

A critical reflection on the future of financial, intellectual capital, sustainability and integrated reporting

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Abstract

This paper examines the future of IC reporting by offering critical reflection on different forms of reporting, with a particular focus on Integrated Reporting (<IR>). While, the Global Reporting Initiative (GRI) framework for corporate social responsibility disclosures, the International Integrated Reporting Council (IIRC), and the various financial reporting regulators appear to be in a contest for supremacy, what does this mean for IC? We examine how IC is reported under each of these frameworks and conclude that <IR> is unlikely to subsume traditional financial statement reporting, nor will it be able to provide all the information currently reported in GRI-type reports. The interplay of these reporting frameworks and their future development bodes well for IC, because different kinds of IC information will be reported under each of <IR>, GRI-type reports and in financial statements; that is IC does not compete with these forms of reporting forms, but forms an essential part of each.

Key words: intellectual capital; integrated reporting; critical perspective

1. Introduction

It has long been recognized that in today's economy, value often resides in non-tangible assets, and that therefore the most relevant form of reporting is non-financial in nature (Bontis, 1998; Mouritsen *et al.*, 2001; Petty & Guthrie, 2000; Dumay, 2016). While the term value is most often associated with the interest of investors, there are many other stakeholder groups who are not particularly interested in value creation as it is understood by investors. For example, employees may be more interested in the enjoyment derived from being meaningfully employed and treated with respect (Roslender & Stevenson, 2009; Abeysekera & Guthrie, 2005; Dumay & Garanina, 2013). Therefore, the information needs of investors and other stakeholders differ, both in terms of their focus on different aspects of an organization's activities and on different types of information.

To meet a more diverse range of information needs than provided by traditional financial reporting, several different reporting forms and frameworks have developed over time. These include the intellectual capital movement, as well as a social and environmental accounting movement, also known as corporate social responsibility (CSR) or sustainability reporting (Dumay, 2015a, 2015b). Dumay (2016) points out that early adoption of intellectual capital (IC) reporting has been overtaken by adoption of CSR and sustainability reporting and these became the common voluntary reporting regimes, internationally predicated on the Global Reporting Initiative (GRI) framework. After the renewed critique of existing accounting and reporting models that followed the Global Financial Crisis, the International Integrated Reporting Council (IIRC) was formed with the aim that integrated reporting <IR> should become the new "corporate reporting norm" (IIRC, 2013, p. 2).

How do these forms of reporting differ and how do they incorporate IC? In particular, given its purported role as the new reporting norm, what does <IR> mean for the future of IC reporting? This paper aims to answer this question by offering a critical reflection on the future of IC, in particular in relation to <IR>.

The paper uses the critical framework of Alvesson and Deetz (2000, pp. 16-20) that encompasses insight, critique and transformative redefinition. 'Insight' denotes the process of examining varied ways in which the knowledge and objective character of objects and events are formed and sustained. 'Critique' is intended to counteract the dominance of taken-for-granted goals, ideas and discourses that put their imprints on

management and organization phenomena (Alvesson & Deetz, 2000). ‘Transformative redefinition’ develops critical, relevant knowledge and practical understanding that enables change and provides skills for new ways of operating.

We conclude that <IR> is unlikely to replace the traditional financial statement and is unlikely to provide all the information currently reported in GRI-type reports. The interplay of these reporting frameworks and their future development is likely to augur well for IC, because different kinds of IC information will be reported under each of <IR>, GRI reports, and in financial statements, because IC is not in competition with these other reporting forms, but forms an essential part of each of them.

The paper is organized as follows. Section 2 provides the critical framework for the study. Section 3 outlines the characteristics of various reports, while section 4 offers insights on IC, <IR> and GRI. Section 5 offers a critique of IC and IR and is followed by section 6 on transformative redefinition. Section 7 discusses the narrative while section 8 concludes the paper.

2. Critical perspective

We use the critical framework of Alvesson and Deetz (2000, pp. 16-20) that encompasses insight, critique and transformative redefinition. In this framework, ‘insight’ can be defined as the interpretive goals of local understanding closely connected to real situations (Alvesson & Deetz, 2000; Dumay, 2010). ‘Insight’ denotes the process of examining varied ways in which the knowledge and the objective character of objects and events are formed and sustained. The first task is to investigate local forms of phenomena. ‘Insight’ is applied to produce a meaning of interest in the ‘data’ and understand the condition for seeing or pointing to such a meaning. It is closely related to an outcome of interpretation – that is, the aim to read something into what is ambiguous. According to Alvesson and Deetz (2000, p. 141), “Interpretation draws attention to the open nature of a phenomenon- a text, an act, a statement, physical material.

‘Critique’ aims to counteract the dominance of taken-for-granted goals, ideas and discourses that put their imprints on management and organization phenomena (Alvesson and Deetz, 2000). ‘Critique’ is directed at the conventions and structures of social orders and the forms of knowledge and privileged understanding complicit in

reproducing and transforming structures of power and domination. It relates to the conditions of power, constraint, social asymmetries, ideological domination and cultural inertia that privilege certain ways of understanding and ordering the world (Alvesson & Deetz, 2000, p. 104). Expression of ideas, thoughts and beliefs, and indications of economic, structural and technical arrangements are monitored in terms of critical themes, such as, for example, male domination, communicative distortion, asymmetrical relations of power and conflict of interests.

