

Exploring the nexus between integrated reporting and sustainability embeddedness

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Abstract

Purpose – This empirical study explores the nexus between integrated reporting and sustainability embeddedness. It seeks to contribute to a better understanding of the nexus by obtaining in-depth insight from the sensemaking of those in practice.

Design – A single exploratory case study design strategy was applied to a leading stock exchange listed company in the real estate industry in South Africa. Rich qualitative data was gathered by applying multiple data gathering techniques to a diverse group of employees within the case company.

Findings – This empirical study contributes a metaphor of a cog and chain and nine themes that elucidate employee sensemaking at the nexus. Integrated reporting was found to drive sustainability embeddedness and foster changes within the organisation. The themes offer in-depth insight into how employees made sense of integrated reporting as a driver for sustainability embeddedness.

Research limitations – The findings emerged from a single case study that operated in a mandatory disclosure context and are therefore not generalisable. The findings reflect the intended outcomes of integrated reporting which suggests further research to explore the unintended outcomes and challenges associated with integrated reporting is needed.

Practical implications - The study contributes to a growing practice based agenda by offering a better understanding of how integrated reporting and sustainability are conceptualized and adopted in practice.

Social implications: The findings offer organisations' guidance on integrated reporting and sustainability embeddedness adoption which can have vast implications for society and the environment.

Contribution – The study responds to gaps in the literature and calls for studies to explore the intersection between integrated reporting and sustainability embeddedness by offering a critical and performative analysis of integrated reporting practices in action.

Key words: Integrated reporting adoption, sustainability embeddedness, organisational change, metaphors, sensemaking, real estate, case study

Classification: research paper, case study

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Introduction

Embedding sustainability and transitioning into a sustainable organisation is considered a desirable and legitimate approach to business, and an imperative for operating in today's world (Benn *et al.*, 2014, Valente, 2015). Embedding sustainability requires a major organisational change effort by organisations (Perrott, 2014). Recent literature has suggested a connection between sustainability embeddedness and integrated reporting (Brown and Dillard, 2014, Eccles and Saltzman, 2011). In spite of this assertion, the intersection between integrated reporting and sustainability embeddedness has not been fully explored, and limited studies have sought insight on the topic from practice (Velte and Stawinoga, 2016, Higgins *et al.*, 2014).

To address this gap in literature and respond to various calls for further research in journal special issues, this study sets out to explore the nexus between integrated reporting and sustainability embeddedness (Rinaldi, 2017, de Villiers *et al.*, 2017). The study offers a better understanding of the nexus by obtaining in-depth insights from employee sensemaking. This study's contribution emerges from multiple engagements with a diverse group of employees in a case company in South Africa.

The nexus between integrated reporting and sustainability embeddedness

Pressing societal, economic and environmental problems and increased stakeholder pressure in the rapidly changing 21st century business landscape, have tested the sustainability of major organisations and caused them to reevaluate their fundamental views and beliefs towards business and society (Gladwin *et al.*, 1995, Margolis and Walsh, 2003). In response to these challenges, many organisations have begun a journey towards becoming a sustainable organisation.

Sustainability refers to the internalisation of social and environmental concerns into business operations and in interactions with a wider group of stakeholders. Sustainability supports the idea of an integrated value creation space, where growth and performance for the current generation pays equal and simultaneous consideration to all the components of sustainability as well as to future generations (Perrott, 2014, Brundtland, 1987). Sustainable organisations are those that embed sustainability by taking responsibility for their social, environmental and financial decisions in a transparent and ethical way (Willard, 2012). They need to do more than merely comply with legal requirements or be proactive towards sustainability (Dunphy *et al.*, 2007). The organisation needs to undergo a significant strategic and organisational change effort where it transitions from seeking to diminish its negative impacts, to understanding how it can create a significant positive impact in critical and relevant areas for society and the planet (Dyllick and Muff, 2015). Sustainability embeddedness is achieved when sustainability is deeply engrained in employee beliefs, attitudes, behaviours and decision-making and when there is a shared understanding amongst employees that their roles and responsibilities and those of the organisation are inseparable from the interests of the wider community of stakeholders (Valente, 2015, Dyllick and Muff, 2015). To this end, employees need to “disregard notions of separateness” (Barter and Russell, 2013:149).

