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# Social Network Influences on Integrated Reporting adoption and implementation – A UK Perspective

## Abstract

**Purpose** This paper sought to investigate social network influences on UK Integrated Reporting (<IR>) adoption and implementation.

**Design/methodology/approach** The study was based on in-depth semi-structured interviews with 36 senior executives actively involved in <IR> within 17 organisations.

**Findings** Main social network influences on adoption externally were report design consultants, and to a lesser extent, external auditors, primarily to legitimize <IR>. Internal influences were board support for <IR>, with the main driver being the mind-set of the CFO/Chairman to drive sustainability throughout the organisation, or to regain societal trust. Social network influences aiding further diffusion at the implementation stage came from three external sources: business networks; report design consultants; and external auditor. Internal influences in driving <IR> diffusion within organisations were identified in five functional areas, with Finance, Sustainability and Communications functions exerting greatest external influence on the diffusion of <IR>.

**Research Limitations** This research study was limited by the small sample of organisations that participated, although significant efforts were made to ensure that the sample incorporated the majority of early adopter UK organisations who demonstrated best practice in <IR>. Therefore, the findings are specific to the research context and do not represent statistical generalisations.

**Practical implications** Empirical evidence identifying social network influences from a practitioner perspective provide recommendations as to how <IR> may be further diffused in the future.

**Social Implications** <IR> creates the potential to significantly improve the long-term health of corporations and the external environment they impact through consideration of the three indivisible and integrated dimensions of sustainable development, the economy, society, and the environment and can contribute to a sustainable society by providing the opportunity for organizations to respond to the UN Sustainable Development Goals. This highlights the significance of research which aims to gain insights into <IR> social network influences which can assist in the adoption and implementation of <IR>.

**Originality/value** This is the first comprehensive study of social network influences on the <IR> adoption and implementation practices in UK. It incorporates recommendations to improve the likelihood of subsequent adoption and diffusion of <IR> based on the findings.

## 1. Introduction

This study aims to investigate major influences within organisational social networks which have affected the adoption decision and subsequent implementation of Integrated Reporting (<IR>), using diffusion of innovation (DOI) as a theoretical lens.

Despite growing interest in <IR> academic research (Rinaldi et al. 2018; Dumay et al. 2016), limited research has considered the <IR> journey in its entirety, and the extent to which social network influences, at different stages of the <IR> process, may have contributed to changing the field (Perry-Smith and Mannucci, 2017; Rinaldi et al. 2018). Particularly, Rinaldi et al. (2018), through a systematic review of <IR> literature, highlight that the positioning of current research predominantly remains at macro- and meso-level, creating an important gap for research exploring the interactions between individuals and/or small groups during the <IR> journey, which this research seeks to address, by considering the influence of social networks on the adoption and diffusion of <IR>. Further, Dumay et al. (2016) highlight that the vast majority of <IR> research does not engage with practice and specific organisations leading to a disconnection between academic IR research and IR practice which this research addresses through engagement with prominent UK early adopter organisations.

Since the formation of the IIRC (International Integrated Reporting Council) in 2010, the concept of <IR> has increased in relevance and importance (de Villiers et al., 2014; Dumay et al., 2016) and responds to a growing demand for a broader, more holistic and future-oriented range of decision-useful information from a variety of stakeholders (de Villiers et al., 2017). <IR> aims to address the limitations of preceding corporate reporting models which were historic, disconnected, and failed to consider the increasing relevance of intangibles and the dangers of short-termism (Robertson and Samy, 2015). Although some academics consider <IR> to be exclusively investor orientated with little to say about either accountability or sustainability (Flower, 2015; Milne and Gray, 2013), others believe that <IR> creates the potential to significantly improve the long-term health of corporations and the external environment they impact, through consideration of the three indivisible and integrated dimensions of sustainable development, the economy, society, and the environment (Adams, 2017a; Robertson, 2018). Additionally, <IR> has the potential to contribute to a sustainable society by providing the opportunity for organizations to respond to the UN Sustainable Development Goals (Adams, 2015; Adams, 2017a).

Although <IR> is currently adopted globally by over 2000 organisations in seventy countries, the IIRC's vision of <IR> becoming the corporate reporting norm (IIRC, 2020) has been hampered by a lack of clarity surrounding definitions of <IR> and its key concepts of value creation and integrated thinking (Adams, 2015, Robertson and Samy, 2020).

This is evidenced by recent research, based on the reports of 48 members of the IIRC Business Network, that highlighted that the quality of <IR> had declined in 2019, compared to three years previously, particularly in the areas of connectivity, value creation and the capitals that an organisation may depend on (ACCA, 2020). Further research highlights difficulties encountered by <IR> adopters include the complexity of <IR> processes (Lodhia, 2015); competing standards (Robertson and Samy, 2015); and balancing the interests of multiple stakeholders (Lodhia 2015; Parrot and Tierney, 2012).

To address this, the IIRC undertook a global consultation to assess the successes and challenges of <IR> implementation. Key findings of this consultation highlighted that one of the main reasons for implementation difficulties within organisations was a lack of guidance and leading practice examples (IIRC, 2017; Rinaldi et al., 2018). This suggests that organisations may benefit from the identification and use of external <IR> networks and agents who are familiar with <IR> and can provide information and broader experience to potential users and early adopters of <IR>. This highlights the significance of research which aims to gain insights into <IR> social network influences which can assist in the adoption and implementation of <IR>.

The study was based on in-depth semi-structured interviews with 36 senior executives actively involved in <IR> within 17 UK organisations. The UK was selected as, in addition to the researcher's proximity to participants, <IR> research is low in this country (Dumay et al., 2016). This is despite a supportive regulatory environment which has facilitated many larger UK organisations in addressing some of the fundamental issues of <IR>, therefore providing a valuable arena for researching UK <IR> early adopters (Dumay, 2016; Robertson and Samy, 2019). Particularly, the last decade has seen an increase in the quality of information reported by UK companies, many of whom are global multi-nationals, and therefore organisations in other countries could benefit from the findings of UK <IR> research (PWC, 2020).

Further, trust in UK businesses, remains low, at 47 per cent in 2019, and this may decline unless businesses engage with the stakeholders, and demonstrate solutions to public concerns (Edelman Trust Barometer, 2019). <IR> has been shown to restore legitimacy by actively managing the engagement with key stakeholders (Lodhia 2015; Parrot and Tierney, 2012), therefore research that identifies social network influences that may assist in <IR> adoption and implementation should contribute positively to restoring trust in businesses.

By seeking senior management views and experiences of social network influences on their <IR> journey, this study makes both academic and practice/policy relevant contributions. First, we contribute directly to the increasing <IR> academic literature in this area by addressing the research gap on exploring the interactions between individuals and/or small groups during the <IR> journey by providing substantial empirical evidence from senior manager perceptions of the role of social network influences on <IR> adoption and implementation processes. Secondly, it builds on existing prior management innovation research which remains significantly under-represented in the vast literature on innovation, despite the recent surge in scholarly attention and the key role that management innovation such as <IR> plays in enhancing company performance (Allen, 2017; Crossan and Apaydin, 2010; Volberda et al. 2013). Thirdly, at a time when IR becomes an increasingly important corporate reporting practice, this study identifies how social network directly influence and assist in <IR> adoption and implementation processes and makes recommendations to aid policymakers, preparers and those actively involved in providing <IR> support such as auditors and design consultants, in facilitating further <IR> diffusion. This is important given that empirical research provides evidence that <IR>, and the effective sustainability practices it promotes, have a positive impact on company earnings (Baboukardos and Rimmel, 2016; Eccles et al., 2014) and offers the potential to: shift corporate mind-sets towards alignment of profit maximisation with societal and environment wellbeing; improve the quality of information provided to stakeholders; and to provide the opportunity for organizations to respond to the Sustainable Development Goals (Adams, 2015; Adams, 2017a).

The rest of this chapter is organized as follows: Section 2 explores the relationship between DOI theory, social network influences and <IR> through a literature review. The methodology is then outlined in Section 3 and the findings are subsequently presented and discussed in Section 4. Conclusions are then drawn and recommendations for policy and practice and suggestions for further research are made in Section 5.

## 2. Literature Review

### 2.1 Diffusion of Innovation (DOI) Theory

According to Rogers (2003, p.5), diffusion is “the process in which an innovation is communicated through certain channels over time among the members of a social system”. DOI theory has been used extensively and has a universal application in a diversity of fields to explain how, why, and at what rate, innovations are adopted and integrated into standard

practice (Green et al., 2009; Murray, 2009). According to Ax and Bjornenak (2005), most accounting changes are the direct or indirect consequences of diffusion processes.

In <IR> literature, DOI theory has been emerging as a useful theory to investigate factors that impact on the diffusion of <IR> practices. Robertson and Samy (2020) used DOI theory to investigate rationales for integrated reporting (<IR>) adoption and factors that impact on the extent of adoption in the UK early adopter organisations. In a Sri Lanka context, Gunaratne and Seneratne (2017) examined how and why integrated reporting (IR) is diffused in Sri Lanka. Further, Robertson and Samy (2015), based on UK senior management perceptions of <IR> prior to the launch of the <IR> framework (<IRF>), investigated the likely adoption of <IR>, in addition to highlighting the limitations of current reporting practices using DOI as a theoretical lens. This study aims to add to this body of literature by highlighting the role of social networks on <IR> adoption and implementation using DOI. It further aims to fill a gap in innovation literature where a systematic review identified only 4% of studies assessing both adoption and implementation outcomes, and over half of studies failing to utilise an organizational theory to guide inquiry (Allen et al. 2017).

