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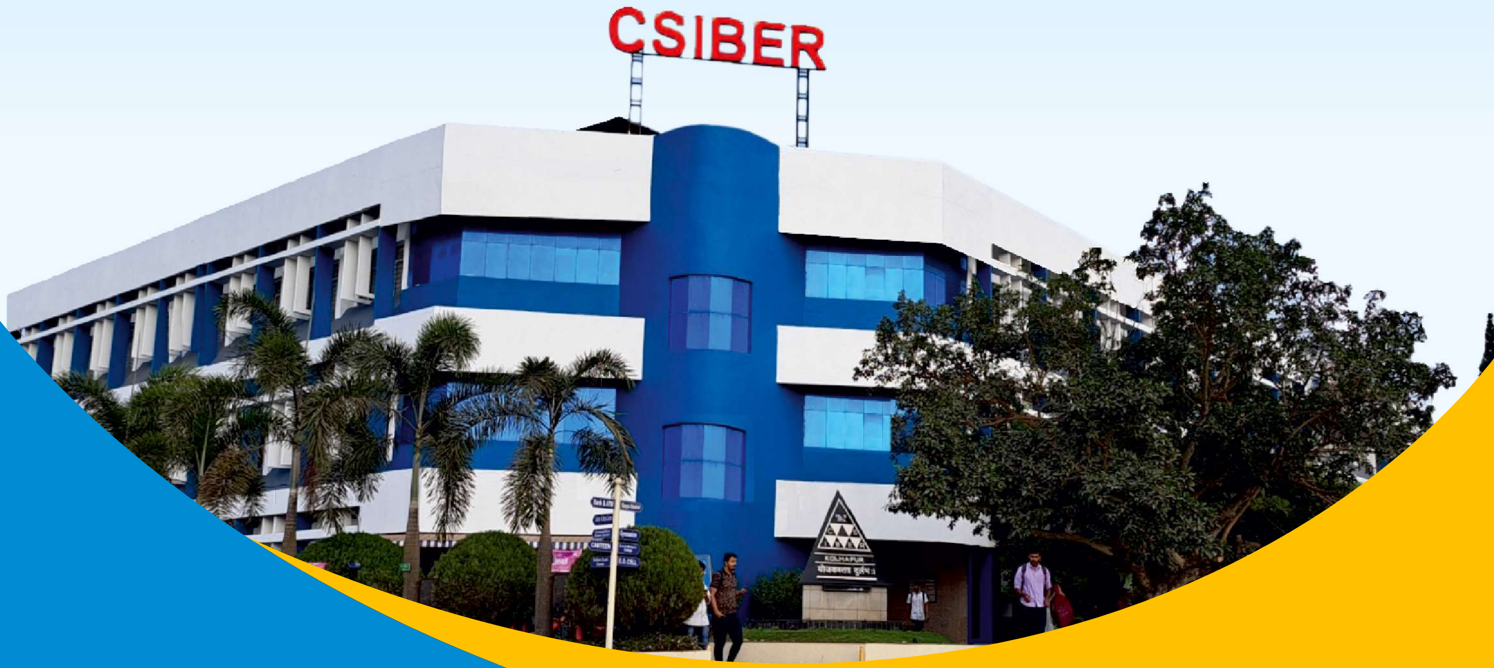

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Editorial Note

South Asian Journal of Management Research (SAJMR), is a scholarly journal that publishes scientific research on the theory and practice of management. All management, computer science, environmental science related issues relating to strategy, entrepreneurship, innovation, technology, and organizations are covered by the journal, along with all business-related functional areas like accounting, finance, information systems, marketing, and operations. The research presented in these articles contributes to our understanding of critical issues and offers valuable insights for policymakers, practitioners, and researchers. Authors are invited to publish novel, original, empirical, and high quality research work pertaining to the recent developments & practices in all areas and disciplined.