A scrutiny of the literature reveals an increased interest in the nexus between the embeddedness of sustainability and a form of corporate reporting called integrated reporting (Eccles and Saltzman, 2011, Adams, 2015). Integrated reporting combines information about an organisation’s profit and its effect on people and the planet into a single integrated report (James, 2013, Çalışkan and Esen, 2016). The topic of integrated reporting has attracted a great deal of academic attention, which has in turn led to the development of a growing body of literature (Higgins *et al.*, 2014, de Villiers *et al.*, 2014).

Adopting integrated reporting requires organisations to undergo a significant and fundamental shift in terms of how directors and managers think about strategy, performance, risk, opportunities and value creation (Higgins *et al.*, 2014, Matthews, 2011). Integrated reporting creates a new set of priorities for directors (Solomon and Maroun, 2012, Steyn, 2014a) and is described as a complex process involving a sequence of activities, rather than merely an outcome in the form of an integrated report (Lodhia, 2015, Velte and Stawinoga, 2016). The integrated reporting process is seen to support organisations in adapting to changing

business expectations by encouraging them to provide a more meaningful – holistic– account of organisational performance to their stakeholders (Eccles and Krzus, 2010, James, 2013). Organisations that adopt integrated reporting are encouraged to integrate, rather than trade off or balance the goals of economic development, social equity, and environmental protection and restoration (Steyn, 2014a, van Zyl, 2013). This means that employees within these organisations should begin to see strategy, governance and sustainability as intimately entwined (de Villiers *et al.*, 2014).

Perhaps one of the most important and debated visions of integrated reporting – and central to the focus in this paper – is its ability to drive sustainability embeddedness and foster organisational change around core activities towards a more sustainable organisation. Integrated reporting is promoted as a catalyst for corporate sustainability (Brown and Dillard, 2014) capable of aligning capital allocation and corporate behaviour to wider goals of sustainable development (IIRC Vision, 2017). Integrated reporting has been described as an innovation that has the potential to transform processes, drive positive change in corporate behaviour and stimulate improved – integrated and sustainable – decision-making that contributes to enhanced value and success in the long-term (Adams, 2015, IIRC, 2016). The processes and practices that comprise integrated reporting link sustainability concerns with organisational strategy and facilitate the embeddedness of sustainability within the organisation (Thomson, 2014, Adams, 2015, Steyn, 2014b). Recent literature on integrated reporting has described it as a mechanism for progressing sustainability goals and for accelerating long-term value creation towards the achievement of more sustainable outcomes (Setia *et al.*, 2015, Tweedie and Martinov-Bennie, 2015, van Zyl, 2013, Higgins *et al.*, 2014). The adoption of integrated reporting is believed to not only drive sustainability embeddedness in an organisation's strategic planning, decision-making and operations, but to also foster cultural change associated with a transition to a sustainable organisation (Adams, 2015, Eccles and Saltzman, 2011, Brown and Dillard, 2014).

Even though integrated reporting offers a significant opportunity within which social and environmental sustainability can be embedded into a corporation (Steyn, 2014a, Solomon and Maroun, 2012), it should not be seen as a silver bullet for solving contemporary problems (Thomson, 2014, Eccles and Saltzman, 2011). Currently, integrated reporting is still in its developmental and trial phase and there are concerns about its integration within

organisations (Velte and Stawinoga, 2016, Setia *et al.*, 2015, Feng *et al.*, 2017). Studies have reported that both integrated reporting and sustainability embeddedness are suffering from conceptual and definitional ambiguity (Setia *et al.*, 2015, Nambiar and Chitty, 2014, Barter and Russell, 2013) and that multiple narratives and meaning in practice make it difficult for some managers to understand the concepts (Higgins *et al.*, 2014, Grey, 2010). In some contexts management have been found to be uncertain about when and how to adopt integrated reporting and they struggle to instil a culture around sustainability (Linnenluecke *et al.*, 2009, Valente, 2015).