#### *Definitions –Innovation, Adoption Process, Diffusion*

There are many definitions of innovation, due to its complex and multidimensional nature (Goswami and Mathew, 2005). In the context of accounting diffusion, Mellett et al. (2009, p. 747) define it as “the spreading of new accounting procedures to, and within, organizations where they had not previously been present”. Consistent with most studies on the adoption of innovation at the organisational level, we define innovation as perceived as new to the adopting organisation (Damanpour et al., 2009). Innovation can therefore relate to the development and adoption of new ideas, behaviours, management practices, stakeholder relations or business processes at both strategic and operational levels of organisational business (Dumay et al., 2013). Therefore, innovation is both a process and an outcome (Crossan and Apaydin, 2010). In that respect, <IR> would meet this definition as it involves both new strategic business processes informed by integrated thinking and an output detailing outcome of <IR> processes in the form of an integrated report defined by a policy (the <IRF>).

The innovation adoption process has two major phases: initiation and implementation (Rogers, 2003). The initiation stage leads to the formation of perceptions about the innovation which form the basis for a decision to adopt or reject the innovation (Agarwal and Prasad, 1997). Particularly, organisational internal mind-sets can significantly influence decisions to adopt and retain new practices (Rogers, 2003; Zbaracki, 1998). This highlights the importance

of social network influences on senior executive perceptions which form the research focus of this study.

Consistent with Boyne et al. (2005), we define innovation adoption as the actual organisation use of an innovation, primarily because a decision to adopt does not always result in its use, and several prior studies have omitted this significant innovation process stage (Klein and Sorra, 1996). Particularly, organisations may argue that they have adopted an innovation to gain legitimacy, seeking to represent themselves as progressive organisations, whilst the innovation remains unused and subsequently rejected by organisational members (Boyne et al. 2005).

The implementation process emphasises the subsequent integration of the innovation within the organisation and consists of all events and actions which relate to modifying the innovation and the adopting organisation, the initial use of the innovation, and the continuing use of the innovation, until it becomes standard practice within the organisation (Glynn, 1996). In the context of this study, diffusion relates to the spreading of new processes and procedures to, and within, organisations. It is a process that may be characterized as the acceptance over time of a specific idea, technology or practice, by individuals, groups or other adopting units, linked to specific channels of communication, to a social structure, and to a given system of values, or culture (Katz et al., 1963).

Rogers (2003) proposes four elements of diffusion: (1) perceived characteristics of innovations; (2) communication channels; (3) time and (4) nature of the social system. This study will focus on element (4).

## 2.2 The Social System

Although many factors influence innovation diffusion, academics have consistently found that interpersonal contacts within and between social systems are very important influences on adoption behaviour (Valente and Davis, 1999). The social system is defined by Rogers (2003, p.23) as 'a set of interrelated units that are engaged in joint problem-solving to accomplish a common goal' (p.23). The social system refers to the social network surrounding a potential adopter, opinion leaders within that network, change agents and organisational characteristics (Greenhalgh et al., 2004; Rogers, 2003). Social networks can help create and transform the intention to change within the target system into action (Dabphet et al., 2012). However, Roger (2003) observes that the structure of a social system can either facilitate or impede diffusion.

From a review of literature (Dumay et al. 2016; Kannenberg and Schreck, 2019; Rinaldi et al. 2018), papers that considered the adoption and implementation of <IR> were reviewed to identify social network influences.

### 2.2.1 Adoption

#### *Internal Social Network Influences*

The process starts with key internal change agents (e.g., top management teams and CEOs) (Vaccaro et al., 2012) who decide whether to address a perceived problem that undermines current performance, or whether opportunities exist in anticipation of environmental changes, by developing new management practices, by adopting existing ones, or by ignoring the issues (Birkenshaw et al. 2008; Volberda et al., 2014). Change agents are defined by Rogers (2003, p.27) as 'individuals who attempt to influence organisational innovation decisions in a direction deemed desirable by the change agent'. Change agents may be internal or external to the organization (Rogers, 2003). Internal change agents are organization employees whereas external change agents are not, which implies that internal change agents will typically have superior knowledge and networks inside the organization and greater accountability for delivering results than their external counterparts (Birkinshaw et al., 2008).

Several <IR> research paper highlight the importance of top management support (Adams, 2017b; Giovannoni and Maraghini, 2013; Gunaranthe and Seneratne, 2017; Lodhia, 2015; McNally et al, 2017) for <IR> adoption and implementation. Simnett and Huggins (2015) argue that the market-based benefits of adopting <IR> must be demonstrated for <IR> to gain acceptance and highlights the critical importance of developing a business case informed by research for future adoption. Lodhia (2015), in a study of an Australian customer owned bank, found that top management perceived a competitive advantage of being an early adopter and felt that such reporting would enhance their relevance and recognition in a competitive environment. Other organisations have adopted <IR> to meet stakeholder expectations (Lueg et al. 2016; Steyn, 2014) and to attract new investors (Atkins and Maroun, 2015; Macias and Farfan-Lievano, 2017). Particularly, <IR> was seen by some as a way to gain credibility in international financial markets (Atkins and Maroun, 2015; Macias and Farfan-Lievano, 2017) and/or to attract the growing number of socially responsible investors (Robertson and Samy, 2015). In the UK, Atkins et al. (2015), based on interviews with 19 FTSE100 companies and 20 UK institutional investors, provide evidence of changing investor expectations due to increasing integration of social and environmental considerations into the mainstream



investment process, driven by climate change agendas and increasing legislation. Further, an emerging body of empirical research in the US and South Africa provides some evidence that <IR>, and the effective sustainability practices it promotes, have a positive impact on earnings (Baboukardos and Rimmel, 2016; Eccles et al., 2014).

Despite these perceived benefits, research by Chaidali and Jones (2017), based on perceptions of UK senior manager annual report preparers and representatives of the design consultancy profession, highlighted that <IR> preparers were concerned about the credibility of a single report and seemed uncertain of the benefits or the beneficiaries of <IR>. Additionally, Adams (2017b), based on interviews with board members in South Africa and Australia, found that several Australian interviewees expressed a view that boards were not sufficiently aware of ESG (Environmental, Social and Governance) risks and opportunities. Further, Adams (2015) highlights that a change in mind-set from a focus on short-term financial gains and cost cutting, to longer term sustainable growth through consideration of economic, environmental, and societal issues may be required. Particularly, many Finance Directors, guided by accounting and reporting requirements that prioritise financial data, may still consider social and environmental sustainability initiatives as an unnecessary cost rather than a moral obligation or value driver (Adams, 2015). Indeed, Lodhia (2015) highlights that the value of <IR> may be limited where there are restrictions on management regarding conflicts between economic, and social and environmental issues or when there are pressures for improved profitability and shareholder value. Additionally, Adams (2017b) highlights that in an Australian context, legislation surrounding directors' liability and the attention given to this issue in Australia has been a barrier to <IR> adoption.

### External Social Network Influences

Internal change agents may use external involvement if it helps shape an innovation directly or if it legitimizes an innovation (Mol and Birkinshaw, 2014; Staw and Epstein, 2000). External change agents provide credibility to innovations, acting as sounding boards or action researchers, and/ or theorise about an innovation (Birkinshaw et al., 2008). They provide legitimacy, new knowledge, expertise and a different perspective and their involvement is associated with both systemic and incremental innovations (Mol and Birkinshaw, 2014).

In relation to <IR>, they may include powerful and influential bodies such as accountancy and sustainability consultancies, standard setters, government bodies and NGO's. Rogers (2003) identifies seven roles for change agents in the process of innovation adoption being: developing the need for change in organisations; establishing an information-exchange

relationship; diagnosing the problem; creating intent to change; translating intent into action; stabilizing adoption and preventing discontinuances; and achieving a terminal relationship with organisations. External change agents are therefore involved in contextualizing the new management practice “in terms of contemporary business challenges” (Birkinshaw et al., 2008, p. 839) and their ability to provide a convincing rationale for the new management innovation will impact on the innovation’s external legitimacy (Greenwood et al., 2002).

If external change agents correctly pinpoint the organisational leaders that act as sources of example, modelling, and advice for the leaders of other organisations in a societal sector, they can focus on interacting with that subset of opinion leaders who will in turn influence peer-followers (Rogers, 2003). Particularly, the International Integrated Reporting Council (IIRC) selected 40 leading companies from around the world as participants in the IIRC Pilot Programme, including top accountancy bodies and large high profile organisations such as Coca Cola and Microsoft (IIRC, 2011) as sources of example to potential adopters.

Complex innovations benefit from external knowledge sources because they require a greater breadth of knowledge for their conception and implementation (Nelson and Winter, 1982). Particularly, most adopters need persuasion to accept an innovation in terms of awareness, demonstration and trial (Bjornenak, 1997). Robertson and Samy (2015) highlight that the role of design consultants in their <IR> research, where several interviewees had first heard of <IR> through communication with their design consultants. Indeed, design consultant, Black Sun has been working with the IIRC to produce research and practical guidance on <IR>, although their work may be perceived as biased due to its close involvement with the IIRC (Chaidal and Jones, 2017). Further, Reuter and Messer (2015) highlight that auditors can be involved in and benefit from <IR> as it constitutes a new (assurance and consulting) market for them and they are raising awareness of <IR> through numerous Big 4 accountancy firm publications where they highlight their expertise and need for <IR> and the independent assurance thereof.