‘Transformative redefinition’ demonstrates commitment to the pragmatic aspects of critical thought and recognizes that ‘insight’ and ‘critique’ without action are detached (Alvesson & Deetz, 2000). ‘Transformative redefinition’ develops critical, relevant knowledge and practical understanding that enable change and provide skills for new ways of operating. Instead of critically investigating the contradictions and forms of domination coming from, for example, profit and efficiency goals, an effort is made to integrate these with more democratic and non-repressive forms (Alvesson & Deetz, 2000). A ‘transformative re-definition’ means the opening up of new ways of engaging the social world – ways marked by critical insight and inspiration for new forms of practice in which bias and other constraints are considered and acted upon, and social criteria for responsibility are taken into account (Alvesson & Deetz, 2000). Through ‘transformative re-definition’ weak, hidden, obscured and peripheral voices and discourses are reinforced through the research text (Alvesson & Deetz, 2000, p. 152). The critical analysis triggering ‘transformative re-definition’ encourages the development of competing discourses, embracing constructive conflict and participating in agenda setting. In doing so it offers alternative ways of accounting for what exists, which is central to ‘transformative re-design’.

In our application of this framework, we discuss each of the reporting frameworks in turn, while forming new insights and providing critique. When we discuss the implications of the frameworks in the way they interact, we use transformative redefinition to examine the implications for IC of the relationships between the frameworks (Chatzkel, 2004; Marr and Chatzkel, 2004).

3. Characteristics of various reports

This section first introduces the characteristics of IC reporting before examining how these are incorporated into other forms of reporting, including financial statements,

<IR> and the GRI. In doing so it establishes how each form of reporting is aimed at a different audience and which characteristics are common to each. In terms of the critical framework used, this section can be seen as the early development of ‘insights’.

3.1 IC reporting

There is no generally accepted definition of IC (Sveiby, 1997; Wang *et al.*, 2016; Dumay, 2014a) despite IC’s importance as a resource for creating value and a factor in the successful achievement of organizational objectives (Striukova *et al.*, 2008). We adopt Dumay’s (2016, p. 169) redefinition of IC as: “the sum of everything everybody in a company knows that gives it a competitive edge ... Intellectual capital is intellectual material, knowledge, experience, intellectual property, information ... that can be put to use to create value”.

Three significant components have been identified in the literature on IC. These are human capital, structural capital and relational capital (Curado *et al.*, 2011; Mouritsen *et al.*, 2001; Mouritsen & Roslender, 2009). Human capital is typically recognized as firms’ most valuable asset as it underlies the organizations capacity to make decisions and allocate resources (Johanson *et al.*, 2001; Guthrie *et al.*, 2012). Structural capital deals with mechanisms and structures of the organization that support employees in their quest for optimum intellectual performance (Bontis, 1998; Mouritsen & Roslender, 2009). Relational capital is an asset that resides in the social relationships and networks among individuals, communities or society (Tsai & Ghoshal, 1998).

Firms need to report their IC as argued by Bismuth and Tojo (2008, p. 242):

Providing the market with sufficient and appropriate information about intellectual assets improves decision-making by investors and helps discipline management and boards with positive economic consequences. Ensuring that the non-financial information is consistent, comparable over time and across companies, material and reliable would allow investors to better access future earnings and the risks associated with different investment opportunities, thus reducing information asymmetry, reducing biased or unfounded earnings estimates, unrealistic valuations and unjustified share price volatility. This in turn increases market liquidity. There is evidence that improved information about intellectual assets and company strategy improves the ability of firms to secure funding at a lower cost of capital.

IC can be utilized by management to take a longer term perspective of organizational strategy, as well as to provide information to financial stakeholders. Organizations

often initially adopt IC reporting for internal purposes with the ultimate aim of publishing an external document for stakeholders (Bontis, 2003; Power, 2001).

Dumay (2016, p. 169) notes that through IC, an organization discloses what was previously “secret or unknown” so that stakeholders understand how ethical, social and environmental impacts are taken into consideration. According to Bismuth and Tojo (2008), providing the market with sufficient and appropriate information about intellectual assets improves decision making by both investors and management and boards. There is evidence that improved information about intellectual assets and company strategy improves organizational ability to secure funding at a lower cost of capital. IC encourages managers to develop actions inside their organization that creates value for the firm (Dumay, 2016).

3.2 Financial statement, IFRS and GAAP characteristics

In response to the absence of an exhaustive generally accepted accounting principle (GAAP) handling the issue of intangibles, academics and practitioners have developed a plethora of models, methods and tools for identifying, measuring and valuing intangibles (Brannstrom & Giuliani, 2009; Marr & Chatzkel, 2004). Traditional financial reporting applies International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). In relation to intangibles, the International Standards IAS 38 *Intangible Assets* and IFRS 3 *Business Combinations* allow the recognition of intangible goodwill assets. The introduction of IFRS 3 may be considered an opportunity for practical application of the methods and tools proposed by the IC and <IR> community to make intangible assets visible in the financial statement. According to Petty and Guthrie (2000), the introduction of IFRS 3 can be seen as an opportunity to test the relevance of IC models and reduce the gap between IC accounting and financial accounting. Of course, IFRS also requires the reporting of management commentary, which often covers IC.