Critics of the IIRC's framework (Thomson, 2014, Flower, 2015, Brown and Dillard, 2014) believe that, instead of facilitating the embeddedness of sustainability, integrated reporting could do the opposite and lead society towards unsustainability by failing to challenge existing business case thinking and practices necessary for sustainability embeddedness. These critics challenge the idea that integrated reporting can foster a transition to a sustainable organisation, suggesting that the most recent principles of integrated reporting exhibit investor bias by failing to address the needs of other stakeholders, such as consumers and local communities (Setia *et al.*, 2015, Brown and Dillard, 2014). In fact, it has been argued that the application of integrated reporting could constrain or mask true sustainability embeddedness (Thomson, 2014, Flower, 2015). Integrating economic, social, environmental and ethical issues into organisational practices through integrated reporting, without explicit change efforts from leadership, is purported to result in only marginal change and empty rhetoric (Solomon and Maroun, 2012). Furthermore, integrated reporting adoption has been criticised for resting on a trickle-down theory, which assumes that sustainability transformations for the organisation and its stakeholders are likely to follow from it. Critics have suggested that integrated reporting implies a pathway to sustainability embeddedness, when in fact it condones the continuation of business as usual practices that favour profit maximization, shareholders and financial sustainability (Hahn *et al.*, 2015, Feng *et al.*, 2017, Thomson, 2014, Flower, 2015).

Research purpose

There is much lively debate and discussion in global academic discourse regarding the nexus between integrated reporting and sustainability embeddedness. In spite of this, only limited

empirical studies have attempted to make sense of this controversy by engaging those in practice (Brown and Dillard, 2014, Grey, 2010, Velte and Stawinoga, 2016, Feng *et al.*, 2017).

Recognizing this gap, various calls have been made in literature and in recent special issues for further empirical studies (Velte and Stawinoga, 2016, de Villiers *et al.*, 2017). Literature has called for novel in-depth insight into the sensemaking of managers, and for research that develops a better understanding of integrated reporting's conceptualization in practice by utilizing primary data on integrated reporting (Jensen and Berg, 2012, Higgins *et al.*, 2014, Feng *et al.*, 2017). Calls have been made for case studies to elucidate the nexus between integrated reporting and sustainability embeddedness within business practices and settings (Lueg *et al.*, 2016, Rinaldi, 2017, Cox and Schoon, 2017).

This study focuses on addressing these calls and gaps by exploring the nexus between integrated reporting and sustainability embeddedness. It seeks to contribute a better understanding of the nexus by obtaining in-depth insight from those in practice. The study is guided by the following research question: How do employees make sense of the nexus between integrated reporting and sustainability embeddedness?

Methodology

Given the desire to explore and better understand the phenomenon, rich qualitative data, using a single case study design strategy, was chosen for this study (Yin, 2014). Case studies are suited to the fields of integrated reporting and sustainability embeddedness research (Velte and Stawinoga, 2016, Lueg *et al.*, 2016), especially when the goal is exploratory and limited research exists. Case studies are appropriate for studies seeking to uncover new theoretical relationships (Eisenhardt, 1989), such as the nexus between integrated reporting and sustainability embeddedness, as well when seeking to answer how questions (Stake, 1995, Flyvbjerg, 2011). A single case study design strategy is aligned to the study's intention, which is to explore and better understand a complex phenomenon in its real-life context (Yin, 2014) (Yin 2014) through interactions with practitioners.