External change agents often informally influence opinion leaders to gain acceptance within a social system to diffuse (or oppose) an innovation (Lundblad, 2003). Chigona and Licker (2008) draw particular attention to the word “informally” as opinion leaders, unlike change agents, are not formally engaged to sway people’s opinions about an innovation.

The majority of opinion leaders tend to be early adopters (Chigona and Licker, 2008), which in the case of <IR> will likely be those participating in the pilot scheme and other influential early adopter companies. Opinion leaders tend to be more exposed to forms of external

communication, have higher social status, and are more innovative than their followers (Rogers, 2003). Subsequent adopters (Rogers' early majority) tend to adopt because opinion leaders have already adopted (social network influence) while those last to adopt (Rogers' late majority) do so because of perceived social pressure to fall in line (an imitative effect) (Dearing, 2009).

While Gunarathne and Seneratne (2017), in their study of Sri Lankan organisations, did not find evidence of the influence of external agents in early <IR> adopters, the role of professional accounting bodies and business schools was evident in subsequent adopters through the promotion of awareness and legitimization of <IR> via conferences, seminars, provision of guidelines, award schemes and training opportunities. Further, Adhariani and de Villiers (2018), based on a survey in Indonesian, found that the majority of corporate report preparers and the other stakeholders had a strong interest but a low level of knowledge of <IR> and highlighted a need for IR training, through teaching, seminars, conferences and the inclusion of IR in university curricula to educate current and future report preparers and stakeholders.

### 2.2.2 Implementation

#### *Internal Social Network Influences*

Once innovation adoption takes place, internal change agents need to balance the tensions between standardization and adaptability to stimulate the intra-organisational diffusion of the management innovation (Ansari et al., 2014). Particularly, the IIRC's vision of <IR> becoming the corporate reporting norm (IIRC, 2017) has been hampered by lack of clarity surrounding definitions of <IR> and its key concepts of value creation and integrated thinking (Dumay et al., 2017), perceptions of "regulatory capture" (Flower, 2015), the complexity of its processes (Lodhia, 2015), competing standards (de Villiers and Sharma 2017, Robertson and Samy, 2015), balancing the interests of multiple stakeholders (Giovannoni and Maraghini, 2013; Lodhia, 2015) and lack of clear guidance on measurement systems and metrics for integrated thinking and reporting (Dumay et al., 2017; Feng et al., 2017; Guthrie et al., 2017; Robertson and Samy, 2015).

Further, <IR>, as the new reporting framework, may be interpreted and applied differently by individuals within the organisation, resulting in practical difficulties and differing levels of resistance occurring (Dumay et al. 2017). Therefore, Burke and Clarke (2016), based on 19 unstructured panel interviews at a global <IR> symposium, highlights that transition to <IR>

requires a revitalization of business processes including integrated thinking, which needs support from top-level management to promote the process internally. Particularly, Adams (2017b) finds that CEO leadership was fundamental to successful <IR> implementation which requires cultural change.

Internal engagement, facilitated by participation and education, particularly for groups traditionally not engaged with the sustainability reporting process, is vital for addressing resistance to change (Guthrie et al., 2017). However, it may take time for preparers to apply new perspectives in corporate reporting and sustainability to facilitate organisational behaviour changes and to consider how value creation might be reconceptualised (McNally and Maroun, 2018). Individual champions can help overcome indifference or resistance to an innovation by using their power and influence to help organisations navigate the complex socio-political maze within their corporations, with power being related to hierarchical position, access to resources, technical expertise, and/or centrality in a sociometric network of information (Rogers, 2003; Chakrabarti and Hauschildt, 1989). Additionally, Guthrie et al. (2017), in their research of Italian public sector organisations, highlight that education and participation strategies facilitated the empowerment of others to act in line with organisational objectives and contributed to the transition to <IR>.

Particularly, the transition to <IR> has, in some cases, resulted in incremental changes in sustainability reporting rather than more radical transformations of the existing financial and sustainability reporting approaches (Guthrie et al., 2017; Stubbs and Higgins, 2014). However, <IR> also involves the internal process of integrated thinking which 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. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term' (IIRC, 2013, p.2). Particularly, cross-functional teams are a key mechanism for implementing an integrated thinking approach (e.g. strategy, finance, accounting, sustainability, HR, legal, risk, investor relations) and to driving change within an organisation (Guthrie et al., 2017; Stubbs and Higgins, 2014). Guthrie et al. (2017) observe that the process of ownership of <IR> practices, made by cross-functional teams, was crucial to achieving integrated thinking. Further, Beck et al. (2017), based on the transition to <IR> in an Australian financial services organisation found that the collaboration, established through integrating reporting processes, established shared meaning and a shared commitment to the <IR> process.

### External Social Network Influences

Scott (1990) notes that "being embedded in a network of social relations can bring one news of innovations, support for adoption, helpful hints regarding implementation, and social support encouraging change. Such processes clearly operate among professionals across organisations" (p.184). Influential agencies in those networks, including professional bodies and dominant institutions, may exert normative pressures on organisations to adopt legitimate practices when legitimacy is signified by professional approval or cumulative levels of adoption by others in a network (Burns and Wholey, 1993). The role of these external agents in promoting innovation has been shown to have a positive effect on the development of inter-organisational networks and innovation (Conway, 1995; Hanna and Walsh, 2002).

Chaidal and Jones (2017) highlight the key role design consultants play in both the adoption and implementation of <IR>. Design consultants act as 'outside experts' by validating and offering credibility to corporate reports, through participating in the development and design of these reports. Indeed, Robertson and Samy (2015), based on research into perceptions of <IR>, found that many interviewees mentioned their involvement with design consultants in the design and format of their reports, where they follow the advice of such agencies to create innovative solutions to reporting issues encountered and to add credibility to their reports. However, Atkins and Maroun (2015) warn that over-reliance on consultants in integrated report preparation may limit managerial involvement in the reporting process and suppress innovative development of appropriate internal control systems and reporting structures.

Further, Mol and Birkinshaw (2014) also highlight the negative effects of external input, as they can compromise or slow down the innovation process due to the organisational complexity and interdependencies within existing systems and structures. Significantly, organisations with a prior commitment to non-financial reporting may have predetermined systems for reporting, modes of stakeholder engagement and more significantly, a current agenda for reporting non-financial information and might therefore require a more flexible adoption of <IR> to fit their established reporting strategy (Beck et al. 2017).

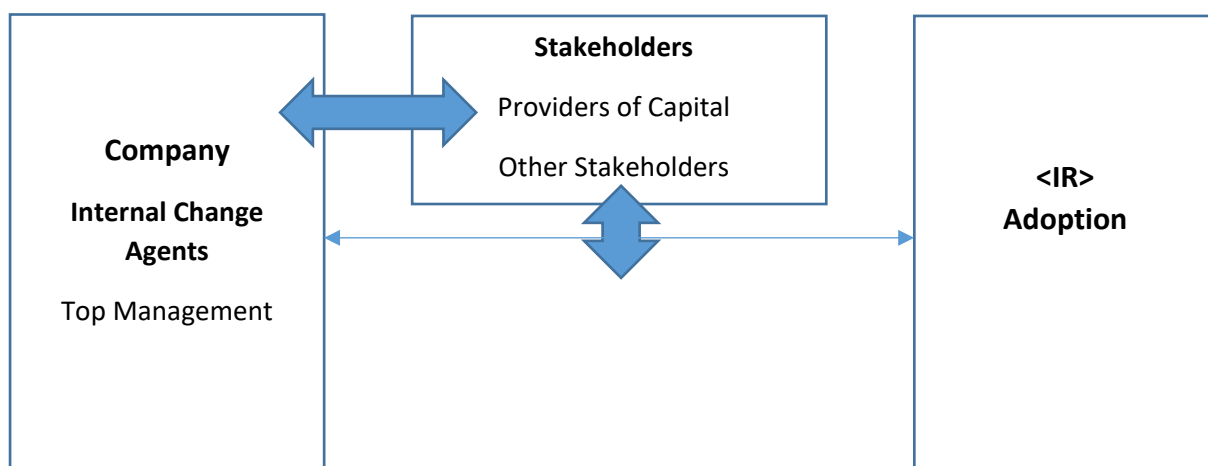
The active involvement of managers and employees in professional, industry and cross-industry networks has also been found to be positively linked to the DOI (Erickson and Jacoby, 2003; Newell and Clark, 1990) and are important for learning about innovations which other organisations have adopted (Erickson and Jacoby, 2003). Guthrie et al. (2017) highlight that taking part in external networks exposed to <IR> (e.g. the IIRC pilot), can create the motivation to stimulate the <IR> initiative within the organisation, in addition to providing opportunities to communicate the organisation's vision on <IR> to others, and to work on creative solutions to issues encountered. Indeed, Lodhia (2015) found in the IIRC pilot scheme enabled an Australian bank to interact with other organisations that were seeking to transition to integrated

