term vision and medium-term objectives;

What markets with what challenges;

What kind of business model and track record; and

What kind of story (strategy) to tell

--Material for a public talk by IR-h (2018)

Nonetheless, the IR manager also mentioned that top managers should have had integrated thinking as they need to consider everything about value creation, not limited to financial performance. Meanwhile, the corporate philosophy required the management conduct business in a sustainable way. This can be demonstrated by the fact that the CEO has always said that the DNA of the founder must be passed on. The spirit of the founder has been emphasised to a great extent in both the sustainability and integrated reports as “Don’t do things because they will make a profit, but because they will be of service to society.” Moreover, the corporate reporting provides a tangible platform to show how these work together, as she noted:

I don’t know if the word ‘integration’ is the right word, but I’m sure that in the minds of the managers, they have a comprehensive idea of everything, but since it’s in their minds, it’s not in a tangible form, but when it’s organised and reported, it becomes an integrated report. I’m sure you’ll agree. Naturally, managers think not only about business, but also about human resources and society, so I think that is how integrated thinking is functioning. I think the integrated report is a way of bringing this into form.

--IR-h

The project involves members from different departments, including accounting, investor relations, HR, strategy planning, CSR and advertising department. And the CSR department acts as a cross-functional force in the project. In this way, a cross-functional Integrated Thinking Project (ITP) team has been formed and has started to make improvements with a view to strengthening the PDCA cycle for sustainability management, with a focus on overall optimisation. With these efforts, they claimed, the outcomes of working on integrated reporting included:

1. Visualisation of the value creation story

Clarification of the process of identifying management foundations that are essential for the Group’s value creation and contributing (providing value) to the world.

2. Integration of organisations and information that transcends barriers

Through repeated cross-department discussions, mutual understanding among project members and, ultimately, between departments was deepened.

--Material for a public talk by IR-h (2018)

As it was the CSR department that initiated the project, it followed a middle-up approach instead of top-down. They believed that this was the reason why it took longer time for them to achieve their goals.

It started as a chat. We started by talking about the future of the company, and gradually her [IR manager] boss, the investor relations manager, and the CFO became involved, and here we are now. This process and flow may be different from other companies.

--CSR-h

To be specific, the ultimate goal for the Integrated Thinking Project is to strategize based on integrated thinking, i.e., to embed sustainability into corporate strategies. This seems to be slightly different from the integrated reporting process in terms of producing a report; however, as

explained by CSR-h, the initial motivation was actually to drive this organisational change to involve top management in such discussion:

So that's slightly different from the production of this integrated report, or rather, that's the main project. Finally, the production of the integrated report is not the main issue, but the focus is on what it should be, and the management began to understand it.

--CSR-h

Although its latest mid-term management plan has incorporated social responsibility and action into the plan, it was recognised as only "half a step" towards integrated thinking. As the CSR manager explained, only some of the top management had been involved in the process and not all of them recognises the importance of considering ESG issues in strategizing. On their journey towards integrated thinking, they still have a long way to go:

I think that both the management and institutional investors need to be aware that CSR is not just a job for one department, but a management issue. That's why we named the project as Integrated Thinking Project rather than Integrated Reporting Project. But the fact of the matter is, it took a long time. It's been five years now and it's still incomplete, not perfect at all. [Nonetheless,] some of the managers have finally come to the point where they think that integrated thinking should be discussed a little more by the managers, the directors and so on.

-- CSR-h

6.5.2 Implementation of integrated reporting practices

Different from other companies, a sustainability report has been continuously published even after the adoption of the integrated report. As explained by CSR-h, they had a discussion on whether they should combine sustainability report and annual report into one report. The expected readers and roles of these two reports are different; the combination might be useful for institutional investors but would not satisfy ESG agencies. Different readers have different needs for the information and even for the same information, the way to present it may change depending on the reader. House regards the integrated report as a communication tool to dialogue with institutional investors.

There was some discussion about it, and there were some executives who said so, but I disagreed with them [...]. If you simply create something separately, and then attach them together for editing and printing, it's easy to do, but there's no point in attaching them together. One thing that was misunderstood was that five or six years ago, Japanese management and the people in charge of the departments were trying to reduce costs by making them one. It was my view that although cost reduction was necessary, the required reporting had to be continued with a clear meaning.

-- CSR manager (CSR-h)

Although House adopted the integrated reporting practice after the release of the Framework, it did not adopt the Framework at the beginning. As explained by the IR manager, the connection of the six capitals illustrated in the Framework to the value creation process, was not yet

understood internally, so they perceived that they had not “reached the point where they can say that they were fully compliant with the Framework”. They did not rely too heavily on reporting guidelines, questioned basic principles and considered how information could be used to improve the organisation (McNally and Maroun, 2018), which to some extent facilitated the potential for change. They also believed that to apply the framework is not the purpose of the reporting. Some terminologies were used to help investors understand but the full application of the framework was not fit for the company. Although this might be criticised as adopting “concepts that already meet their internal strategic needs” (Higgins et al., 2019), to use the framework as some “common language” is useful in communication with investors. This might be the reason why they later noted in their reports about the reference of the Framework and the Guidance from the reports issued in 2020 as summarised in Table 6.4.

[...] In his mind (the top manager), there may be a sense of integration that he probably applies to management decisions, but at least the employees don’t understand the whole picture, and we were quite conscious of this sense of integration, which could be the prototype of integrated thinking, when preparing the first integrated report. We made that a top priority and valued it so much that we didn’t specifically consider the IIRC Framework.

-- IR-h

Table 6.4 Guidelines Noted in Each Report at House

Year	Referred guideline(s)
2016-2019	Not mentioned
2020-	IIRC Framework METI Guidance

The adoption of the integrated report was initially proposed by the CSR department, so the integrated thinking project and the preparation of the report were also led by the CSR department. As explained by IR-h, the previous annual report was led by the communication department. It was about 15 years ago that investors began to demand annual reports, and the Consolidated Business Management Department was the first department to produce them. It was a department closely related to the accounting department, and the person in charge of the report was transferred to the communication department, and they took over the production of annual reports. At that time, although annual reports were issued for investors, it was more like a company brochure, thus never used for IR purposes. Therefore, when they decided to adopt integrated reporting, IR also started to get involved and with several years’ work on integrated reporting and feedback from investors, the other department, especially the IR department came to recognise the importance of integrated report as a tool to communicate with institutional investors. This is why the IR department took up the baton and began to act as the leading department responsible for integrated reporting, as noted by the CSR manager:

Fundamentally, I believe that this is a communication tool for dialogue between institutional investors and companies, so it’s a bit strange for me to be handling it all the time. I thought that she, the IR, should take the initiative, so I gradually shifted to her, and now she is the leader and in charge.

--CSR-h

Currently, after the release of the report, it is used to communicate with investors and to identify areas that would otherwise not be clear. Different from most cases, it is interesting to note that the member of ITP would occasionally attend the meeting with institutional investors and share their opinions on these feedback. In addition, based on new information about the current trends in the world, they would discuss internally what needs to be included in order to produce the next report. In addition, the preparation of the content was also informed by changes in other organisational activities. For instance, it focused on the section of corporate governance, which was related to the incidents of misconduct uncovered one after another at Herathouse during 2019-2020, all at a level that could not be overlooked, and that led to the company's management system being called into question. After the discussion, they would produce the manuscript, arrange interviews and other things to complete the final booklet, making it work as a cycle. The ITP members discussed the content, but involved departments would change due to different focus in each year:

This year we have IR, Sustainability Planning Department, Environmental Department, General Affairs, Corporate Planning and Accounting. Last year, we had the Human Resources Department and others join us, but this year we decided to focus less on human resources and more on governance, so we had some members leave.

--IR-h

The accounting department was brought in from 2019, because they believed that it was the job of the accounting department to produce the figures that can be seen, and it was difficult to show the figures without the power of the accounting department to quantify and analyse the risks and how they were linked to the value of the company.

6.5.3 Summary

In summary, in the case of House, integrated reporting is recognised as a communication tool to drive internal changes, particularly, the mind-set of top management regarding the recognition of ESG initiatives. The practice during the preparation of integrated reports consisted of following *rules* set for specific content in previous reports. For the Framework and Guidance, practitioners perceived their application as meaningless. The *practical understanding* reflects what is explicitly indicated in the *rules*, but also a *general understanding* of integrated thinking they have sought from the very beginning. Integrated reporting is regarded as a tool to drive organisational changes; however, the *teleoaffective structure* aimed for communicating its value creation story seems to maintain in a consistent way (Schatzki, 2002).

6.6 Cross-case synthesis

This section provides a comparative synthesis of the four cases, constructs and summarises findings, and sets the stage for the discussion in the next chapter. Prior research on integrated reporting has elucidated the practice approach's potential in identifying and capturing how organising elements mould integrated reporting practices (Lodhia, 2015; Al-Htaybat and von Alberti-Alhtaybat, 2018), only relies on single case studies to investigate how the specific organisation developed integrated reporting practices over time. To extend the research based on a longitudinal case study, this chapter offers a comparative perspective to the current literature by

elucidating how “sameness and similarities” in integrated reporting practices can be explained by a practice lens approach (Schatzki, 2001b, p. 51).

6.6.1 Motivations behind the adoption

In explaining the initial motivation of integrated reporting adoption, each company mentioned a general “trend” regarding information disclosure. In Japan, this trend can be seen in the increasing number of companies issuing integrated reports, various awards evaluating integrated reports (e.g. Nikkei Annual Report Award, WICI Japan Integrated Report Award), the enhancing demand of ESG-related information disclosure by institutional investors (GPIF), as well as the efforts made by consultants (e.g. KPMG Japan). However, the case companies only briefly mentioned this external trend, focusing more on describing the functions of integrated reporting to rationalise its adoption.

This is probably because “do as what others do” does not seem to be a creditable or rationalised organisational decision. Or, the preference could be explained by the transition from sociological rationales to economic ones after the adoption of the innovation (integrated reporting), as explained by Roberston and Samy (2019), when they investigated the adoption and adaptation of early adopters in the UK, and found that in the decision-making of initiation of integrated reporting, the sociological rationale in terms of peer-pressure and reporting movement took the lead but in the implementation process regarding how integrated reporting was carried out depended on the economic rationale. In any case, they have found their own rationalised interpretations since the introduction of integrated reporting and have developed the practice on this basis.

Previous studies (Stubbs and Higgins, 2014; Guthrie et al., 2017) have defined three distinct approaches to integrated reporting, namely push strategy (to drive internal changes), pull strategy (to report as a result of the integrated business) and the combination of them. These approaches are closely linked to the perceived functions of integrated reporting. Similarly in previous studies, both push and pull approaches were identified in the case companies.

Only one organisation (House), explicitly utilised integrated reporting to drive internal changes (push strategy) by formulating an integrated thinking project upon adoption. As with the organisations identified in Stubbs and Higgins (2014), this project was also initiated and driven by the sustainability team, who engaged practitioners from different departments in the organisation. To be specific, the expected changes they would like to make involved the shift in the mind-set of top managers towards sustainability-oriented management. Although they perceived that sustainability was embedded in their corporate philosophy and top manager should have already considered different issues surrounding value creation, the middle managers launched this project for the ultimate goal to incorporate sustainability into strategies, holding the view that top managers should get fully involved in this discussion instead of merely approving what was discussed among middle management. Meanwhile, they also recognised the integrated report as a good platform to make the value creation story in the mind of management “visible”. Therefore, both push strategy and pull strategy were used in implementing integrated reporting practices in House.

However, as both IR manager (IR-h) and CSR manager (CSR-h) noted, the push strategy they utilised followed a “middle-up” approach, thus the changes they had expected was incremental and needed more time and effort. Meanwhile, the creation of the integrated report seemed to be separated from the pursuit of the goal of integrated thinking, i.e., embedding sustainability into corporate strategy. Or, as CSR-h argued, the creation of integrated report was just one task of the project; the original purpose was to drive internal change and the integrated report should be and reflect the result of it.

On the other hand, in the other three organisations, the pull strategy of trying to communicate the holistic picture of the organisation became a dominant approach. They approached the integrated report “as a result of integrated business” (Stubbs and Higgins, 2014, p.1077), or to tell a better story of the value creation. This is also understandable as integrated reporting seems to be more recognised as a communication tool because the Framework states, “the primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time” (IIRC, 2013, p. 7). The integrated report, therefore, turns out to be a communication tool to present the result of the change to help readers understand the organisations.

Previous literature has shed light on the importance of top management (Knauer and Serafeim, 2014; Rossi and Luque-Vílchez, 2021; Williams and Lodhia, 2021). However, the “commitment” of top management does not necessarily mean the involvement of top management. Both in Device and Pharmacy, the role of the key person from top management were emphasised in the interview. It was the same in Machine when it tried to facilitate long-term value creation upon the change of management structure. Stubbs and Higgins (2014) also emphasised the importance of “enough powerful people” in driving deep changes (p.1081). Nonetheless, although the involvement of top management is considered important, there are cases where the results produced are taken for approval without actually discussing them with top management. The involvement of top management is not in the preparation process of the integrated report; rather, it is more about reflecting the strategic decisions and the approach of top management to some important sustainability issues or how they perceive the relationship between sustainability-related activities and core business activities in the integrated report.

As suggested by Stubbs and Higgins (2014), it is questionable whether the push strategy is effective in bringing about changes. House (CSR-h) commented that this “middle-up” approach was unusual and the top-down approach was more likely the case in most companies. Larringar-Gonzales and Bebbington (2001) also highlighted the weaker force of internal pressure than that from external stakeholders and regulations, which as pointed out by Stubbs and Higgins (2014), was an absence of “uncontrollable jolt” (Laughlin, 1991, p.220). However, it is interesting to note that CSR-h mentioned that the project was started with other members “being sceptical”, but after starting integrated reporting, IR members found in their interactions with investors that more and more investors were indeed interested in discussing the ESG development of the company, which was why the responsibility for reporting gradually shifted from the CSR department to the IR department. And, CSR-h also pointed out that investors were asking companies to prove this fact rather than simply stating it, in terms of the integration of financial and non-financial information. Therefore, although might not be strong, the stakeholder pressure from investors through

integrated reporting indeed found its way to affect the organisations, which, however, depends on the shift of mind-set in investors (Humphrey et al., 2017).

Nonetheless, from the four cases, it still appears that as long as the creation of an external report is a job for a department, disclosure is inevitably central to the discussion, as integrated reporting is recognised as a tool for disclosure and an outcome of their work. Therefore, the teleoaffective structure of integrated reporting practices in these cases is more or less related to the external communication function of the corporate reporting, as the data showed that different from what was identified in the previous study which confirmed the natural acknowledgement of economic, social and environmental issues (Lodhia, 2015). Meanwhile, it is evident from these four cases that the commitment of key persons within the organisation was of considerable importance, and this does not necessarily refer to top management. However, if it is initiated by the will or decision of top management, the integrated reporting practices develop a certain stability over time.

6.6.2 Sameness and similarities of activities within the integrated reporting process

In general, as in the case of Energy-tech in the previous chapter, the overall process of preparing the integrated report is largely the same in these cases. Each company will seek to improve the report or evaluate whether it meets the reporting objectives (i.e. communicating to the reporting audience) by collecting feedback after the release of the new report. This is followed by a kick-off meeting to set the direction and objectives for the next report. The lead department collects information from the relevant departments and, to varying degrees, works with the editorial company to complete the draft and design of the report. It is then sent to senior management for approval. However, throughout the process, specific objectives are set and the practical understanding of how to achieve them differs.

Application of framework

Due to its voluntary nature of integrated reporting, organisations do not have to follow a predetermined framework or guideline to demonstrate that they have adopted it. Lodhia (2015) identified *rules* as those “involve the regulations or guidelines governing business practices, and those specifying how financial, social and environmental issues need to be disclosed” (p.587). Since the content reported was the result of organisational activities, what was included in the reports should definitely follow all the rules for its operation. Both the study and the transition in the case of Lodhia (2015) were relatively early as the official release of the Framework was late in 2013, thus it is no wonder that not much attention was paid to the application of it. However, after several years’ implementation, whether and how organisations actually implemented integrated reporting based on the principle-based framework is worth investigating.

In practice, the distinction between rules and principles is not so clear, as principles may become more rule-like by the addition of best-practice and requirements. As suggested by del Baldo (2017), companies have been seen to create references in best practice or competitor reports, rather than based on a careful understanding of how to integrate and manage different types of capital as required by the framework. It is up to companies to decide how specifically they want to implement integrated reporting.

Concerning how organisations utilised different guidelines/framework to work on the report,

the financial information included in the reports follows the GAAP depending on their market focus. For example, due to its dominant American market, Machine continues to follow US GAAP as before. As for non-financial information, due to its voluntary nature, each company is not required to comply with one specific rule. Nonetheless, these information tends to maintain as the repetition or continuity of previous reports.

The case organisations share a common understanding that integrated reporting is not merely meant to combine the financial report and the non-financial report into “one report”. However, in terms of the connection between financial and non-financial information, which differentiating integrated reporting from the previous reporting, the understanding varies in each company. This might be attributed to the principle-based nature of the Framework, as no explicit rules can be addressed from a principle-based framework.

Two companies (Machine and Device) adopted integrated reporting before the release of the Framework and the other two are the later adopters. Opinions on the intention to apply the framework are divided among companies. Those that did not apply the framework argue that it was difficult to apply perfectly to their business (House) and that their motivation to apply it was not sufficient (Machine), which was in line with the findings of UK early adopter organisations as well (Robertson and Samy, 2019). In addition, even among those companies that have already applied the framework, the application of the framework did not necessarily lead to a “better report” (Pharmacy).

The value creation model and classification of six capital were used in Device, House and Pharmacy as previously mention in each case. However, such references were more similar to what was found in Higgins et al. (2019), as these cases might simply have chosen to present concepts that fit the current situation of the company or the needs of the company. Pharmacy tried to apply the value creation model in the first place but found that even though they had carefully framed the model, it did not seem to help the understanding of investors. That was why they came to emphasise the strength of the company to help connect the story, which turned out to work well. Similarly, it took some time for Device to finalise the model and identify six capitals for the organisation. House, however, did not perceive the application of the Framework as necessary; rather, they considered it a hindrance to fully applying integrated thinking. However, they found that in investor relations practices, it was better to use this recognised terminology to improve understanding when communicating with different investors. Compared to making efforts to comply with the Framework, how the content was communicated to the readers seems to be more important. In other words, the application of the framework is not necessarily thought to lead to high quality integrated reporting, which is consistent with what was claimed in the previous studies (e.g., Caruana and Grech, 2019).

Ownership of integrated reporting

It is worth noting that not all of the organisations followed the path of integrating financial and non-financial reports into “one report” (see details in Table 6.5). While House issued the integrated report as well as standalone sustainability reports, Pharmacy also disclosed separate sustainability information in a data book for evaluation by ESG rating agencies. House emphasised that the integrated report and the sustainability report were made for different readers

and to combine the financial report and the sustainability report in the name of cost reduction did not make sense. Pharmacy also mentioned its “impure motivation” of less effort in making *one report* than separate reports; however, since they “went to the trouble” of creating an integrated report, they thought it would be better to listen to the opinions of their readers, mainly investors, so they started holding opinion exchange meetings. Hearing the various opinions there, they decided that they needed to enhance the engagement. IR-p1 believed that the quality of the report changed substantially from 2017 onwards. The current separate ESG booklet is just a data book made by the General Affairs, Environment and Safety Department, which is also different from the previous department for the CSR report.

The department with communication function is the current coordinating division for integrated reporting in most cases, which is responsible for decisions on editorial policy and compositional content. In the four cases, the later adopters tended to focus on institutional investors as the addressee, thus the investor relations department is responsible for the integrated reporting process and the report is used as a tool to communicate with investors. This might be relevant to the increasingly recognised importance of the integrated report in investor relations practices. As confirmed by House, this was also the reason why the ownership was transferred from the CSR department to the IR department.

Similar to House, Device also experienced the transition of ownership of the integrated reporting. However, as BC-d commented, although the ownership was transited as they perceived that the function of the integrated reporting was closely related to the role of the communication department rather than the sustainability or the IR department, the practitioners involved in the process, i.e., the human actor embodying the knowledge and understanding of the practice did not change. This happened in House too when IR-h mentioned that the ownership of its annual report was also changed due to the transfer of the person in charge. It seems that ownership was changed due to the change of general understanding towards the role of integrated reporting as a communication tool.

Table 6.5 Ownership/Addressee of Integrated Reporting and Other Reports

Company	Coordinating department	Addressee	Standalone sustainability report
Machine	CSR planning ^{54*}	Multiple stakeholders	None
Device	IR⇒CSR⇒BC	Institutional investors⇒ Multiple stakeholders	None
Pharmacy	IR	Long-term institutional investors	Data book
House	CSR⇒IR	Institutional investors	Yes

Cross-functional team

The existence of a cross-functional team (Stubbs and Higgins, 2014; Feng et al., 2017; Guthrie et al. 2017) was emphasised as an important mechanism to implement integrated reporting and

⁵⁴ There is an independent environmental management department, and this CSR planning department has more of a communication role.

facilitate integrated thinking. All of the organisations implement integrated reporting practices by involving different departments.

In terms of the departments involved in the integrated reporting process, the involvement of accounting and strategy departments was minimal. Integrated reporting is positioned as a tool for communicating a company's value creation story, and previous research has highlighted the important role of strategy in shaping it (Mio et al., 2016). In addition, the integration of financial and non-financial information was also considered important. However, even when strategy and accounting departments were included, the function of these departments was to provide relevant information and they were not involved in preparing the document. This may be related to the ownership of the integrated report, but simply providing relevant information did not lead to organisational change or an understanding of the role of different departmental relationships in the corporate value creation process.

In line with Stubbs and Higgins (2014), no radical or transformative change has been found in the case companies. Rather, incremental changes to process and structures that previously supported the annual or sustainability reports were identified, which includes a cross-functional team to work together to produce an integrated report. Involving many departments, however, may not necessarily result in a better report, let alone organisational changes such as integrated thinking. If the purpose and manner of involving the departments remains the same, it is difficult to bring about any difference from past practice. If the editorial system is designed to create an integrated report, rather than a place to understand each other or give opinions, it is unlikely to have any impact on the management of the company, and will ultimately become a mechanism to justify providing information in order to obtain cooperation from other departments.

In most organisations, the relationship between the coordinating departments and the cooperating departments were described by interviewees, the managers in charge of the integrated reporting process in each case, enhancing mutual understanding throughout the preparation of the report. Appreciating the "help" of other departments, Machine (CSR-m1/m2) also emphasised that there were only two of them responsible for the overall design and coordination, thus they had "no room" for improvement with limited manpower. Therefore, they needed to utilise the external evaluations (e.g. ESG ratings, CSR rankings) to legitimise what they were doing. This is consistent with findings from previous literature that the hurdles might be the lack of knowledge and sources rather than insufficient motivations (Adams and McNicholas, 2007), but at the same time the lack of knowledge might also contribute to the insufficient motivation.

Stakeholder engagement

Addressee (the perceived audience of the reports) are very important (see details in Table 7.5). Although some of the companies claimed that they did not only focus on investors, their opinions were important in improving the reports in most cases. This is probably because prior to the adoption of integrated reporting, companies were already conducting regular shareholder/investor relations activities, which provided companies with the opportunity to communicate directly with investors. Investors are easily identifiable stakeholders, and there exists established ways of communicating with them. However, for other stakeholders such as suppliers, customers, governments, employees, local communities and the alike, it first requires effort to determine who

the relevant stakeholders are, and then it is difficult to make it routine to maintain this communication.