Cross-functional, multidisciplinary research that reflects the diversity of the management science professions is also encouraged, the articles are generally based on the core disciplines of computer science, economics, environmental science, mathematics, psychology, sociology, and statistics. The journal's focus includes managerial issues in a variety of organizational contexts, including for profit and nonprofit businesses, organizations from the public and private sectors, and formal and informal networks of people. Theoretical, experimental (in the field or the lab), and empirical contributions are all welcome.The journal will continue to disseminate knowledge and publish high-quality research so that we may all benefit from it.

Dr. Pooja M. Patil
Editor

South Asian Journal of Management Research
(SAJMR)

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C O N T E N T S

Theoretical Insights on the Latest Update of Integrated Reporting Framework: Value Creation, Preservation or Erosion?

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Abstract

Purpose: There is a renewed interest towards Integrated Reporting (IR) based on the recent developments in the IFRS Foundation and Sustainability Standards from June 2023. The rationale behind IR is to disclose information on integrated strategy and value creation activities. Therefore, the purpose of this paper is to understand the theoretical frameworks of Integrated Reporting, in light of the emphasis laid by the 2021 update of IR framework on value creation, preservation and erosion.

Design/methodology/approach: This paper uses the bibliometric data analytics method to identify relevant peer-reviewed journal articles based on ERA and UGC quality lists. Then, it adopts the narrative/discursive style as per de Villiers et al. (2017) and the methodology of Camilleri (2018) with a review of pertinent theories in Integrated Reporting.

Key Findings: This paper contributes to existing literature on the latest developments on Integrated Reporting Framework. The findings suggest that the public interest theory was the initial theory for developing and updating the IR framework. Voluntary adoption of IR is currently mostly used as a signalling mechanism with voluntary disclosures. The integrated disclosures, if audited, are nevertheless helping to improve the legitimacy and signalling effect of firms, thereby trending towards the value creation and preservation aspect.

Research limitations/implications: The paper has pointed out the inherent theoretical limitations that the IR framework face. Nevertheless, even with its imperfections, this study asserts that the updated IR framework is a source of support for organisations and an effective voluntary use of IR might result in less myopic behaviour of management.

Practical implications: This research has evaluated IR based on theoretical frameworks. It has pointed out that the voluntary disclosures of information may be beneficial with Integrated Reporting if it relates to quality and not quantity. Thus, there is still a risk of focussing on ticking checkboxes instead of improving the quality of voluntary disclosures.

Originality/value: This paper contributes to two research gaps in literature. First, it critically analysed key theoretical underpinnings with the latest developments in the principles-based bodies for the IR framework. Second, this is the only study as per the authors' knowledge that simultaneously interact with both the theories of Integrated Reporting combined with data analytics.

Keywords: Sustainability Reporting, Signalling Theory, Legitimacy Theory, Voluntary Disclosure Theory, Public Interest Theory

Introduction

Five years have elapsed since the publication of Camilleri (2018) on theoretical exploration of Integrated Reporting. It is observed that, within the scope of this study, certain theories were omitted despite their examination in literature. The momentum has been boosted towards Sustainability and Integrated Reporting, especially, since June 2023, the International Sustainability Standards Board (ISSB), a recent organisation under the IFRS Foundation, issued IFRS S1 and IFRS S2 on disclosure of sustainability related financial information and climate change. The International Financial Reporting Standards (IFRS) Foundation is presently the principles-based accounting global body overseeing the International Accounting Standards Board (IASB) which sets the financial reporting standards (IFRS) and would contemporarily also oversee the ISSB for the

sustainability standards (IFRS Foundation, 2023). With regards to Integrated Reporting, a new Value Reporting Foundation has been created which acts under the IFRS Foundation, showing the global effect of Integrated Reporting, which is now an official IFRS Foundation related reporting framework (IFRS Foundation, 2022).
Such consolidation has seen the clear efforts of harmonisation of several bodies, especially the International Accounting Standards Board (IASB) and the ISSB to provide guidance on the alignment of corporate reporting and non-financial sustainable reporting (IFRS Foundation, 2023). Harmonisation efforts have been seen by the Value Reporting Foundation (VRF) to include the Sustainability Accounting Standards Board (SASB), initially created in USA (IIRC, 2021a). These changes which happened a few months ago will undoubtedly have an impact on the market and stakeholders.