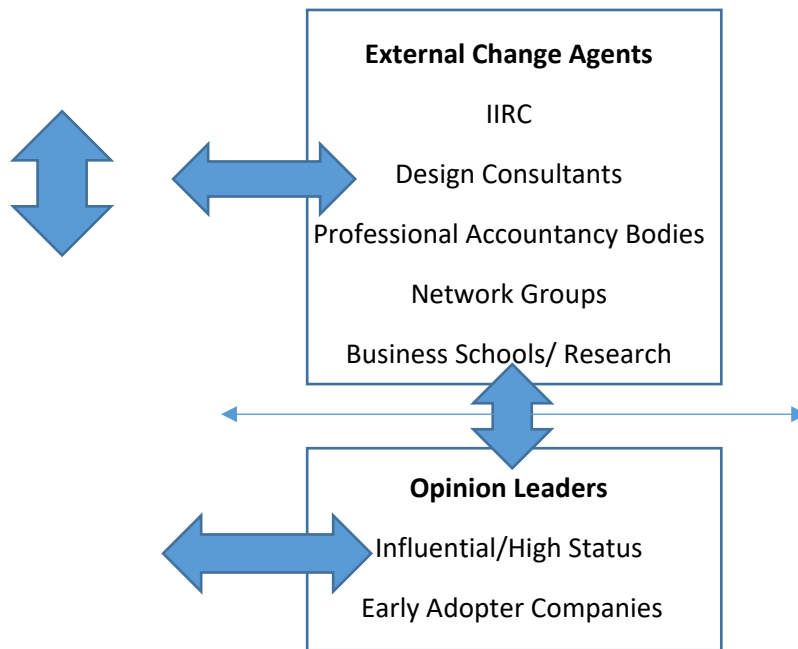
reporting, both within Australia and globally, allowing them to develop a practical knowledge of <IR>.

Further, other <IR> implementation studies found that collaboration with academia, research groups, and the professional accountancy bodies stimulated improvements to the firms <IR> processes (Silvestri et al. (2017; Gunarathe and Senaratne, 2017).

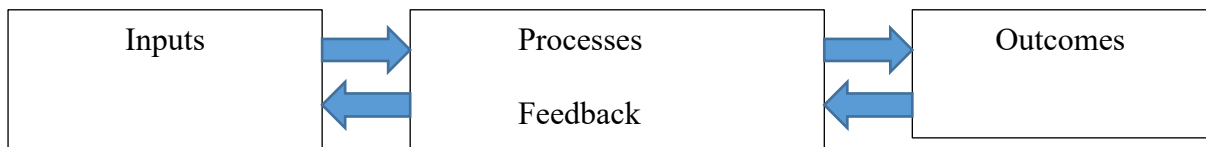
The social network influences on the <IR> process, based on the literature review can be summarised below.

*Figure 1 Social Network Influences in <IR> Adoption and Implementation in an organisation*





Information exchanges occurred between agents above in contexts during <IR> decisions



### 3. Methodology

This study adopts an interpretive qualitative approach using an abductive research strategy, where the aim is to discover the meaning actors give to their social world, by constructing the knowledge they use in the production and interpretation of the phenomenon under investigation (Blaikie, 2010). With an abductive approach, the relationship between theory and data are such that ‘the two are intimately entwined; data and theoretical ideas are played off against each other in a developmental and creative process. Research becomes a dialogue between data and theory mediated by the researcher’ (Blaikie, 2010, p.156). In this respect, DOI theory will be used as a lens to develop insights into factors which impact on the diffusion of <IR>.

Given the broad, exploratory objective of the research question, with its emphasis on description and understanding from the perspectives of senior managers, in-depth interviewing was primarily employed.

UK companies were selected as they are regarded as being among the global leaders in demonstrating corporate reporting quality and research has shown that many larger UK organisations were starting to address some of the fundamental issues of <IR>, albeit at a broad level (PWC, 2013; Robertson and Samy, 2015).

A criterion sampling approach, as recommended by Creswell (2007) for phenomenological studies, was used. This is based on all cases meeting some criterion, which in this study was senior managers involved in <IR> practices within early adopter organisations (FTSE and Private Companies), demonstrating best practice in <IR>. UK Integrated Reporters were identified from the IIRC database as at 31 July 2015, and were defined by the IIRC as organisations whose reports refer to the IIRC or the <IRF>, or are influenced by the <IRF> through participation in <IR> Networks. 11 UK organisations were identified after exclusion of public sector and professional bodies on the basis that they ultimately may have different performance goals and motivations for <IR>.

To ensure completeness, particularly as Robertson and Samy (2015) identified that companies presently demonstrate different stages of integration, without necessarily labelling their reports as integrated, the sample was extended to include a sample of organisations included on the IIRC database which provided examples of best practice in <IR> in relation to alignment with the content elements, fundamental concepts, and guiding principles of the <IRF>. Particularly, it was noted that only two of the five pilot scheme members were listed as <IR> reporters but the remaining pilot companies appeared in the examples of best practice database category. The selection of this sample was based on those who demonstrated best practice in reporting through winning awards (e.g. PWC Building Public Trust Awards, <IR> Best Practice Awards), and also included all pilot companies within this database category.

*Table 1 <IR> Population and Sample*

	IIRC Database UK Reporters		IIRC Database Organisations which provided examples of best practice in <IR>		Total Population (A+ C)	Target Population (B + D)	Total Agreeing to be interviewed
	Population (A)	Included in Sample (B)	Population (C)	Included in Sample (D)			
<b>Category</b>							
<b>FTSE 100</b>	8	8	18	8	26	16	13
<b>FTSE 250</b>	2	2	3	3	5	5	2
<b>Private Company</b>	1	1	1	1	2	2	2
<b>Total</b>	11	11	22	12	33	23	17

From a total population of 33 FTSE and private companies on the IIRC database (11 <IR> Reporters and 22 organisations demonstrating best practice), 23 were targeted (11 <IR> Reporters and 12 award winners/pilot companies) and 17 agreed to participate in the research.



This includes 10 of the 11 classified on the IIRC database as Integrated Reporters and 7 Award Winners and/or IIRC pilot scheme companies, identified on the IIRC database as providing examples of best practice in <IR> in relation to alignment with the content elements, fundamental concepts and guiding principles of the <IRF>. Within the total sample were four out of the five original UK pilot scheme members.

In a phenomenological study, it is important to select individuals who have all experienced the phenomenon being studied and therefore can articulate their experiences (Creswell, 2007). While Stubbs and Higgins (2014) targeted three groups of people as key actors in the process of <IR>, being sustainability, finance, and communications managers (external affairs, corporate communications or investor relations), this study extended this to include legal executives, due to the author's knowledge of their involvement in the reporting process from prior research conducted. Overall, 36 corporate senior managers agreed to participate in the research, of whom 8 interviewees were at board level. The final population sample was made up of the following organisations and interviewees.

*Table 2 Sample Profile*

Industry (REF)	Industry Category	No. of Companies	No. of Interviewees (REF)			
			Finance (FIN)	Sustainability (SUST)	Communications (COMMS)	Legal (LEG)
Utilities (UP1/UP2)	Private	2	3	2	1	
Utilities (U1/U2)	FTSE100	2	2	2	1	
Retail (R1/R2)	FTSE100	2	2	1	1	2
Manufacturing (M1-M6)	FTSE100	6	4	3	2	
Mining (MIN1)	FTSE250	1	1	1		
Financial Services (FS1)	FTSE100	1			1	
Communications (C1)	FTSE100	1				1
Technology (T1)	FTSE100	1		1	1	
Construction (CON1)	FTSE250	1		1	1	2
Total		17	12	11	8	5

The interviews were conducted after a review of reports issued by the organisations over the previous 5 years, to facilitate greater understanding of IR adoption within those organisations.

Interviewees typically lasted between one to one and a half hours in duration and took place between August 2015 and March 2016. All interviews were recorded and transcribed. Establishing trust is an important part of the interviewee process and therefore confidentiality was guaranteed. Therefore, organisations and interviewees are identified solely by industry (e.g. MIN1, CON1 – see Table 3) and job function (SUST, FIN, COMMS, LEG).

The aim of this qualitative phenomenological research is to understand the deeper structure of the phenomenon of <IR> to inform other settings, rather than generalization from the setting to a population (Orlikowski and Baroudi, 1991). Thus, instead of statistical representativeness, this study offers depth and comprehensiveness for understanding the specific phenomenon of <IR>.

The main technique used for analysis of semi-structured interviews was content analysis, which aims to describe the content of the interviews systematically and to classify the various meanings expressed in the transcribed data. (Jankowicz, 2005). To aid this content analysis, transcriptions were uploaded into Nvivo 11 software where a thematic analysis approach was employed. Key themes identified are discussed in the findings section.

## **4. Empirical Findings and Discussion**

### **4.1 Adoption**

The main internal and external social network influences on the adoption of IR were explored with interviewees.

#### **4.1.1 Internal Social Network Influences**

This research identified that internal influences on <IR> adoption in all companies were either board driven or driven by internal champions supported by the board members.