Sensemaking theory was drawn on to bring to light the phenomenon of interest and to answer the study's research question (Balogun *et al.*, 2014). Sensemaking or 'making sense' is the

process by which individuals and groups construct and coordinate an understanding of what is going on around them within the context of their environment (Currie and Brown, 2003). Sensemaking refers to the organizing and interpreting of experiences through ongoing communication, words and text. It is suited to exploratory organisational studies wherein new meanings are being established (Higgins *et al.*, 2014, Gioia, 2006, Weick *et al.*, 2005).

Integrated Reporting in the South African Context

Globally, South Africa is considered to be one of the most innovative countries in terms of integrated reporting. This innovation can be seen against the backdrop of a long history of corporate governance and social responsibility reporting (Clayton *et al.*, 2015, Velte and Stawinoga, 2016). South African listed companies can be seen as role models when it comes to the adoption of integrated reporting (Higgins *et al.*, 2014). Not only is integrated reporting considered normal and appropriate for listed companies in South Africa, but it is accepted as good management practice for all organisations (Higgins *et al.*, 2014, WBCSD Future Leaders, 2014). Most companies listed on the Johannesburg Securities Exchange (JSE) transitioned to integrated reporting in 2011 after the JSE incorporated King III into its listing requirements in 2010. The King III codes of good governance require companies to produce an integrated report or explain in a narrative their reasons for not complying (SAICA NEWS, 2010, Setia *et al.*, 2015). With the recent release of the King IV report in 2016, this requirement has shifted from *apply or explain* to *apply and explain* and there is an even stronger emphasis on integrated thinking and integrated reporting (SA Accountancy, 2016). Organisations in South Africa have an established culture of sustainability reporting and experience with integrated reporting, which makes for a unique and insightful research context for this study (WBCSD Future Leaders, 2014, Yin, 2014).

The case company chosen

The case company is a listed property company in South Africa that agreed to participate in the study. The company develops, owns, manages, and refurbishes a large portfolio of industrial, retail, and commercial properties and it forms part of the South Africa's Real Estate Investment Trust (REIT). It is a founding member of the Green Building Council in South Africa, and has made public statements attesting to the company's commitment to sustainability on its websites and in its reporting. The company voluntarily adopted integrated

reporting in 2010 ahead of many South African companies. Since then, they have won various awards for reporting and disclosure, as well as for energy saving and sustainability initiatives and for their Green Star rated buildings. The case company was chosen because it demonstrated industry leadership and exemplar commitment and performance in terms of its sustainability (Flyvbjerg, 2011). It also offered a significant opportunity to explore integrated reporting adoption from an implementation perspective (Stensaker and Falkenberg, 2007), making it unique and suited to the study (Yin, 2014).

Participants in the case study

To date, empirical studies in the field have tended to concentrate exclusively on the views of top management, integrated reporting experts, investors and regulators as participants (Nambiar and Chitty, 2014, Steyn, 2014a, Atkins and Maroun, 2015). However, we were interested in obtaining in-depth insight from a diverse group of employees in a case study (Yin, 2014). The motivation for choosing employees as participants stemmed from sustainability embeddedness literature, which sees sustainability embeddedness as a diffusive process that should transpire across the whole organization, and also acknowledges the role that employees in middle and lower management levels play in implementing sustainability (Knauer and Serafeim, 2014, Valente, 2012, Sharma and Good, 2013).

We embraced a purposeful yet opportunistic technique to identify participants (Patton, 1990, Creswell, 2013). Given the exploratory nature of this research and the choice of a single case study design, all employees at the organisation met the 'inclusion criteria' (Yin, 2014). We did not specifically 'sample' for variation or similarity or to compare or contrast views, but focused on elaborating, examining and substantiating theoretical constructs (Palinkas *et al.*, 2015). In an effort to understand the phenomenon, employees from various management levels, functions, departments and geographic regions from which the company operates were included. This approach took advantage of opportunities that arose to discuss the phenomenon with any willing employees at the case company (Palinkas *et al.*, 2015, Glaser and Strauss, 1967). To facilitate this process, we worked with an administrator employed at the organisation who assumed the role of gatekeeper. The gatekeeper role contributed to the study's credibility by providing potential participants with an opportunity to refuse to participate. The gatekeeper assisted us to identify and contact potential participants within the organisation. She then sent them an invitation to participate, supplied them with information

about the study and assured them of confidentiality. All participants in the study participated voluntarily (Shenton, 2004).