Given the dynamic changes brought to the reporting bodies, Camilleri (2018) could not have explained all the theories applicable, thus the author explained only a few of the theories applied in Integrated Reporting. However, these theories provide a limited view on the whole concept, given the nature of Integrated Thinking and Reporting, additional theories have been added in this study. Additionally, this is the only study to analyse the theoretical insights of Integrated Reporting Framework following the update of the framework.

Research Questions

Integrated Reporting (IR) has become increasingly prevalent as organisations aim to address the diverse interests of stakeholders and demonstrate a commitment to sustainable business practices (IIRC, 2021a; Landau et al., 2020). In investigating the alignment of organisational practices related to integrated reporting with various theoretical backgrounds, this research seeks to understand the motivations and implications underlying this reporting approach. By analysing the connections of several theories, the aim to clarify the multi-layered dynamics influencing stakeholder perceptions in the context of integrated reporting. Camilleri (2018) investigated the agency, legitimacy, stewardship and institutional theories related to IR. This paper includes additional pertinent theories. Thus, the research question, RQ1, is: “How do Integrated Reporting practices align with organisational and societal theories?”. The second research question, RQ2, is based on the follow-up of the first research question. RQ2 would thus help identify the current relevant IR theories assessed by academics based on data analytics. Thus, RQ2 is: “What are the current organisational theories applied to Integrated Reporting?”

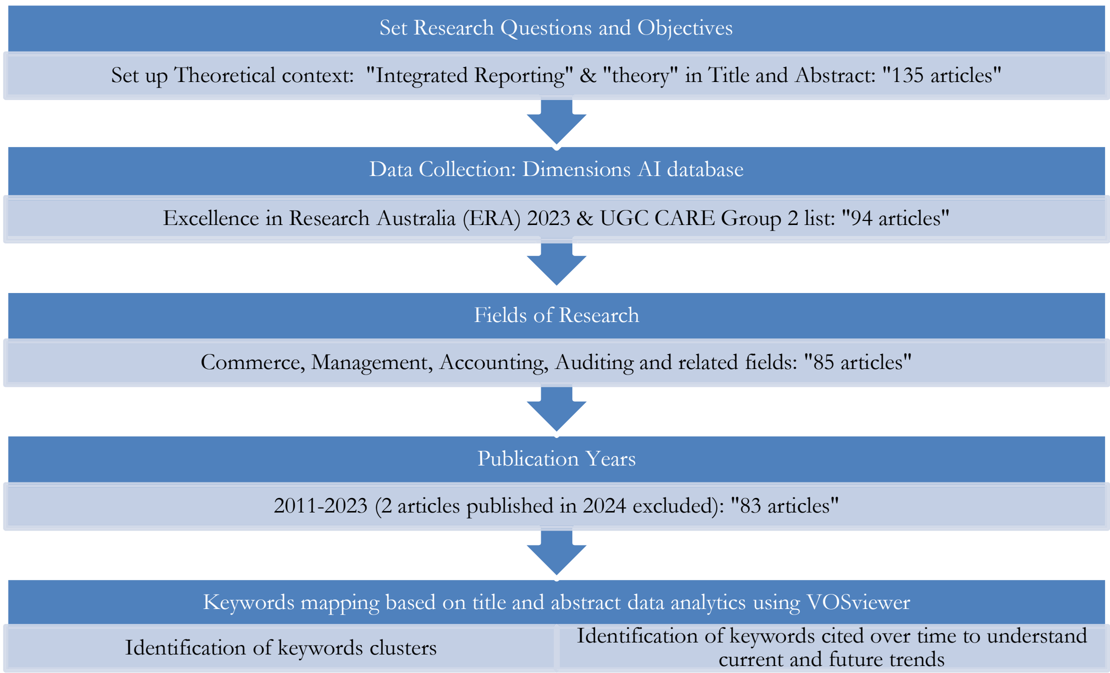
Organisations that disclose non-financial information frequently do so with the primary objective of maximising their financial capital and increasing profitability, according to literature which is in other terms mean the profit maximising objective (Edmans, 2023). This is in line with several conceptual theories that are discussed in academic literature and several of which try to give an explanation for why integrated reporting should be adopted voluntarily (Camilleri, 2018). Thus, several theories seek to explain the reporting process with the main issue at hand.