3.3 <IR>

<IR> is meant to integrate the reporting of financial and non-financial information in a concise report of an organization’s future value creation plans, referring specifically to its strategy and business model, and relating these elements to financial, manufactured, intellectual, human, social and relationship, and natural capital. <IR>

is further intended to support managers and investors in taking a longer term perspective. According to the IIRC (2013), the purpose of the <IR> is to “improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital”, that is, its intended audience is shareholders, rather than a broad range of stakeholders.

The <IR> framework includes six capitals. Taking away the physical capitals of financial, manufactured and natural capital, the remaining three intangible capitals broadly align with IC’s three capitals: human capital with human capital; social and relational capital with relational capital; and IC with structural capital (Dumay, 2016). This has triggered a new hope for IC reporting faithful that IC reporting is firmly back on the agenda of organizations, in particular the large listed companies that are a target of the IIRC and <IR> (Dumay, 2016).

3.4 GRI reporting

The GRI is an international independent standards organization that helps businesses, governments and other organizations understand and communicate their impacts on issues such as climate change, human rights and corruption. The GRI Sustainability Reporting guideline offers reporting principles and standard disclosures for the preparation of sustainability reports by organizations. It categorizes specific standard disclosures as economic, environmental and social (GRI, 2013, p. 43). It encourages managers and investors to take a longer term perspective and provides information to a range of stakeholders, not only financial stakeholders (Massa *et al.*, 2015).

As a network-based organization, the GRI has developed its reporting framework in collaboration with stakeholders from business, government, labour and professional groups in order to ensure credibility and relevance. The GRI Reporting Framework is intended to serve as a generally accepted framework for reporting on an organization’s economic, environmental and social performance in a format that mirrors financial reporting and creates transparency. The GRI allows companies that follow the guidelines in their CSR or Sustainability or Annual reports to publish them on the GRI website (Wilburn & Wilburn, 2013).

According to Wilburn and Wilburn (2013), the GRI reporting guidelines, specifically its performance indicators, can be used to help an organization create ethical corporate social responsibility (CSR) strategies and to help stakeholders evaluate an

organization's CSR initiatives. Organizations are increasingly adopting CSR and using the GRI in order to enhance their reputation according to Wilburn and Wilburn (2013). Therefore, GRI reports incorporate the elements (human capital, structural capital and relational capital) of IC reporting.

4. Insight

This section develops further 'insights' into the forms of reporting – IC, financial reporting, <IR> and the GRI – and how these elements relate to each other. The purpose of developing insights, according to Alvesson and Deetz (2000), is to investigate local forms of phenomena.

4.1 Intellectual capital

The work of Petty and Guthrie (2000) is seminal to the IC research literature. Their early work examined how interest in the new knowledge economy impacted organizations and how IC reporting and accounting practices developed (Guthrie *et al.*, 2012). They outline two stages in the development of IC as a research field. The first stage typically focused on raising awareness as to why recognizing and understanding the potential of IC towards creating and managing competitive advantage is essential. Early studies in the IC field typically argued that IC is something significant and must be measured and reported (Chiucchi & Dumay, 2015). The second stage established IC as a legitimate undertaking and gathered evidence to support its further research. According to Guthrie *et al.* (2012), interdisciplinary researchers in the second stage investigated how capital and labour markets reacted towards the potential for IC to create value at an organizational level.

Guthrie *et al.* (2012) claim that IC has matured from both the first and second stages of development as evidenced by a growing volume of published research in journals. They argue that a third stage of critical IC development is emerging, characterized by research that takes a critical stance of IC in practice. Some notable critical research on IC are by Mouritsen and Roslender (2009) and Roslender and Stevenson (2009). The third stage of IC research also identified by Guthrie *et al.* (2012) is one oriented towards IC in practice. Dumay (2014a, p. 8) argues that IC will most likely remain an accounting issue within organizations, akin to an 'accountingization' of IC, or an attempt to make the intangible tangible.

Wealth creation is continually used to argue for more reporting of non-financial information in the form of IC and other capitals under the guise of integrated reporting <IR> (Dumay, 2016; Flower, 2015). Dumay (2016), however, points out that while reporting of IC may seem to be losing popularity, managers are realizing the benefits of managing IC internally. According to Tee Jeok Inn *et al.* (2015), in their study of IC reporting in Japan and Hong Kong, the main purpose for developing IC is to create value inside the organization rather than report it.

Dumay (2016) and Guthrie *et al.* (2012), find that there is a wealth creation myth surrounding IC, which extends to other forms of reporting that encompass some aspects of IC. According to Dumay (2016, p. 174), after initial support for IC reporting in the late 1990s and early 2000s, it was subsequently supplanted by CSR reporting and sustainability-focused frameworks, such as the Global Reporting Initiative (GRI, 2013).

Now <IR> has seen a resurgence of the wealth-creation myth as value (wealth) for investors is <IR>'s core rhetoric (Dumay, 2015a). The International Integrated Reporting Council (IIRC, 2013) holds "the view that communication about value creation should be the next step in the evolution of corporate reporting" (p. 1) and "the primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time" (p. 7).

4.2 Financial reporting on intangibles

A problem faced by the accounting profession is how to effectively respond to the criticism of the way in which IC and other capital is measured (Siegel & Borgia, 2007). Intangible assets have unusual measurement and recognition, which makes the development of a comprehensive accounting standard challenging. The issue of IAS 38 and its subsequent adoption by many countries represents an attempt to impose a uniform set of rules on what had become an increasingly contentious issue. IAS 38 excludes internally generated intangibles by rules rather than applying its recognition and reliability tests to these assets. However, some relief is gained by the opportunities to recognize intangibles in other situations like business combinations. The IFRS has issued management commentary guidelines that encompasses all manner of narrative reporting, including GRI, IC and <IR>. Management need to identify an entity's significant relationship with stakeholders, how these relationships

are likely to affect the performance and value of the entity, and how these relationships are managed (IFRS Practice Statement, 2010).