Several <IR> research paper highlight the importance of top management support (Adams, 2017b; Giovannoni and Maraghini, 2013; Gunaranthe and Seneratne, 2017; Lodhia, 2015; McNally et al, 2017) for <IR> adoption and implementation. However, the board consists of individuals who may have different perspectives and three organisations stated that several board members had to be convinced of the benefits of <IR> adoption, while another alluded to a wide spread board scepticism within his social network. As UP1F2 stated:

*We have had one or two people who were very supportive, and others who were indifferent, and some who said 'what's the point of this'. As they started to see the benefits, the whole board started to buy in.*

Adams (2015) highlights that a change in mind-set from a focus on short-term financial gains and cost cutting, to longer term sustainable growth through consideration of economic,

environmental, and societal issues may be required for <IR> adoption. Difficulties in changing mind-set are highlighted by U2SUST:

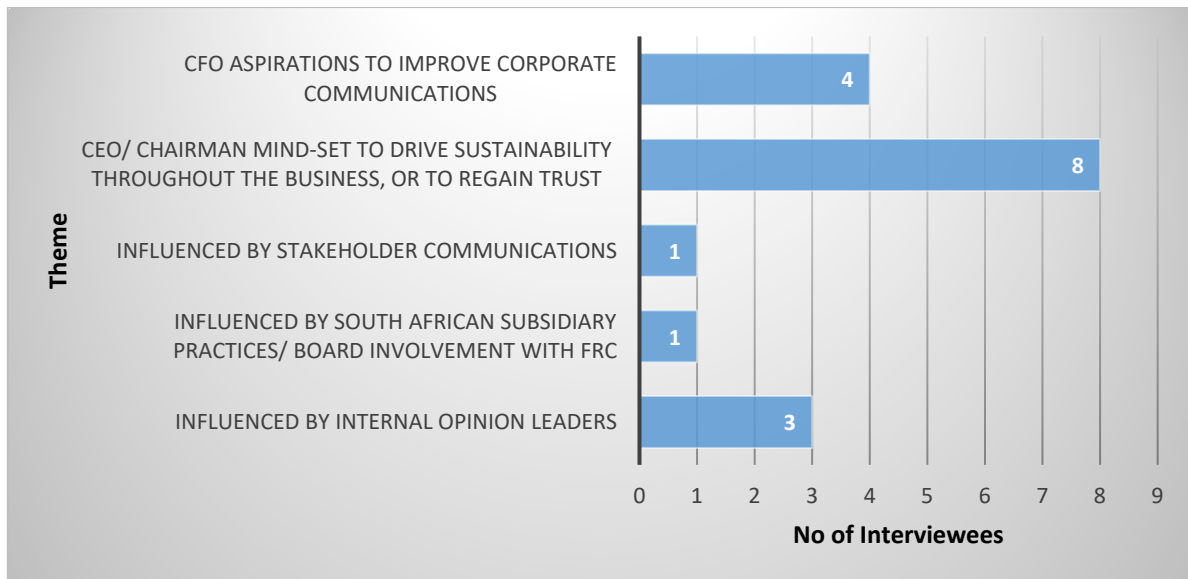
*Some of the resistance has come from that cultural, “we should comply with the codes and the regulations for corporate reporting. We don’t need to go beyond that”. Other resistance was ‘I don’t think that investors will be particularly interested in this’. We’ve got to try and convince them that they should be. We had to convince them that investors might not be interested when you report it in year one or year two or year three, but that they might be interested in year four and five, because <IR> looks at longer term prospects.*

CFOs’, in particular, are guided by accounting and reporting requirements which prioritise financial data, and many still consider social and environmental sustainability initiatives as an unnecessary cost rather than as a moral obligation or value driver. Indeed, Lodhia (2015) highlights that the value of <IR> may be limited where there are restrictions on management regarding conflicts between economic, and social and environmental issues, or where there are pressures for improved short-term profitability and shareholder value.

Particularly, research in the UK, based on perceptions of UK senior manager annual report preparers and representatives of the design consultancy profession, highlight that <IR> preparers were concerned about the credibility of a single report and seemed uncertain of the benefits or the beneficiaries of <IR> (Chaidali and Jones, 2017). Simnett and Huggins (2015) argue that the market-based benefits of adopting <IR> must be demonstrated for <IR> to gain acceptance and highlight the critical importance of developing a business case informed by research to future adoption. Despite evidence that <IR>, and the effective sustainability practices it promotes, has a positive impact on earnings (Baboukardos and Rimmel, 2016; Eccles et al., 2014), Tucker and Lowe (2014) highlight the two most significant barriers to research utilisation by practitioners being: difficulties in understanding academic research papers; and limited access to research findings. The overall view expressed in Tucker and Low’s research is that the onus is on academics to demonstrate that the outcomes of their research can solve problems practitioners perceive to be relevant, which suggests academics need closer engagement with practitioners to increase the visibility, understandability, and relevance of their research.

Internal Influences on board support were identified from five sources as summarised below:

*Figure 2 Internal Influences on board adoption of <IR>*



The influence of the CFO, motivated by aspirations to improve their reporting communications, was identified by four companies, in one case due to the launch of the <IRF> as stated by M1COMMS.

*It's been bubbling along for a while, and the initial catalyst was our Finance Director. We'd looked at it back in 2010 as a general concept, and the IIRC produced their final document in 2013. So, we looked at it back then, and then the framework was launched. So earlier this year our Finance Director suggested we take a fresh look at it now that there was a fully formed framework, as we were moving in that direction.*

However, this research identified that the main internal influence on board support (eight organisations) for <IR> was the mind-set of the CEO/ Chairman to drive sustainability throughout the organisation, or to regain trust (47% of sampled organisations) as stated by the following interviewees:

*What happened was that we had a strategic imperative to change the way we thought about our business and put sustainability at the core of how we operate. Our CEO has taken such clear leadership on our sustainability agenda (M6FIN)*

*This whole agenda was pushed forward initially by our CEO who was very keen on it. We need buy in at the highest level otherwise it doesn't permeate through the business. Also, our CFO has a bid sustainability agenda himself, and is involved in the A4S forum (R1FIN)*

Particularly, chief executives with a clear vision of the future operation and direction of organisational change and creativity, are most likely to ensure innovation occurs (Shin and McClomb, 1998). Indeed, research in South Africa asserts that the success of <IR> processes

are significantly influenced by strong and enlightened leadership (SAICA, 2015). The prevalence of this mind-set was also identified by a global survey of CFOs, CEOs and COO's which identified that 87% of all executives in their survey agreed that bringing together financial and non-financial information to explain value creation would help to strengthen relationships with investors and creditors (Tomorrow's Company and CIMA, 2014).

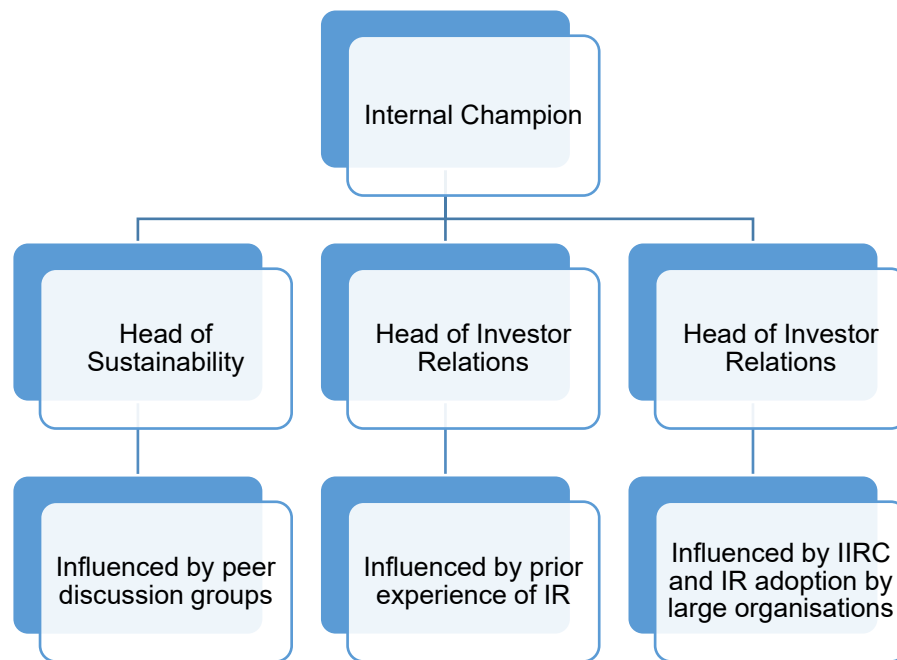
In one case board support was influenced by a stakeholder engagement exercise, which is consistent with research that demonstrates that several organisations have adopted <IR> to meet stakeholder expectations (Lueg et al. 2016; Steyn, 2014). In another case board commitment was influenced by the fact that the organisation had a South African subsidiary and a board member on the FRC (Financial Reporting Council), as stated by C1LEG:

*The move was just driven by the finance director and me as company secretary, influenced by looking at our South African subsidiary and thinking actually that's a really nice way to do an annual report. Why don't we do something like that? Also, the chair of our audit committee is a board member at the FRC. He likes us to be, certainly early adopters and to try to demonstrate a practice as best we can.*

Particularly, Lodhia (2015), in a study of an Australian customer owned bank, found that top management perceived a competitive advantage of being an early adopter and felt that such reporting would enhance their relevance and recognition in a competitive environment.