Methodology

The Dimensions AI scholar website is used as the source for the data collection (Dimensions, 2023). Existing literature supports a high degree of alignment between the Dimensions database and Scopus, with a reported match rate of 97%. This indicates substantial equivalence in bibliometric, citation, and meta-analysis or systematic literature review analyses based on the database, suggesting the potential suitability of the Dimensions AI as a valuable alternative to Scopus (Thelwall, 2018). In addition, the journal article had to meet the list of the Excellence in Research Australia (ERA) 2023 list or the Indian University Grants Commission (UGC) CARE List Group 2 with selection of only peer reviewed articles. The ERA 2023 is a framework designed to assess and identify quality journals in Australia. Researchers utilise the ERA 2023 to ascertain the acceptability of journals by Australian authorities, thereby aiding in the informed selection of reputable journals (Gu and Blackmore, 2017). During the ERA preliminary phases, the journal list primarily comprised Scopus-indexed articles. Subsequently, the committee enlarged the selection by incorporating additional journals following a comprehensive assessment. The search criteria in Dimensions AI scholar included “Integrated Reporting” and “theory” in inverted commas in title and abstract only. In order to filter out irrelevant fields, only the related fields such as Accounting, Auditing, Commerce and Management were selected. The sample size ultimately was 83 journal articles published between 2011 to 2023 and downloaded in January 2024.

Figure 1 delineates the data collection adapted from the PRISMA methodological framework, explaining a sequential depiction of the research methodology employed in conducting this study on theoretical insights. The examination of article keywords necessitates the extraction of textual characters from the title and abstracts of the sampled articles. This procedure enables a comprehensive understanding of the scholarly interests, facilitating an exploration of the paradigm evolution towards emerging conceptual and theoretical models.

Figure 1: Data Collection Methodology



Source: Developed by the Authors and adapted from the PRISMA model

Results and Discussion

The Stakeholder Theory and Socio-Political Theory

Stakeholders in a firm include shareholders, clients, personnel, suppliers, loan providers, regulators, tax authorities, and the community (Fernando and Lawrence, 2014). Successful firms effectively manage relationships with numerous stakeholders through stakeholder management. In the context of integrated reporting, it is imperative to enhance the emphasis on the significance of stakeholder management in ensuring the sustained viability of a firm (de Villiers *et al.*, 2017).

The IIRC (2013, 2021b) introduced guidelines in 2013 and updated them in 2021 for organisations to adopt a principles-based approach in reporting on integrated strategy, governance, performance, and opportunities for value creation. The 2013 framework emphasized assessing the quality of relationships with key stakeholders, while the 2021 update highlights methodological considerations and the dual aspects of value preservation and erosion. This highlights the theoretical merit of Integrated Reporting, acknowledging its potential benefits (de Villiers *et al.*, 2017; Camilleri, 2018; Dragomir and Dumitru, 2023).

The ethical branch theory, a subfield of the stakeholder theory, has been employed in studies on the subject to show how integrated reporting may provide vital social and ethical information for assessing economic value (Pavlopoulos *et al.*, 2019). Another component of the stakeholder theory, the management branch hypothesis, states that businesses would make an effort to cater to the stakeholders who have the greatest influence

(Conway, 2019). Given that stakeholders encompass various social and political actors, it is imperative to acknowledge the significant influence of socio-political theory as delineated in Haji and Anifowose (2016).