Nonetheless, as pointed out by Humphrey et al. (2017), whether integrated reporting can make a difference and lead to long-term value creation depends on whether substantial change in the mind-set of investors could be made. From the interviews, it could be seen that the expectations of investors were not the same as before, as they required the company to improve their reports to explain the connection between financial and non-financial information instead of just presenting them (House, Pharmacy). However, the requirement was not always clear enough to address, sometimes investors simply need the novelty of the content (Pharmacy).

No company has a specific evaluation method or criteria in place, but they were making improvements based on investor and stakeholder feedback. Although the feedback given by investors or stakeholders were important, there was considerable individual variation in the criteria among investors and stakeholders. A uniform set of criteria was not always better, but rather a diversity of views could be preferable under a framework as a principle-based model. However, the release of “new material” is not what the integrated reporting is about.

The role of editorial company

All companies mentioned the role of editorial companies to some extent. The importance of external partnership including consultants (as well as chartered accounts and business associations) has been emphasised previously (del Baldo, 2017). However, it is worth noting that the editorial companies did not necessarily engage intensively as a consultant in each case. Depending on the company, the roles of the editorial company may include but not limit to: 1) suggesting the design and layout of the report; 2) providing information on policies and developments in other companies; 3) suggesting content for the integrated report from an external perspective (e.g. Machine); 4) providing feedback on the integrated report (e.g. Device); and even 5) drafting the content for the report (e.g. Device and Energy-tech mentioned in the previous chapter).

As the editorial company, the fundamental role played in each case was relevant to the 1) design and layout of the report. It is also common in each case that the editorial company would 2) provide information on current trends in corporate disclosure and best practices. This would legitimate the organisation to revisit current practices. The editorial company will also 3) provide them with suggestions on how to improve the report. For example, Machine decided to disclose a full version online and a digest version at the suggestion of the editorial company. It is also comment that companies would 4) receive feedback from their editorial companies. Device was the only organisation that sought feedback from other external parties though the editorial company but they also held the view that the internal actors should be the one that understood most of the organisation. Similarly believing that insiders are the people who know, or should know, the most about the business, Device chose to bring in editorial companies to 5) create content because insiders might subconsciously use some of the common internal language. In contrast, Pharmacy emphasised that one of its integrated reporting’s distinguishing features is “hand-made”(IR-p1), by which they emphasise that the editorial company was only responsible for the design and proposal of ideas; the story drafting and writing would be completed in-house.

6.7 Summary

Drawn on the evidence gained from these cases, the duration of adoption did not seem to have a great influence on the development of integrated reporting practices. The practices of different organisations witnessed both sameness and similarities, arising from respective site. The development of practices reflected the evolution of practical understanding, both in the form of continuity and changes. Consistent with previous literature (e.g. Stubbs and Higgins, 2014), the adoption and adaptation of integrated reporting practices did not bring evolutionary changes in the reporting process.

Generally, from the four cases, it is found that the doings and sayings that practitioners performed in carrying on integrated reporting practices continually evolve due to reorganisations of rules, understandings and teleoaffective structures. Concerning instructions, requirements, guidelines, and rules of thumb about the practice (Schatzki, 1996), the empirical analysis shows that the Framework has not yet gained its legitimacy, thus not functioning as the *rules* for integrated reporting practices due to its voluntary and principle-based nature. Even if they claimed that they referred to the Framework, they tend to simply have chosen to present concepts that fit the current situation of the company or the needs of the company. Thus, practical understanding of integrated reporting practices may follow rules defined explicitly in the current guidelines and framework, and evolves with the general understanding, which differs and is also situated in each site. Meanwhile, the ends by contrast evolve little and teleoaffective structure of integrated reporting practices forms and is formed by the general understanding towards the role of information disclosure as communication. Furthermore, the teleoaffective structure was constrained by the material arrangement of a report as both the ends and constituents of practices.

It is also found that the integrated reporting practices and its organising elements were also influenced by other organisational activities. On the other hand, the integrated reporting process, which involves different actors in different departments would be likely to affect other organisational activities as well. Due to limit of access and time to conduct longitudinal studies in different sites, the comparative case study focused on understanding of the managers in charge of integrated reporting process. As stated above, a “successful company” might entail good management with better resource and experience, and even enhanced integrated thinking. Moving beyond the multiple case studies, the following chapter extends the findings by exploring the development of integrated reporting practices in real-life settings.

Chapter 7 Longitudinal Case Study

7.1 Introduction

This chapter presents the findings of an analysis based on a longitudinal case study (Energy-tech) to examine how integrated reporting practices have evolved over time and the consequentiality of the development of practices in this dynamic empirical context. As pointed out by Schatzki (2005), to understand the organisation of the practices, it is pivotal to identify “the actions that compose it”, “the practice-arrangement bundle(s) of which these actions are apart” and “other nets of practice-arrangement bundles to which the net composing the organization is closely tied” (Schatzki, 2005, p.476). Moreover, in attempting to understand the practice, at its core is the recognition of “the structures of intentionality, as they arise from the understandings, rules and teleoaffective structures of practice” (Ahrens and Chapman, 2007, p.21). Therefore, in seeking to understand how integrated reporting developed through diverse activities with material arrangements in Energy-tech, the findings focus on the intentions, understandings and activities of practitioners, and the dynamic movement of the contexts characterised by diverse ideas about the organisation’s objectives and the ways of attaining them.

In line with Lodhia (2015), who employed Schatzki’s practice approach to investigate the transition of integrated reporting in an Australian company, the description of the longitudinal case starts by briefly outlining the environmental, social and economic context (site) for the case. It then shows how Energy-tech developed its understandings of integrated reporting from its adoption to the adaptation to the organisational settings. The chapter continues to elaborate different activities observed and employs Schatzki’s framework to take account of and draw relationships with the empirical material gathered through observation, relevant field notes, interview account provided by practitioners, minutes of internal meetings, and public documents. The findings include the ongoing unfolding of practices in terms of the preparation of reports and a typical episode of materiality analysis (hereafter, MA). Based on the findings, a brief analysis and summary section sets out to highlight how integrated reporting unfolds as practices by examining how the organising principles observed, i.e. practical and general understandings, rules and the teleoaffective structure, as well as the material arrangements form the practices (Schatzki, 1996, 2002).

7.2 Energy-tech: on a journey to define “who we are”

7.2.1 Environment, social and economic context (site)

Energy-tech began as a division of an electrical manufacturer (Electric-N) before being spun off in the early 1960s and became a stand-alone company. It went public in the late 1970s after becoming a subsidiary of a major electrical manufacturer (Electric-H, also the former parent company of Electric-N). According to the respondents (CSR-e1, see Appendix III for detailed coding), Energy-tech experienced its golden age in the ‘80s and ‘90s. As electronic technology has evolved and many of the products that were popular at the time have faced obsolescence, they have had to adapt to changing times and now offer a more diverse range of products. As commented by CSR-e1, whereas in the golden age they “hardly had to worry about” selling their products, now they have to “find a way to develop their brand” especially since they broke away from Electric-H in 2017.

The company delisted following the bankruptcy of Lehman Brothers. It was relisted in 2014 and transitioned to a holding company structure separate from Electric-H in 2017, with the purpose of acquiring independence and expanding its businesses while improving management efficiency through mergers and acquisitions (M&A). However, the company suffered losses in the financial year ending March 2020, owing in part to the Covid-19 epidemic, which disrupted production and sales in international markets (Integrated Report 2020, hereafter IR2020). This is the company's first loss since it broke away from Electric-H to operate on its own. The company re-examined its organisational structures in order to avoid the operational catastrophe created by the loss. With the aim of clarifying business responsibilities and growth strategies, the business segments have been changed to four segments: energy, functional materials and components, optics and systems, and life solutions.

According to its latest integrated report (Integrated Report 2021, hereafter, IR2021), the company turned around its loss-making status in FY2020 after a year of structural adjustments, achieving a turnover of 139 billion yen and an operating profit of 3.8 billion yen. Energy-tech dissolved the holding company structure in 2021, "as the establishment of synergies within the group has reached an important stage" (IR2021, p.14). With the acceleration of technical breakthroughs and increased rivalry, they recognised that the company is entering an important phase of having to think about the future prospects of the company's operations (CSR-e1/e4/BC-e1).

In relation to its environmental and social context, respondents did not bring up any environmental or social challenges that were unique to the company during interviews or observations. An analysis of its past reports suggests that it addresses sustainability issues based on various stakeholders, including the environment, customers, suppliers, shareholders/investors, employees and local communities. Information on each stakeholder is generally equally disclosed in terms of its amount and the materiality of the issues was not determined until 2020. To date there have been no major scandals in ESG that have affected the reputation of the company or its operations. The MSCI ESG Research⁵⁵ analysis points out that Energy-tech belongs to the Technology Hardware, Storage & Peripherals industry and is exposed to key ESG issues such as controversial sourcing, electronic waste, human capital development etc. The company is also making ongoing efforts to improve its ESG ratings in terms of information disclosure. Nevertheless, it is difficult to say that Energy-tech has fully embraced this assessment, which can be demonstrated by its MA results⁵⁶ that did not highlight these issues (IR2020).

The collection and integration of environmental and social information was carried out by the Facility Environment Department (FED) until 2020. The Environment and Sustainability Promotion Office (ESPO) was established in April 2020 under the direct control of the President

⁵⁵ MSCI is a financial services company and provides a wide range of services, including the calculation of stock indices and portfolio analysis. Within this, MSCI ESG Research provides in-depth research, ratings and analysis of the environmental, social and governance-related operations of thousands of companies worldwide.

⁵⁶ The material issues identified in 2020 included "Creating Innovation through Unique, Original Technologies", "Solving Social Issues through Growth Businesses", "Creating Human Resources and Organizations that Generate Value", "Maximization of Customer Value", "Creation of Economic Value through Environmental Activities", "Strengthen Business Portfolio Management" and "Strengthen Group Governance".

of the Board of Directors. The role of the new department was highlighted in its integrated report as follow:

The basic policy of the Environment and Sustainability Promotion Department, which was established in April 2020, is to act as a driving force to realise the mission. In implementing this policy, we will ensure that the two concepts of “thinking and evaluating our business activities in the medium to long term (and not falling prey to short-term profit-seeking)” and “creating social and environmental value and economic value at the same time” permeate the entire Group.

--IR2020, p.25

From FED to ESPO, there has been no significant expansion of the number of staff in the department (from three to five now), but its top leadership is held by a company director (CSR-e4) and the department is directly under the President. The top management’s engagement demonstrates the relevance and weight given to sustainability issues in corporate policies and approaches to some extent. Initiated by the ESPO, Energy-tech has established a Corporate Sustainability Vision, clearly stating that it aims to enhance long-term corporate value by emphasising relationships with a diverse range of stakeholders in 2020. The ESPO works in collaboration with working groups whose members include members from business divisions, group companies, corporate departments and the sustainability promotion committee for cross-company activities. Meetings are held regularly to share direction and promote sustainability measures.

In general, Energy-tech is a traditional Japanese manufacturing company that grew to prominence during the period of rapid economic growth in Japan. Although it has not always been smooth, the company has continued to change and adapt to the increasingly competitive market and industrial innovation that has followed. In terms of environmental and social issues, the company has cooperated with externally established rules without major controversy, demonstrating a certain skill and readiness to adapt to ESG demands.

7.2.2 The transition to integrated reporting

Compliance with externally established norms is recognised in its history of corporate reporting. Before the transition to integrated reporting, as seen in Fig. 7.1, Energy-tech’s voluntary corporate reports date back as far as the environment report issued in 1999. It then transited to CSR report in 2006, as an organisational response to external expectations regarding sustainability issues. In addition, as of 2000, the company has also been issuing Annual Reports. Temporally, the issuance of environmental and CSR reports was in line with the overall reporting trend in Japan as summarised in [Section 2.3.1](#). The history of its corporate reports shows that the company has experience with corporate reporting, which was also verified in subsequent interviews with different departments.

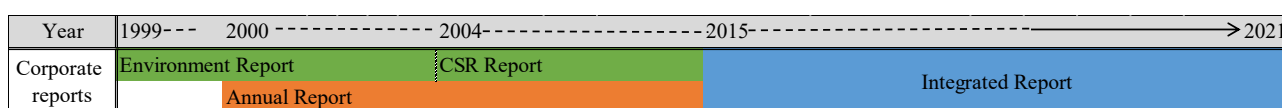


Figure 7.1 Corporate Reporting Timelines at Energy-tech

After having issued an Environment/CSR report and annual report separately for a long period,

Energy-tech decided to combine them into “one report” and issued its first integrated report in 2015. Despite the fact that integrated reporting is not mandated by law, Energy-tech decided to adopt integrated reporting almost immediately after the Framework was released. The aim of this was stated in the editorial note⁵⁷ of the first report (2015) as “report[ing] on the business performance and CSR activities and their results with the aim of conveying a picture of the company conducting business in harmony with society” (IR2015, p.40).

According to the CSR department⁵⁸ (CSR-e1/e2), the integrated report was introduced at the behest of the former Chairman. The company initially recognised the necessity for and advantages of adopting integrated reporting as a method to cut expenses by combining two reports into “one report” and, concurrently, to be able to keep up with the trend in the CSR community. This is consistent with previous literature (Adhariani and de Villiers, 2019; Fuhmann, 2020; Dime and de Villiers, 2021), which confirmed the motivations behind the decision to adopt can be diverse, underpinned by multiple theoretical foundations. The recognition of trends can be characterised as either imitation of others, or adhering to similar social norms, particularly in the early stage of the diffusion (Gunaratne and Senaratne, 2017; Adhariani and de Villiers, 2019; Robertson and Samy, 2019).

However, where Energy-tech differs from previous studies is that the expense of preparing reports was *not* identified as a barrier to companies adopting integrated reporting (Gerwanski, 2020). In Energy-tech, consideration of cost-saving instead became one of the motivations for the introduction of integrated reporting. This may be due to the lack of awareness of integrated reporting by the company initially, as integrated reporting is more than just combining financial and non-financial reports (IIRC, 2013). This “misconception” was also mentioned in the cases of House and Pharmacy in Chapter 6. The CSR manager (CSR-h1) of the House noted that in Japan, when integrated reporting became popular, many companies did start providing integrated reports in order to save the cost of producing the reports. Another company that mentioned cost was Machine. The previous manager (CSR-m1) mentioned the cost for change, but their discussion of cost was not focused on how costly it would be, but rather on the unpredictability of the outcome following the investment.

This is perhaps why Energy-tech’s practitioners refer to it as having an “impure” motive (CSR-e1). Contrary to earlier findings (Lodhia, 2015), no evidence was found to support the claim that the adoption of integrated reporting in this case was based on the development of integrated thinking. It did not, however, contest the existence of integrated thinking (Al-Htaybat and von Alberti-Alhtaybat, 2018). Nonetheless, it is undeniable that while this is not in line with the original intention of the integrated report (IIRC, 2013), at a factual level, the choice to issue an integrated report eliminates the need for editorial companies to design two reports for them, which does reduce the cost for design and production of an additional report. This is also consistent with the statement in Edge’s survey of integrated reports that some companies have simply combined

⁵⁷ Generally, the editorial notes include the purpose of the report, the main points, the reporting period, the reference guidelines and notes on future expectations, etc.

⁵⁸ In the following, both ESPO and FED are referred to as CSR department, except where the distinction is needed.

their annual reports with their CSR reports as a means of reducing their budgets (Edge, 2018)⁵⁹.

Table 7.1 Guidelines Noted in Each Report at Energy-tech

Year	Referred guideline(s)
2015	Environmental Reporting Guideline (2012) GRI G3.1 ISO 26000
2016-2017	Environmental Reporting Guideline (2012) GRI G3.1 IIRC Framework
2018	Environmental Reporting Guidelines (2018) GRI Standard IIRC Framework ISO26000
2019-	Environmental Reporting Guidelines (2018) GRI Standard IIRC Framework ISO26000 METI Guidance

Although the role of top management has been emphasised in the adoption of integrated reporting (Abeysekera, 2013; Eccles and Krzus, 2014; Beck et al., 2017; McNally et al., 2017), as pointed out by McNally et al. (2017), its adoption does not necessarily guarantee the automatic support for change in managerial systems. This is evident in Energy-tech, especially in its initial stage. In order to implement integrated reporting, no new organisation or team was created for the “new practice”, and the previous leading department for annual reports (CSO) and CSR reports (FED/ESPO) became the coordinating departments for integrated reporting. In light of this, the first integrated report (2015) was merely a compilation of its previous annual report and CSR report’s contents in a single volume, or rather, it was an expanded version of the annual report because the original annual report already included a section on CSR. This can also be demonstrated by the guidelines to which the report referred. As shown in Table 6.1, the first integrated report only referred to the guidelines used in the previous corporate reporting system. In the second volume, they started to adopt the IIRC Framework with the illustration of their business model to show the value creation process. They also adopted the Guidance from 2019. It is therefore arguable that the initial integrated report was a continuation of the previous corporate reporting system. This is understandable, as the practitioners had a *limited understanding* of integrated reporting when it was first introduced. It is true as the respondents (CSR-e1/BC-e1) stated that they gradually began to develop an understanding of integrated reporting through the process of preparing it.

7.2.3 The development of understanding over time

Notably, however, the initial “impure” purpose has not persisted in the development of practices.

⁵⁹ See more in [Section 2.3.2](#).

Firstly, this purpose was not shared among the current practitioners. Both departments recognised a shift in the dominant role, or transfer of *ownership*, in the development of integrated reporting practices (Stubbs and Higgins, 2014). Initially, the CSR department, as a functional unit as the communication department, assumed the lead in the integrated reporting process; with the change of editorial company in 2017, according to BC-e1, the communication department reportedly began to take a leading role in the process. Interestingly, it is discovered that despite the communication department having taken a more significant lead in the current reporting process than the CSR department, BC-e1 was unaware exactly how it was introduced at the beginning. Instead, based on his knowledge of the integrated report, he assumed that Energy-tech might simply be ahead of the trend. This might be because the reporting managers tend to experience more specific pressures in the area to which they belong, i.e., the reporting field (Higgins et al., 2014).

I didn't know about that (laughs). It is rather negative, isn't it? It's not that we are trying to be the first to catch the trend of the world, but to save money[...] Well, you know, the way of expression may be a little bit different from that, but of course, we should have been aware of the trend in the world [upon the introduction].

--BC-e1

Secondly, this motivation did not seem to have had much impact on the development of the practice since they would not have made further changes after the combination of CSR report and annual report if it was simply to save cost by reducing them to one report. Additionally, it is evident from BC-e1's response that they are now leveraging the integrated report more as a platform for communication with stakeholders. Robertson and Samy (2019) found that companies initially followed sociological rationality when introducing integrated reporting, but as the practice gained traction, companies gradually tended to adapt to it in their business with economic rationale. In other words, a company may initially adopt a practice due to social pressure, but now that it has been adopted, it must be maintained by using the practice effectively, which corresponds to the economic rationality of innovation diffusion theory. However, Energy-tech's integrated reporting practices do not seem to align with the story outlined by this theory, as there might be many factors that influence its introduction and adaptation. The case of Energy-tech suggests that, its subsequent changes and adaptations to integrated reporting were more in line with sociological rationality, as it was trying to meet the demands of stakeholders and deliver integrated reports that complied with societal expectations.

In addition, the lack of shared understanding of the initial rationale for the introduction of integrated reporting was not only among the coordinating departments, but also among practitioners in the cooperative departments. For example, a respondent from the HR department (HR-e1), who has been involved in the corporate reporting process since the company provided CSR report, was unaware why the company transited CSR report to integrated report as well as the difference in the role of these two reports:

To be honest, I didn't know what was different about it when it changed. I was only aware at the time that the name had changed[...] I had heard that the annual report and the CSR report were

going to be combined, and more and more companies are changing their CSR reports into integrated reports. But I don't understand why they [the top management] decided to change it, or why the world is going that way.

--HR-e1

However, the cooperative departments seem to have a consistent understanding of the role of integrated reporting and regard it as a platform for external disclosure and an opportunity to enhance stakeholder communication of their sustainability initiatives. For example, a respondent from the purchasing department (PD-e1) perceived integrated reports "as a way of expressing [their] thoughts on procurement". Similar to PD-e1, HR-e1 acknowledged that working on integrated reporting had increased awareness of external disclosure:

Since the introduction of the integrated report, our awareness has changed to how to inform and appeal to people outside of the company, rather than provide the manuscript; the work is still the same, but our awareness has changed a little.

--HR-e1

In this respect, this study differs from the cases in McNally et al. (2017), where the practitioners did not perceive integrated reporting as a chance for enhanced stakeholder communications. This discrepancy could possibly be explained by the absence of mandatory regulations in Japan as opposed to South Africa. For individual departments, the involvement of integrated reporting deviates from their day-to-day work and is generally requested by other departments or senior management. The activities they have undertaken are nevertheless regarded as the corporate necessity rather than the consequence of addressing compliance concerns given the fact that it is not externally compelled.

This consistent understanding appears to be a continuation of previous CSR reporting practices rather than the new practice of integrated reporting. The notion of practice memory, which is defined as "past practice organisations circumscribing activity", can be used to illustrate how "the past inhabits activities as forms of memory" (Schatzki, 2010, p. 216). Practice memory emphasises changes in the organisational elements of practice in the temporal dimension, but such changes are not necessarily causal. Moreover, practice memory is more than "factual remembering"; it constructs facts with "acceptable variation" as opposed to simply repeating facts from the past (Ahrens and Ferry, 2018, p. 15). However, alongside this, the perpetuation of practice has also reinforced the general understanding of integrated reporting as a platform for disclosing information to the external parties.

Unlike the cooperative departments, the coordinating department's understanding of integrated reporting is evolving along with unfolding of the practices. Changes in the context in which the company operates and interactions with the editorial company both played a role in its evolution. As practitioners in the coordinating departments noted, they learned and came to understand integrated reporting by working with the editorial company. This is partially attributable to the expertise of the editorial company and also to the fact that the editorial company has simultaneously worked with many other companies on preparing integrated reports, which could contribute to improving their own reports.

Practitioners in the coordinating departments also acknowledged the need of integrated reporting for autonomously communicating the brand (CSR-e1/BC-e1). Energy-tech became independent from Electric-H; the company recognised the necessity to establish and promote its brand independently, and integrated reporting proved to be a good tool to help with that:

Before we became independent, when Electric-H was promoting something, we were kind of taking advantage of it. After that, we had to develop our own brand. It also happened to be around the same time as the introduction of integrated reporting.

--CSR-e1

Under the perception of integrated reporting as a communication tool to help the company to establish its brand, the company approached the integrated report “as a result of integrated business” (Stubbs and Higgins, 2014, p.1077), or to tell a better story of the value creation. In this sense, the company’s understanding of integrated reporting is nonetheless based on a *pull strategy*, focusing on the release of information to the public (Stubbs and Higgins, 2014). There is no evidence that the company has adopted integrated reporting in order to improve its business management. While the activities and understandings have changed over time in comparison to previous corporate reporting, they primarily appear as an extension of those earlier practices.