Internally, three companies identified an individual from outside the board who had been an initial influence on the adoption of <IR>. These individuals and their influences are shown below.

*Figure 3 Internal Influences – non-board members*



In some situations, innovative ideas require a champion with the appropriate knowledge and expertise and who is close enough to the necessary sources of information to help the idea achieve innovative results: a champion from the lower levels of the firm (i.e. not board level) (bottom-up) (Day, 1984). Extant research shows that the presence of innovation champions is positively associated with the performance of innovation projects (Howell et al, 2005). In one utility company, it was the Head of Sustainability who championed <IR> based on what he had heard in discussion groups and seen in other annual reports. He identified that <IR> just fitted with the way his company operates and presented his ideas to the board who then supported <IR> as the right approach for their company.

In another manufacturing company, the prior experience of <IR> of their Head of Investor Relations (M2COMMS) gave the board confidence to embark upon the <IR> journey as stated below:

*I think I gave the company confidence that I knew how to produce this sort of report, and had done it before, which gave management comfort that we could embark on <IR>*

The active involvement of managers in professional, industry and cross-industry networks has been positively linked to the DOI (Erickson and Jacoby, 2003; Newell and Clark, 1990) and this involvement has been important for learning about innovations which other organisations have adopted (Erickson and Jacoby, 2003). This was also found to be the case for another global manufacturing company, where the Head of Investor Relations (T1COMMS) influenced <IR> adoption, based on looking at the calibre of companies getting involved in IIRC pilot scheme, as stated below:

*I heard about <IR> and some of the plans, particularly of the larger companies, and believed that <IR> was going to become a trend that will start to set international standards of reporting in the same way as international accounting standards have become common global practice. So, I persuaded the board to join the pilot scheme to listen to what was going on, keeping the finger on the pulse really.*

The IIRC, as an external agent, selected 40 leading companies globally as participants in the IIRC Pilot Programme, including top accountancy bodies and large high-profile organisations such as Coca Cola and Microsoft (IIRC, 2011), as sources of example to potential adopters. Opinion leaders, who are usually early adopter organisations act as role models for others within their communities and can be important determinants of rapid and sustained behavioural change (Valente and Davis, 1999; Chigona and Licker, 2008).

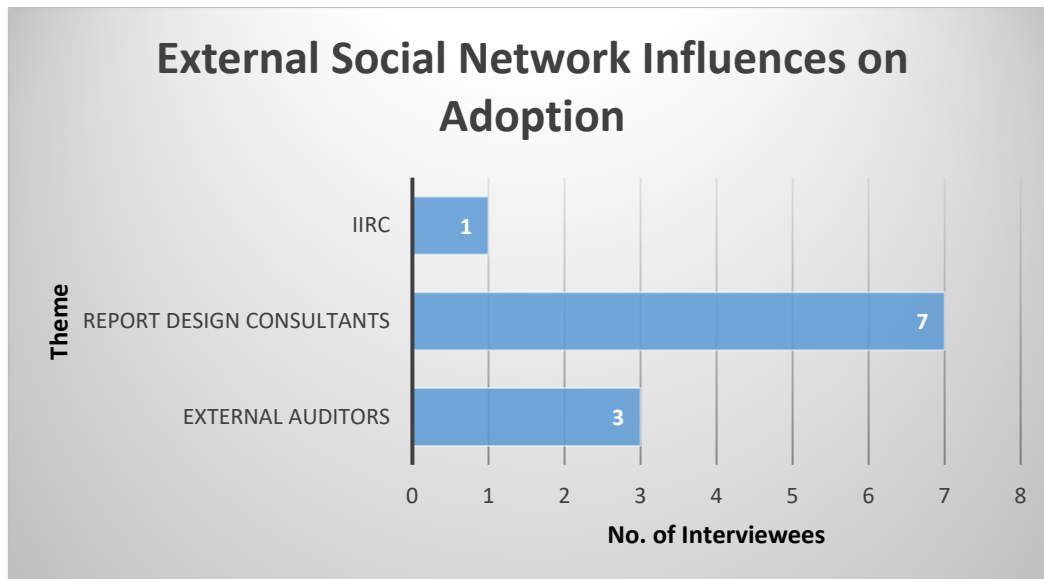
#### 4.1.2 External Social Network Influences

Internal change agents may use external involvement if it helps shape an innovation directly or if it legitimizes an innovation (Mol and Birkinshaw; Staw and Epstein, 2000). Mol and Birkinshaw (2014) propose that external agents provide legitimacy and expertise to innovation adopters 'by lending credibility to inventions, acting as sounding boards or action researchers, and theorizing about/labelling an innovation' (p. 1290).

However, external influences are usually not strong enough to persuade potential adopters, thus it is predominantly internal influences which potential adopters exert on each other, as discussed previously, in a second step which determines adoption (Rogers, 2003; Valente and Rogers, 1993). Particularly, most adopters need persuasion to accept an innovation in terms of awareness, demonstration and trial (Bjornenak, 1997).

The external influences on <IR> adoption are shown below.

*Figure 4 External Influences - Adoption*



The impact of the IIRC as an external change agent was not found to be influential on <IR> adoption, with only one organisation stating that IIRC involvement had given them and their board the confidence to declare their report an Integrated Report in alignment with the <IRF>. This was because of U2FIN attending a network group of FTSE100 company directors where the CEO of the IIRC explained the difference between a strategic report (required by UK regulation) and an integrated report and invited the company to have its report reviewed by a consultant who concluded that it was an integrated report. The strategic report aims to improve the relevance of narrative reports for stakeholders and provides companies with assistance on how to demonstrate a holistic and meaningful picture of an entity's business model, position, and prospects in a clear, concise, and cohesive manner. The contents of a strategic report alone do not satisfy the content elements of an integrated report (FRC, 2014; Deloitte, 2015). However, additional information required by UK Corporate Governance Code (the corporate governance statement and directors' remuneration) combined with the strategic report broadly match the reporting content elements of the <IRF> (Deloitte, 2015). Despite these similarities, focus on the Strategic Report remains at disclosure level. <IR> takes things further by providing a basis for linking and telling a connected story, through the process of integrated thinking (Abela, 2016; Deloitte, 2015).

The IIRC may have had an influence on other external change agents such as the report design consultants (e.g., Radley Yeldar, Salter Baxter, and FLAG), which were identified as the primary external source of external influence on the adoption by interviewees in seven companies (41% of population). As T1COMMS states:



*I like these guys from Radley Yeldar as they do a lot of work with the FRC and IIRC, but also because they do a lot of reports for the rest of the industry, and for a lot of the big companies, bigger than us with more budget than us, and so they can say "this is the direction of travel, this is where best practice is today, and this is where it's going next year."*

Indeed, design consultant, Black Sun has been working with the IIRC to produce research and practical guidance on <IR>, although its work may be perceived as biased due to its close involvement with the IIRC (Chaidal and Jones, 2017). Robertson and Samy (2015) highlight that the role of design consultants in their <IR> research, where several interviewees had first heard of <IR> through communication with their design consultants. In this research, the influence of design consultants was primarily in encouraging the development of and legitimizing the effectiveness of <IR> as stated by the interviewees below:

*We already know about <IR>. It was our consultant who said "Would you think about it? We think you are ready" Internally some of us were already thinking that (CON1COMMS)*

*We have an agency that helps us with the annual report and <IR> was one of the things they were keen to push in terms of "This is what people are now thinking and this is the way that reporting is going to go, And to the extent we think it's appropriate, we are now moving towards <IR> (M4SUST)*

To a lesser extent, external auditors (identified by interviewees in three companies) were found to have an influence in <IR> adoption decisions. The use of external auditors is highlighted by the following interviewees:

*The reporting consultants we currently use do have an influence, but I would rank them behind the auditors in terms of encouraging us to move to <IR>. They follow the trends in reporting and seem to be leading edge on how reports are developing (C1LEG)*

*We had our auditors and designers do some analysis. We had two sets of independent analysis, because you're never entirely sure you're getting someone trying to sell you something. You need a composite approach and they both said, look, you are not a million miles off, you need to tweak, to make improvements, and in the end we decided that it just made sense (M1COMMS)*

## **4.2 Implementation**

The implementation process emphasizes the integration of the innovation into the organisation (Tornatzky and Fleischer, 1990), and consists of all events and actions which relate to

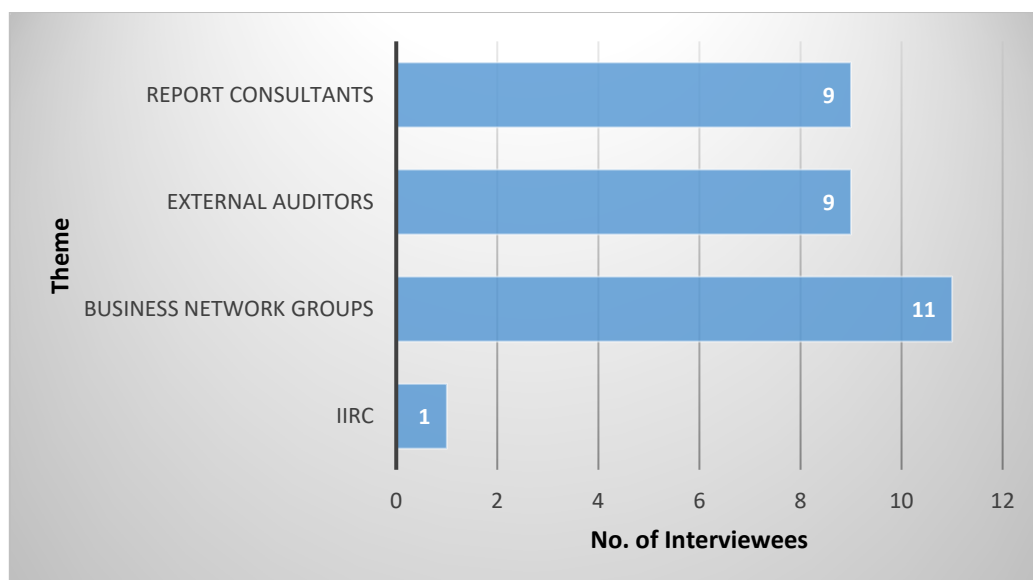
modifying the innovation and the adopting organisation, the initial use of the innovation, and the continuing use of the innovation, until it becomes standard practice within the organisation (Glynn, 1996; Rogers, 2003).