The Notion of Legitimate Existence

Legitimacy theory holds that there is an unwritten social contract between a company and the community in which it operates (Camilleri, 2018; Chouaibi *et al.*, 2022). The legitimacy hypothesis states that a corporation must uphold its legitimacy in order to succeed, meaning that it would falter if it violated the social contract (Setia *et al.*, 2015).

Efforts to promote transparency, including integrated reporting, help to bridge gaps in legitimacy (Velte and Stawinoga, 2016). It is crucial to remember that the concept of legitimacy is dynamic; a corporation may experience a legitimacy gap at any point throughout its operations as a result of shifting the types of activities it conducts or unfavourable incidents that take place in its surroundings (Cooray *et al.*, 2020). Businesses are becoming more transparent as a result of social and environmental concerns (de Villiers *et al.*, 2017). Businesses have an obligation to provide more information after a disaster to win back the trust of their clients. According to Velte and Stawinoga (2016), integrated reporting may therefore be able to assist businesses in upholding their reputation.

While legitimacy theory positions that organisations strive to maintain their perceived legitimacy in the eyes of stakeholders and the general public (Setia *et al.*, 2015), concerns for IR continue to exist. According to the theory of legitimacy, purposeful manipulation of materiality analysis could result in the report's content being defined in a way that ignores the concerns of legitimate stakeholder groups. As a result, for the aforementioned stakeholder groups, this misuse does not improve the reports' relevance and efficacy (Beske *et al.*, 2020).

Institutional Theory and Diffusion of Innovation Theory

Institutional theory demonstrate the mechanisms through which businesses commit to similar disclosure processes and achieve standardisation (Fuhrmann, 2019). This concept links the legitimacy theory and stakeholder theory, adjusting to shifting social issues (Briem and Wald, 2018).

Isomorphism and decoupling are two main components that compose institutional theory (Sun, Ip, *et al.*, 2022). The pursuit of legitimacy through institutionalisation, marked by complex stakeholder mandates, is illustrative of both institutionalism and neo-institutionalism (Alvesson and Spicer, 2018). In accordance with isomorphism, voluntary adoption of integrated reporting by select companies within a nation may prompt a subsequent mandatory adherence by other firms, driven by the imperative to uphold their social standing (Fuhrmann, 2019; Martínez-Ferrero and García-Sánchez, 2017)

Coercive isomorphism is typically prompted by regulators, using compliance and surveillance (Martínez-Ferrero and García-Sánchez, 2017). Mimetic isomorphism occurs when companies emulate their rivals, not under external pressures but with the aim of obtaining competitive advantages (Vaz *et al.*, 2016). The organization preserves its reputation by embodying innovativeness, aligning this approach with the diffusion of innovation theory for Integrated Reporting, potentially prompting smaller enterprises to emulate for comparable advantages. (Oktorina *et al.*, 2021; Vaz *et al.*, 2016). Diffusion of innovation theory originating from the field of communication studies, thus endeavours to explain the implementation patterns of innovative practices such as IR within organisations (Briem and Wald, 2018). Normative isomorphism obliges businesses to adopt institutional practices rooted in societal norms and expertise from relevant subject matter authorities (Martínez-Ferrero and García-Sánchez, 2017).

“Decoupling” occurs when a firm's disclosures deviate from its actions (Fernando and Lawrence, 2014). The idea that voluntary disclosures of positive information can create a divergent image from actual performance is captured in the concept of decoupling (García-Sánchez *et al.*, 2022). This phenomenon may clarify the emphasis on positive news in integrated reports by certain firms, concurrently minimizing the inclusion of negative news, thus helping explain impression management theory below.

The Agency Theory & the Stewardship Theory

Shareholders, as principals, delegate authority to managers as agents to oversee daily business operations with the expectation that the latter will prioritize the principal's best interests. Agency issues arise when managerial actions prioritize self-interest over the principal's best interests (de Villiers *et al.*, 2017). The difference between ownership and control confers management an informational advantage over shareholders (Cooray *et al.*, 2020).