To sum it up, Energy-tech’s initial introduction of integrated reporting was externally influenced, but the company’s understanding of integrated reporting was limited, even misunderstood, by the initial belief that its adoption would reduce costs. It is unlikely that the company’s adoption of integrated reporting was based on a comprehensive understanding of economic, social and environmental issues, i.e. the result of mature integrated thinking (Lodhia, 2015). It is understandable that it can be challenging to fully comprehend a new practice at its introduction. The company’s understanding of integrated reporting has grown as the practice has unfolded; yet, the rationale behind the implementation has not shifted from a social to an economic one, which is inconsistent with what innovation diffusion theory suggests (Robertson and Samy, 2019). The coordinating departments have continued to understand the external requirements for integrated reporting as they work with editorial companies and receive feedback. From this vantage point, social rationales are becoming increasingly dominant accordingly. However, the understanding of integrated reporting is inconsistent between departments. Unlike the development of understanding in the coordinating departments, with the implementation of integrated reporting practices, the cooperative departments’ recognition of integrated reporting as a communication tool to correspond with stakeholders has been reinforced, which turns out to be an extension of previous reporting system.

7.3 Ongoing unfolding of practices: the preparation of reports

This section elaborates further on various activities observed and the dynamic movement of the contexts that were characterised by diverse ideas about the organisation’s objectives and ways of attaining them. The findings identified the actions that composed the practice and material arrangement that hung together with the practices, which together constituted the context (Schatzki, 2002). Since the integrated report is issued annually, the preparation of the report normally follows an annual schedule. The editorial companies (Editor and Producer) were

involved in the process from the policy discussion for new reports to the detailed design and preparation of the reports.

Given that the integrated report is released in October each year, its preparation is generally carried out across the year. During observation, the report followed essentially the same routine each year. Throughout the process of integrated reporting, as depicted in Fig. 7.2, five main *projects* containing various activities were identified (Schatzki, 1996, 2002), namely gathering feedback and reflecting on the previous report, setting the directions for the new report, collecting information accordingly, drafting and designing of the new report, obtaining approval from the top management and finally releasing the completed report. These projects were identified from

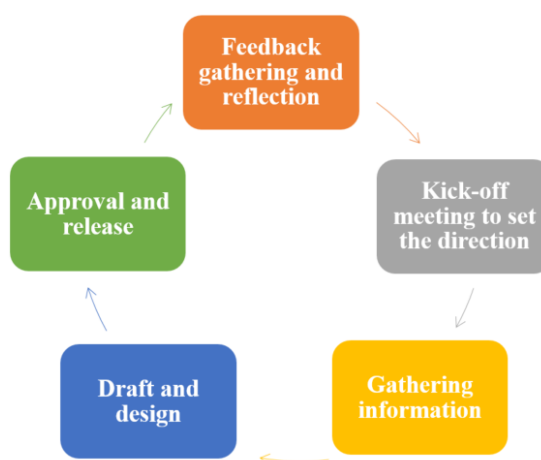


Figure 7.2 Ongoing Unfolding of Integrated Reporting Practices

the process for analytical purposes, although it is vital to highlight that the occurrence of these activities is not linear in time, but rather always overlapping and intertwined. Ahrens and Chapman (2007) refer to a narrative prevalent in descriptions of innovative management accounting practices, where practices that appear distinctive and well-structured are in place, and researchers just happen to document them. However, in fact, as they argue, the “discursive boundaries” of innovative practices are often vague (Ahrens and Chapman, 2007, p.23).

7.3.1 Feedback gathering and reflection

After the new report is released, relevant feedback is generally collected through different channels until the kick-off meeting of the next report. The company did not have a specific evaluation method or criteria in place for their reports; the “teleologies” (Schatzki, 1996, 2002) of gathering feedback and reflection were to evaluate the existing practices and to seek improvement for the following report. In general, feedback comes from different sources, firstly from questionnaires sent to the company’s employees, followed by investors’ comments and suggestions on the new report through shareholder relations activities, which are the existing routine practices of the communication department. Further, feedback includes comments from relevant experts provided by the editorial company and finally, deficiencies noted by the results of external awards or ESG evaluations.

To prepare the IR2020, Energy-tech followed its past practice of collecting feedback on the

previous report (IR2019), including a questionnaire⁶⁰ to employees, as well as investor opinions gathered through shareholder relations activities. In addition, in 2020, Energy-tech participated in the Nikkei Annual Report Awards⁶¹ for the first time and received comments on IR2019 from a jury of five judges.

At the review meeting in December, the communication department (BC-e1) summarised the reflection on IR2019 and feedback gathered from the employee questionnaire. The feedback on IR2019 could be broadly divided into three categories. The first was around the improvement of existing content, such as the enhancement of storytelling, i.e. the linkage and holistic approach to the various components, as well as the presentation of strategy and the refinement of SDGs, corporate shared value (CSV), and governance information. The second category was the addition of insufficient content, specifically in terms of materiality analysis and risk and opportunity assessment. The last category could be roughly understood as readability, including the ratio of text to images, the addition of staff photos, and the improvement of the interactivity of PDFs. As a result, BC-e1 outlined proposals for IR2020:

- Deepening of the METI Guidance (careful communication of the business and its future direction)
- Explanation of sustainability management
 - Enhancing ESG information (taking stock of information buried within the company)
 - Integration of SDGs/CSV into strategy
 - Identification of materiality
 - Notation of risk management
- Strengthen cooperation with related departments (business units, affiliates, head office)
- Linkage between the website and the integrated report

--Meeting materials⁶²

The reflection of IR2020 was held in December 2020. Only members and executives from the coordinating departments participated in this meeting. Those from the cooperative departments no longer attended reflection or kick-off meetings. Before 2020, cooperative departments were also invited to participate in the review and kick-off meetings to share opinions. The coordinating department might intend to use these meetings to ensure communication and coordination between the different departments prior to preparing the following report. However, the participation of cooperative departments in these meetings did not seem to work in the way expected. Although participants from coordinating departments were invited to join the meetings to reflect on the previous reports and discuss the directions of future reports, they seldom gave opinions on how the integrated report should be improved. Some departments would update their ESG-related activities in the past year to suggest possible content - called “neta” in Japanese- that

⁶⁰ Questionnaire surveys employees on their satisfaction with the report content information, design layout, amount of text per page, clarity of the value creation process throughout, how the corporate message on the SDGs is communicated, and how the interactive PDF is delivered. Respondents then are asked to evaluate and comment on each session of the integrated report.

⁶¹ See more in [Section 2.3.2](#).

⁶² The review meeting was held on 11 December 2019, with participants from the editorial company, the coordinating departments, and two coordinative departments including purchasing department, and quality assessment department.

could be included in the following integrated report. For example, the purchasing department updated their activities to build up the green supply chain and suggested that this could be the “neta” for the following integrated report. The meeting was more like a site where the coordinating departments assigned the responsibility and the cooperative departments accepted responsibility instead of negotiating how the integrated report should be improved.

For the reflection of IR2020, Energy-tech did not conduct a questionnaire survey with its employees this time, nor did it participate in the Nikkei Annual Report Awards⁶³, so feedback came mainly from shareholder relations activities and editorial companies. The discussion centred on the failure to complete the materiality analysis (hereafter, MA) and its inclusion in IR2020, which would be further discussed in [Section 7.4](#).

Feedback on the IR2021 was mainly discussed in the kick-off meeting as the editorial company⁶⁴ changed from Editor to Producer in 2022. Editor was the second editorial company Energy-tech has been working with in 2021, but according to BC-e1, this is the same company they worked with for the previous annual report. From 2022, Producer became the new editorial company, which was also responsible for consulting on how the results of the materiality analysis should be applied within the company. The discussion of feedback on IR2021 included comments from relevant experts provided by the Editor, review from the Producer, evaluation gained from participation in the Nikkei awards, feedback gathered from investor relations activities, and responses and comments from directors at the top management meeting on the new integrated report and the feedback received.

In summary, firstly, Energy-tech did not have its own management system for evaluating its integrated reports, but rather based on feedback from relevant stakeholders on its reports. Secondly, the company was able to obtain feedback from various sources, although these were necessarily arbitrary. Furthermore, the company did not directly refer to any guidelines for improvement, either the IIRC Framework or the METI Guidance. Nevertheless, how this feedback was reflected in the new report needs to be further observed in subsequent practice.

7.3.2 Kick-off meeting to set the direction

Based on the feedback gathered, a kick-off meeting involving relevant internal departments and editorial companies is generally held in March each year. The “teleologies” (Schatzki, 1996, 2002) of the kick-off meeting were to set the direction or the main theme and to draw up the schedule for the preparation of the new reports.

During the kick-off meeting for IR2020, IR-e1 from Investor Relations explained the views of

⁶³ They did not explain the exact reason why they did not participate the NARA in 2020 but took part in the awards again in 2021. Potential reasons may relate to the cost of participating in the awards, as noted in [Section 2.3.2](#). The year 2020 was the first year in which the company struggled to turn a profit after suffering a financial deficit, so it is possible that this was either a consideration of cost or that the improvement in the integrated report during the year was not sufficient for them to believe that their report could receive a higher rating. It is also possible that it was based on the impact of the usefulness of the results of this evaluation, or that it was a combination of these factors. Nonetheless, the fact that they are participating in the award again in 2021 shows, to some extent, their expectations of the outcome.

⁶⁴ Editorial companies are important in the sense that they are expected to advise and provide opinions on the generation of content in integrated report preparation, although the level of this expectation and reliance may vary from company to company.

key investors. The investors approved and endorsed the elimination of the paper report issue, but the different investors did not give exactly the same views in terms of critical opinions. After discussion, the most mentioned by the investors and agreed by Energy-tech was the integration of management policies and operational initiatives, and the communication of top management policies. This was related to the company's business situation at the time. Before the kick-off meeting, Energy-tech had already announced a significant revision to its financial results. They shared the recognition that they were "in a state of emergence" (CSR-e4/IR-e2). Investors expected Energy-tech to define its objectives and take effective measures to improve the company's performance. Since integrated report was scheduled to be published in October, they thought it suitable platform to explain to external stakeholder about the situation and emphasise that they were "undertaking significant reforms in order to return to a growth trajectory as quickly as possible" (IR-e2).

As highlighted at the kick-off meeting, IR2020 was required to demonstrate to external stakeholders that Energy-tech was, and would be, delivering operational improvements. The report highlighted various measures that needed to be done in 2020, including portfolio improvements, emphasising the need to concentrate on lucrative business and rectify problematic areas. At the same time, IR2020 elaborated more on financial policies than IR2019, including an interview with the CFO, detailing the concept of ROIC (return on invested capital) management, emphasising the improvement of the company's financial system, etc. Nevertheless, as the advisor from Editor commented:

Why can't the company achieve more in terms of business performance, despite the fact that it is a "high quality company" that has core technology strengths, creates high value-added products based on these strengths, and has begun to actively engage with stakeholders and take environmental measures? Are you not taking advantage of your strengths?

--Feedback on IR2020 provided by Editor

In July 2020, in order to set a new management direction and to ensure that everyone shares the same aspirations, Energy-tech developed a set of basic management principles, underpinned by a number of concepts. As explained by CSR-e4, in order to unravel what value Energy-tech provides and what the future holds, the mission, values and vision were developed by the new management team and "redefined" in addition to the existing founding spirits (unity, hard-working and social contribution), which were also regarded as Energy-tech's strengths to be cherished. At the same time, Energy-tech also explained in detail the source of its value creation, i.e., its core technologies. The report detailed the characteristics of the core technologies and gave concrete examples. Therefore, the most significant content that was eventually presented in IR2020 was, however, the development of mission, vision, value, etc., which were not the initial goal or approach set out in the kick-off meeting. These were justified as the new management direction to ensure that every employee would share the same aspirations.

The same situation occurred in preparation for IR2021. The concept of IR2021 was set as "a scenario for a return to growth, based on the new medium-term management plan, and content highlighting social issues, together with a clear picture of a sustainable, value-driven company"(internal documents). The objectives were set at the kick-off meeting regarding IR2021,

such as detailing the new medium-term business strategy, articulating the relationship between opportunity risk and strategizing, strengthening the link between financial and non-financial information, strengthening the governance section, etc.

Although these objectives offered a certain direction, practitioners were not clear when it came to exactly what to do. They might attempt a variety of ways to achieve the objectives, which might not necessarily have a clear causal relationship with the objectives. The activities turned out to be those that could be done at the moment. Meanwhile, they only enumerated the objectives and did not discuss or did not find it necessary to discuss how these objectives should be weighed against each other. There was no apparent conflict between these objectives, and the different objectives were considered complementary, i.e. each should contribute in its own way to the overall improvement of the integrated report. However, it is also important to note that with limited human resources, not all objectives would receive the same attention, and from this perspective, the objectives could also be considered to compete with each other. The choice of goals in an uncertain environment might require more information in a specific context to understand the different practical implications. It is, therefore, that the choice of what to do and how to do it in the process of achieving the goals could be interpreted and justified from different perspectives.

It was not difficult to observe that the focus of the activities related to the preparation of the report, or the theme of IR2021, was the presentation of the medium-term business plan, which was reflected throughout the subsequent preparation of the report. The ESG section in the second half of the report, in line with IR2020, turned out to be an extension and update of the previous report.

At the same time, it is also found that the control of the practices was not achieved by regulating every detail; the activities would, however, be coordinated under obscure goals, constituting and maintaining the practices. Due to the diversity of objectives, there was considerable flexibility regarding the interpretation and evaluation of integrated reporting practices. The descriptions of practices in preparation for IR2020 and IR2021 indicated that different activities existed in time and space, constituting the integrated reporting practices, yet these practices were not entirely different. It is the “samenesses and similarities” that ensure the continuity of practices and the maintenance of order (Schatzki, 2001b, p.51).

In summary, not all the feedback was integrated into the objectives set out for the improvement of new report. Nor did it involve references to the various guidelines when setting targets. Moreover, the objectives they agreed upon were not always straightforward and did not indicate what to do or how to achieve them. Objectives are formulated to reduce uncertainty and achieve goal congruence (Jorgensen and Messner, 2010), but the formulation of ambiguous objectives seemed to be precisely because of the uncertainty and the difficulty of aligning targets. Thus, these objectives did not necessarily provide straightforward practical content or indicate a pathway to achieve the goals. Moreover, although feedback was sought with the aim of improving the report, the content of the feedback did not necessarily appear to be linked to specific improvements to the integrated report. In terms of the objectives set at the kick-off meeting, not all feedback was incorporated into the objectives for the production of the new report, nor was the choice of objectives necessarily related to feedback.

7.3.3 Gathering information

After the kick-off meeting, a number of activities involved gathering specific information for the new report. Bearing the insufficiency of IR2020 in mind, from 2021, a cross-functional team (hereafter, Team) was formed, including members from the coordinating departments, to discuss issues faced in the integrated reporting process on a routine basis. In these meetings, the editorial company and the Team confirmed their respective progress and attributed responsibility for the overall coordination of the report and the various components down to the individual in the relevant department. In coordination with these departments, the CSR department was responsible for coordinating all collection and preparation activities related to the content provided by staff departments in the Kyoto Head Office (KHO); the communication departments was responsible for coordination with the departments at Tokyo Head Office (THO), the business units and the editorial companies. Although there have been intervening changes of personnel in charge, due to the pandemic, this change did not seem too obvious either, as remote working made it necessary to meet online wherever they were. Most of the communication and coordination took place after the meeting, and the way different coordinative departments engaged in the process also differed primarily depending on the information required from each department.

Research and development department (R&D)

The involvement of R&D, for example, is closely related to the issue of how core technologies are presented. Prior to the adoption of integrated reporting, the R&D department was also involved in the production of corporate reports. Specifically, however, they only provided technical information on how their products were used in previous CSR reports. Since the adoption of integrated reporting, R&D has been asked to be involved more to “link the past to the present” (CSR-e1). As explained by CSR-e1, this was also related to the company’s M&A activities in recent years. As the company’s past glories faded, the company sought to respond to the changing times through M&A. However, as the business grew in size, they recognised that its products were so diverse that the company was unable to articulate in a concise way what the company’s core technology was, why this had become the company’s core technology and how it would create value for society through this core technology.

It is not only those outside the company who had such doubts; internal employees were also uneasy about the uncertainty of the company’s future:

If you look at Energy-tech historically from around 2015, there were many changes and there was a time when people had the impression that Energy-tech was going astray. During this time, Energy-tech merged with five other companies, and there was a time when people distrusted Energy-tech because they didn’t know what we were doing. Against this backdrop, we had to explain well what we were doing, and as a manufacturing company, we were trying to appeal to the public. Now we have to make sure that we follow this concept, and it will take several years for the people in the R&D department to work together with the business units to find out what we should do.

--CSR-e1

They discussed the common features of its core technology and reflected them in IR2020. RD-

e1 believed that it was necessary to make it clear to the market that the company would continue to strengthen its core technology to meet existing and potential market needs, which is how and why the R&D department should be involved in the integrated reporting process. However, despite this understanding, in the process of producing the integrated report, the R&D department follows the requirements from the coordinating department rather than initiating what should be included in the report. This might be related to the sensitivity of the technical information; RD-e1 also mentioned that this could not be decided by R&D alone. This is why they followed the request for information, but RD-e1 also believed to the extent that they could have been more proactive in the process.

Purchasing department

Unlike the R&D department, the purchasing department took a more proactive role in the process. It is worth noting that the purchasing department was the only department that delivered its views at the kick-off meeting for IR2020. Although the comments were also relevant to recent developments in the procurement sector, they were at least aware of what activities in their department could or needed to be reported.

The addition proposed by the purchasing department was the revision of the purchasing policy, and in a subsequent interview PD-e1 explained that in the past, they used to put their guidelines on the website and asked suppliers to read them, but now they are asking suppliers to agree to our guidelines and to check them using a checklist. Based on the checklists collected, they would evaluate the suppliers and if they found something working improperly, they would request them to make improvements.

The efforts made by the purchasing department in embedding sustainability into their operations were not for the sake of the integrated report, but more as a result of actually leaning on other leading companies and grasping the dynamics of ESG:

In the world, Sony, Epson, and other companies are working on supply chain initiatives, and it is necessary to address the SDGs. We need to conduct our procurement operations in a way that is in line with the trends of the world, so we are working together with our suppliers to make this happen.

--PD-e1

During the period when Energy-tech was part of the Electric-H Group, Electric-H, as the parent company, set the CSR policy for the entire Group, and thus Energy-tech developed its CSR policy at an early stage under the influence of the parent company. Therefore, this revision of the CSR procurement policy reflects the company's own understanding of industry trends. While policy revision is easy, implementation is not. As explained by PD-e1, Energy-tech has a lot of small suppliers, and the big companies have a solid policy and a good system in place. It is easy to enrol those that have a solid organisation and assign people to work on the SDGs, but small companies lack time and human resources.

With regard to integrated reports, although PD-e1 also mentioned that being involved in the production of integrated reports helped him to become more aware of the day-to-day activities of

the department as part of the external disclosure process, and that from this perspective the production of integrated reports might have an impact on the business itself, more changes in the content of the business were related to the activities of the department rather than to external reporting. He also mentioned that since the report was essentially an external publication, although employees were aware of its existence, they rarely read it. However, from the perspective of the purchasing department, the reports are consciously used to raise the general awareness of the purchasing department in all divisions of the company:

We thought that the purpose of integrated reporting was to help the outside community understand the company [...] but we also think that if we are going to report externally, we need to make sure that people inside the company understand what we are communicating externally. In the procurement department, we are consciously trying to ensure that the content of our external communication is also understood by the procurement departments of other internal business units.

--PD-e1

With regard to cooperation and communication with other sectors, PD-e1 pointed out that in the process of revising the purchasing policy, there is no doubt that the contents of the guidelines cover quite a wide range of issues, such as the issue of child labour, the environment, and the concept of green procurement. Therefore, they have been working with the CSR department for a long time, but not only them but also human resources and general affairs, and many other departments were involved.

Personnel department (HR)

The content of the integrated report provided by the HR department is mainly concerned with employee training and diversity, although some recruitment figures are also disclosed. Although they were requested to provide information/manuscript on certain given topics for integrated report, the information provided, however, was only “a part of the actual work” (HR-e1). They are informed of various issues and developments that need to be addressed at any given time, as explained by HR-e1, and they plan to make various moves in response. For example, they have taken various measures to recruit and train people according to their newly established human resources development policies, they “only included some of the content due to the limitations of the paper”. In addition, although they were requested to provide relevant information, only the direction was given and they could decide what to include, so HR-e1 considered that they also had “a certain degree of freedom”.

CSR-e1 also explained that depending on the department, the way they got involved in the integrated reporting process might change. In the case of the personnel department, there is not much work that can be done in one year, so some of the work is done over a period of more than 10 years, so in that sense, they “tend to do it evenly and write down what progress has been made since last year”.

Quality assessment department (QA)

The QA department is in charge of monitoring and directing all quality-related activities across the entire company. For the integrated report, it is involved to illustrate the quality system the

company has in place for its ultimate customers. This includes reducing the number of defective items that are created throughout the production process as well as ensuring that defective products are not sold to ultimate consumers. The underlying principles are not significantly different in terms of quality control methods, but the increasing diversity of product types necessitates varying points of concern. The QA department works on preventive measures to make it easier to understand the points that need attention, especially from the development and design stages of each business unit.

The quality-related activities are undoubtedly important for a manufacturer. Nonetheless, given the diversity of the product line, it is difficult for the quality control department to demonstrate the company's commitment to quality management, to identify the most important processes or product components, and to allow professional processes to be explained in a straightforward manner:

We are a Japanese manufacturer, and in that sense, quality is important, so I think we are providing this report to let people know how we are raising the level of this important quality, although it does not go into too much detail [...] It was quite difficult to write about something very technical, and it's not a specialist technical book, so it was quite difficult to write about it in a way that was easy to understand for the general public.

--QA-e1

Legal office

The legal office is primarily responsible for the content concerning compliance in the governance section of the integrated report. As with HR-e1, LO-e1 has been involved in corporate reporting process when the company issued the CSR report, and he was also responsible for relevant content in the annual report. Similar to practitioners in other departments, LO-e1 also held the view that the integrated report is a tool to make the company known to the outside world, and that it is a medium to provide information to all stakeholders as much as possible. However, the adoption of integrated reporting did not seem to bring changes in his work; rather, they just followed the "trend" and reflected:

To be honest, I don't really feel that the integration has changed anything. Rather, I have the impression that the trend is to increase disclosure on governance and compliance in line with this trend.

--LO-e1

He has occasionally made some suggestions on the integrated report to the coordinating department. He is in charge of the General Meeting of Shareholders, so he would visit the voting departments of institutional investors and receive various opinions about the integrated report, which he would feed back to management.

He referred to two trends in the world. The first relates to the Corporate Governance Code and the Stewardship Code, which require companies to disclose information about corporate governance and the investors to engage in dialogue with companies. In this context, the integrated report is very important as a tool for companies to disclose information and to communicate with

investors. The other trend is that the internet, especially social networking sites, has become very popular. In such an age, even if the information is intended for the outside world, it is spread through various media and social networking sites, and employees “see” it:

We don’t have to make a distinction between outward and inward communication. Even if it’s a tool for the outside world, it will definitely be seen by our employees.