Dumay (2016) questions the value to investors of all forms of reports beyond regulated financial reports. An investment advisor may not be waiting for the latest <IR>, IC or GRI report before making a recommendation to buy or sell shares. The timeliness and value of these reports are not relevant to active investors (Dumay, 2016).

4.3 Integrated Reporting

<IR> includes some elements of IC reporting. The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time (IIRC, 2013; Atkins & Maroun, 2015; Stent & Dowler, 2015). <IR> also seeks to explain how the organization interacts with the external environment and the capitals to create value over the short, medium and long-term (IIRC, 2013, p. 4). The capital are categorized as financial, manufactured, intellectual, human, social and relationship, and natural capital, although organizations preparing an integrated report are not required to adopt this categorization.

According to the IIRC (2013, p. 10) an integrated report aims to provide insights about:

the external environment that affects an organization, the resources and the relationships used and affected by the organization, which are referred to collectively in the Framework as the capital and are categorized as financial, manufactured, intellectual, human, social and relationship, and natural and how the organization interacts with the external environment and the capitals to create value over the short, medium and long term.

Setting aside financial and manufactured capital, it is clear that there is significant commonality between the elements of IC reporting – human, structural and relational capital – and <IR> (Dumay *et al.*, 2016).

Intellectual capital is organizational, knowledge-based intangibles including “intellectual property such as patents, copyrights, software rights and licences, ‘Organizational capital’ such as tacit knowledge, systems, procedures and protocols” (IIRC, 2013, p. 12). Human capital entails people’s competencies, capabilities and experience. Human capital is viewed exclusively from the firm’s viewpoint. From the firms’ perspective, people have no intrinsic value, rather their value depends on the contribution they make to the firms’ success (Flower, 2015). This is a narrow

definition of human capital and excludes persons who are not inputs to the firm's business model. Social and relationships capital is the "institutions and the relationship with and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being" (IIRC, 2013, p. 12). Natural capital is "all renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization. It includes air, water, land, minerals and forests, biodiversity and eco-system health" (IIRC, 2013, p. 12). The essential phrase here is the 'prosperity of an organization'; there is no reference to the prosperity of society as originally envisaged by IIRC in its 2011 Discussion Paper. The IIRC is interested in the natural capital utilized by an organization.

Like IC, the focus of <IR> is on value creation. According to the IIRC (2013, p. 24) an integrated report includes the following eight content elements: (1) organizational overview and external environment; (2) governance; (3) business model; (4) risk and opportunities; (5) strategy and resource allocation; (6) performance; (7) outlook; and (8) basis of preparation and presentation. An integrated report describes key outcomes including: (a) "both internal outcomes (e.g., employee morale, organizational reputation, revenue and cash flows) and external outcomes (e.g., customer satisfaction, tax payments, brand loyalty, and social and environmental effects), (b) both positive outcomes (i.e., those that result in a net increase in the capitals and thereby create value) and negative outcomes (i.e., those that result in a net decrease in the capitals and thereby diminish value)" (IIRC, 2013, p. 26).

Unlike IC, however, <IR> is aimed only at a financial audience. Despite the IIRC's initial rhetoric, <IR> does not accomplish its goal of developing a framework that provides additional information for investors beyond the financial (Milne & Gray, 2013; Abeysekera, 2013).

As <IR> struggles to find its place as the "corporate reporting norm", its supporters have issued a "call to action". Adams (2015), in her article responding to Flower's (2015) criticism writes:

This paper sets out the case for integrated reporting and its potential to change the thinking of corporate actors leading to the further integration of sustainability actions and impacts corporate strategic planning and decision making. It calls for academics to engage with the process and to contribute to the development of new forms of accounting to help ensure this potential is reached.

Adams' (2015) "call to action" suggests that <IR> has a long way to go before it becomes the corporate reporting norm. Its supporters admit that they have not achieved the groundswell of support required to achieve this objective (Dumay, 2016, p. 175). It seems that the IIRC recognizes this as it has entered into memoranda of understanding (MOU) with other reporting and standard setting bodies. Bernardi (2015) notes:

It is interesting to note that the IIRC has entered numerous alliances by signing MOUs with competing reporting and standard setting bodies such as the International Federation of Accountants (IFAC), the International Accounting Standards Board (IASB), the Carbon Disclosure Project (CDP), the Climate Disclosure Standards Board (CDSB), the World Intellectual Capital Initiative (WICI) and the Sustainability Accounting Standards Board (SASB). Similar to the one signed with the GRI these arrangements reflect a common interest between the interested parties but, at the same time, their wording provides assurances that <IR> will not interfere with existing reporting spaces. Therefore, it is questionable whether the IIRC and the involved parties are genuinely seeking to contribute together to the creation of a global reporting framework or rather they are trying to defend their existing positions.

4.4 Global Reporting Initiative (GRI) Sustainability Reporting Guidelines

The GRI Sustainability Reporting Guidelines offer reporting principles and standard disclosures for the preparation of sustainability reports by organizations. As Table 1 shows, its focus is much broader than that of traditional financial reporting, IC and <IR> and is aimed at a different audience.