The integration of ethics into agency theory yields the stewardship theory. The latter challenges the premise that agents exclusively act in self-interest, attributing their behaviour to ethical considerations in relation to the principal (Camilleri, 2018). Thus, stewardship theory explains that ethically sound managers would safeguard and maintain the assets of the company as far as possible to the best interests of the shareholders.

Management typically has a broader information base rather than shareholders as the former are involved in day-to-day transactions of a business. This presents with the issue of information asymmetry as management would have a higher degree of insider information. Mandatory or voluntary corporate IR disclosures may reduce information imbalances, otherwise known as information asymmetry, thereby improving the decision-making process of stakeholders (Garanina and Dumay, 2017; Garcia-Sanchez *et al.*, 2020).

The stewardship theory, agency theory and information asymmetry could be associated to a few firm characteristics. The type of ownership also influences the quality of Integrated Reporting (Raimo *et al.*, 2020). A positive association exists between the overall effectiveness of the audit committee function and the extent and quality of IR practice, showing effective control in agency issues (Ahmed Haji and Anifowose, 2016).

The Voluntary Disclosure Theory and the Impression Management Theory

The essence of the voluntary disclosure theory in IR is axed on distinguishing between the disclosure of positive and negative information in Integrated Reports (Nishitani *et al.*, 2021). The voluntary IR disclosures have the potential to improve the market value of a firm (Wahl *et al.*, 2020). Voluntarily disclosures result in cost savings for authorities, provide stakeholders with vital information and may serve as a strategic mechanism, showing perceived advantages stemming from economic and social considerations (Velte and Stawinoga, 2016).

Voluntary disclosures have been criticised because firms reveal only favourable information that may increase their stock price which has been associated with impression management theory (Casonato *et al.*, 2019; Roman *et al.*, 2019). Impression management thus involves the opportunistic administration of narrative disclosures. Given the voluntary nature of Integrated Reporting as outlined in the IIRC Framework and emphasized in IR newsletters, organisations possess discretion in determining the content and extent of disclosures, unless regulatory frameworks within a specific country mandate specific reporting requirements (IIRC, 2017).

Irrespective of the nature of disclosed information, both mandatory and voluntary disclosures serve as mechanisms through which a company can legitimise its operations. This holds true regardless of whether the disclosures are obligatory. Integrated reports, in particular, may incorporate information capable of positively influencing the perspectives of stakeholders (Melloni et al., 2017). Roman et al. (2019) thus conclude that younger firms tend to use more optimistic tone when reporting on events in their integrated reports compared to matured organisations.

The Signalling Theory

Information asymmetry is frequently explained within the signalling theory, particularly in the areas of corporate governance, entrepreneurship, and interdisciplinary research, tracing its origins back to the initial exploration of signalling theory in the labour market (Spence, 1973; Garcia-Sanchez *et al.*, 2020). The concept of signalling pertains to behaviour in situations where two parties possess disparate levels of knowledge. The signaller conveys information regarding a company's status, while the recipient of the signal, whether a stakeholder with or without technical expertise, interprets information pertaining to the firm's quality (Grassmann *et al.*, 2021). This signal offers additional or new data for the receiver or decoder.

Capital markets effects research highlight the significance of signalling theory. This theory posits that firms convey positive signals by communicating value-generating information within Integrated Reports (Fuhrmann, 2019; Grassmann *et al.*, 2021). This is consistent with firm disclosures that suggest stronger performance and market value (Hsiao and Kelly, 2018). Hence, integrated reporting disclosures are signalling mechanisms as per the IR framework.

Moreover, beyond enhancing performance and market value, the entity signalling also divulges information, mitigating information asymmetry and thereby signalling positively to the recipient (Buallay *et al.*, 2020; Camodeca *et al.*, 2019). Moreover, signalling theory mitigates agency issues as mentioned by Van Zijl *et al.* (2017) where the integrated reporting mechanism decreases adverse selection and information asymmetry. Sun *et al.* (2022) also associate integrated voluntary disclosures with organisational success. This opinion is shared with Barth *et al.* (2017) who observed a positive signal between an increase in IR quality with the market value of a firm.