Data gathering

Data gathering was an emergent, continuous and iterative process (Patton, 1990) that was intertwined with data analysis and interpretation. Data gathering occurred between 2011 and 2017 using multiple methods and data gathering techniques. The process and amount of data collected was extensive because this study formed part of a larger study where other research questions were also answered. Data was gathered through eleven individual discussions, a group discussion with seventeen participants, and from publically available reports, website content and literature. Five group interviews, which included thirty-six participants, and twenty-six individual interviews were conducted. Additionally, twenty-five participants took part in three feedback verification sessions (Annexure A). Individual and group discussions often emerged opportunistically and they were guided by broad, open-ended questions related to the study's objectives. Their purpose was to prompt conversation and they were more informal than the individual and group interviews. Individual and group interviews were scheduled with participants and facilitated using a semi-structured interview guide¹.

We returned to the case company numerous times during the seven-year period to develop theoretical constructs (Palinkas *et al.*, 2015). The emerging findings were seen as a product of the ongoing conversations that were developing between both researchers and participants (Currie and Brown, 2003, Weick, 2009).

Between 2011 and 2014, the focus was on establishing a clear baseline for this study. We asked ourselves: What is going on? What can employees tell us about sustainability embeddedness and integrated reporting adoption? Individual and group interviews and discussions ascertained employee experiences with integrated reporting and their views on sustainability. The interviews were conducted using a semi-structured interview guide to prompt conversations with participants, questions about the company's commitment to sustainability, its stakeholders, integrated reporting and integrated thinking were asked. Participants were asked to describe sustainable decision-making within their own jobs and about any challenges experienced. The questions were framed to obtain insight into how

¹ Interview guides are available upon request.

employees were managing risk and performance and to elicit their opinions, views and experiences on strategy and sustainability. The interview guide contained exploratory questions and was developed from reviewing related literature and the company's integrated report. Data from the individual interviews were voice recorded and transcribed by a professional transcriber. Data from the other engagements were recorded through hand written notes and fill-questionnaires. The data was later captured electronically. A practice was established of beginning with data analysis directly after data was gathered. The research objectives were then refined and the interview guide was adapted and improved before we returned to the case company to build on our understanding and to corroborate and confirm emerging findings.

Between 2015 and 2017, we sought to establish a deeper, shared understanding about the phenomenon between ourselves and the participants (Weick, 2009, Currie and Brown, 2003) by asking ourselves the following question: What more can employees tell us about the nexus between integrated reporting and sustainability embeddedness? The questions in the individual interviews encouraged participants to discuss details from their personal experiences with integrated reporting and their understanding of sustainability embeddedness. Prompted by the study's aim, participants were asked whether there was a connection between integrated reporting and sustainability embeddedness and if so, they were asked to describe how they understood the connection and its impact on the company. Employees were encouraged to share their experiences, to discuss the early debates held around the topic and to share their sensemaking in narratives (Dervin *et al.*, 2003, Higgins *et al.*, 2014). To combat hindsight bias, an iterative questioning technique was incorporated where matters previously raised by a participant during the interview or discussion, were revisited to obtain details from their experiences. Knowledge gained from previous engagements was drawn on to help minimize the effect of the bias on the data gathered while conducting the interviews (Shenton, 2004, Weick, 2009).