The Guidelines organize specific standard disclosure into three categories: economic, environmental and social (GRI, 2013, p. 43). The social category is further split into four sub-categories, which are labour practices and decent work, human rights, society and product responsibility.

Table 1 GRI Guidelines categories and elements

Category	Economic		Environmental	
Aspects	<ul style="list-style-type: none"> -Economic performance -Market presence -Indirect Economic Impacts -Procurement Practices 		<ul style="list-style-type: none"> -Materials -Energy -Water -Biodiversity -Emissions -Effluents and Waste -Products and Services -Compliance -Transport -Overall -Supplier Environmental Assessment -Environmental Grievance Mechanisms 	
Category	Social			
Sub-categories	Labour Practices and Decent Work	Human Rights	Society	Product Responsibility
Aspects	<ul style="list-style-type: none"> -Employment -Labour/Management Relations -Occupational Health and Safety -Training and Education -Diversity and Equal Opportunity -Equal Remuneration for Women and Men -Supplier Assessment for Labour Practices -Labour Practice Grievance Mechanisms 	<ul style="list-style-type: none"> -Investment -Non-discrimination -Freedom of Association and Collective Bargaining -Child Labour -Forced or Compulsory Labour -Security Practices Indigenous Rights -Assessment -Supplier Human Rights Assessment -Human Rights Grievance Mechanisms 	<ul style="list-style-type: none"> -Local Communities -Anti-corruption -Public Policy -Anti-competitive Behaviour -Compliance -Supplier Assessment for Impacts on Society. -Grievance Mechanisms for impacts on Society 	<ul style="list-style-type: none"> -Customer Health and Safety -Product and Service Labelling -Marketing Communications -Customer Privacy -Compliance

According to the GRI (2013, p. 85) “sustainability reporting is a process that assists organizations in setting goals measuring performance and managing change towards a sustainable global economy – one that combines long term profitability with social responsibility and environmental care”. Sustainability reporting is the key platform for communicating the organization’s economic, environmental, social and governance performance, thus reflecting positive and negative impacts (Sharma & Kelly, 2014; Mistry *et al.*, 2014). In this respect it differs from <IR>, which aims primarily to offer an organization’s providers of financial capital with an integrated representation of the key factors that are material to its present and future value creation.

While the objectives of sustainability reporting and <IR> may be different, sustainability reporting is an intrinsic element of <IR>. Sustainability reporting considers the relevance of sustainability to an organization and addresses sustainability priorities and key topics, focusing on the impact of sustainability trends,

risks and opportunities on the long term prospects and financial performance of the organization (Khlif *et al.*, 2015; De Villiers *et al.*, 2014). In this respect it aligns, in part, with the IIRC's stated purpose of an integrated report "to explain to providers of financial capital how an organisation creates value over time" (IIRC, 2013, p. 7).

An inspection of Table 1 shows that the GRI framework covers the IC elements of human capital, structural capital and relational capital.

5. Critique

This section applies the 'critique' aspect of Alvesson and Deetz's (2000) framework. Critique is intended to counteract the dominance of taken-for-granted goals, ideas and discourses.

5.1 Critique of Intellectual Capital

While the previous section outlined 'insights' into the state of IC research and practice, this section considers alternative views of IC in an attempt to counteract assumptions and taken for granted concepts. For example, McPhail is critical of IC's failure to incorporate ethics, although it is possible to find accounts of IC where the concern with ethics is centred (McPhail, 2009). This does not mean that these accounts resolve ethical questions, rather IC could develop an agenda that is more conscious of the tension associated with making people resources. McPhail (2009) notes that the focus on human capital could involve an attempt to identify ethical competencies, which is inferred in relation to economic success.

Nielsen and Madsen (2009) examine IC from the perspective of the relationship between numbers in IC statement and transparency. They articulate that numbers do not create transparency as such and identify two types of discourses of transparency in the IC literature, namely a general strategy to publish many items of information that readers then can make sense of individually, and a management controlled narrative of the production of value. A dilemma persists that quantities of information may not make readers more knowledgeable, and that management controlled narrative may create a tyranny of transparency serving only few interests.

The issue of transparency is also raised by Gowthorpe (2009), who emphasizes that in some ways the IC concept is one-sided and partial. IC does not recognize liabilities. Some limited recognition has been given in the IC literature to the concept that

intellectual liabilities may be an important factor in assessing firm value. For example, Harvey and Lusch (1999) attempt a classification schema for intangible liabilities that includes factors such as high employee turnover, discrimination and poor product/service quality. Similarly very little attention has been paid to the potential impact of what is characterized as contingent liabilities. This is a serious omission as it could assist to explain some of the losses in value faced by listed corporations from time to time (Gowthorpe, 2009). Intellectual capital also does not allow re-evaluation, and is not cognizant of ethical and social dilemmas. Her account is one which lays the boundaries of IC and identifies that the absence of a framework or complete conceptual model will make it a difficult representation of resources. She points to the problems of the metrics of IC showing that they cannot stand alone. The boundaries of IC are porous and as a formal project, IC will struggle.