--LO-e1

In response to a question about the state of governance in Japanese companies, he explained that it is difficult to be familiar with all the businesses in a company when the scope of the company’s business is so wide, which would lead to the board of directors discussing individual business operations with different levels of understanding. He added that Energy-tech is not a very big company and management is not that far away from the frontline, so there is not a big problem with individual management making decisions on the frontline. He explained that this was the reason why it was difficult to focus on governance and supervisory functions.

As for the future development, he said that in the short term, the current governance framework would remain unchanged, but that the company had started to develop a skill map for the Board of Directors and to train its successors. In addition, opinions have been expressed that group governance should be strengthened, and a project called the Governance Enhancement Project has been set up within the company to strengthen internal governance. He explained that, in the long term, they would like to increase the number of independent directors, make the board more supervisory, and bring the business operations closer to the frontline, speeding up the process and creating a system where the board can handle it properly.

Intellectual property department (IP)

A new department was included in the preparation of IR2021. According to CSR-e4, unlike before, the preparation of the IR2021 involved the IP department to a large extent. The IP department is not located in the same place as the CSR department. Previously, it had been requested by the coordinating department to be involved in the integrated reporting process for the disclosure of relevant information. However, the former IP department manager considered that the company’s IP was a trade secret and did not want to be involved in the process. In the preparation of IR2021, due to the strong request of CSR-e4 and the change of the IP department manager, who was not resistant to the request, it was relatively easy to obtain the cooperation of the IP department. In addition, a member from the IP department was assigned to prepare the relevant information by remote participation as a member of the CSR department.

In general, the relevant departments were involved only in preparing content relevant to their own departments, and the degree of awareness and involvement in the process showed a degree of variation among departments due to the content and nature of their own business. McNally and Maroun (2018) noted that a lack of proper understanding of the rationale for preparing integrated reports may lead to resistance to change. However, in the case of Energy-tech, none of the interviewees rejected the decision to produce an integrated report or showed resistance to its preparation. While this did not necessarily mean that they had fully embraced or understood the reasons behind the adoption of integrated reporting, they all agreed that it had the potential to

bring some benefits to the organisation and its stakeholders, and believed that integrated reporting was becoming increasingly necessary to meet the external expectation.

For them, the primary use of integrated reporting was for its potential to help stakeholders understand the non-financial aspects of the company's efforts and results. For this reason, they were pretty open to providing the information needed to complete the story, even though they might not know the whole story.

Meanwhile, it was possible to understand the relationship between the requirements of the coordinating department and each objective only by drawing on the nature and content of the work of the cooperative department. However, it seems that the understanding of this relationship was not accomplished by the cooperative departments but by the coordinating department. In other words, at the time of completing the tasks given by the coordinating department, it did not seem to make any difference to the cooperative department, whether it was a CSR report or an integrated report.

Furthermore, it was not always the case that relevant information was collected for different purposes; relevant information was also selectively enacted to rationalise the purpose and achieve agreement on the purpose. Integrated reporting as a practice, in this case, unfolded its potential through the ways in which organisational members drew on it as a way of appealing their contribution and shared recognitions, which rarely affected the way they had worked or the internal management.

7.3.4 Draft and design

At Energy-tech, draft and design activities were largely carried out by the editorial company and were not isolated activities focused on a single time period. During the kick-off meeting the editorial company would propose a general outline for the new report, including the design and certain content. Therefore, the most practical or technical information was provided by the editorial company, which acts as a partner in preparing the content and also advises on the design of the report. Meanwhile, editorial companies would provide best practices from other companies for reference based on Energy-tech's needs. Furthermore, they also provided Energy-tech with ideas and suggestions based on recent trends, such as references to the SDGs or the addition of interviews with the CFO.

After the kick-off meeting, the Team and the editorial company held regular meetings to confirm the progress of data collection and the design of the reports. During these meetings, a continuing discussion appeared to be a lack of knowledge and understanding of integrated reporting. Differences in opinion concerning the structure, content, layout and style of the report between the team members were observed, indicating ambiguity and uncertainty about the consequence of their discussion. This was particularly evident in their discussion of the refinement of the value creation process. Instead of considering and refining the model by Energy-tech, they initiated the discussion with the model proposed by the editorial company. Thus, a curious scene could be observed in their discussion, where the people from Energy-tech asked the editorial company what the intention behind the design of such a value creation model was. In addition, the discussion of the refinement of the value creation model was limited within the Team

but relatively little attention was paid to the connection of the different elements; rather, they focused on how to present the Mid-term Management Strategy. The role of strategy was also emphasised in earlier studies (Mio et al., 2016), but instead of shaping integrated reporting practices, in the case of Energy-tech, the discussion focused on how to present the mid-term strategy it had developed in advance. The overall discussion was limited to the issues regarding visualisation of the model and there was only limited time for the discussion of the model. In subsequent discussions, the Team members recognised that the discussion of the value creation model should involve the top management and that it would be difficult to make substantive changes to the model by limiting the discussion to within the Team.

Although they were called an editorial company, their role was much more than just delivering the layout of the integrated report. Energy-tech perceived that the editorial company had experience in helping other companies prepare integrated reports, kept abreast of the industry's latest developments, and were, therefore, able to provide more professional assistance. This was the reason why Energy-tech changed its editorial company in 2022. CSR-e4 perceived that the previous editorial company lacked initiative in engaging in discussions and making recommendations. He wanted the editorial firm to play more of an advisory role, stimulating them to improve the company's operations, rather than just repeating the content of the reports each year.

Nonetheless, during the participant observation, a fairly high level of leadership and involvement of the editorial company in the integrated reporting process was observed. This involvement was not only in the discussion of content and policy with the coordinating departments, but also in the communication of content with the cooperative departments. Several studies have highlighted the role of consultants in the integrated reporting process (Gunaratne and Senaratne, 2017; McNally et al., 2017). As suggested by McNally et al. (2017), the excessive reliance on consultants to produce integrated reports can reduce the involvement of managers in the process and inhibit the development of appropriate internal control systems and reporting structures. It can therefore be said that the company's integrated report was completed and developed to a large extent with the support of the editorial company.

7.3.5 Approval and release of the new report

Energy-tech holds regular steering committee meetings, which are used to report on important projects to senior management (board members and business managers). In this meeting they discuss the progress of key issues in the project and decide on its subsequent orientation. A brief report on this year's policy and approach to integrated reporting is presented to the steering committee for feedback in June in each. Thereafter, based on the feedback from top management, the report is prepared and finally approved by the Board of Directors at its meeting in August.

It was observed that there was not much involvement of the top management in the overall reporting process, and although previous studies have highlighted the role of the top management (SAICA, 2015; Hearth et al., 2021; Rossi and Luque-Vílchez, 2021), the form in which this involvement takes place has not been discussed much. The CSR and communication departments had directors as top leaders, so there was no lack of direct communication channels with the president, CFO and other senior leaders. However, as IR-e2 stated, it was difficult to get the top

management to “start a discussion from nothing”, they needed certain materials to start a discussion. This engagement would be shown in the next section on the MA process.

7.3.6 Summary

Throughout the cycle of the integrated reporting, reflecting and seeking feedback did not seem to be a highly prioritised activity, or not all feedback was equally valued. Firstly, the company did not have clear criteria for evaluating the integrated reports it issued. Secondly, although there were several channels for seeking feedback, apart from investor relations activities and feedback from editorial firms, not every feedback on a report included questionnaires from employees of the company and external awards, both of which were costly in terms of time or money. In contrast, shareholder relations activities were not specifically carried out for the purpose of integrated reporting; rather, integrated reporting happened to be used as a tool for dialogue in a routine activity that the company already had in place to obtain feedback. Feedback from editorial companies was also part of their service offering.

Furthermore, in terms of the objectives set in the kick-off meeting, not all feedback was incorporated into the goals for the preparation of the new report, and the choice of objectives did not necessarily correlate with feedback. The formulation of ambiguous objectives seemed to be precisely because of the uncertainty and the difficulty of aligning targets. In addition, these objectives did not necessarily provide straightforward practical content or indicate a pathway to achieve the goals. Although different objectives as part of the teleoaffective structure organised practices (Schatzki, 2002), they were not the only means of evaluating the appropriateness of these practices (Jorgensen and Messner, 2010). The general concern with disclosure, or more specifically with whether disclosure meets investor expectations, constitutes the general understanding of functionality across practices and actors (Schatzki, 2002). It is in the name of improved disclosure that the various objectives must be negotiated.

Different departments were involved in the activities of collecting relevant information for the new report and the way they engaged in the process also differed and was situated in the context. The practical understanding is partially related to that from the previous corporate reporting practices. The continuity of the practices was also driven by the routine. For example, the activities concerning the reporting process of participants from cooperative departments were more or less the same, i.e. providing requested information of their own business activities to the coordinating departments. Focusing on the specific details of the involvement of other departments highlights how different departments defined the significance of their involvement in the integrated reporting and also reveals that the scope of their purpose was limited to the content and nature of their work, and did not extend to the whole organisation. These activities may be considered as the contribution of actors in these departments in their participation in the integrated reporting process. However, these achievements were a collection of operations carried out by their own departments in the context of the company’s operations as a whole. The information provided by each department was regarded as complexly interwoven with their organisational context. In other words, the functionality of integrated reporting to the cooperative departments was “highly context-specific” (Ahrens and Chapman, 2007, p.21).

The company’s integrated reports are to a large extent completed and developed with the

support of editorial companies, particularly in relation to drafting and design activities. Although they are referred to as editorial companies, their role goes far beyond providing the layout of the report. The reliance on editorial companies has helped Energy-tech to develop its *practical understanding* of integrated reporting to some extent, but it has also limited changes in the company's *general understanding* of integrated reporting practice and the *purpose* of its various activities (Schatzki, 1996, 2002). In the course of implementation, the general understanding of integrated reporting as a communication tool has been reinforced along with the accumulation of the practice and the development of the practical understanding; the production of the integrated report itself became the purpose of the integrated reporting practice.

It was observed that there was not much involvement of the top management in the overall reporting process. Although previous studies (Knauer and Serafeim, 2014; Busco, 2017; Hearth et al., 2021) have highlighted the role of top management, the form in which this involvement takes place has not been discussed much. Top management engagement would be further discussed in the next section on the MA process.

7.4 Top management engagement: the episode of materiality analysis

In the previous section, the top management was rarely present in the integrated reporting process except for the final approval process. The materiality analysis, as an emergent project of integrated reporting practices from 2021, was presented in this section in order to further explore the involvement of the top management.

Materiality is a concept that stems from financial reporting and different definitions have been provided for this concept. In the case of integrated reporting, materiality is also one of the guiding principles defined in the Framework. According to the Framework, “an integrated report should disclose information about the matters that substantively affect the organization’s ability to create value over the short, medium and long term” (IIRC, 2013, p.19). The materiality determination process reflects how management decides which specific information should be disclosed. According to the latest KPMG survey on integrated reporting in Japan (KPMG, 2021), the percentage of companies that report on materiality is on the rise, with 78% of integrated reports and 80% of sustainability reports including it⁶⁵. The discussion of materiality analysis was not new in Energy-tech. They have been criticised by investors for not providing materiality analysis in shareholder relations activities. CSO was initially responsible for MA and they tried but could not complete it to be released in IR 2020. ESPO took over the task and involved a consulting company (Consultant-A) to finish the analysis and released the result in IR2021.

7.4.1 Who should take the lead?

The discussion of how to improve materiality analysis was initiated in the reflection meeting for IR2020. In the meeting, BC-e1 explained the trend of MA based on the fact that most companies issued integrated reports disclosing the result of MA, and more and more companies began to involve board members in the process. By presenting the activities concerning MA in preparing IR2020, they attributed the failure to the lack of time and human resources, as well as insufficient engagement with relevant departments. If the analysis had been conducted too hasty just for the

⁶⁵ The survey was conducted on 225 companies that are constituents of the Nikkei Stock Average Index.

sake of publication, BC-e1 further explained, they would probably change it frequently in the following reports, which might undermine the cohesiveness of the report. Besides, different senior managers were not equally eager to participate in the MA process. Thus, the “education” to improve the awareness of the importance of MA was also needed.

The discussion that followed focused on why MA was necessary and the ownership of the process, i.e., which department should take the lead. Interestingly, they shared the consistent perception that MA was conducted for management improvement, rather than simply to disclose the results of MA to satisfy external requirements such as investors. Besides, they also recognised the importance of involving top management in discussing materiality analysis. However, IR-e2 also pointed out that “it would be difficult for top management to start the discussion without providing them some gathered information”. Although recognising the importance of materiality analysis in management, they asked the CSR department (ESPO) to take the lead in materiality analysis. Finally, they reached the compromise that ESPO took over the task and member of the cross-functional team for integrated reporting would be involved. Although participants from the communication department (CSO) were assigned to be involved, ESPO was concerned that it was difficult to understand how they would make too much contribution in this process (CSR-e4), and it should be the CSO to take the lead (CSR-e2).

7.4.2 The enrolment of the CEO

After the reflection, ESPO investigated the current trend of materiality analysis and exchanged opinions with four companies in the same industry including Electric-N. With the information collected, they proposed the idea to CEO by emphasising the importance of materiality analysis:

[Generally,] materiality refers to ‘the degree to which a company’s activities have an impact on social issues’, and the extent to which the company is aware of these issues, as prioritised [...] many listed companies have identified and disclosed their materiality through integrated reports and website media. The key to this is to clarify *what* is material and to *whom* it should be communicated.

--Expert from presentation material

In explaining and rationalising the implementation of the MA, CSR-e4 referred to the inadequacies of IR2020, namely the lack of specificity on how Energy-tech perceived and addressed management issues and the difficulty in understanding how it provided value to address social issues. They also explained the procedures of MA by providing a comparison of the four companies, which was differentiated by the length of time required, the number of results identified and the availability of consultancy. The competitors referred to here are not industrial competitors but other companies doing well in ESG or experiencing the same troubles (although many of these companies come from industrial competition or partnerships). Since CSR-e4 has become the leader of ESPO, he has arranged several lectures given by experts as well as practitioners in the field of ESG issues. As CSR-e4 denoted, this would help employees and leadership to understand what is happening in other companies without the need for the ESPO department to talk in general terms. This also occurred in the MA process, where the ESPO aggregates the experiences of other companies before reporting to the CEO, not only by searching online for other companies’ reports but also by interviewing familiar companies such as Electric-

N. When discussing the progress of the MA with Consultant-A, ESPO also often asked how other companies had done it. The experiences of these other companies were generally used to justify various decisions to specific activities or the enrolment of different actors.

Consequently, three key issues and requests were eventually raised. These were to involve the management team, including the CEO, in the materiality identification process (top-down approach), clarify the relationship between the identified materiality and the value creation process, and make the MA process a tool to enhance management competence.

Regarding the process of convincing the CEO, the interesting aspect that CSR-e4 mentioned was that since moving from Tokyo to Kyoto, he had become closer to the CEO in terms of physical distance. Therefore, whereas before, to make a proposal to the CEO, he needed to confirm his schedule and arrange a video conference, now he could simply check the CEO's availability, which allowed him to report on new issues and provide immediate feedback on any details that the CEO suggested needed to be re-confirmed. The CEO had also been briefed on the MA on various occasions, prior to discussions with shareholders, so the proposal has been supported by the CEO.

7.4.3 The determination of consulting company

The consulting company was quickly decided upon after the presentation of proposals given by the four candidates, of which the Editor was also included but did not seem to be "eager" for the project (CSR-e4). They first discharged Editor because the company said they were unable to meet Energy-tech's requirement to complete MA within six months to disclose the result in IR2021 due to staff shortages. The remaining three companies were all able to meet the basic requirements but differed in experience, budget and level of "desire to obtain the project" (CSR-e1).

The Team made the final decision in a "democratic" way (CSR-e4). Members of the Team had different opinions on the proposal and character of each candidate. Different from the other four members, CSR-e4 preferred the one less in experience but showed more "ambition" to take the project by the way they presented the proposal and instant communication before and after. Other members, however, trusted the major company since they seemed more professional that, would help them to achieve the goal in time. As a result, the major company, Consultant-A, was chosen as their partner for the materiality analysis:

Consultant-A is a big company and has specific experience with other companies and has established methods and frameworks. It is inevitable that there is a lack of human touch. However, we have chosen the stability of Consultant-A, because we know that this is where it differs from other candidates.

--CSR-e4

In a later informal conversation with CSR-e4, he noted that indeed, he preferred the other consultant, but he also agreed to what others thought about it. As an executive, he thought his role was to give directions and decide "whether to do or not" to speed up the decision-making. When it came to the very practical problem, he respected the opinions of the "real practitioners". At

least, he claimed, “the big company could be a better or worse option but would not be a wrong option”. Furthermore, if he insisted on the smaller company, which they concerned that whether the company’s competence was good enough to reach the goal on schedule. In the case that the company failed to their expectation, it would then be his responsibility.

7.4.4 Materiality analysis

Due to the impact of the pandemic, communication between Consultant-A and Energy-tech was conducted online for almost the entire MA process. During about five months, 13 regular meetings were conducted to discuss different topics arising from the process. The cooperation with Consultant-A started with developing a plan for the entire MA and the allocation of tasks to be completed by each at different stages. During the development of the schedule, as CSR-e4 anticipated, Consultant-A seemed to be “functional and efficient”, but a bit weak in terms of “human interface” (communication), which was regarded as “a necessary cost to the company for cost reduction” and needed to be fully taken into account during the MA process. At the same time, CSR-e4 perceived that this schedule would ensure a degree of objectivity (persuasiveness). The whole process involved all stakeholders available, including internal (board member) interviews, employee questionnaires, customer surveys, expert consultations, etc. At the same time, CSR-e4 considered it essential to interview the four independent directors on an equal footing. This would ensure the involvement of internal and external directors as well as the awareness of employees. Moreover, the addition of an external expert’s opinion could enhance the objectivity of the results.

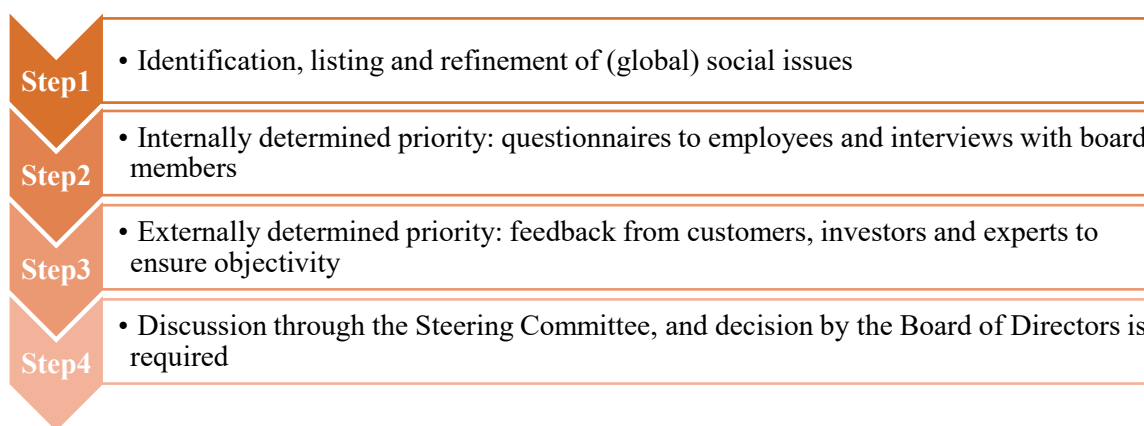


Figure 7.3 Materiality Analysis Process

As shown in Fig. 7.3⁶⁶, the materiality analysis process began with identifying, listing and refinement of social issues. Using the SDGs, SASB, MSCI and Energy-tech’s medium-term management plans as sources of information, social issues that were most relevant to the business were initially identified and compiled into a draft shortlist by Consultant-A. The issues identified were again grouped into the “management/ environmental/ social/ governance” categories, discussed and refined by the Team afterwards. However, the revision observed was limited to the refinement of the wording.

⁶⁶ Source: internal documents prepared by ESPO

The priority/importance of the social issues to Energy-tech was then examined from both the perspectives of stakeholders and the company through the desk research by Consultant-A, questionnaires and interviews with different stakeholders. Internal perspectives regarding the priority were investigated through employee questionnaires and interviews with board members. Before conducting the questionnaires and interviews, ESPO prepared a learning project on MA on the company's original E-learning platform in order to improve the understanding of MA among the company's employees. For the company's top management, they also organised a learning session with an external lecturer (Consultant-A) to introduce and clarify MA. Interviews with the senior manager were also led and analysed by Consultant-A.

In terms of external perspectives, opinions of key customers and investors were gathered through questionnaires with the help of relevant departments. The desk research, conducted by Consultant-A, included evaluation of the relevance of ESG issues (the SDGs and industry-specific issues identified by MSCI and SASB) and social expectation (the Global Risks Report⁶⁷). Those who matched the items listed or investigated in each document were given the highest score. Gathering all the information outlined above, Consultant-A then evaluated each issue by scoring for relevant categories under the internal and external perspectives. From a list of 33 issues, the Team narrowed down to 14 issues in the dimension of strategy, environment, social and governance, which were important to both stakeholders and Energy-tech.

7.4.5 Top management involvement

The involvement of the top management had been recognised as a critical issue in the MA process from the beginning. To ensure the engagement with the top management, ESPO pointed it out in the presentation to the CEO. Meanwhile, to improve the awareness among management, they also prepared a training session for them before the questionnaire and interviews. The session was proposed to start with an introduction to the importance of ESG and the importance of materiality identification through the latest developments in ESG. Against this backdrop, as investors' needs for integrated reports increased, MA was emphasised in integrated reports as an authentic voice, which was important not only for investors but also for employees. Meanwhile, the importance of not only identifying materiality but also of applying it to business is explained. Furthermore, it was emphasised that it was critical to identify material issues as well as their connection with the SDGs, resonating materiality and the SDGs to innovate and create new business.

To the proposal, ESPO raised their concern about how to secure top management involvement in the process and make them aware of their responsibility in the process. CSR-4 suggested that Energy-tech executives should have a common sense about ESG investment and materiality, and it was important to point out that investors started to examine the investment target from the ESG views. Under such a background, management should take the lead in emphasising the importance of the process (and participation) of digging deep and articulating this fundamental value. He hoped that management would resonate with the importance of using a template for thinking beyond conventional thinking, rather than dismissing Energy-tech as unrelated to the successes

⁶⁷ The World Economic Forum (WEF), known for hosting the Davos Forum, compiled a report on the risks that need to be addressed globally and their severity. The report is based on a survey of leaders in government, business, and NGOs worldwide.

of other companies while including examples of failures. In addition, he also emphasised the importance of using materiality as a tool to demonstrate its ability of value creation:

It is impossible to predict what the world will look like ten years from now in a rapidly changing world, but it is important to express management's intention to demonstrate the values and technologies (innovation) that Energy-tech values, and to define the coordinate axis as materiality. In addition, the current management team has made it a top priority to restore the company's earning power [...] but I would like to see the point that non-financial is an important measure of a company's future quality to be incorporated somewhere.