#### 4.2.1 External Social Network Influences on <IR> implementation

Complex innovations benefit from external knowledge sources because they require a greater breadth of knowledge for their conception and implementation (Nelson and Winter, 1982).

External social network influences on the diffusion of <IR> within organisations at the implementation stage were identified from three sources shown below.

*Figure 5 External Influences on <IR> Diffusion*



While several companies identified that design consultant were influential in their adoption decisions, these companies, and several others (nine) identified that they were also influential in driving implementation of <IR> within their organisation and advising on best practice. The role of design consultants is outlined by the interviewees below:

*The role of our design consultant is at least two-fold. So, they actually designed this <IR>, and produced it and they also advise us on how we can get things to be more integrated or what is material, we discuss these kind of things, how we are going to present them (UP1COMMS)*

*I think what is helpful is that there is a complete buy-in across the company. But on a practical level, design consultants like Black Sun, who have strategy departments, who live and breathe <IR>, are*

*there to give you a good understanding of best practice, and there to give you ideas when you get stuck, so that helps, but it's not easy. We all have our day to day jobs...all the help we can get from the agencies is very useful (M2COMMS)*

Particularly, the IIRC's vision of <IR> becoming the corporate reporting norm (IIRC, 2017) has been hampered by lack of clarity surrounding definitions of <IR> and its key concepts of value creation and integrated thinking (Dumay et al., 2017), perceptions of "regulatory capture" (Flower, 2015), the complexity of its processes (Lodhia, 2015), competing standards (de Villiers and Sharma, 2017; Robertson and Samy, 2015), balancing the interests of multiple stakeholders (Giovannoni and Maraghini, 2013; Lodhia, 2015; Parrot and Tierney, 2012) and lack of clear guidance on measurement systems and metrics for integrated thinking and reporting (Dumay et al., 2017; Feng et al., 2017; Guthrie et al., 2017; Robertson and Samy, 2015).

Both Chaidal and Jones (2017) and Robertson and Samy (2015) highlight the key role design consultants play in both the adoption and implementation of <IR> in their UK research, where they act as 'outside experts' by validating and offering credibility to corporate reports, through participating in the development and design of these reports. Indeed, Robertson and Samy (2015) found that many interviewees mentioned their involvement with design consultants in the design and format of their reports, where they follow the advice of such agencies to create innovative solutions to reporting issues encountered and to add credibility to their reports. However, Atkins and Maroun (2015) warn that over-reliance on consultants in the <IR> process may limit managerial involvement and suppress innovative development of appropriate internal control systems and reporting structures.

The role of external auditors was markedly greater in the implementation stage (9 organisations) than at the adoption stage (3 organisations). This influence related to the auditors advising on best practice and providing guidance on how to progress further towards <IR> as highlighted below:

*We have a good relationship with PWC, and they share information with us on best practice and guidance and they do help shape the report (T1SUST)*

*I am meeting with PWC and they will be talking to us about where our report currently sits within the spectrum of other FTSE 100 companies and how we rate, the areas where we underperform, and the areas where we over perform. That will form our view heading forward of what we want to change and how we might want to do it (R1FIN)*

While Gunaratne and Seneratne (2017), in their study of Sri Lankan organisations, found evidence of the role of professional accounting bodies in promoting awareness and legitimization of <IR> via conferences, seminars, provision of guidelines, award schemes and training opportunities, as far as the author is aware, no studies to date have highlighted the influential role of external auditors in the implementation process.

Particularly, interviewees in three companies stated that the selection of their new auditors was influenced by their ability to assist with <IR> implementation as stated by the following interviewees:

*We've recently gone through a tendering process for our external auditors and their experience with <IR> was one of the decision factors we considered as part of that tender (CON1SUST)*

*We changed audit partners last year and part of their brief was about what they could bring to <IR>. So, we've tasked them with going out and benchmarking and coming back with suggestions (R2SUST)*

While, in one company, an early adopter (2012), the influence of external auditors was used initially to help shape the integrated report, but their influence was less after further diffusion of IR within the organisation.

*KPMG helped steer us and guide us and make recommendations which we acted upon, but we haven't had third party assurance for two years now. We felt that we just don't need it, but we need it during the early days when we were still understanding how to report and how to put this together and their feedback was very useful (M5SUST)*

The greatest external influence on <IR> implementation was involvement with business networks (eleven organisations). This influence was identified as enhancing their understanding of <IR>, through discussing and collaborating on issues with other early adopters, as highlighted below:

*The networks and external audiences that we encounter and seeing what some of the other FTSEs are doing and seeing what some of our competitors are doing is definitely influencing us (M4FIN).*

*Because we are early adopters its quite difficult. You do reach out and find other like-minded people. Consequently, there are certain groups and forums that either approach you, or you seek out. Or example I'm on the CFO network for A4S, we were approached by them, because they saw what we were doing and said "That's really interesting, we've got a group of people that we really want to encourage this, do you want to come and join our group?" I went along to a couple of dinners and*

*meetings, and then you think, well, actually, there's value in this, because you have got a group that are effectively working together, and we can learn from each other (UP1FIN2)*

Indeed, Guthrie et al. (2017) highlight the role of external <IR> networks in creating the motivation to stimulate the <IR> initiative within the organisation, providing opportunities to communicate the organisation's vision on <IR> to others, and to working on creative solutions to issues encountered. Further, Silvestri et al. (2017), in their case study of an Italian family firm, provide evidence that collaboration with academia, research groups, and the professional accountancy bodies stimulated improvements to the firms <IR> processes.

These findings suggest that further promotion of <IR>, and the provision of practical guidance through targeted business networks, external auditors, and report consultants would aid further diffusion of <IR> within organisations. Additionally, organisations who do not use these social networks may benefit from their expertise to diffuse <IR> further within their organisation. Indeed, Burke and Clark (2016) highlight the opportunity of organisations to participate in the overall development of standards and specific metrics within industries, which business networks facilitate.

If external change agents can correctly pinpoint the internal organisational leaders who act as sources of example, modelling, and advice for the leaders of other organisations in a societal sector, they can focus on interacting with that subset of opinion leaders who will in turn influence peer followers.

#### 4.2.2 Internal Social network Influences

The majority of organisations researched worked in cross functional teams to aid diffusion of <IR> within their organisations. Particularly, cross-functional teams are a key mechanism for breaking down silos, implementing an integrated thinking approach (e.g., strategy, finance, accounting, sustainability, HR, legal, risk, investor relations) and to driving change within an organisation (Guthrie et al., 2017; Stubbs and Higgins, 2014), as highlighted by the interviewees below:

*The main board have that as an objective, to push through with<IR> as a collective, rather than any one individual. It was important to them, because you are basically thrashing out different ideas, which created integrated thinking (CON1COMMS)*

*The team covers multi-disciplines, so you've got a natural bigger picture. It makes sure everyone's moving in the same direction. It avoids silos build up and people going off in their own tangent (MIN1FIN)*

Interviewees identified individuals or groups of individuals in five functional areas as influencing <IR> diffusion, with Finance, Sustainability and Communications functions exerting

greatest internal influence on the diffusion of <IR>, and with Legal and Human Resources (HR) functions paying a lesser role.

*Table 3 Main Functional Area Influences*

Company	Functional Area				
	Sustainability	Communications	Finance	Legal	HR
UP1	✓		✓		
T1	✓	✓			
M1		✓	✓		
MIN1	✓	✓			
M2		✓			
CON1	✓	✓			
M3	✓		✓		
M4		✓	✓		
M5		✓	✓	✓	
R1	✓	✓	✓		
R2	✓	✓	✓		
FS1	✓	✓	✓		
U1	✓	✓	✓		✓
M6	✓		✓	✓	
U2			✓		
C1		✓	✓	✓	
UP2	✓				
<b>Total</b>	<b>11</b>	<b>12</b>	<b>12</b>	<b>3</b>	<b>1</b>

These functional areas were either focal points for direct contact with external agents or held leading roles in discussion groups including A4S, the IIRC pilot group and the FTSE 100 group. Although the legal function was less frequently cited by interviewees as a function which plays an influential role in the diffusion of <IR> within organisations, its role is increasing, according to one organisation, due to the increasing mandating of non-financial information within annual reports, particularly within Europe.