Roslender and Stevenson (2009) link IC with the continuing challenge of ‘accounting for people’ through its human capital component. They document the UK Government’s brief 2003-2005 flirtation with the idea of incorporating a modest set of information on human capital management initiatives within companies in an expanded financial reporting package. They see a worrying absence of any discernible attempt to engage with the IC concept and associated literatures during the period. Roslender and Stevenson (2009) argue that entrenched opposition to accounting for people exists within both the accounting profession and executive management in the UK and perhaps beyond. In their view, IC may not be a beneficial development for promoting the interests of people within the organization, thereby requiring further attention from critical accounting researchers. The interests of capital have consistently been privileged over those of labour. This is manifested in the traditional financial statements that have been formulated to meet the needs of capital rather than labour, irrespective of the observation that it is the latter which is the sole source of value (Marx, 1971). The discourse of accounting practice promotes the visibilities that advance the interests of those whom it privileges.

Dumay (2014b) argues that most IC research falls short of achieving advanced knowledge and technology of the art as it inherits flaws from previous research. He encourages researchers to build on solid foundations while also adapting the relevant data sources, technologies and research methodologies available to ensure the art of IC research.

5.2 Critique of Integrated Reporting

The IIRC has widely promoted its objectives and how the integrated report can provide an alternative to traditional financial reporting. Initially embraced, the taken-for-granted concepts of <IR> have now been subject to scrutiny by researchers and the critique suggests that <IR> has failed to live up to the hype. On its foundation, the IIRC's principle objective was the promotion of sustainability accounting (Flower, 2015). However, the IIRC seems to have abandoned sustainability accounting in the interests of wealth creation criteria. While the concepts on which most categories of capital are predicated are reasonably clear – financial capital is the firm's 'pool of funds' (IIRC, 2013, paragraph 2.17) and manufactured capital comprises material objects created by man – only a single reference is made to sustainability in the Framework, which is to a separate sustainability report that is not part of the integrated report (IIRC, 2013, paragraph 1.13). More likely this separate report would be drawn up in accordance with the GRI's Guidelines (Flower, 2015). This appears to be an unusual development as the principal motivation of the bodies that founded the IIRC (the GRI and Accounting for Sustainability (A4S)) was to improve the reporting of sustainability.

Rather the focus is on creating value, that is the basic premise is that a firm's integrated report should indicate how the firm, through its activities has created value as measured by the increase less the decrease in the value of the six capitals. Paragraph 1.7 of the Framework states that "the primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time". The critical point is the meaning attributed to the word 'value'; possible alternative interpretations are 'value to society' (which is consistent with social and environmental accounting), 'value to stakeholders' (which is consistent with stakeholder theory of the firm) and 'value to present and future generations' (which is consistent with sustainability). The term 'providers of financial capital' in paragraph 1.7 suggest that the IIRC's focus is 'value to investors'. According to Flower (2015, p. 6) the primary purpose of the integrated report is, in fact, to explain value creation to the providers of financial capital. The Framework accepts that providers of capital are principally interested in the benefits that they can expect from the firm (in the form of dividends and other returns on capital), referring in paragraph 2.4 specifically to "financial returns to the providers of financial capital".

Further, Flower (2015) argues that <IR> will not become the reporting norm because it lacks regulatory enforcement. Unless the IIRC can convince international regulators to make <IR> compulsory as are IFRS or GAAP for financial reporting, then <IR> will struggle to become the reporting norm.

While there have been calls for improvements to financial reporting for more than 40 years (Milne & Gray, 2013), users somehow obtain the information they need (Jenkins, 1994). These users have not demanded more information – rather, in the case of the IIRC, the demand is being made by accountants “determined to control a new initiative that threatened their established position” (Flower, 2015, p. 2). Flower (2015) argues that the IIRC has been the victim of ‘regulatory capture’ and that the IIRC’s governing council is dominated by the accounting profession and multinational enterprises determined to control the agenda of wealth creation for investors. That the IIRC council is composed mostly of accountants sends an ambiguous message; either they are genuinely interested in reforming financial reporting or determined to control a new initiative that poses a threaten to their established position. According to Dumay (2016), the call for changes to reporting seems to be in the self-interest of accountants rather than a genuine attempt to reform financial reporting’s shortcomings.

The IIRC initially proposed that the integrated report would be an organization’s primary report, replacing rather than adding to existing requirements (Flower, 2015). The proposal has been dropped, although IIRC does not admit this. However, what is clear is that there is no requirement to present a single integrated report, instead it merely becomes another report, adding to the clutter of reports, which the IIRC condemned in its Discussion Paper (IIRC, 2011, p. 4).

The IIRC does not require firms to report on any specific key performance indicators (KPIs). It states “the Framework does not prescribe specific key performance indicators (KPIs), measurement methods or the disclosure of individual matters”. Those responsible for the preparation and presentation of the integrated report therefore need to exercise judgement, given the specific circumstances of the organization (IIRC, 2013, paragraph 1.10). The Framework leaves the decision of what information on performance should be reported to the firm’s management.

The IIRC’s approach is in stark contrast to that of the GRI, one of the IIRC’s two founding organizations. In its guideline, the GRI specifies no less than 34

environmental performance indicators and 48 social performance indicators. For instance, guideline EN15 requires firms to “report gross direct GHG (greenhouse gas) emissions in metric tonnes of CO2 equivalent, independent of any GHG trades, such as purchases, sales or transfers of offsets or allowances” (GRI, 2013, p. 57), as well as six additional items of information relating to greenhouse gas emissions. If a firm does not report this information (or provide a valid reason for not reporting), it is forbidden to state that its report has been drawn up in accordance with the GRI’s guidelines. The IIRC, on the other hand, places no such obligation on the firm’s management.