--CSR-e4

All the internal executives attended the training session, and the meeting was held after ESPO narrowed down the material issues. The process of identifying the issues and results were presented to the top management and discussed among them. Some executives questioned the result of MA as it seemed to them that urgent issues for Energy-tech such as portfolio improvement were dropped, and that the identified issues could be applied to any company. Releasing it to the public signalled a commitment; therefore, they wondered what changes MA would bring to the way the company operates now, i.e. what changes they would need to make for that. They also addressed the justification for the number of material issues finalised, and it seemed that the co-existence of "ends and means" in these issues made it more difficult to understand them. In terms of the language used, the CEO believed that the use of Katakana⁶⁸ should be avoided as, ultimately, the MA needed to be understood by the employees for implementation to be possible. Their continuing discussion appeared to be due to a lack of the same level of knowledge and understanding of MA.

Following this meeting, Consultant-A arranged for ESPO to engage in dialogue with independent expertise previously selected to hear external views and suggestions on the overall MA process and outcome. The expertise pointed out the gaps between the management philosophy/strategy and materiality analysis, emphasising that it was important for materiality to be clearly defined and positioned. He also commented on the presentation of important issues, such as the simplification of some terms, the grouping of repetitive issues, etc., in order to improve the comprehensibility of these issues, which were reflected in further discussions with the company's senior leadership.

Admittedly, as CSR-e4 indicated, they were unable to ensure that all managers with different backgrounds shared a fairly consistent understanding and expectation of MA through just one training session. At the same time, they also recognised the importance of discussing these issues more in the context of Energy-tech itself. That is also why they decided to focus the discussion on a small group of top managers, which involved all directors, including the CEO and CFO. It was discussed and finalised over three meetings with the identification of seven material issues and twenty action plans. During these meetings, the main discussion focused on the purpose of materiality analysis and whether the current results fully stood for the material issues the company

⁶⁸ There are three characters in Japanese, namely Hiragana, Katakana, and Kanji. Hiragana and katakana are used when Kanji are not available or are difficult to write in. Katakana is often used for loan words from other languages.

should face. There were no new issues to be added; instead, they tended to discuss “what not to be included”.

The results of the discussions were eventually reported to the company’s senior management at the steering committee in the middle of August. This discussion focused on the independent directors’ questioning of the company’s motivation and the process of MA. Materiality, a word that originated in English, was questioned by the non-executive directors as to whether the practitioners really knew what it meant. The independent directors stressed the importance of considering materiality as an issue for the company and pointed out that it was problematic to simply do what ESG third parties (consultants) advised. The CEO explained that although they had questioned the term “materiality”, they believed that it referred to “the key issues in the thorough pursuit of value”. In response to the feedback they received, they modified the wording of the key issues identified to make them more relevant to the values they were pursuing, and the Board eventually approved the refined results in the end of August.

7.4.6 The disclosure of materiality analysis

With the approval of the Board of Directors, the next task focused on how to release it to the public, i.e. how to link it to the integrated report, and how to carry out follow-up activities to improve management based on the results of MA. Once Energy-tech had decided on Consultant-A as their partner, the company informed Editor that they would be working with another company on the MA and wanted to include it in IR2021. Editor has been informed of the process during the MA process, and the possible results have been disclosed to the extent that this is permitted within the limits of confidentiality.

However, during the final stages of the MA, it was observed that communication with Editor was not smooth and that Editor believed that adding separate sections of the MA would undermine the overall story of the integrated report. Editor considered that Energy-tech had only completed the analysis and obtained the results so far and that without the KPIs and the various linkages to specific activities, it would be abrupt just to publish the results in an integrated report. Moreover, Editor stressed that the topic of IR2021 was the presentation of the medium-term business strategy and that it would lack priority if there were two important topics in one report. Hence, the final compromise was to add a special feature in IR2021 to explain the process and results of MA. Further analysis was needed on what to do in the future, the relationship between MA and the value creation model, and the links between MA and other business activities, which should be prepared for full disclosure in the following integrated report.

7.4.7 Internal penetration of materiality analysis

As the ESPO has repeatedly emphasised, the fundamental purpose of MA was not to meet external information needs in order to enhance legitimacy. Although in IR2021 they only released the process, results and corresponding action plans of the MA, they also committed to develop relevant KPIs in the subsequent process to permeate the results of the MA internally and improve the corporate management. Since the completion of IR2021, the company has been working with a new consulting company to set the corresponding KPIs by working with different departments on action plans under the MA results.

It is difficult to assume that mutual understanding between the different departments will be significantly promoted in this process, which is still dominated by the ESPO, so that discussions tend to be concentrated in small groups of people. Still, the process has certainly helped different departments to understand MA and has offered the possibility of influencing the unfolding of practices in individual departments through the formulation of KPIs. This process was an attempt to move beyond the series of activities centred on the preparation of the reports. It also influenced to some degree the understanding of other organisational activities, allowing for the penetration of certain concepts such as sustainability.

7.4.8 Summary

During the MA process, it was noted that the overall discussion and analysis did not develop on the basis of prior agreement on what materiality analysis was. It was an ongoing process of understanding and agreeing, in which different activities were carried out. At the outset, they simply set a target of completing MA by 2021. Moreover, they emphasised that MA was not done for the sake of integrated reporting, but more importantly to improve management through the MA process.

Following the decision to conduct the MA, ESPO gathered relevant information on the process and content of the MA, reported to the CEO and obtained approval. In active engagement with top management, they sought to build a shared understanding of the implementation of MA. It was observed that through investigations of MA in other companies and discussions with Consultant-A, ESPO deepened their general understanding and recognition of the aim of MA, i.e. that MA was to achieve improvements in company management and not just to release the results of MA externally. ESPO aggregates the experiences of other companies before reporting to the CEO, not only by searching online for other companies' reports but also by interviewing familiar companies such as Electric-N. When discussing the progress of the MA with Consultant-A, ESPO often asked how other companies had done it. The experiences of these other companies were generally used to justify various decisions, specific activities or the enrolment of different actors.

This led them to recognise the importance of involving top management in the discussions during the MA process. To this end, ESPO organised a series of events, including a presentation to the CEO, senior-level training on the MA, and individual interviews with key executives following the questionnaire, and mini-discussions with company directors afterwards. Their intention was that the process and results of the MA would be used as a management tool to bring about actions to improve sustainability performance and management throughout the organisation. In these tasks they were supported by the directors, whose involvement in the process enabled them to develop *a general and practical understanding* of the shaping of the final results of the MA, which in turn led to a smoother discussion (Schatzki, 2002).

For top management, the meaning of the different activities surrounding materiality analysis could only be made clear to them through constant contextualisation. At the same time, they were aware that this was also the case if they would like to translate the results of materiality analysis into reality. The practice perspective highlights how purposes and meanings are constructed and formulated through individual activities to engage in integrated reporting.

Nonetheless, it could also be observed that during the MA process, ESPO avoided using the name of disclosure in discussions with or facilitating discussions among top management, as well as in activities that encouraged employees to participate in the questionnaire. It is true that they also mentioned that MA was the general trend and what the investors wanted to see, but they also stipulated that MA was not implemented for the sake of disclosure, but more importantly, to improve the company's management capacity. Under this objective, employees were mobilised to participate in the questionnaire and top management were also involved in the discussion process. They also explored the action plan needed for the future when discussing material issues, although the action plan also did not give specific targets but rather a broad direction. While the contribution of the action plan to the corresponding material issues was clear in principle, it was less obvious how it would be achieved in practice. The formulation of ambiguous objectives seemed to be precisely because of the uncertainty and the difficulty of aligning targets. In addition, these objectives did not necessarily provide straightforward practical content or indicate a pathway to achieve the goals.

Therefore, similar in the process of preparation of integrated report contents, it is found that the way different practitioners drew on the rules, procedures, ideals, goals, etc., was important in the development of integrated reporting practice (Schatzki, 2002), as "what is exactly right" was not predetermined and may not even be shared by consensus. It was observed that the overall discussion and analysis did not develop on the basis of an agreement on what was objective or how to achieve it in advance, but rather an ongoing process of understanding and agreement on what should be done. It highlighted how the purposes and meanings were constructed and formulated through the individual activities to engage in integrated reporting.

Nevertheless, to some extent, this analysis process was an attempt to move beyond the series of activities centred on the production of the report. Although the publication of its results was still tied to the disclosure of information, with the development of the action plan, and the establishment of agreements between different departments regarding the setting of KPIs, it also influenced to some extent the understanding of other organisational activities, opening up the possibility of the penetration of some ideas such as sustainability.

7.5 Summary of the chapter

This chapter investigated integrated reporting as practices to understand a broader and more complex field in which an organisation attempts to make itself understood. Integrated reporting is regarded as essential to enable the organisation to connect its diverse activities into a holistic representation of its value creation process (IIRC, 2013). Through an account of the unfolding of practice, this chapter scrutinises the connection between the purpose of activities and specific activities, emphasising the complexity of intentional structures, but this does not mean to emphasise the determining role of the individual. Instead, the longitudinal case study was formed to employ a practice-based approach to investigate the practice of integrated reporting, identifying the constitutive activities that form context. The practice-based approach provides a way of understanding various activities involved in the integrated reporting practices, which are organised with rules, general understandings, practical understandings and teleoaffective structures (Schatzki, 1996, 2002).

Generally, there was not enough evidence to demonstrate that Energy-tech adopted integrated reporting as a result of matured integrated thinking (Lodhia, 2015) and prepared their reports based on a thorough consideration on environmental, social and economic issues. This is not to say that the company does not reflect on integrated thinking in its day-to-day activities, but at least in the context of integrated reporting it is difficult to detect a role for integrated thinking in this activity. The company initially saw the need and benefit of adopting integrated reporting as a way to save costs by combining two reports into one and, at the same time, to be able to follow the trend in the CSR community at the time. With the unfolding of practices, the development of activities were organised with the general understanding of integrated reporting as a communication tool to develop its own brand, adapting to the evolving organisational context. Practical understandings were particularly informed through the cooperation of editorial companies and other organisational activities (Schatzki, 2002).

Throughout the integrated reporting process, broad objectives were set, not providing practical content or indicating the pathway to realise the objectives. A wide range of activities that constituted the integrated reporting practice did not align neatly with the pre-defined agenda. Integrated reporting is grounded in the power of managers in coordinating departments to set agendas but seldom had they utilised any internal management to structure practices or the responses of organisational members. The choice of what to do and how to do can be interpreted and justified from different perspectives. The control of the practices was not achieved by regulating every detail; activities would be coordinated with often unclear goals, constituting and maintaining the practices.

Regarding the involvement of cooperative departments in the process, it was observed that different departments were engaged but the continuity of practices was also driven by the routine. It represents as an extension of previous reporting practices, where the current practical understanding partially derives from (Schatzki, 2002). The activities concerning the reporting process of participants from cooperative departments were more or less the same, i.e. providing requested information of their own business activities to the coordinating departments. Focusing on the specific details of the involvement of other departments highlights how different departments defined the significance of their involvement in integrated reporting and also reveals that the scope of their purpose was limited to the content and nature of their work, and did not extend to the whole organisation. These activities can be considered as the contribution of actors in these departments in their participation in the integrated reporting process. However, these achievements were a collection of operations carried out by their own departments in the context of the company's operations as a whole. The information provided by each department was regarded as complexly interwoven with their organisational context. In other words, the functionality of integrated reporting to the cooperative departments was "highly context-specific" (Ahrens and Chapman, 2007, p.21).

In addition to the experience of the previous report, Energy-tech also developed practical understanding through interactions with external parties, including competitors, investors, consultants etc. They would draw on but not strictly follow different requests of investors and the practices of other companies. Although Energy-tech claimed that their integrated reports were provided for multiple stakeholders, they rarely had access to the opinions of other stakeholders

except for investors. Regular communication with investors existed before they adopted integrated reporting practices and was primarily conducted by IR teams. Although I did not have the chance to talk directly to the investors -which was not the aim of this research- the opinions of investors were used and discussed by the coordinating departments on various occasions. Communication with investors was conducted in routine, and since Energy-tech adopted integrated reporting, which was why they shared the investors' opinion in the kick-off meeting that was held after the shareholder relations activities. Different investors held distinct views and requests, which were usually not in conflict. What should not be overlooked in Energy-tech's case is the financial deficit situation in FY2019 that made investors need the fastest solution from Energy-tech. Furthermore, most issues would involve qualitative judgments with little accounting information to measure the trade-offs in achieving these objectives. While investors would like to "see" more KPIs to help make their judgments, quantitative information would be provided on what information was available, rather than considering what information was needed. For example, the environmental department would consider what information was "buried" in the business that could be collated and made available externally, rather than considering what information was needed externally in the first place.

Moreover, it is also found that the editorial companies and other consultants had played a pivotal role in moulding different activities involved. Integrated reports are to a large extent completed and developed with the support of editorial companies, particularly in relation to drafting and design activities. Although they are referred to as editorial companies, their role goes far beyond providing the layout of the integrated report. The reliance on editorial companies helped Energy-tech to develop its *practical understanding* of integrated reporting and has also limited changes in the company's *general understanding* of integrated reporting practices and the *purpose* of its various activities (Schatzki, 1996, 2002). In the course of the implementation of the practice, the general understanding of the integrated reporting as a communication tool has been reinforced along with the accumulation of the practical understanding; the production of the integrated report itself became the purpose of the integrated reporting practice.

Practical understandings were gained from the discussion with consultants (Schatzki, 2002). It is particularly interesting to observe how consultants negotiated with Energy-tech in different activities. Different purposes could be found to bring about competing opinions in various activities. For example, in discussion with Editor, CSR-e4 preferred clarification of broad ideas such as what sustainability means for Energy-tech, while other members did not really respond to such requests but focused on more detailed and concrete activities leading to some "product" (result-oriented). This was also evident in their discussion of how to release the result of MA. Resistance from the Editor to the disclosure of materiality analysis was due to limited time and the lack of the relationship between disclosure and following actions.

Based on the longitudinal case study, this study extends the research of integrated reporting with a practice lens by engaging intensively with the field based on a longitudinal case study. The discussion chapter would synthesise the findings from the longitudinal case study and the cross-case analysis to explore how integrated reporting unfolds as practices and how it relates to other organisational activities. In conjunction with the findings from the different research designs, the next chapter will show how these findings answer the research questions.

Chapter 8 Discussion

8.1 Introduction

Utilising concepts and precepts drawn from the practice theory, particularly oriented by the approach of Schatzki (1996, 2002), this chapter provides syntheses and discussion of the findings from multiple case studies (i.e. Machine, Device, Pharmacy, House) and the longitudinal case study (i.e. Energy-tech) in the light of previous literature on the internal process and practices of integrated reporting and thinking. Prior relevant studies (Lodhia, 2015; Al-Htaybat and Alberti-Alhtaybat, 2018; Abhayawansa et al., 2019) have demonstrated the practice lens approach's potential for addressing different context specific questions. Conceiving of practices as “arrays of activity” (Schatzki, 2001a, p. 2), it is possible to appreciate how and why certain “structural aspects”⁶⁹ (Ahrens et al., 2011, p. 318) may serve certain roles across time and space in the development of integrated reporting and thinking practices. For Schatzki (1996, 2002), all practices consist of a nexus of activities and material arrangements, which forms a practice-arrangement bundle to be sustained over time and space. Activities are organised, though not determined, by *rules*, *practical understandings*, *teleoaffective structures* and *general understandings* (Schatzki, 2002).

This chapter discusses the major points and evaluates how these findings may respond to the research questions and thereby contribute to the extant literature. For a brief recap, the overall research sets out with the overarching objective of examining the development of integrated reporting and thinking at the practice level through case studies of selected companies in the Japanese industrial context. It places an emphasis on the ways in which integrated reporting is shaped by and shapes organisational activities. To be specific, it sheds light on how practitioners understand and implement integrated reporting and thinking, as well as the consequentiality of the unfolding of these practices on corporate reporting and internal management. Accordingly, the discussion seeks to examine how the following operational research questions have been addressed by the primary findings from the fieldwork:

- 1) How do practitioners *understand* integrated reporting and thinking?
- 2) How do practitioners *implement* integrated reporting and thinking?
- 3) How do integrated reporting practices *interact* with other organisational practices?

By virtue of the dynamic nature of practice, practitioners' understandings and specific actions are closely related, albeit they may not always manifest consistently. Therefore, even though the chapter is organised in accordance with the research questions in order to facilitate analysis, inevitably the discussion of understanding and implementation is always intertwined. Thus, Sections 8.2 and 8.3 respectively correspond to the first two operational questions. After summarising the discussion of the first two questions and briefly explaining their connection to the last question (Section 8.5), Section 8.6 focuses on its relationship to other business activities to examine the consequentialities of implementing integrated reporting. The final section of the chapter provides a concise recap of the discussion.

⁶⁹ As explained by Ahrens et al. (2011), these structural aspects include but are not limited to regulations, rules, norms, all of which must be viewed as resources for practice and are subject to modification by practitioners as they employ them.

8.2 The evolving understandings of integrated reporting

In responding to the first question, the evolving understandings of integrated reporting were observed, to varying degrees, in all the cases in this study. This is understandable, as faced with a new practice, practitioners need time to deepen their understandings. The initial uncertainty or diversity of understandings may be further reinforced by the principle-based Framework and the voluntary nature of its adoption (Cheng et al., 2014; del Baldo, 2017). In general, it is found that the evolving understandings occurred both in the spatial dimension—between different companies and within the same company—as well as the temporal dimension for a specific organisation.

Temporally, the empirical evidence obtained in this study, concerning what happened in the very beginning of the organisations' integrated reporting journey, did not fully align with previous research. Lodhia (2015) confirmed the role of embedded integrated thinking in driving the transition and development of integrated reporting through the case of Goodbank. By contrast, it is found that the motivations behind the transition to integrated reporting could be diverse in the cases in the present study, without necessarily involving the integrated thinking. Nevertheless, this is not to deny the existence of integrated thinking (Al-Htaybat and Alberti-Alhtaybat, 2019) in these case companies before or after the introduction of integrated reporting. Drawn from findings of case studies in the present research, however, there was insufficient evidence to demonstrate that its adoption and development was based on the companies' comprehensive understandings of the economic, social and environmental impacts on long-term corporate value creation.

According to the Corporate Reporting Lab, Device and Machine, as the early adopters, introduced integrated reporting *before* the release of the Framework. Device is the most similar case to Goodbank in Lodhia (2015). The motivation for adoption of integrated reporting lay in its intention to align its reporting with its strategic aims, i.e. the practice of the corporate philosophy and the enhancement of corporate value in long-term. As with Lodhia (2015), integrated reporting was perceived, by Device, superior to previous reporting system. What is different, however, is that the introduction of integrated reporting was based on the changes sought by the corporate management. In comparison to the previous reporting system, Device considered integrated reporting to be an adaptation to this change, i.e. more effective in demonstrating its ability to create long-term value for stakeholders. Moreover, its decision and practices were also informed by discussion of “Survey on the Disclosure of Non-Financial Information that Contributes to the Creation of Sustainable Corporate Value”⁷⁰, as noted in its first report (2012). Therefore, similar to Goodbank's participation in the IIRC Pilot Programme Business Network⁷¹ (Lodhia, 2015), the involvement of professional bodies also enabled Device to develop more comprehensive *general and practical understandings* of integrated reporting compared to other organisations (Schaztki, 2002).

⁷⁰ A research study commissioned by the Corporate Accounting Office, Economic and Industrial Policy Bureau, Ministry of Economy, Trade and Industry (see more in [Section 7.3.2](#))

⁷¹ According to IIRC, the IIRC Pilot Programme Business Network is a platform for businesses to apply the principles of integrated reporting, as champions of reporting innovation.

By contrast, the case of Machine is particularly notable due to the fact that the initial change in its reporting system in 2011 was not explicitly made for the purpose of introducing integrated reporting. Rather, it was primarily driven by its internal intention of simplifying the reporting system and developing its own version of report. Nevertheless, it is interesting to note that a similar change to Device occurred in 2021. With the change of leadership, the company has made strategic clarifications and adjustments towards long-term value creation. In response, the corporate reporting system has embarked on a process towards integrated reporting that is more in line with external expectations, in order to better communicate the strategic direction and reflections of the company to its various stakeholders.

In addition to internal motivations, although there were very few companies adopting integrated reporting before the release of the Framework in Japan, the influence of the external environment (see [Section 2.3.1](#)) on the decision to adopt cannot be ruled out. Device also characterised integrated reporting as an emerging discourse (Higgins et al., 2014; Beck et al., 2017; McNally et al., 2017). This implies that the decision to adopt integrated reporting may be influenced by a number of factors (Adhariani and de Villiers, 2019), including internal motivations, such as aligning with its strategic purposes (Device), and simplifying corporate reports (Machine), and also external institutional influences.

For those companies that introduced integrated reporting *after* the release of the Framework, they faced an institutional environment more favourable to its adoption (Gunarathne and Senaratne, 2017), with an increasing number of Japanese companies had started to introduce integrated reporting. Roberts and Samy (2019) found that early adopters of integrated reporting tended to be influenced by an economic rationale including “greater focus on social and environmental issues” and “improved decision making” (p.363). The later adopters, by contrast were more likely to be influenced by a sociological rationale to respond to external pressure. In the cases of the present study, despite the fact that they all recognised that integrated reporting was gaining in popularity and influence, they did not adopt it solely because of the pressure from the external environment. Energy-tech and Pharmacy both considered, to varying degrees, the potential of adopting integrated reporting in terms of cost and effort savings in corporate report preparation. House’s adoption was driven by the CSR department manager, who recognised it as an opportunity to change senior management’s approach to ESG issues. While the possibility cannot be ruled out that the rationale articulated by practitioners was influenced by the implementation of integrated reporting over the years, the accounts suggested that they did not adopt it on the basis of a single reason or rationale (Fuhrmann, 2019; Adhariani and de Villiers, 2019).

In general, transition to integrated reporting in these cases suggests that the development of integrated thinking could indeed facilitate the transition to integrated reporting by recognising its value, but that not all companies adopted integrated reporting based on a comprehensive consideration of environmental social and economic issues. This is more evident in those companies that adopted it *after* the Framework was released. During the diffusion period of the practice, these companies are more likely to be influenced by the recognition of integrated reporting as an emerging discourse (Dumay et al., 2017; Gunarathne and Senaratne, 2017; McNally et al., 2017; Robertson and Samy, 2019). It is also possible that the cultural and

institutional environment in which companies operate motivated them to introduce integrated reporting (Jensen and Berg, 2012; García-Sánchez et al., 2013; Vaz et al., 2016; Fuhrmann, 2019; Girella et al., 2019), but there is not sufficient evidence to suggest that the companies participating in the study differ from that in Lodhia (2015) because of this.

It is, however, possible that the understandings of the relationship of sustainability issues and value creation may influence the development of integrated reporting practices. It is also observed that the understandings of integrated reporting by companies, ranging from why it is launched to how it is implemented, evolve as the practice unfolds. As indicated by Schatzki (2002), the end itself evolves little. However, this is not to say that the purpose is always invariable; rather, the purpose, like the processes that fulfil it, is dynamic, but the degree of dynamism is not consistent. Among the four elements that organise the practices, *general understandings* and *teleoaffective structures* are closely related to purposes involved. The general understanding relates to an understanding of a particular *field* shared by many practices (Schatzki, 2002). The teleoaffective structure involves a number of constituents: “intentions, actions, emotions, and moods as well as ends, purposes, projects, and tasks” (Caldwell, 2012, p.289). The general understanding seems to connect to the teleoaffective structure in the form of shared goals or values within a social community.