During feedback verification sessions in 2017, additional substantiating data was gathered by inviting participants to comment on the sensemaking of their colleagues. Some of the direct quotations that had emerged were presented (without a source), and the emerging metaphor and themes around the nexus were introduced. The findings were subjected to further interrogation by inviting participants to offer their frank views about them, and by providing

participants with an opportunity to disagree with the findings or to clarify, elaborate on, and confirm the interpretations of the phenomenon. These discussions aspired to instil credibility into the process by verifying individual viewpoints and experiences with other employees within the case organisation (Shenton, 2004). After these two final discussions, we believed we had sufficient data to answer the study's research questions and so the data gathering process was concluded (Creswell, 2013).

Data analysis

A sensemaking, interpretive-constructivist approach to data analysis was adopted to study employee narratives, and thereby uncover how they made sense of the phenomenon of interest in their world (Van Der Heijden *et al.*, 2012). Adopting this approach to data analysis meant that knowledge was seen as emerging and developing from social interactions and from the communication of employees who extract cues from their context (Weick *et al.*, 2005). Critics of these approaches and qualitative research often make reference to the tendency of researchers to confirm the preconceived notions (Flyvbjerg, 2011). A key criterion to combat this and to instil confirmability into the research process is for researchers to admit their own predispositions and subjectivity (Shenton, 2004) that could influence the nature of the research, its interpretation and study's results (Yin, 2014). We both come from strategic management backgrounds where reporting is viewed as a form of strategic control used to ensure that a strategy is implemented. These backgrounds made us sceptical at the onset of the study about whether integrated reporting could drive sustainability embeddedness, despite the existence of literature suggesting otherwise. We were curious about the outcome, so maintained an open mind and allowed the data to guide the study.

Despite early forms data analysis and interpretation already taking place in between data gathering (2011-2014), analysing and interpreting the data for this study began again in 2016 after the data from the individual interviews in 2016 had been collected, transcribed and imported into Atlas Ti software. The question arose: "What does the data reveal about how employees make sense of the nexus between integrated reporting and sustainability embeddedness?" An open and inductive coding method was used to work systematically through all the sets (Charmaz, 2014); however, we concentrated on the data gathered in 2015 and 2016 in order to answer this study's research question. The earlier data (2011-2014) formed a foundation for the analysis process in this study. The earlier data was used to answer

other research questions that specifically addressed the challenges experienced in embedding sustainability and antecedents of sustainability embeddedness on the journey to a sustainable organisation (le Roux and Pretorius, 2016a, le Roux and Pretorius, 2016b).

The data analysis process was started by getting a 'feel' for all the data (Higgins *et al.*, 2014) through reading and making notes of broad themes before moving over to more careful coding. We were cognisant that with the time that had lapsed, changes had occurred and challenges had been overcome, but they delimited the analysis to coding individual statements and short paragraphs that illuminated the nexus (the phenomenon of interest). As soon as patterns began emerging in the data, similar codes were grouped into a core categories and themes. Descriptions were added to the themes and *in vivo* labels were used to identify them. After a five rounds of coding to understand employee sensemaking, six metaphors emerged from the narratives. The metaphors illuminated how employees organized their thinking and experiences around the nexus (Weick *et al.*, 2005). Some of the early metaphors discussed by participants that emerged in the analysis were of a cog and chain, bridge, body, brain, an octopus and electricity. They all provided similar insight into how employees made sense of the nexus between integrated reporting and sustainability. Intrigued by the emergence of these metaphors that employees used to describe the nexus, we went over the data again, this time concentrating on identifying further details that illuminated participants' sensemaking. All the data from 2011 was available during the analysing and coding of the data in Atlas Ti. This allowed us to examine the earlier data and to verify viewpoints in an effort to minimize the effect of retrospective bias and to instil credibility into the process (Weick, 2009, Shenton, 2004). After repeating this process five times, twenty themes were inductively identified. Coding continued until no new codes or themes emerged and the existing themes were saturated with supporting evidence.