*It's still that core group, the CEO, Corporate Communications, Investor Relations, the Sustainability Functions and probably Group Legal are involved in <IR> because from a legal perspective, there are more and more non-financial aspects that are mandated from a legal perspective, managing carbon and greenhouse gas reporting is now part of that (M5SUST)*

Particularly, the European Union Directive on non-financial reporting (2014/95/EU), is considered by Dumay et al., (2017) as a predominant external force driving European <IR> adoption, particularly after 2017 when it came into effect.

The HR function features in only one company as playing an influential role in the diffusion of IR within companies, which is surprising given the significance (and value) of human capital to most organisations. Indeed, the company which mentioned HR was the first company to issue a report that attempts to place a value on their human capital.

*I would like to think, on the question of Human Capital, we could perhaps demonstrate leadership, through publication of our human capital report, that results in firstly other companies trying to quantify it, but secondly, more importantly, investors starting to ask questions about it. Because, then you get into a virtual cycle, people are open about what you are doing, investors are understanding it, and organisations appreciate how much it matters. You get proper accounting for it, and management of an investment in your human resources (U1COMMS)*

Particularly, Hoffman (2012), while looking at <IR> implementation in South Africa, identifies that a key challenge is to get buy-in and involvement from all the main internal stakeholders and he highlights that the most successful implementations in South Africa have included involvement from Finance; Sustainability, HR, Risk Management and Strategy; Corporate Communications and Investor Relations; Stakeholder Engagement; Performance Reporting; Governance and Regulatory; Operations Management; and Information Technology functions. Therefore, further diffusion of <IR> within organisations would benefit from broadening the participants involved in <IR> implementation to encompass a greater number of relevant functional areas. Particularly, <IR> is an output in the form of an Integrated Report, informed by the internal process of integrated thinking. Certainly, this would provide an opportunity for organisations to progress the process of integrated thinking and to realise its significant benefits which Burke and Clarke (2016) identify as enhanced: decision-making; governance processes; and risk management.

Indeed, several interviewees identified a benefit to working in cross functional groups and opined that the approach was to drive incremental rather than radical change. However, these incremental changes, obtained through working in a collaborative way, are reaping benefits for several companies. For example, two interviewees indicated that a change in mind-set to facilitate integrated thinking was their biggest benefit.

*It's a gradual move. I think the biggest change is still mind-set, rather than the processes. I think the processes are put in place once you have that integrated mind-set (M2COMMS)*

*I don't think we're looking at any great leaps, the focus will be on integrated decision-making and how that is driving <IR> forward. Top leadership has more focus on, not just the financial figures but also sustainability (M3SUST)*

## **5 Conclusion and Recommendations**

This study sought to understand social network influences impacting <IR> adoption and implementation of UK early adopters of <IR>, using DOI as a theoretical lens. While <IR> has

gained the attention of regulators, organisations, stakeholders and academics in both positive and negative ways (e.g. Adams, 2015; Rinaldi et al., 2018; Flower, 2015), little is known about the social network influences on early adopters within organisations, particularly in a national setting (Chaidali and Jones, 2017; Dumay et al. 2016). We therefore fill an important gap for research exploring the interactions between individuals and/or small groups during the <IR> journey (Rinaldi et al. 2018).

The findings of this current study and its implications have both theoretical significance and practical importance. The author argued that DOI is a useful yet largely unexplored theoretical perspective theory for identifying social network influences that impact on both <IR> adoption and implementation processes and contributes to the theoretical development of DOI theory emerging within <IR> literature (Gunarathne and Senaratne, 2017; Robertson and Samy, 2015). In particular, using DOI as a theoretical lens, has provided a tool of analysis to identify key social network influences on <IR> (Figure 1) which allowed a deeper analysis of how and why social interactions influenced <IR> processes during the <IR> journey. The author further asserts that considering the overall <IR> journey is particularly important as Klein and Sorra (1996) identify that 'increasingly, organisational analysts identify implementation failure, not innovation failure, as the cause of many organisations' inability to achieve the intended benefits of the innovations they adopt', (p.1055).

The practical importance of the study lies in identifying social network influences on <IR> adoption and implementation practices, by presenting significant empirical evidence that identifies what these influences are and how they take place from a practitioner perspective. Based on these findings, recommendations regarding how <IR> may be further diffused in the future are provided. This is significant given that <IR> creates a shift in focus in organisations from meeting short-term financial goals to developing a long-term business strategy which not only makes a commitment to social and environmental issues, but also to a sustainable society by providing the opportunity for organizations to respond to the UN Sustainable Development Goals.

This section now concludes on the key findings, and provides recommendations on how <IR> may be further advanced in the future.

### 5.1 <IR> Adoption

This research revealed internal and external social network influences on adoption. The main internal influence was board support for <IR>, with the main driver of that support being the



mind-set of the CFO/Chairman to drive sustainability throughout the organisation, or to regain trust. Trust in UK businesses remains low, and research has identified that businesses need to engage with the stakeholders, and demonstrate solutions to public concerns to rebuild this trust, which <IR> facilitates (Edelman Trust Barometer, 2019). Particularly, a change in mind-set from a focus on short-term financial gains and cost cutting, to longer term sustainable growth is important for not only <IR> adoption, but also for building trust given the 2008 economic crisis and recent corporate scandal (e.g., Tesco's fraud and Volkswagen's emission cheating scandal) were caused by short-term thinking (Rappaport, 2016; Walker, 2014). To change mind-sets of board members who are not supportive of <IR>, the benefits of adopting <IR> must be demonstrated for it to gain acceptance, which highlights the critical importance of developing a business case for <IR> informed by research for future adoption. It is therefore vital that academics demonstrate that the outcomes of their research can solve problems that practitioners perceive to be relevant, suggesting academics need closer engagement with practitioners to increase the visibility, understandability, and relevance of their research.

External involvement is sought at the adoption stage, primarily to legitimize an innovation. Main external social network influences were report design consultants, and to a lesser extent, external auditors. This influence encouraged the development of and legitimizing the effectiveness of <IR>. Indeed, design consultants and external auditors get involved in reporting for a variety of companies across different sectors, so they follow trends in reporting and understand what best practice is and how reporting is likely to evolve based on that experience. Their advice, based on this experience, can therefore be invaluable to organisations thinking about <IR> adoption. However, the influence of report design consultants and external auditors on subsequent adopters will only take place in those organisations who perceive the need to use them and have the resources to make use of them.

Findings suggests that subsequent adopters are likely to have in place an influential CFO/Chairman with a mind-set who would support the ethos of <IR>. The study recommends that further adoption of <IR> may be facilitated through further promotion of the benefits of <IR> by the IIRC and academia (via accessible and understandable and practitioner relevant research) to internal and external change agents being organisational board members and innovative champions, external auditors, and report design consultants, in order to change mind-sets that remain focused on short-term financial rather than longer term sustainable growth though consideration of economic, environmental and societal issues

## 5.2 <IR> Implementation

As well as adoption, this research also considered the implementation stage and factors that impacted on the diffusion of <IR> within organisations. Social network influences on further diffusion of <IR> within organisations were seen from three external sources: business networks; report design consultants; and external auditors. Involvement in business networks helped companies increase their understanding of <IR>, through discussion and collaboration on issues encountered, with other early adopters. Report design consultants also played a role in helping companies understand best practice, particularly in areas where companies were struggling. They also assisted in designing and producing integrated reports for companies and provided advice on <IR> processes including connectivity and determining materiality. External auditors played a role in <IR> implementation by sharing information on best practice, providing guidance, benchmarking reports against similar companies and helping to shape integrated report. Particularly, three companies stated that the selection of their new auditors was influenced by their ability to assist with <IR> implementation, therefore the author recommends that organisations may benefit from selecting auditors who are known leaders in <IR>.

It is expected that these influences would provide subsequent adopters, and adopters not current using external agents, with advice and creative ideas to further diffusion of <IR> within their organisations. The author recommends that further promotion of <IR>, and the provision of practical guidance through targeted business networks, external auditors and report consultants would aid further diffusion of <IR> within organisations.

Internal influences in driving <IR> diffusion within organisations were identified in five functional areas, with Finance, Sustainability and Communications functions exerting greatest external influence on the diffusion of <IR>, with Legal and HR functions paying a lesser role. Therefore, opinion leaders within these functions are likely to further the diffusion of <IR> in subsequent adopters. The author recommends that further diffusion of <IR> within organisations would benefit from broadening the participants involved in <IR> implementation to encompass a greater number of relevant functional areas, which was key to successful implementations in South Africa (Hoffman, 2012). Indeed, several interviewees highlighted the benefits of working in cross functional groups, particularly, in changing mind-sets to focus on not just financial but also sustainability issues. This approach facilitates the key process of <IR>, being integrated thinking, which leads to establishing shared meaning and a shared commitment to the <IR> process. This should subsequently lead to more effective integrated strategic decision-making to ensure the longer-term health and sustainability of companies.

### 5.3 Future Research Recommendations

Further studies are required with organisations undertaking <IR> across different countries, and with a wider range of internal and external stakeholders, to further understand the factors which help or hinder <IR> diffusion. Comparative studies in several country settings may provide further insight into unique country-specific drivers and inhibitors of <IR> in addition to commonalities between countries.

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