When it comes to adaptation, the timing of adoption seems to have little impact on the process. In Device, as the company has been committed to practising the corporate philosophy to enhance corporate value since the current CEO was appointed, its integrated reporting practices has been influenced by the general understanding that is informed by its corporate philosophy. In particular, the company formulated its aim of issuing integrated reports as telling a future-oriented value creation story to its stakeholders, which is in line with its teleoaffective structures of the overall corporate activities. With the similar clarity as Device, the practice in House was organised under the general understanding of integrated reporting as a communication tool to drive internal changes, aiming for change in the mind-set of top management regarding the recognition of ESG initiatives. In both cases, the practitioners themselves had a relatively clear perception of the purpose of the practices, and therefore its practices were informed by a stable general understanding.

By contrast, the changes in Pharmacy, Machine and Energy-tech tended to occur along with the clarification of the general understanding towards integrated reporting, through “further development or refinement” (Schatzki, 2002, p.243). Both Pharmacy and Energy-tech mentioned an “impure” motivation behind the adoption of integrated reporting, although House emphasised that this was a misunderstanding of the new practice. With the preparation of integrated reports and the feedback gathered from ESG meetings with investors, Pharmacy started to perceive integrated reporting as a good opportunity to engage with stakeholders, especially long-term investors. Along with the implementation of integrated reporting and the shift of the organisational, especially economic context, Energy-tech had tried to employ it as a tool to communicate its brand and value creation story to stakeholders.

As previously noted, Machine’s case is unique in that they did not start their reporting with the intention of introducing integrated reporting. The purposes of the corporate reporting have

developed with the unfolding of practices, organised with an evolving general understanding of business activities and the function of corporate disclosure accordingly. This change has manifested itself in a move from a simplified reporting system to the recognition that the more information disclosed the better. With the recent appointment of the new CEO in 2021, the company recognised that its reporting needed to better explain to stakeholders how they create value. Therefore, it is evident in Machine that the development of integrated reporting manifested as a dynamic process that reflected the evolving general understanding of corporate disclosure.

From what has been discussed so far, the evolving understandings of integrated reporting in these cases are inconsistent with the findings of Robertson and Samy (2019). Based on innovation diffusion theory, they identified a transition from a sociological rationality at the time of adoption to an economic rationality during adaptation. In the cases identified in the present research, there was apparently no such transition; instead, the expectation of sociality may have organised practice through understanding of practice in a variety of ways. The implementation of the practice may even reinforce the understanding of practitioners towards the practice, which was observed in the development of general understanding in the cooperative departments in Energy-tech. According to practice theory, rationality or ends, or even means, do not appear in an *a priori* order because, as with the observation of Ahrens and Chapman (2007), “means and ends are constructed simultaneously in practice” (p.23, see also Lave, 1988).

In the spatial dimension, along with the discrepancies between organisations, the evolving understandings also manifested in the inequitable distribution among practitioners within the same organisation. Previous literature has also shown inconsistencies in terms of understanding or recognition within the same organisation, although these have manifested themselves in situations of conflict or compromise (van Bommel, 2014; Dumay and Dai, 2017; McNally et al., 2017; Feng et al., 2017). In contrast, the inconsistent or evolving understandings in this study appeared as differences in general and practical understandings of integrated reporting based on their own roles and engagement in the process.

This is notably evident between coordinating and cooperative departments in the longitudinal case study. As previously discussed, along with development of practices, the coordinating departments in Energy-tech had tried to employ it as a tool to communicate its brand and value creation story to stakeholders. By contrast, activities involving the cooperative departments tended to be an extension of previous reporting practices. They demonstrated a good practical understanding of their role in the integrated reporting process, based on the practical understanding of their own business activities and the general understanding of integrated reporting as a means of external disclosure, which has organised the reporting practices since CSR reporting. Most of practitioners from the cooperative departments have been involved in the preparation of previous reports, enabling them to develop competencies in responding to the requests for externally oriented information about their activities. Consequently, the audience for disclosure as perceived by practitioners in the cooperative departments as not primarily investors, as set out in the Framework, but rather general stakeholders, which is also arguably a continuation of CSR reporting practice. It can therefore be argued that these departments use the integrated report as an opportunity to communicate their sustainability initiative to stakeholders (McNally et al., 2017).

As emphasised by Schatzki (2002), the constant flow of human and non-human behaviour perpetuates practice, in addition to its alteration. This is also why a certain *similarity* in the organised activities was observed, which could be explained by the notion of practice memory (Schatzki, 2010). Schatzki (2010) suggests that changes or persistency in the organisational elements of practice is sequential in the temporal dimension, but not necessarily causal. In other words, in the case of Energy-tech, the practice memory inherited from previous reporting practices did not consequentially entail integrated reporting as an extension of CSR reporting. Instead, this general understanding of integrated reporting has been *reinforced* by practical understanding as the practice of integrated reporting unfolded. This can and probably does happen in every organisation.

Machine was yet another illustration of diverse perspectives inside an organisation. In the previous discussion on temporality, this difference in perspective seemed to occur over time, but in fact it was more than that. CSR-m1 stated in the interview that within companies, such as the environment department, there was indeed a desire to improve integrated reporting to bring it closer to externally defined reporting. The activities was organised by the teleoaffective structures informed by different and even conflicted purposes, emotions, desires etc. but this spatial difference opens up the possibility of change over time (Schatzki, 2002, 2011). Once the right context arises - in Machine's case it was a change in the top management of the company and the resulting strategic approach - this change in practice has the potential to manifest itself in time. As stressed by Schatzki (2009, 2011), the temporality and spatiality are intimately connected in the activities and the "interwoven timespaces" implies the interconnectedness of different people's activities (Schatzki, 2011, p.24).

From these cases, while the degree of stability in the purpose and general understanding of integrated reporting varies, it is possible to appreciate the role of key individuals (Stubbs and Higgins, 2014; Busco et al., 2017), not confined to the top of the company, in driving the process. In addition, the changes in general understanding in these cases, whether relatively stable or with explicitisation, were unintentional but, as with the teleoaffective structure, "occur intermittently" (Schatzki, 2002, p.243). Comparably, unintentional sayings, doings and practical understandings tend to be "continual or even continuous" (ibid, p.243). This is perhaps why Ahrens et al. (2011) assert that the requirements of rules and objectives in relation to integrated reporting can impose heavy demands on the practical understandings of the practitioners, i.e. knowing how to act in a particular practice (Schatzki, 1996, 2002). This is also evident in the empirical context of integrated reporting as a variety of different approaches are available under the same objective, which would be further discussed in the following section.

In summary, evolving understandings of integrated reporting were observed. The evolution existed not only in the temporal dimension for a particular company, but also in the spatial dimension between different companies and within the organisations. The purposes, general understandings, and practical understandings that organised activities changed in varying degrees while simultaneously sustaining the development of practices. The temporal and spatial evolution of such changes did not follow an *a priori* direction, nor did they necessarily converge as defined in the Framework. As practices unfolded, the understandings of integrated reporting would, however, adapt to the specific context of each organisation.

8.3 The constitutive actions of integrated reporting practices

Regarding how organisations implement the practices, it is difficult to answer this question simply in a highly general way, because practice itself is dynamic, taking place in and simultaneously becoming contextual (the site) (Schatzki, 1996, 2002). It is observed that a chain of actions occurred within and transpired as part of integrated reporting practice. As previously noted, it is difficult to fully separate the understandings and the exact actions that compose the practices of integrated reporting. It seems natural to assume that what is thought and what is done are necessarily aligned, but it is often more dynamic and pluralistic than expected when unfolded as/in practices. As Schatzki suggests, the constitutive actions always “express the same understandings, observe, contravene, or ignore the same rules, and pursue ends and projects included in the same structure of acceptable and enjoined teleologies” (Schatzki, 2005, p.472).

Indeed, there are “similarities and sameness” in the general activities that constitute the reporting practice (Schatzki, 2001b, p.51). Particularly, the general workflow for the main internal activities in preparing an integrated report was similar in each organisation and is broadly consistent with the previous reporting activities. The coordinating department is responsible for reflecting on past reports, further developing the main direction of the new report, then assigning the relevant departments to collect the content of the report, and finally bringing it together and publishing the completed content online after it has been approved by senior management or the Board of Directors. Nevertheless, the practical understanding of how to carry out the activities under the same tasks or projects may differ (Schatzki, 2002). The practical understanding was essential to enable practitioners to “connect principles and rules more effectively” (Ahrens et al., 2011, p.320). The same end can be achieved in a variety of ways and means, i.e. practical understanding and the activities that reflect it can be diverse, always bound by a teleoaffective structure of interwoven purposes and emotions, adapting to and composing the site of the practice.

For example, in the case of collecting feedback from addressees on integrated reporting, different relevant activities - who to ask for feedback from, who leads the process, how to seek the feedback, and how to integrate the information to make choices after receiving feedback - can all be categorised under the same *project* or *task* (Schatzki, 2002). Specifically, feedback can be sought from shareholders, institutional investors, editorial companies, employees, and even awards organisations; feedback can be gathered by the relevant departments, through existing investor relations activities, communication channels with specific stakeholders, or dedicated ESG meetings, etc. These doings and sayings that constitute the practice of integrated reporting are the unintended consequence of the intended sought-afters (Schatzki, 2002). The multiplicity of the specific sayings and doings under the goal of “seeking feedback” reflects the diversity of practical understandings. Therefore, the requirements of rules and objectives in relation to integrated reporting can impose heavy demands on the practical understandings of practitioners (Ahrens et al., 2011).

Identically, there are several recurring issues that reflected the diversity of practical understandings under the same projects/ tasks or ends. First, regarding the reporting audience there is no consistency in the choice across companies for the external disclosure. The target audience for integrated reporting has been a controversial issue since the release of the Framework.

Its emphasis on the providers of financial capital was criticised as it deviates from the original intent of integrated reporting and it was also not in line with the practices at its outset. Although debatable, this approach, which is considered a business case, calls into question whether it will really have an impact on sustainability (Cheng et al., 2014; Flower, 2015; Adam, 2015; Dumay et al., 2017).

To take a look at how cases in this study defined their reporting audience, both Device and Machine, who adopted integrated reporting before the release of the Framework focused on various stakeholders. House and Pharmacy, however made it clear that the primary reporting audience was investors, while Energy-tech maintained its stakeholder orientation. These choices reflected the companies' general understanding as the shared goals of the social community (Schatzki, 2002). Device emphasised on multiple stakeholders in accordance with its corporate philosophy. In the preparation of the integrated report (2020), Device further emphasised its desire to increase the interest of younger generations in the company's corporate value creation, which includes not only investors, but also potential job applicants and current employees of the company. To this end, Device no longer issued a paper version of the report, but maintains an electronic version on its website, which is sent to the relevant stakeholders for feedback once it has been issued. In addition, in order to increase the readership of the integrated report within the company, Device has added photos of general community members, i.e. non-senior management, not only from the Japanese headquarters, but also with the faces of many employees from overseas branches. For Machine, the original intention of developing its own version of the report was to simplify the reporting system, so there was no inclination to issue the report based on stakeholders. The changes made under the new CEO in 2021 were also an attempt to be more storytelling in terms of content, rather than changing who the reports would be for.

House has been clear from the outset that the integrated report is designed to meet the information needs of investors, and has therefore issued it without discontinuing the sustainability report. Pharmacy has spent around a year defining the integrated report as being aimed at long-term investors, and believes that requirements of other stakeholders can be met alongside those of long-term investors. Energy-tech's choice exhibits a continuation of its previous reporting. Although there are differences in the selection and rationalisation of reporting audiences, it can be noted that the feedback collected by each incorporates that obtained through dialogue with investors. This may be related to the existence of established organisational activities and communication channels. It may also indicate a growing awareness of integrated reporting as a communication tool with investors (Knauer and Serafeim, 2014; Atkins and Maroun, 2015).

Second, in terms of the application of the guidelines, when respondents were asked how they implemented the integrated report, very few actively mentioned the use of specific references. These can be regarded as the *rules* that organised the activities (Schatzki, 1996, 2002). Lohdia (2015) identified rules organising the integrated reporting practices in Goodbank as general rules in relation to the business, financial reporting regulations, guidelines for sustainability reporting and the instructions provided by the IIRC. All of the case companies had several years of experience issuing annual and sustainability reports prior to the introduction of integrated reporting, and therefore had developed their practical understandings of the respective reporting practices that reflected the rules accordingly. Adopting the Framework was nevertheless not

always an obvious and inevitable task for them due to the voluntary nature of the practice, the principle-based characteristic and the specific context of each company. It is up to companies to decide how specifically they are able or willing to comply with the Framework. In practice, the distinction between rules and principles is not so clear, as principles may become more rule-like by the addition of best-practices and the repetition of activities. Changes in rules thus are not always planned and continuous, but intermittent and by chance (Schatzki, 2002).

Leaving aside the practical challenges of applying the principle-based Framework (Atkins and Maroun, 2015; Feng et al., 2018; del Baldo, 2017), the extent to which it is applied and the result it brings about are controversial (McNally and Maroun, 2018; Higgins et al., 2019). Different what was found in McNally and Maroun (2018), none of the cases in the present study suffered from an over-reliance on guidelines or expressed a willingness to do so. Device only mentioned that the preparation of the integrated report was in line with the Framework, while Pharmacy and House presented a critique of the Framework. Pharmacy argued that the application of the Framework did not necessarily lead to a good report, and that they finally identified the right report for their company by engaging with investors. House perceived the initial effort to apply the Framework as a hindrance to their implementation of integrated reporting, but they also acknowledged that using some of the terminology in the Framework could help them build a shared understanding, which contributed to their communication with investors. This seems to be in line with the critique in Higgins et al. (2019) that organisations just translate the underlying concepts into a vocabulary external stakeholders recognise, which might lead to a problem of relying solely on “concepts that already meet their internal strategic needs” (Higgins et al., 2019, p. 1674). However, it also reveals that the company reflected on rather than mindlessly applied the Framework (McNally and Maroun, 2018).

Similarly, there is a parallel diversity in the engagement with editorial companies, the role of which was also emphasised by previous literature (Gunaratne and Senaratne, 2017), especially in the diffusion stage of the practices. Pharmacy and Energy-tech could be described as two extremes, with Pharmacy clearly emphasising the *do-it-yourself* nature of deciding and producing all the content to be reported. Energy-tech, by contrast, relied heavily on the support of the editorial firm, both in terms of setting the direction and producing the specific content. Practitioners in the company also indicated that the editorial firm had more authority and expertise in this area and that they produced the report with the help of the editorial firm and deepened their understanding of it in the process. Device also indicated that the preparation of specific content would be left to the editorial company, as they believed that the expressions of company insiders were always inadvertently couched in terms that only they would understand, whereas the neutral expressions of third parties would more easily help outsiders understand activities within the company. These doings and sayings also reflected a range of practical understandings adapted to the respective corporate contexts, with the aim of being understood by outsiders.

Another notable example is integrated thinking. Generally, most companies demonstrated only a vague conceptual understanding of integrated thinking. House, as the only company to adopt a push strategy (Stubbs and Higgins, 2014), has an understanding of integrated thinking in terms of objectives and manifestation activities, i.e. changing the way senior leaders view ESG issues, not just as a cost centre, but as a management issue. In terms of specific manifest activities, the

company has worked to explicitly integrate its sustainability goals into its business strategy objectives. Pharmacy is another example of a company that gave its own insights into integrated thinking. They emphasised that after several years of implementation, the conceptual integration of financial and non-financial issues was difficult to achieve through compliance with the Framework. They learnt from their practice that the most important thing is to recognise and strengthen the strengths of the organisation, and this is exactly what integrated thinking has taught them.

Compared with the activities to prepare the report, concerning the content of the report, the overall structure of the reports tended to be similar and stable, with an introduction in the beginning, followed by a presentation of business activities with strategic information as the core, and concluding with ESG information. The report as a product did change in form from what was reported prior to the introduction of integrated reporting. To present the long-term value creation story of the company, both financial and non-financial information is expected to be included, albeit in an integrated way (IIRC, 2013). This is consistent with the findings in Higgins et al. (2019) that some changes were observed in the reporting framework, as different information was included in the reports compared to previous CSR reports or annual reports.

Nevertheless, in light of the workflow of integrated reporting process, there was little evidence of substantive changes to the systems that generated information to report. Several studies (de Viliers et al., 2014; Stubbs and Higgins, 2014; Dumay et al., 2016; Rinaldi et al., 2018) suggest that this was largely due to the fact that integrated reporting was still in its early stages and that organisations that are constrained by inertia and tend to stay the same will find it difficult to make massive changes in a short period of time. However, previous studies also point out that without changes in organisational structures or accounting systems, further changes will be difficult to achieve (Stubbs and Higgins, 2014; Dumay and Dai, 2017; Guthrie et al., 2017).

As discussed above, the activities that composed the integrated practices were diverse, reflecting evolving understandings and bound by the teleoaffective structure of interwoven purposes and emotions, adapting to and composing the site of the practice. From the overall workflow of integrated reporting, there was little evidence of substantive changes to the systems, but the same end can be achieved in a variety of ways and means. Several recurring issues were identified in the findings to show the diversity of doings and sayings under the same projects/tasks or ends. The choice of reporting audience and the extent by which to apply the Framework varied in each firm, informed by the understandings, recognised rules and the teleoaffective structure in each context. The multiplicity of specific activities under the same goal reflected the diversity of practical understandings through the ongoing internal and external engagement of different practitioners, both in the form of continuity and change. In addition, the doings and sayings that constitute the practice of integrated reporting are the unintended consequence of the intended sought-afters. Practical understandings were informed by the general understanding, rules in relation to the business activities, and the teleoaffective structures. In this way, doings and sayings in integrated reporting practices were organised by the rules, a compatible teleoaffective structure and mutually constitutive general understanding and practical understanding (Stacchezzini et al., 2020), which was also informed by those organising elements of the practices in the respective business activities.

8.4 Situatedness of practices

Before moving on to answer the last question on the consequentiality of integrated reporting, it is preferable to synthesise findings from the first two operational questions and briefly explain how they relate to the last one. As has been emphasised throughout this study, understandings and the practices are inextricably linked and cannot be separated in a strictly factual way. This has also been illustrated through the mutually constitutive relationship between general understandings and practical understandings that organised integrated reporting practices in the preceding discussion.

In general, it is found that as practice unfolds, the understandings and specific activities of integrated reporting did not necessarily converge towards what was defined in the Framework, but rather adapted to the specific context of each organisation. Specifically, the evolving understandings and diversified constitutive activities were observed in the reporting practices. These changes in the form of the re-composition of doings and sayings and shift in practical understandings were “continual and largely unintentional” (Schatzki, 2002, p.243). Therefore, the state of the practice tends to be a “slow metamorphosis and smallish punctual change” (Schatzki, 2002, p.243); no “radical, transformative change” was observed, which is consistent with previous studies (Stubbs and Higgins, 2014, p.1068; Dumay and Dai, 2017; Guthrie et al., 2017).

However, different from previous studies (Stubbs and Higgins, 2014; Dumay and Dai, 2017; Guthrie et al., 2017; McNally and Maroun, 2018), the empirical evidence interpreted with a practice perspective in this study suggests that the incremental changes emerged as a result of the dynamic and contingent nature of practices and its adaption to the specific organisational context. The inconsistent or evolving understandings in this study appeared as differences in general and practical understandings of integrated reporting based on the roles of practitioners and their engagement in the process. Concerning different activities that comprise the practices, the ends itself evolve little and under the same ends, there are diverse sayings and doings, which exhibit contingency, working out as the unintended consequences of intended purposes and rules, reflecting the teleoaffective structure of a range of interwoven ends and affections. Incremental and contingent changes occurred with the unfolding of integrated reporting practices, which took place under and converged towards the specific temporal and spatial context of each organisation instead of what was externally defined or requested. The primary purpose and general understanding of integrated reporting has evolved little and change in the performance of practices and practical understanding appears to be “an unintentional consequence of intentionally sought-after result” surrounding the concept of integrated reporting and thinking (Schatzki, 2002, p.242).

Nevertheless, these incremental changes are not in themselves meaningless; rather, such changes are processes through which different practices could possibly emerge, and unfold as a tangled nexus with other practices. The understandings of the practice differ from company to company with different doings and sayings, and potentially consequentiality. The need of examining the consequentiality/ impact of integrated reporting has been recognised in previous research (Dumay et al., 2016; Rinaldi et al., 2018), and various studies have been carried out to do so (e.g., Stubbs and Higgins, 2014; Guthrie et al., 2017).

Prior studies highlighted the lack of shared understandings, the corresponding organisational

structure and accounting system (Stubbs and Higgins, 2014; Guthrie et al., 2017; McNally and Maroun, 2018) or the conflicting integrated thinking and existing corporate culture (Dumay and Dai, 2017) in stimulating radical organisational changes. Little attention has been given to the relationship between the integrated reporting practice and other organisational activities. This is important to recognise because integrated reporting does not occur in organisational vacuums, but in conjunction with other unfolding practices and processes. In parallel, it is important to explore its relationship with other organisations if it is to achieve the objectives envisaged by the IIRC, namely the achievement of long-term value creation. Therefore, it is worthwhile to proceed with the examination of these incremental changes in the reporting practices and how they have connected to the other organisational practices. Acknowledging this importance, the study therefore extends extant understanding of the consequentiality of integrated reporting by investigating the investigating its relationship with other organisational activities in the following section.

8.5 Consequentiality of integrated reporting

The final issue that this study sought to explore was the relationship between integrated reporting and other organisational practices. As previously noted, the starting point for this question is to explore the consequentiality of the practice of integrated reporting (Feldman and Orlikowski, 2011). Instead of focusing on the quality of the externally released information, this research has attended to the impact of its adoption on the corporate activities including reporting practices and other organisational practices.

Despite the “sameness and similarities” in the overall structure of the report and the workflow of internal activities (Schatzki, 2001b, p. 51), the final report as the product of the process (IIRC, 2013) did not appear to be a straightforward representation of corporate activities, but rather a selective and intentional expression of them. When deciding what information to include, various factors may be taken into consideration. For example, some information is required by regulation such as corporate governance and human capital development; some information is more fashionable (e.g. message from CFO/COO); some information is what the company deems to be worth reporting such as strategic progress; and some may even simply be a response to the request for new information from investors. The necessity for novelty does not appear to be relevant to investors’ decision-making objectives, but as Pharmacy noted, investors’ demand for “neta” (new content in Japanese) is also an issue they need to address.

This selection of information is particularly evident in the determination of the themes to be delivered prior to the preparation of the report. During conversations with the case companies, each company would introduce its latest integrated report by featuring a specific theme or stating what they wanted to convey. In determining the theme and focus of each report, instead of communicating the long-term value creation process, as emphasised in the Framework, the focus was selected according to the specific temporal and spacious context. For example, in the preparation of the integrated report (2020), House focused on corporate governance, which was related to the incidents of misconduct uncovered one after another at House during 2019-2020, all at a level that could not be overlooked, and that led to the company’s management system being called into question. Similarly, Energy-tech suffered a financial deficit in 2020 and in IR2020,

they specifically highlighted the causes of the deficit and how they would improve their operations in the future. This further illustrates why the incremental changes brought about by the integrated reporting evolved towards the company's own context.