Resource Dependency Theory and the Public Interest Theory

Resource Dependency Theory aligns with the conceptualisation of IR. According to this theory, multiple capitals, as explained by the IIRC framework, correlates with the concept that resources exercise an influence on the operations of a company. These capitals as per IIRC (2013, 2021b) include the financial, intellectual, human, manufactured, social, relationship, and natural capitals, especially considering the environmental, social, and governance resources as per Velte and Stawinoga (2016). This integration is founded on the recognition that a firm's competitive advantages and strategy are shaped by a diverse array of capitals. Additionally, IR seeks to attain the objective of long-term value creation presenting the means by which the organisation can ensure the sustained provision of resources necessary for achieving above-average earnings (Dumay *et al.*, 2019; Makri *et al.*, 2023).

The principles of resource dependence theory support the objectives of IR, substantiating the theory's assertion that a company's principal function lies in securing essential resources (Qaderi *et al.*, 2022). This congruence emphasises how the goals of IR and the tenets of resource dependence theory are mutually beneficial. In this regard, IR offers a holistic perspective of an organisation's value creation, making it a strategic tool. In order to appeal to a variety of stakeholders and diminish dependence on certain resource providers, firms provide a picture of their financial and ESG performance. Thus, IR turns into an instrument for communicating resource dependencies and improving an organisation's appeal to investors, clients, and other important stakeholders (Dumay *et al.*, 2019; Makri *et al.*, 2023).

In order to communicate resource dependencies, manage externalities, minimise dead-weight costs and reduce agency conflicts, the public interest theory if applied correctly improves transparency (Leuz, 2010). Consequently, the public interest theory serves as a guiding framework for the regulatory system, enforcing transparency regulations to align business practices with broader societal objectives (Christensen *et al.*, 2017). Soh *et al.* (2015) associates the efforts to initiative develop the IR Framework stems from the public interest theory.

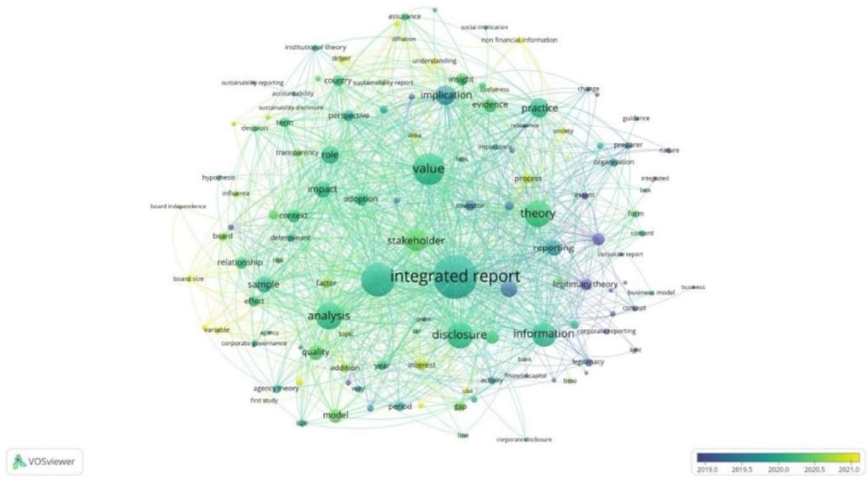
The public interest hypothesis is tied to the implementation of reporting systems, whether informally or through legislative frameworks. Private and public regulators, endowed with investigative and enforcement powers, operate with a shared emphasis on close supervision to ensure alignment with the public interest (Leuz, 2010). The public interest argument reinforces mandatory disclosure laws, asserting that government intervention is essential to address market failures effectively. This acknowledges the need for continuous oversight to ensure regulatory actions genuinely align with the broader public interest (Christensen *et al.*, 2017).