Flower (2015, p. 1) argues that the IIRC has been the victim of “regulatory capture”. The IC wealth-creation myth believers need to realize that some academics will continue to question the IIRC’s rhetoric and continually comment on why <IR> will be difficult to accept as the “corporate reporting norm” (IIRC, 2013, p. 2).

The IIRC’s approach to reporting is predicated on the assumption that the well-being of the firm and that of society as a whole are essentially the same. It advocates the ‘business case’ for integrated reporting – that the firm, in maximizing its profits, also benefits society. According to Flower (2015, p. 13), however, the IIRC’s advocacy of the ‘business case’ is based on the capitalist theory of the firm, of which the principal elements are:

- a) The firm is an entity owned by capitalists who supply its financial capital. The capitalists are entitled to appoint the firm’s management which is obliged to run the firm in their interests.
- b) The firm buys factors of production (raw material, labour services, etc.) at market prices and transforms them into finished goods and services, which it sells at market prices.
- c) If the revenue that the firm receives from the sale of the finished goods and services is greater than the costs that it incurred in acquiring factors of production, the firm records a profit.
- d) The most important factor of production is capital. In order to maximize society’s stock of goods and services, capital should be allocated to activities that yield the highest profit.
- e) Investors need information on firms’ profits in order to allocate capital efficiently. Hence information for investors should be the primary focus of a firm’s reporting.

However, in its <IR> Framework the IIRC recognizes the existence of stakeholders other than investors and seeks to give the impression that it takes into account their needs. IIRC states: “value is not created by or within an organization alone, but is

created through relationship with others” (IIRC, 2013, paragraph 3.11). While this may be what the IIRC says, what it does, in determining the content of an integrated report, is give priority to serving the information needs of capital providers, with its consideration of the needs of other stakeholders little more than lip-service. A study by Wild and Van Staden (2013) finds that, of 58 companies included in the IIRC’s 2011 Discussion Paper, only a third reported on relationships with stakeholders. Wild and van Staden (2013) comment on the generally low level of responsiveness to stakeholder inclusiveness, suggesting that the reports (and indeed business operations) are primarily focused on shareholder’s needs.

6. Transformative Redefinition

‘Transformative redefinition’ develops critical, relevant knowledge and practical understanding that enables change and provides skills for new ways of operating. We apply this aspect of Alvesson and Deetz’s (2000) framework to the different forms of reporting and their potential to shift corporate thinking.

<IR> attempts to encourage mainstream accountants to think longer term and to consider what value means both in terms of broader society and the environment (Adams, 2015; Atkins *et al.*, 2015). This has brought considerable attention onto intangibles. Indeed, according to Standard and Poor’s stock market index of the top 500 US listed companies in the 1970s, around 80% of a company’s market value could be traced through to the financial statement, whereas by 2010 only around 20% can be accounted for by its financial and physical assets (IIRC, 2011). Similarly, KPMG (2012) have argued that there is a mismatch between what is being reported and factors that influence value. According to Adams (2015), this growing awareness brought about the context in which the IIRC was formed.

Adams (2015) also argues that the features of <IR> have the potential to shift the thinking of corporations to better align notions of profit maximization with the wellbeing of society and the environment. The emphasis of <IR> is very much on thinking long term and it also encourages much broader thinking in relation to what is value, the value creation process and the business model.

So while there is potential for <IR> to improve corporate reporting (Thomson, 2015), Flower (2015) questions whether it can achieve the environmental and social objectives that are claimed for it:

Integrated Reporting demonstrates the linkages between an organisation's strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, Integrated Reporting can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organisation is really performing¹

There is also potential for <IR> to empower citizens to hold corporations to account.

According to IFAC (2011, p. 5)

the greatest shareholder today is no longer the wealthy family, but it is the individual via his or her financial institution and pension fund. The same individual is also the employee of the company; the customer who chooses between the products of a company A or B; the voter for the government of the day and for the trustee of the pension fund. In addition, the individual is also a citizen of a country who expects his or her neighbour to act as a decent citizen, and as a consequence today, the individual citizens expects the corporate citizens to act as a decent citizen.

But does the integrated report provide individuals with sufficient information to act? Sustainability reporting targets a wider stakeholder audience than does <IR> and focuses on impacts on the environment, society and the economy, rather than on the effects of the capitals on value creation over time as in <IR>. Therefore, its focus on reporting impacts of the firm on the environment and society is not viewed only through the lens of the business model and the capitalist notion that what is good for the firm is good for society. Individuals may exercise their power in society through their role as an employee, a neighbour, a voter in elections, a consumer and an investor. However, these options are not open to all. For example, not all citizens are able to participate in free and fair elections. According to Thomson (2015, p. 20),

only 11.3% of the world's population live in full democratic state, 48% of the world are in vulnerable employment (ILO, 2014), half the adult population do not have a bank account and 22% use it for savings, only 30% of Middle Class Americans have a pension plan and what purchasing power do and 3 billion of our fellow citizens have with their daily income of \$2.50.