Moreover, in the longitudinal cases, it was observed that such a theme only served to impart direction and did not specify what should be done at the outset, which further contributed to the contingent and adaptive nature of the practice. With the observation of Energy-tech's reporting practices (IR2020-2022), it was found that in reaction to the company's financial problems in 2020, IR2020 focused on demonstrating their abilities to restore order to the operation. By contrast, IR2021 focused on the new medium-term business strategy, although 2021 was also the year in which the company underwent the materiality analysis. However, during the discussions, the editorial company believed that emphasising both priorities would divert the readers' attention and make it more difficult to compile, so only the process and results of the materiality analysis were briefly reported. For IR2022, which is being prepared at the time of data collection, the company was focusing on the internal management improvements made as a result of the materiality analysis, such as the development of KPIs and specific measures, and the refinement of the corporate value creation model by leading discussions with senior management. The themes for each year were chosen to correspond to the economic and social context in which the company was operating at the time and were the result of an ongoing engagement with different actors

In addition to the determination of themes by coordinating departments, the choice of information was also evident in the information offered by the cooperative departments. Since the final product of the integrated reporting is, at the very least, a report on the various business activities of the company, it is inevitable that its content involves various aspects that have been selected. Communication and interaction with the relevant departments is therefore essential. The choice of content to be provided is partly the result of the respective departments' understanding based on their own departmental activities. Moreover, the practical understanding of business activities in their own departments may change along with the rules organising its activities, which is reflected in the practical understanding of integrated reporting, and therefore in the changes in the content provided for integrated reports (Schatzki, 2002). Thus, the preparation of this content is in parallel influenced by the practices of organisational activities. In this sense, integrated reporting is connected to other organisational activities by sharing components of the organisation of practices (Schatzki, 2002). Simultaneously, the doings, sayings, and practical understandings of integrated reporting are subject to change or constraints of other activities.

Therefore, activities surrounding the preparation of integrated reports as the product of the integrated reporting process became the key to connect different organisational activities. To frame this with a practice lens, integrated reporting was found to relate to other organisational practices through the *material arrangements* that hang together with different practices (Schatzki, 2002). In the case of integrated reporting practices, issuers, editorial companies, reporting audience coexist by virtue of reports (whether online or physical), email communication networks, and layout of meetings (whether face-to-face or virtual). Such actors, layouts, networks, and artifacts compose the arrangements of material entities. Schatzki explains that entities are linked through the entanglement of "causal, spatial, intentional and prefigurational" relations that occupy the components of the arrangement (Schatzki, 2002, p.38). With the notion of repetition, Schafer

(forthcoming) emphasised the role of humans (with embodied knowledge) and other materialities in moulding practices in terms of both “stabilization and destabilization” (p.19). In this case, the *materiality* refers to various actors involved and also the final report as the artifacts.

First, one of the key artifacts that comprises the material arrangements in integrated reporting was the product of the integrated reporting process, i.e. the integrated report. It is evident that the form and medium of reporting undergoes changes that will affect doings and sayings in the practice of integrated reporting. A typical example is the transition to the electronic version of the reports. For example, Machine has a full version and a digest version, which was recommended by the editorial company. The full version contains more content, although it is not written in a storytelling way, but as a data set. They believed that investors or other users of the report did not read it as a story, but wanted to find the information they needed, so this approach made sense to them. Energy-tech also no longer issues paper copies of its reports due to cost and the current practice of other companies, a change that has also been supported by executives and other investors.

While the IIRC asserts that the publication of a report is not an end in itself but a product of a reporting process based on integrated thinking (IIRC, 2013), the production of the report as a final product inevitably requires the existence of corresponding internal mechanisms and processes. Previous studies show that the difference in duration of integrated reporting potentially leads to a difference in integrated thinking (Gunaratne and Senarate, 2017; Hearth et al., 2021). This might be true if the practices had been organised by an end of promoting integrated thinking in the first place; this, however was constrained as long as the final report performed as both the end and the constituents of the practices. On the one hand, this constrains the change of purpose organising the practices, as purpose tends to be more constant than other organisational elements of practice; on the other hand, it is accompanied by constant implementation and repetition, which reinforces the general understanding of disclosure as external information.

Second, the materiality of the practice of integrated reporting is also reflected in the different practitioners involved. In terms of external actors, although different companies do not interact with external professional bodies in the same way, they could play a very important role in the practice of integrated reporting. They are particularly important in the sense that they could be the “fashion-setters” in the dissemination phase of the practice (Gunaratne and Senaratne, 2017). In the case and accounting innovations, these fashion-setters include consulting firms, management gurus, business schools or business mass media, whose missions involve the creation or dissemination of such models (Abrahamson, 1996). In the development of integrated reporting in Japan, different editorial companies, institutional investors (e.g. GPIF), consulting firms such as KPMG Japan, business mass media (Nihon Keizai Shimbun/Japanese Newspaper) and WICI Japan that organises awards on integrated reporting could be driving force in promoting in integrated reporting practices and key in shaping “best practices”.

For companies that are unsure of how to prepare their own integrated reports, they can acquire certain understandings through the guidance or “service” provided by these external actors. This was particularly evident in the longitudinal case study (Energy-tech). During participant observation at Energy-tech, it was found that the company’s coordinating departments relied to a

considerable extent on the editorial company, which was seen as having more knowledge of integrated reporting. The process of working with the editorial company was perceived as a process of continuous learning. External awards such as the Nikkei Integrated Report Awards and evaluations tend to have a similar impact, which can be a reference point for their practical understanding and can help them to deepen their understanding of what is perceived as good practice. It is true that the practices did not necessarily evolve in a way that is any closer to the requirements and final decisions were made by Energy-tech. However, the company seems to have had a hard time starting with nothing, preferring instead to make the choice they felt best suited to them given the options the editorial companies made available. The editorial company provided Energy-tech with practical understanding and even rules by presenting these options as best practices. As with excessive reliance on guidelines (McNally et al., 2017), heavy dependence on externally provided services also entails a low level of commitment to integrated reporting, making it difficult for practitioners to reflect on their own corporate activities through the range of activities involved in preparing an integrated report, on the content of the report or on how to use the information to improve the organisation.

Nevertheless, in multiple cases, at least according to the practitioners, they did not rely heavily on the editorial company, and Pharmacy emphasised its in-house preparation as one of the distinctive features of its integrated reports. The case of Machine illustrated another way to approach this. The awards and evaluations have also been recognised as a means of justifying their practice, both internally and externally. Therefore, it can be noted that the influence from editorial companies is inconsistent across companies at different stages of the development of integrated reporting. Their significant influence on companies may be limited to the diffusion of some specific practices at a stage when companies have a poor understanding of how to develop their own integrated reports, which remains an issue worth exploring further in the future.

Throughout the practice of integrated reporting, practice is not solely influenced by the aims of those preparing the report. The ends and projects that the issuers (both coordinating and cooperative departments), consulting/editorial company and addressee pursue in performing these actions—reporting, feedback, responding, etc.—are however, contained in the teleoaffective structure of integrated reporting practices: “to pursue them is *ipso facto* to be carrying on the practice” (Schatzki, 2005, p.474). Commonalities in and orchestrations of their ends and projects are likewise part of the practice’s teleoaffective structure (Schatzki, 2005). It is thus as part of integrated reporting practices that the issuer, the consulting company, and addressee coexist via particular chains of action and particular teleological commonalities and orchestrations.

Compared with external editorial companies and awards, internal understanding of coordinating departments and top management can be critical. The coordinating departments serve as a bridge between the external and internal communities. The powerful individuals could be important in driving changes internally (Stubbs and Higgins, 2014). Specifically, the promotion or reluctance to change the corresponding internal activities can be underpinned by the perception and actions of the coordinating department or top management. As in the case of Machine, the coordinating departments could both rationalise their demands for change in internal departments by reflecting external requirements. Alternatively, they can justify decisions to remain unchanged by saying that current practice is sufficient to respond to external demands. The role of top

management was also evident in the fact that, as discussed in [Section 8.2](#), the decision to adopt integrated reporting was usually made by the top management for various reasons and motivations. However, the adoption of the practices was not necessarily accompanied by the shared understanding of the preparers and the corresponding organisational structure and accounting system being in place (McNally and Maroun, 2018). This partly explains why companies that have introduced integrated reporting have not seen radical changes.

Additionally, integrated reporting in each cases, to varying degrees, involved different actors from cooperative departments, which were usually staff departments in head office or those from business units. As previously discussed, coordinating departments played a central role in the process and so did the editorial companies in some organisations. Practical understandings, however, were not available solely from the rules or the request of coordinating departments or editorial companies. Knowing how to complete certain tasks developed through the ongoing engagement between different actors, which has been often discussed in the form of cross-functional teams.

The role of cross-functional teams has also been particularly highlighted in practical documents (WICI, 2013; CIMA, 2017) and previous studies (Adams and McNicolas, 2006; Stubbs and Higgins, 2014; Mio et al, 2016; McNally et al., 2017) in addressing the influence of integrated reporting on other organisational activities. Theoretically, the dynamics between practitioners within the cross-functional team might bring about “the unfreezing of individual views and hence to change” (Adams and McNicolas, 2007, p.385). However, it is found that the participation of different actors from various departments in the reporting process did not necessarily break down silo thinking to achieve a holistic view of the company. House, as the only company to adopt a push strategy to drive internal changes (Stubbs and Higgins, 2014), initiated an integrated thinking project along with the introduction of integrated reporting. In other cases, different departments were involved only to provide relevant information. It is difficult to argue that such engagement could facilitate the mutual understanding among different departments. In addition, the enrolment of the actors was largely based on the theme decided by the coordinating departments for the new reports instead of a thorough consideration on the role of each department in the value creation departments.

Moreover, the involvement of accounting and strategy departments was minimal in these cases. Integrated reporting is positioned as a tool for communicating a company’s value creation story. Previous research has highlighted the important role of strategy in shaping integrated reporting (Mio et al., 2016). It entails more non-accounting, or non-financial information, which makes integrated reporting different from most accounting tools. Thus, in the perception of practitioners, integrated reporting seems to be a platform or tool for external information disclosure and is mainly irrelevant to accounting, which is probably the main reason why few people from accounting departments are involved in integrated reporting. Even when strategy and accounting departments were included, the function of these departments was to provide relevant information, they were not involved in preparing the integrated report. This may be related to the ownership of the integrated report, but simply providing relevant information hardly leads to organisational change or an understanding of the role of different departmental relationships in the corporate value creation process.

Different from corporate governance practices (Ahrens et al., 2011), integrated reporting practices do not appear to be decentralised across companies, but rather tends to be similar to financial reporting. Even though it should be designed with more professional teams in order to break down the barriers between different areas of expertise and departments, in all the companies investigated, the main activities were facilitated by a corresponding department that has jurisdiction or ownership over integrated reporting (Ahrens et al., 2011; Stubbs and Higgins, 2014). From the results, it seems that the form of involvement of cooperative departments is simply an extension of previous corporate reporting practices, which is strengthened as the practice is implemented. This may be due to the fact that there is a similar perception among both coordinating and cooperative departments that integrated reporting is a platform for external information disclosure and is not seen as an opportunity to improve internal management.

These internal mechanisms and the role of key practitioners have been identified and investigated in previous literature (Stubbs and Higgins, 2014; Busco et al., 2017; Guthrie et al., 2017), but the setting up of mechanisms and involvement of certain actors do not always necessarily entail the occurrence of changes. It is also worth noting that the internal inertia and the fact that internal pressure is much weaker in organisations compared to external pressure (Larrinaga-Gonzalez and Bebbington, 2001). The intervention of external forces (Schatzki, 2005), such as the development of laws and regulations, is more likely to cause change, but it does not necessarily lead to improvements in practice and changes in business management; it is even possible that the purpose of the practice may simply become compliance (McNally et al., 2017).

There are, however, a number of cases where the activity has seen the possibility of going beyond the activities centred on preparing reports. For example, the integrated thinking project at House, or the materiality analysis at Energy-tech. Although these activities were still tied to the disclosure of information to some extent, with the involvement of different actors including other departments and the top management, it also influenced to some extent the understanding of other organisational activities, opening up the possibility of the penetration of some ideas such as sustainability.

Differing from financial reporting, integrated reporting emphasises the long-term value creation process of the business, in which the interaction between different business activities and practitioners can be very crucial and complex. In addition, the general understanding has also contributed to the development of practical understanding; the strengthening of integrated reporting as a tool for external disclosure has led some departments to think about what should or should not be reported, although this facilitation is not present in all departments. This inconsistency may be related to the dominant role of the coordinating departments and editorial company, which make relevant requests and recommendations to departments. In addition, it may also be related to the development of each department's own practice, in particular their practical understanding of the relevant financial, environment and social issues, as there are different requirements and responses to these issues in each department. Despite no significant changes at present, integrated reporting did lead to greater engagement with other departments. This provides a channel and opens up the possibility of embedding sustainability into practice across the entire organisation, even though such changes are likely to emerge gradually and may require opportunity, and may even require or develop into pathways that go beyond the confines of

reporting activities.

To sum up, the incremental changes brought by integrated reporting could, however, also be recognised as the process through which different practices arise, and unfold as a tangled nexus with other practices. The preparation of the reports connected different people across the departments and reflected various business activities. It is connected to other organisational activities by sharing components of the organisation of practices with the material arrangements that hang together with different practices. The development of activities around the preparation of the report, upon which the involvement of different actors and practices is based, enables and constrains the integrated reporting practices. Integrated reporting did result in increased engagement with other departments and the enrolment of top management, despite the fact that there are currently no considerable changes. This paves the way to integrating sustainability into practices throughout the entire organisation.

8.6 Summary

This chapter discusses how the findings of this study respond to the research questions set by integrating what has been empirically analysed in the two different research designs. The evolving understandings of integrated reporting were observed in all cases in this study. The purposes, general understandings, and practical understandings that organised the activities have changed while simultaneously sustaining the development of practices. The activities that composed integrated practices were diverse, reflecting evolving understandings and being bound by the teleoaffective structure of interwoven purposes and emotions, adapting to and composing the site of the practice. The multiplicity of specific activities under the same goal reflected the diversity of practical understandings through the ongoing internal and external engagement of different practitioners, both in the form of continuity and change. Thus, the doings and sayings that constitute the practice of integrated reporting are the unintended consequence of the intended sought-afters. There was little evidence of substantive changes and in line with the understandings, as practice unfolds, the understandings and specific activities of integrated reporting did not necessarily converge towards what was defined in the Framework, but rather adapted to the specific context of each organisation.

Similar to the changes in the reporting practices, by investigating the relationships between integrated reporting and other organisational practices, no radical changes were brought about by its implementation. The incremental changes and the adaption to the specific organisational context can be explained for several factors. The inconsistent or evolving understandings in this study appeared as differences in general and practical understandings of integrated reporting based on their own roles and engagement in the process. Concerning different activities that comprise the practices, the ends itself evolve little and under the same ends, there are diverse sayings and doings, which exhibit contingency, working out as the unintended consequences of intended purposes and rules, reflecting the teleoaffective structure of a range of interwoven ends and affections. In terms of the reporting content, instead of a straightforward representation of corporate activities, the information was selected according to the specific temporal and spacious context without necessarily converging to what is defined in the Framework.

Integrated reporting was found to relate to other organisational activities with the material arrangements that hang together with different practices. It is connected to other organisational activities by sharing components of the organisation of practices. The change of other organisational practices can influence the integrated reporting practices by reflecting their practical understandings on the report. However, this is not necessarily the case when viewed from the opposite perspective. The development of activities around the preparation of the report, upon which the involvement of different actors and practices is based, enables and constrains the integrated reporting practices. The setting up of mechanisms such as cross-functional team or involvement of certain actors may not always necessarily entail the occurrence of changes compared to intervention of external forces. Despite no significant changes at present, integrated reporting did lead to greater engagement with other departments. This provides a channel and opens up the possibility of embedding sustainability into practice across the entire organisation, even though such changes are likely to emerge gradually and may require opportunity, and may even need or evolve into paths beyond the bounds of reporting activities.

Although the three questions set out cannot be viewed entirely independently, for the purposes of the analysis, the chapter discusses them in separate subsections, yet it is also evident through the discussion of the three questions that they are in fact layered, and through the exploration of the practice itself, the elements that organise the practice, and the entities that hang together with the activities, the study scrutinises how the practice of integrated reporting unfolds in its respective organisational context. The contribution and limitation of this study would be further discussed in the next chapter.

Chapter 9 Conclusion

9.1 Introduction

This final concluding chapter ends the study. The chapter begins with a summary of the research findings and then outlines the scope of the contributions and implications. The limitations of the research are acknowledged, followed by recommendations for future research. Following the some reflections on the journey of this research and the knowledge gained through the study, a summary of the whole research will be presented.

9.2 Summary of key findings and the implications

Drawing on evidence from the cases, this research investigated integrated reporting in/as practices to understand a broader and more complex field in which the organisations attempt to make themselves understood. In all cases examined, the evolving understanding of integrated reporting was observed. The purpose, general understandings, and practical understandings that organised the activities have shifted, while the development of practises has been sustained by these alterations. Diverse activities, reflecting understandings and bound by the teleoaffective structure of intertwined intents and emotions, adapted to and composed the site of the practice (Schatzki, 2002).

From cross-case analysis, it is found that the practices of different organisations witnessed both sameness and similarities, arising from respective site. The development of practices reflected the evolution of practical understanding, both in the form of continuity and changes. The doings and sayings that practitioners performed in carrying on integrated reporting practices continually evolve due to reorganisations of rules, understandings and teleoaffective structures. Consequently, practical understanding of integrated reporting practices may adhere to rules established clearly in the current guidelines and framework, and evolves with the general understanding, which differs and is also situated in each site.

In the case of Machine, the *teleoaffective structure* aimed for corporate communication seems to develop with *general understanding* concerning the corporate information disclosure. The practice during the preparation of integrated reports only consisted of abiding by regulations explicitly established by the corporate reporting *rules*, which in this case was limited to financial information. Due to the voluntary nature of non-financial information, relevant disclosure tends to maintain as the repetition of previous practice. The development of integrated reporting practice reveals as a revisit to the role of corporate information disclosure and the *practical understanding* evolved accordingly. The case of Machine is particularly notable in that the adoption was not explicitly made for introducing integrated reporting. The transition to integrated reporting was mainly driven by its internal intention of simplifying the reporting system of the time and developing its own version of the report.

Similar to Machine, Device also adopted integrated reporting practices before the release of Framework. In the case of Device, integrated reporting is recognised as a tool for dialogue between different stakeholders concerning its future-oriented value creation story. The practices during the preparation of integrated reports were organised by *rules* set for specific content as guidelines for non-financial information and GAAP for financial report. For IIRC Framework and

Guidance, it seems to abide by restrictions explicitly established, such as combination of financial and non-financial information, the adoption of value creation model etc. However, due to the principle-based nature of IIRC Framework, the practice reflected not only a practical understanding limited to what explicitly indicated in the *rules*, but also a *general understanding* of the need to practice corporate philosophy to enhance corporate value. Thus, the *teleoaffective structure* aimed for communication of its long-term value creation story seems to maintain in a consistent way as the ends evolves little. Integrated reporting is not expected as a tool to drive organisational changes; rather, it is a platform to demonstrate its ability to create value in a sustainable way.

By contrast, Pharmacy and House adopted integrated reporting *after* the release of the Framework. In the case of Pharmacy, integrated reporting is recognised as a tool to communicate its value creation story by focusing on strengths, which is in line with the requirement of the reporting audience, i.e., long-term investors. The practice during the preparation of integrated reports consisted of following *rules* set for specific content in previous reports. For IIRC Framework and the Guidance, it seems to abide by restrictions explicitly established, such as inclusion of financial and non-financial information, the adoption of value creation model etc. However, following the IIRC Framework did not seem to help improve the understanding of the readers, therefore, the practice reflected not only a *practical understanding* limited to what is explicitly indicated in the *rules*, but also a *general understanding* of the need to reflect the requirement of stakeholders. Same with Device, integrated reporting is not expected as a tool to drive organisational changes; rather, it is a platform to engage with its stakeholders.

House was a typical case as it was the only company that used a push strategy to approach the integrated reporting practices. As defined in the previous studies (Stubbs and Higgins, 2014; Guthrie et al., 2017), a push and pull approach were identified in the case companies. A push approach that attempts to communicate the organisation as it is, turns out to be a dominant approach. Although in the case of House, a pull approach to drive internal changes to facilitating integrated thinking was recognised. Integrated reporting in this case is recognised as a communication tool to drive internal changes, particularly, the mind-set of top management regarding the recognition of ESG initiatives. The practice during the preparation of integrated reports consisted of following *rules* set for specific content in previous reports. For Framework and Guidance, the practitioners perceive the application meaningless. The *practical understanding* reflects what explicitly indicated in the *rules*, but also a *general understanding* of integrated thinking they have sought for from the very beginning. Integrated reporting is expected as a tool to drive organisational changes. Nonetheless, as long as it is a job for a department, disclosure is inevitably central, as integrated reporting is recognised as a tool for disclosure and an outcome of its work.

Moving beyond the multiple case studies, the longitudinal case study explored the development of integrated reporting practices in real-life settings. Integrated reporting was found that to be related to other organisational activities with the material arrangements that hang together with different practices. It was connected to other organisational activities by sharing components of the organisation of practices. The empirical analysis confirmed the argument developed in the previous literature that the change brought by integrated reporting was incremental (Stubbs and

Higgins, 2014; Guthrie et al., 2017).

Integrated reporting is recognised as a tool to communicate its value creation story in the case of Energy-tech. The activities during the preparation of integrated reports reflected *rules* set for specific content, which was consistent with the previous practices of CSR reports and annual reports. For Framework and Guidance, the company's practice appears to adhere to clearly defined elements such as the inclusion of financial and non-financial information and the presentation of a value creation model. The practice reflected not only *practical understandings* limited to what explicitly indicated in the *rules*, but also follow the "best practice", which was informed by the interactions with consulting companies and the participation of external awards on integrated reporting. The *general understandings* towards the reports were not evenly distributed among different practitioners involved the integrated reporting practices. The cooperative departments did not perceive obvious difference in the current integrated reporting practice and previous CSR reporting practices. To use it as a communication tool to different stakeholders was in line with the previous reports and was further reinforced by the repetition of the practices by the coordinating departments. In addition to the need to communicate to various stakeholders, the coordinating departments shared the same concern regarding identification of the company and perceived integrated reporting as a good way to build and promote the brand of the company. The *teleoaffective structures* were informed by the consistent communication of its value creation story, the intention to build and promote its own brand. Thus, the teleoaffective structures and general understanding tended to evolve in a mutually reinforcing way.

In addition, the longitudinal case analysis contributed to scrutinising the connection between the purpose of activities and specific activities. It was observed that the overall discussion and analysis did not develop based on an agreement on what the objective was or how to achieve it in advance. Rather, it indicated an ongoing process of understanding and agreement on what should be done by which the discussion was progressing. The practice perspective highlights how the purposes and meanings are constructed and formulated through individual activities. These, in turn, can facilitate more effective engagement with integrated reporting. The choice of what to do and how to do it in the process of achieving the goals could be interpreted and justified from different perspectives. The control of the practices was not achieved by regulating every detail. In fact, the activities could be coordinated using rather obscure goals; nevertheless, it was still possible to constitute and maintain the appropriate practices.