The public interest hypothesis asserts the efficacy of transparency-enforcing laws. Challenges arise when authorities yield to external pressures, irrespective of their public or private nature. Regulatory decisions are susceptible to political objectives, given the inherently political nature of the decision-making process. Thus, it is essential that political objectives are minimised and regulatory choices align with the broader goals of the public interest theory (Christensen *et al.*, 2017; Leuz, 2010). However, as Soh *et al.* (2015) notes that over time private interests appeared to precede over the public interest theory in the case of IR.

Data Analytics and Trends in IR Theories

Based on big data analytics, the keywords analysis from title and abstracts of the 83 articles show that the stakeholder theory has been studied extensively as well as disclosure theory, revealing the interest and emphasis on these theoretical frameworks in **Error! Reference source not found.**. Such prominence suggests that stakeholders and disclosure practices are pivotal points in current research, potentially indicative of their critical roles in shaping organisational behaviour, corporate governance, and transparency.

Figure 2: Keywords Analysis for IR theories based on big data analytics



Source: Developed by the Authors based on data

Apart from the stakeholder and disclosure theories, the pertinence of agency theory, institutional theory, and legitimacy theory has also been observed for their ongoing relevance from **Error! Reference source not found.**. Current literature may evidence the current application of these theoretical frameworks. Drawing on agency theory, Fayad et al. (2022) establish a positive association between integrated reporting quality and specific board characteristics, such as size and gender diversity. Building on institutional theory, Sun et al. (2022) reveal the influence of informal coercive pressures on disclosure quality in integrated reports. Esposito et al. (2023) employ stakeholder and agency theory to find a positive impact of board size, gender diversity, and CSR committee presence on circular economy disclosure in integrated reports among European companies. Radu and Dragomir (2022) contribute to signalling theory by demonstrating that high-quality IR reflects positively on the company's outlook and reduces financial risk. In the same trend of building on the theoretical framework, Dragomir and Dumitru (2023) meta-analyses based on agency, stakeholder, and signalling theories to highlight significant correlations with director independence, social responsibility committee existence, institutional ownership, and Big 4 auditor engagement. Consequently, the consolidation of various theories within this paper serves the purpose of facilitating comprehension of IR among prospective researchers. This compilation not only fosters an enhanced understanding of IR as a research area but also provides a valuable resource for academics seeking the latest and most pertinent theoretical frameworks for critical evaluation and analysis.

Implications for Theory and Practice

The paper points out the inherent theoretical constraints within the Integrated Reporting (IR) framework. Despite acknowledging these limitations, the study contends that the revised IR framework can serve as a valuable resource for organisations if adopted correctly and faithfully by an ethical management. This is due to its disclosure on value creation, preservation and erosion based on its latest update. The paper also suggests that the voluntary adoption of IR could mitigate management's propensity for short-termism or the myopic behaviour of management, through the multi-approach of theories. Consequently, this research critically evaluates IR through the lens of various theoretical frameworks, emphasising the potential advantages of voluntary information disclosure within an Integrated Reporting framework. It highlights the significance of prioritising the quality of disclosures over their sheer quantity to steer clear of a compliance-centric approach or a box ticking approach. Subsequently, there persists a risk of overemphasising procedural adherence at the expense of enhancing the functional and practical value of voluntary disclosures.

Conclusion

The world is witnessing considerable changes in terms of non-financial reporting, with the advent of several bodies harmonising efforts towards sustainability and integrated reporting. The ISSB has issued IFRS S1 and IFRS S2 in June 2023 which would significantly impact on newer research. Furthermore, the Integrated Reporting Framework has been consolidated under the IFRS Foundation together with the SASB to become the Value Reporting Foundation. Thus, the renewed interest in Integrated Reporting has been geared towards the theoretical frameworks in this study to critically analyse the theories applied since the inception of Integrated Reporting, noting the significance of signalling, legitimacy and institutional theories. Furthermore, the same theoretical framework has been utilised to critically assess Integrated Reporting as a corporate communication channel, observing the agency theory and impression management theory have been instrumental in recent literature. Noting the inherent limitations of Integrated Reporting, especially with respect to the private interest theory instead of the public interest theory as well as the issue of impression management could open up several avenues of future research.

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