However, the IC true believers are perhaps optimistic about the potential for <IR> and IC. According to Mouritsen and Roslender (2009), this optimism springs from the proposed capacity of <IR> to incorporate value creation and value delivery. The incorporation of IC into <IR> will also subject it to a more thoroughly critical perspective, something that has not been featured so widely in the IC literature. If the

¹ <http://www.accountingforsustainability.org/connected-reporting>, accessed 18 May 2016

IC concept is as central as some claim it to be, it is vital that it is fully understood and exploited in the quest for social betterment (Mouritsen and Roslender, 2009). However, while IC brings together a host of non-financial dimensions of human, structural and social capitals enabling a longer term perspective of the firm is its value limited to shareholders seeking wealth maximization? Again questions ought to be raised as to the benefits to society more widely. For example, are the interests of employees and customers enhanced?

Chatzkel (2004) notes that for the field of IC to move ahead, both practitioners and academics need to demonstrate IC as a working discipline useful to the achievement of strategic goals and to improve the levels of performance. There is a need to expand the dialogue between academics and practitioners. Marr and Chatzkel (2004) call for engagement of a wider audience outside the niche field of IC and to ensure a cross-disciplinary view of IC is taken. They call for IC researchers to engage in multi-disciplinary and cross-functional knowledge exchange so that knowledge of IC is extended.

Dumay (2014a) calls for more performative research in IC for it to be noticed. Such research will enable light to be shed on how organizational members manage IC. He also argues for 'praxis' for future IC research. Praxis is important as most of the core creators of the IC movement were practitioners and the relevance of IC field will be strengthened by building the relationship between academics and practitioners. Dumay (2014a) encourages academics, managers and practitioners to conduct interventionist research, that develops both IC theory and practice (see Dumay, 2010).

7. Discussion and conclusion

While <IR> is a relatively new development, other forms of reporting, such as the GRI Sustainability Guidelines, are more established, while traditional financial reporting is entrenched in our society. In seeking to enhance disclosure <IR> appears to be a well-intentioned initiative, potentially limited by its focus on the providers of financial capital. <IR> privileges investors and incorporates elements of sustainability that are aligned with the underlying principles of capitalism (Thomson, 2015; Abeysekera, 2013). In this way, <IR> is similar to the disclosure of traditional financial statements. This does not mean that <IR> cannot produce some positive

social and environmental changes. Sustainable change depends on the extent to which ‘integrated thinking’ and ‘integrated accounting’ can confront, challenge and colonize the ‘unintegrated thinking’ and ‘unintegrated accounting’ that dominates contemporary business. Where <IR> goes beyond financial statements is in its explicit attention to the non-traditional capitals, strategy, business models, and its general emphasis on future oriented information.

The GRI Sustainability Guidelines are also meant to also provide information to non-financial stakeholders. It differs from <IR> in addressing a much wider range of stakeholders than investors. What both of these forms of reporting have in common is that they include IC disclosures, whether explicitly targeted or implicitly required. Over time IC has become increasingly important to these forms of reporting, with IC disclosed in all of these kinds of reports. The three types of IC, namely human capital, structural capital, and relational capital, are often labelled differently in <IR>, GRI-type reports, and financial statements but they are present in all of them. The difference lies in the audiences for these reports and the way that disclosure is slanted towards the information needs of the intended audience, being financial stakeholders in the case of integrated reports and financial statements, and a broader range of stakeholders in the case of GRI-type reports.

While each of the frameworks discussed in this paper has a supporting body, IC does not. <IR> is represented by the IIRC, the GRI is the leading framework provider for CSR reporting, and financial statements are mandated by various authorities in different countries. While this may seem to disadvantage IC, upon further reflection, it soon becomes clear that IC has to be reported under each of these reporting types and is therefore becoming increasingly relevant. Under <IR>, if IC, human capital, or relationship capital is set to play an important value creation role in the future of an organization, then this value creation story, with IC at its core, has to be told in the integrated report. The GRI framework suggests the need for the reporting of employee information and any risks and liabilities attached to IC have to be reported in the financial statements. Thus, IC is not in competition with the IIRC, the GRI, or the regulators of financial statement reporting, such as the IASB. Indeed, IC forms an essential part of the reporting under each of these reporting regimes. Therefore, its independence from the development of the power struggles between the various

reporting framework providers, puts IC in a position of strength. The future of IC and IC reporting appears to be bright.

Dumay (2014a) argues that IC is not solely an accounting discipline. IC can be a management accounting issue as management accounting encompasses forward-looking information which has both qualitative and quantitative characteristics. Yet, IC is also a management issue as it intersects with strategy, technology, customers, processes and human beings (Dumay, 2014a, p. 18). Its place beyond accounting and numbers also suggests a bright future for IC.

The increased recognition that (the) traditional capital(s) are not good indicators of future value creation opportunities in today's economy, as well as the recognized need for non-financial information has brought increased attention to IC. It also brings with it the opportunity for what has previously been a niche field to find its place in the mainstream. While the supporters of more entrenched forms of reporting engage in a power struggle, IC, without a regulatory body to promote it, somewhat counterintuitively is in an ideal position to make its mark. IC will thrive by being interwoven into all the other frameworks, and by adopted by regulatory bodies and reporting mechanisms and is bound to grow in importance and prominence in future.

Undoubtedly IC is undergoing a resurgence as part of <IR>. However, IC champions may be disappointed if <IR> does not succeed. Regardless of whether <IR> succeeds or fails, there is an opportunity for IC champions to work with practitioners to further demonstrate its importance. How IC creates value inside organizations is the primary reason for managing IC. It is essential that value is not measured in financial terms only.

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