Drawn on the evidence gained from these cases, the duration of adoption did not seem to have a great influence on the development of integrated reporting practices. From these cases, the evolving understandings of integrated reporting were observed. In general, as practice unfolds, the understandings and specific activities of integrated reporting adapted to the specific context of each organisation without necessarily converging towards what was externally defined or requested. The purposes, general understandings, and practical understandings that organised the activities have changed in varying degrees while simultaneously sustaining the development of practices. The multiplicity of specific activities under the same goal reflected the diversity of practical understandings through the ongoing internal and external engagement of different practitioners, both in the form of continuity and changes. The doings and sayings that constitute the practice of integrated reporting are the unintended consequence of the intended sought-afters.

Consequently, the activities that composed the integrated reporting practices were diverse, reflecting evolving understandings and being bound by the teleoaffective structure of interwoven purposes and emotions, adapting to and composing the site of the practice.

Similar to the changes in the reporting practices, by investigating the relationships between integrated reporting and other organisational practices, no radical changes were found. It was found to be related to other organisational activities with the material arrangements that hang together with different practices. Integrated reporting is connected to other organisational activities by sharing components of the organisation of practices. However, this is not the case when viewed from the opposite perspective. The development of activities around the preparation of the report, upon which the involvement of different actors and practices is based, enables as well as constrains the integrated reporting practices. The setting up of mechanisms such as cross-functional team or involvement of certain actors may not always necessarily entail the occurrence of changes compared to intervention of external forces. Despite no significant changes at present, integrated reporting did lead to greater engagement with other departments. This provides a channel and opens up the possibility of embedding sustainability into practice across the entire organisation, even though such changes are likely to emerge gradually and may require opportunity, and may even require or evolve into paths outside the scope of reporting activities.

9.3 Reflections on the use of the practice lens in the integrated reporting context

The overall research set out with the aim of examining the development of integrated reporting and thinking at the practice level through case studies of selected companies in the Japanese context. Practice is a notion that is explicit but can also have multiple meanings; it can be contrasted with what one thinks, what one says and the alike. While the essential meaning of practice, i.e. what people do, remains more or less the same, the practice theory used in this study does not explore practice in opposition to ideas, but discusses practice as central to determining social life and order (Schatzki, 2001a, 2002). Feldman and Orlikowski (2011) highlight three ways to study practices with a practice lens, i.e., philosophical, empirical, and theoretical focus.

Firstly, the *philosophical focus* emphasises the constitutive role of practices in producing organisational reality. In other words, different from social structure, individual incentives, language or culture, the use of practice theory to explore practice itself is based on an ontology that places practice at the centre of social reality. (Schatzki, 2001a, 2002).

Secondly, the *empirical focus* recognises the “centrality” of what people do to organisational phenomena (Feldman and Orlikowski, 2011, p.1204). Feldman and Orlikowski (2011) make the point that this approach is partially reflective upon early organisational studies’ emphasis on focusing primarily on “structural features” at the expense of the “agency capacity of human action” (ibid., p. 1024). This research investigated the development of integrated reporting over time at the practice level, focusing on how practitioners understand and implement different activities that constitute integrated reporting practices. Practitioners are important here, but this is not to say that a particular individual or group of individuals plays an absolute role. These interwoven practices are characterised by purpose, emotion, and understanding as practices rather than individuals. Practitioners from different sectors are involved to varying degrees in the integrated reporting process, but it is difficult for the integrated reporting to change substantially because of

changes in one individual. This is because these practitioners are embedded in the organisational context, interacting with the organisation. This is also evident in the case of Energy-tech, where both the head and the responsible department of the integrated reporting have changed over its development, but overall, the practice of integrated reporting has not changed substantially as a result.

Another empirical feature of practice in the context of integrated reporting is that the concept of integrated reporting itself has evolved from practice, rapidly unfolding in different countries and sectors through the formulation of a principle-based framework. In this process, practice, specifically how it is understood and implemented, is crucial to the impact it can have on the organisational landscape.

Thirdly, the *theoretical focus* concerns the “understanding relations between the actions people take and the structure of the organisational life” (Feldman and Orlikowski, 2011, p.1241). Several studies, although not many, have attempted to examine what occurs within the organisations (Stubbs and Higgins, 2014; Guthrie et al., 2017; McNally et al., 2017). This research employs Schatzki’s practice lens to investigate how e integrated reporting practices are connected with those of other organisational practices by sharing components of the organisation and linking by the material arrangements around. With Schatzki’s practice approach, this research was able to focus on the “micro-foundations” of the organisational phenomena (Loscher et al., 2019, p.123), which contributed to the presentation of a holistic understanding into the integrated reporting process.

In addition, similar to Stacchezzini et al. (2020), this research expanded the previous integrated reporting research based on Schatzki’s work by discussing the role of general understandings, an element that Lodhia (2015) neglected. In line with the difficulties encountered in the study of applying Schatzki’s practice lens in management studies (Nama and Lowe, 2014; Stacchezzini et al., 2020), in this study I have indeed experienced difficulties in understanding general understandings in an empirical context. In particular, there was some difficulty in identifying general understandings without sufficient engagement with practitioners. Only one or a few interviews with practitioners are constrained by the narrative that is detached from the dynamic context of practice. This is a limitation of the interview as a research method for collecting empirical data (Alvesson and Ashcraft, 2012; Loscher et al., 2019). In addition, the general understanding itself has some overlap with the understanding of ends, and therefore sometimes exhibits similarities with teleoaffective structure (see examples summarised in [Table 4.1](#)), which is confusing in understanding the general understanding (Nama and Lowe, 2014). Furthermore, in a dynamic empirical context, however, while practice is organised by four elements, it is difficult to completely cut through these four elements.

However, the application of a practice lens in an empirical setting is not an easy task, which was also indicated in previous empirical studies (Nama and Lowe, 2014; Stacchezzini et al., 2020) that have employed Schatzki’s ideas in different management contexts. This study overcomes this to some extent through the combination of different research tools. Although practice is context specific and needs to be analysed contextually in different organisational settings, the practice lens offers the promise of a departure from analyses of whole organisations to a focus on the role

of human actors, materials and artefacts in the development of integrated reporting practices. This is one of the reasons why a case study is used in this study. Through a longitudinal case study and the engagement and real-time observation of practitioners, this case study provides more in-depth empirical data to help us understand the development of practice. The insights gained from the longitudinal case study can also be used to understand the data from the cross-case analysis, which further embodies the richness of practice.

9.4 Contribution and implications

As emphasised earlier, the analysis in this study is valuable in addressing the complex challenges of facilitating embedding sustainability in the management of an integrated reporting business through integrated reporting initiatives. Overall, this study reinforces that the focus of integrated reporting practice should not be solely on the report as an outcome. How practice is developed within companies should receive more attention, whether in terms of reporting practice, academic research or policy makers' considerations. Consequently, it adds to the emerging body of literature on integrated reporting, claiming empirical, theoretical and practical contributions in the fields.

From the *empirical* angle, the work offers novel evidence from integrated reporting practices to extend and enrich the field by engaging intensively with the practitioners. To my knowledge, this is the first study to collect data through participant observation over a long period with a practice lens in the context of integrated reporting. The participant observation approach contributes to gaining insights in a way, which could not have been achieved through interviews alone. It addresses the research gap that exists as to how integrated reporting unfolds at the practice level. The study highlights the consequentiality of the development of integrated reporting practices on corporate reporting and internal organisational activities, extending the empirical insights on the consequentiality brought by the implementation of integrated reporting.

Theoretically, it also extends the application of a practice lens in the integrated reporting context (Lodhia, 2015; Al-Htaybat and von Alberti-Alhtaybat, 2018; Abhayawansa et al., 2019). Without an overarching theoretical framework, descriptions of integrated reporting practices can present a fragmented picture with limited understanding of the integrated reporting process as a whole. This research enriched the current integrated reporting research based on Schatzki's work. It further expanded the practice-based studies in integrated reporting by discussing the role of general understanding, an element that Lodhia (2015) neglected. In addition, prior IR research has elucidated the practice approach's potential in identifying and capturing how organising elements mould integrated reporting practices (Lodhia, 2015; Al-Htaybat and von Alberti-Alhtaybat, 2018), which only relies on a single case to investigate how the specific organisation developed integrated reporting practices over time. This research contributed to the practice-based studies in integrated reporting field by offering a comparative perspective to the current discussion by elucidating how sameness and similarities in integrated reporting practices can be explained by a practice lens approach.

Furthermore, the findings provide practical contributions as it extends implications for policymakers, regulators, professional accounting bodies, and adopters by elucidating how it has been understood and implemented. The results of this study indicate that the practical understandings primarily drew from past experience, interactions with consultants through

business relations, external professions through investor relationships, and the participation of various awards on integrated reporting. These practical understandings concentrated on the content of the reports as a result of the integrated reporting, and rarely on internal management activities, improvements to internal information systems, etc. Continued efforts are needed to make reporting organisations more accessible to knowledge or skills of how to develop internal practices for sustainable value creation rather than the reporting results.

In addition, by emphasising the value of integrated reporting in stimulating internal management changes, this study encourages the practitioners to revisit the internal reporting process and information system, and facilitate integrated reporting as a channel to embed sustainability into practice across the entire organisation. It can be seen that the process of integrated reporting already involves many departments; how to make the most of the involvement of different departments and even different management levels in order to improve internal management or integrate information deserves more attention and thought from the coordinating departments and the relevant senior management.

From an external perspective, policy makers and fashion setters should provide more information on internal “best practices” rather than on the results of disclosure. The point of these “best practices” is not to provide a standardised model for companies to follow, so that all companies align themselves to a particular activity. Rather, they offer different paths to get there, giving companies the choice to find the best way to implement integrated reporting for their own company.

This study aims not to solve the technical problem of how to create an excellent integrated report based on integrated thinking. Exploring the reasons why companies do or do not practise integrated reporting, and thus providing policy and standard-setters with ideas on how to promote greater participation in the practice of integrated reporting, is based on the premise that integrated reporting itself is a straightforward and uncontroversial practice. Yet this does not appear to be the case. This research seeks to provide the reporting organisations and associated standard setters with empirical evidence and insights to support the further development of integrated reporting by examining the practice of integrated reporting in Japan through investigating the organisational activities involved in the integrated reporting process and how integrated thinking functions within it. In addition, this study sheds light on the practice of integrated reporting and their learning could inform other organisations considering an integrated reporting approach. This study also responds to calls for more research at the level of the organisation to investigate organisational process and to engage with actors responsible for organisational reporting to gain more understanding of the issues associated with implementing reporting innovations (Perego et al., 2016; Dumay et al., 2017; IIRC, 2017).

9.5 Limitations and future research opportunities

Regarding the limitations, part of them were due to the impact of the pandemic. Overall, the study design and conduct were based on the best choices that could be made to achieve the study objectives and answer the research questions given the limited time and accessibility. In addition, the limitations also suggest some possibilities for future research directions.

Consistent with previous practice-based integrated reporting studies (Lodhia, 2015; Al-Htaybat and von Alberti-Alhtaybat, 2018; Abhayawansa et al., 2019), the empirical research was conducted in one specific institutional context. Previous literature (e.g. Jensen and Berg, 2012; García-Sánchez et al., 2013; Busco et al., 2019) has pointed to contextual influences on the adoption and adaptation of integrated reporting, which have been largely derived from quantitative analysis. Through the investigation of practice, this study has managed to gain insight into the dynamic processes, the mundane daily activities that comprise the integrated reporting practices, and the consequences of these activities. Inevitably, the influence of macro-contexts such as culture or economic systems on practice cannot be adequately addressed through current analysis. However, as practice theory suggests, practice is influenced by, and simultaneously constitutes, context. In other words, the particular industrial and cultural context is also embedded in the organisational context of the business and the account of the practice itself implies influences from and on the context. The outbreak of the pandemic has limited the possibility of further investigations in different contexts. In this study, it focuses more on how companies in their own environment have developed integrate reporting practices over time and the similarities and differences between different companies. An in-depth investigation of practice in this particular context in Japan lays some groundwork for future studies in different context and even for cross-country analysis.

Another limitation would be the small sample of organisations and practitioners that participated in the multiple-case study. I have to admit that out of limited time and capacity, I invested more in fieldwork in order to better fulfil the research objectives and answer the research questions. The whole multiple case studies design is therefore intended to be rather like a complementary study. Yet I emphasise the significance of this empirical study, which is not intended to examine integrated reporting in different organisations in great depth. Firstly, the pilot interview with Machine helped me to gain a rough understanding of how companies understand and implement integrated reporting, which provided me with fundamental knowledge and confidence for the fieldwork at Energy-tech. In addition, the fieldwork at Energy-tech enabled me to gain a better understanding of the problems encountered in the implementation of integrated reporting and the way in which they are handled within the company, which also contributed to the subsequent interviews and analysis of other companies. Furthermore, the multiple case analysis was conducted in the detail required for an enhanced understanding of the richness of the practice. Although it may be difficult to use the case study approach and a practice lens, future research could involve more diverse companies to engage more different actors within the organisations.

Moreover, although the involvement of different actors such as editorial company and shareholders/investors were included, their understanding towards the practices were not fully gained through fieldwork. This is actually a problem that I did not anticipate at the beginning of the development of the study. It might also have been difficult to put the focus on the editorial company if only semi-structured interviews had been done with the company. This is evident from the multiple case studies. Apart from Pharmacy, where the relationship with the editorial company was mentioned in explaining the feature of hand-making, few companies specifically mentioned the role of the editorial company in their practices, which certainly has to do with the fact that

editorial companies were involved to varying degrees in different companies. In the case of Energy-tech, however, it can be observed that the editorial company as the fashion setter provides much of the practical understanding and even influences the general understanding in the development of integrated reporting practices. How these external fashion setters influence the internal practices needs to be understood by further engagement with these people.

Future research could, however, involve more practitioners from different departments to see how different understanding moulds practices through the cross-functional team and how it unfolds in different organisational and even cultural settings. How this practice unfolds in different countries at practice level is a question worth exploring in the future studies. While it is true that a number of studies have focused on the views of report users (e.g. Atkins and Maroun, 2015; Haji et al., 2020), i.e. investors and analysts, including practice-based theories have also been used (Abhayawansa et al., 2019). However, this body of research has mainly focused on the usability of the integrated reports. How the views and perceptions of these outsiders, who potentially affect corporate decision making, influence companies at a practical level and together shape corporate reporting practices needs to be engaged with a wider variety of practitioners in the future research.

9.6 Reflections on the research process

The benefits of the qualitative research process are often reflected in the richness of the data and the quality of the empirical experience. The whole process of developing the research has enabled me to gain a deeper understanding of qualitative research and the whole project has been a process of development and revision accompanied by a growing understanding. Although I expected the fieldwork to be quite challenging, it ended up being a little more than I had anticipated. The actual participation in the fieldwork often involves not only the formalities and activities of the investigation, but also the building of a trusting relationship with the participants.

The fieldwork for the integrated reporting did not go well initially, as the CSR department itself was not fully involved in the development and discussion of the policy orientations for integrated reporting, despite being one of the coordinating departments. A key factor was the impact of timing on the research and fieldwork planning. At the same time, the pandemic outbreak was unexpected and a catastrophic blow to the cross-cultural comparative research that I had intended to do. However, it was also because of the pandemic that I had a fuller opportunity to communicate with practitioners and to extend the research to form a longitudinal case study. In this study, the fieldwork coincided with the establishment of a sustainability promotion department in the company and the assignment of senior executive from the former communications department to the CSR department. This has helped me to become more involved in the integrated reporting process and to appreciate the company's deepening understanding of ESG issues.

Fortunately, the openness of the managers led to an improvement in the quality of the empirical data obtained, and it is significant that they showed a keen interest in exploring the issue of integrated reporting and thinking, and even accepted the offer to continue with participant observation despite the fact that the company was suffering from operational disadvantages.

The role of the company's CSR department and Kobe University's career centre cannot be overstated. Although I had previously worked in a Japanese company and had some knowledge and experience of how to communicate within the company, the role of the CSR department and the career centre in coordinating the different departments and arranging for me to attend various relevant meetings was crucial to the fieldwork. The difficulties experienced in securing visits required a variety of strategies such as communication with the coordinators in the university, consultation with the CSR department and rescheduling of meetings, which provided useful lessons for future studies. It underlines a distinctive feature of qualitative research that the researcher must actively seek to engage with the research subjects. Although this is rather inconvenient compared to quantitative research, the results validate the exercise.

In the course of the research I did have doubts as to whether the case was too mundane, as there did not seem to be any "outstanding practice" in the business to refer to. The choice of Energy-tech seemed to be a passive option, as not all companies are willing to allow people from outside the company, especially students, to come in to learn about their activities and investigate them. This, however, demonstrates the openness and inclusiveness of the company. In conversations with people in the CSR department, it was noted that the research-based internship is offered with the intention of making a social contribution, while allowing people from outside the company to learn more about it and enhancing their ties with society.

As my research progresses, I now have a better understanding of this case. If given the choice between a large company that is already a leader in its field and a company that is relatively struggling to grow, I would still find a company like Energy-tech more interesting to study. Admittedly, the larger, better companies have more resources, may have more advanced corporate activities, and the knowledge and awareness of the people involved may be different. Nevertheless, companies like Energy-tech are the mundane majority, and at a time when external requirements for corporate ESG performance are becoming increasingly stringent, they still need to explore breakthroughs in growth and development in their day-to-day business activities. Whether it is sustainability performance improvement or long-term value creation, these broad goals and the specific activities to achieve them are not ready there for them to choose or implement. Consciously or unconsciously their activities are influenced by a range of factors such as emotion, purpose and understanding.

9.7 Summary of chapter

This chapter synthesises the important findings of empirical studies, including multiple case studies, and a longitudinal case study. It describes the potential contributions and implications. It addresses the limitations, based on which several future research opportunities are highlighted. Collectively, this study sets out with the overarching objective of examining the development of integrated reporting and thinking at the practice level through case studies of selected companies in the Japanese industrial context. It places an emphasis on the ways in which integrated reporting is shaped by and shapes organisational activities.

Revisiting the broad aims of this research, this study has explored how integrated reporting is shaped by and shapes organisational activities with a number of operational research questions that may facilitate the attainment of these aims. The overall research were conducted with two

empirical studies involving multiple cases and a longitudinal case respectively. These two empirical studies both explore integrated reporting with a practice-based approach, each with its own focus while complementing the other in order to provide a holistic picture of the dynamics of the integrated reporting practice. Multiple cases provide the perspectives of key practitioners in the integrated reporting process, allowing the researcher to examine integrated reporting practices by investigating the “sameness and similarities” (Schatzki, 2001b, p.51) in different organisational contexts. The longitudinal case study offers more in-depth empirical evidence alongside the engagement and real-time observation of practitioners, which helps to facilitate understanding of the development of practice over time. The insights gained from each can inform and be informed by that of the other to further embody the richness of practice. They were brought together to provide a more holistic picture of the development of integrated reporting practices in Japan.

To end the dissertation by briefly summarising the key conclusions, overall, the evolving understandings accompanied by the diverse constitutive activities were observed in all cases. Incremental and contingent changes occurred with the unfolding of integrated reporting practices, which took place under and converged towards the specific temporal and spatial context of each organisation instead of what was externally defined or requested. These changes are not meaningless; rather, they are the process that through which different practices arise, and unfold as a tangled nexus with other practices.

Integrated reporting was found to connect with other organisational practices by sharing the components of organising elements and through the materiality of the reports and different actors in the process. Despite no significant changes at present, integrated reporting did lead to greater engagement with other departments and the enrolment of top management to varying degrees. The setting up of mechanisms such as cross-functional team or involvement of certain actors may not always necessarily entail the occurrence of changes compared to intervention of external forces. Nevertheless, this provides a channel and opens up the possibility of embedding sustainability into practice across the entire organisation, even though such changes are likely to emerge gradually and may require opportunity, and may even need or develop into pathways beyond the confines of reporting activities.

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Appendices

Appendix I List of Interview Questions

1. Background to the introduction and practice of integrated reporting

We would be grateful if you could take about one to one and a half hours of your time to answer the following questions and additional related questions may be asked during the interview.

(1) The approach to integrated reporting and integrated thinking

(2) The process of preparing integrated report

(3) Internal and external impacts of Integrated Reporting and Integrated Thinking

2. For those who are involved in the preparation of integrated reports (30 minutes to 1 hour, depending on 3.1, to be discussed later)

(1) Cognition of the integrated report

(2) Involvement in the preparation of the integrated report

(3) Changes resulting from the preparation of the Integrated Report (between departments, in your own department or in the company as a whole)

Appendix II Form of Field Note

Fieldwork Diary

Date of the fieldwork :

Place :

Involved people :

Date of this record :

Revision Date :

Fieldwork Type :

Interview (face-to-face); Remote interview; Informal conversation; Observation

Participant observation Others

Recording : Yes; No

Storage location :

Note : Yes ; No

Storage location :

Transcription : Yes ; No

Storage location :

1. The purpose or expected issues to be discussed in this fieldwork? (If there are several meetings, state separately)
2. How was the above question/issue addressed through this fieldwork? (Was the purpose achieved? If not, why and what can be improved? Do you think the activity/meeting effectively address the issue? Does the meeting/conversation unfold as you expect?)
3. What's the role of each party (person) in the meeting/activity? Do all the people express their ideas in the meeting? Who else do you expect to be present in the meeting/ activity?
4. What activity do you define during this fieldwork? What's the position of the activity in the integrated reporting process?
5. Did anything in this fieldwork shock you? Is there anything that stands out, is interesting or important?
6. What new (or old) questions should you consider in your subsequent data collection activities?
7. Any overall impression of the fieldwork?
8. Reflect your role in the fieldwork (reflexivity)

Appendix III Data Collection-List of Interviewees/Participants

Company	Department	Position	Background	Gender	Coding	
Machine	CSR	Section manager	Administration	M	CSR-m1	
		Employee		M	CSR-m2	
		Section manager		F	CSR-m3	
Device	BC	Manager	Administration	F	BC-d1	
House	CSR	Manager	CSR	M	CSR-h1	
	IR	Manager	Administration	F	IR-h1	
Pharmacy	IR	Manager	Administration	M	IR-p1	
		Assistant manager	Medicine	M	IR-p2	
Energy-tech	ESPO	Manager	Engineer	M	CSR-e1	
		Assistant manager	Engineer	M	CSR-e2	
		Employee	CSR	M	CSR-e3	
		Executive	Administration	M	CSR-e4	
		CSO	Manager	Administration	M	BC-e1
		Manager		M	CS-e1	
		Manager		M	IR-e1	
			Executive		M	IR-e2
			HR	Section manager	Administration	F
		R&D	Manager	Administration	F	RD-e1
		Legal Office	Manager	Administration	M	LO-e1
		Purchasing	Manager	Purchasing	M	PD-e1
			Employee		M	PD-e2
	QA	Manager	Engineer	M	QA-e1	
		Employee	Engineer	M	QA-e2	
Electric-H	BC	Section manager	Administration	F	BC-eh1	
		Employee		M	BC-eh2	
Editor	Business	Manager	Business	M	Ed-1	
		Employee		F	Ed-2	
Consultant	Business	Manager	Business	M	CA-1	
		Employee		M	CA-2	
Advisor	Business	Manager	Business	M	CB-1	
		Employee		F	CB-2	
Producer	Business	Executive	-	M	PB-1	
		Employee	Business	F	PB-2	