The twenty themes and six metaphors formed the basis of the reflective discussions held between us researchers. During these reflective discussions, we interpreted and interrogated the findings, which resulted in them being collapsed into one overarching metaphor and nine themes (Yin, 2014). The discussion also considered the fact that the findings were overwhelmingly positive and that they reflected the intended outcomes of integrated reporting. Whilst the findings may have conformed to the intended outcomes of integrated reporting, the researchers concluded that the findings in this study emerged on their own and that they were

not aligned to the preconceived beliefs or initial assumptions held by the researchers (Charmaz, 2014, Feng *et al.*, 2017). To ensure there was a shared understanding between us, the researchers, and those in practice, it was decided to return to the case study in 2017 for two final feedback verification sessions (Annexure A). The findings were presented to employees in these sessions and their feedback was then incorporated into the data analysis and interpretation process.

Findings

In this section, the findings from this exploratory study are reported. The findings endeavour to offer a better understanding of the nexus between integrated reporting and sustainability embeddedness by offering insight into the sensemaking of those in practice. This section also introduces and discusses a metaphor, which is a key finding. The discussion leading up to the metaphor aspires to add plausibility and context to the metaphor. The section that follows the metaphor discusses nine themes. These themes support the metaphor and offer additional, deeper insight into how the employees made sense of the nexus.

Direct quotations from participants were intentionally included because they demonstrate the actual sensemaking of phenomenon. In the interest of brevity, a limited number of direct quotations from some of the participants in the discussion of the findings were included. We chose the direct quotations from individual interviews and discussions that best articulated the findings; however, they represent the collective views and sensemaking of participants in the case study. A discussion on how support for the findings was obtained will follow the findings section.

The direct relationship between integrated reporting and sustainability embeddedness:

Employees in this study experienced a strong connection between integrated reporting and sustainability embeddedness. An investment officer explained that the organisation “started the sustainability journey long before integrative reporting became popular” and a marketing manager highlighted how the two journeys have merged and that they were in fact “parallel journeys happening at our company and we see them as connected and as one journey actually.”

Integrated reporting and sustainability embeddedness emerged in the study as highly related and interconnected concepts. An internal audit manager explained that there is a “direct relationship” between integrated reporting and sustainability embeddedness and that both were interconnected and important for transitioning into a sustainable organisation. Employees who were not involved in sustainability described the embeddedness of sustainability and integrated reporting as being critically “intertwined” and “connected” concepts that form part of “one journey” towards becoming a sustainable organisation. A top manager involved in corporate governance confirmed this when that he suggested that integrated reporting and embedding sustainability were “about the same thing.” An investment officer shared that he does not “think it’s so important what came first, there’s more a question of understanding that each one of them has to get the necessary attention, and be developed to the maximum in the company.” A middle manager involved in property acquisitions supported this view by expressing “that whilst you can whittle it [sustainability] down to financial, social and environmental to report on it, as three key themes – they are ultimately in one combined system.”

The cogs and chain metaphor:

A metaphor of a chain and cog system emerged from the data and was supported by participants because it accurately portrayed their sensemaking. The metaphor offers insight into how employees made sense of the nexus and is included here as a key finding because metaphors are known for their ability to impact our perceptions and to provide clarity on complex concepts (Barter and Russell, 2013).

Top managers involved in internal auditing and strategy explained that integrated reporting and sustainability embeddedness worked together like a chain and cog system in the organisation. They explained that there is a driver and driven cog which were the “component parts” operating within “one system” (the chain). This belief was shared by a middle manager involved in corporate finance who perceived integrated reporting as functioning as a “cog that turns this organization by influencing sustainability” and by “driving good governance and best practices.” There was consensus amongst employees that the working of the cogs caused overall “improved sustainability” adoption and performance. Top managers from sustainability and strategy maintained that “integrated reporting has been driving sustainability embeddedness” [the driven cog] and that even though “it has driven our sustainability

embeddedness...it's not the only thing" - suggesting that there may also be other drivers in addition to integrated reporting.

The driver cog [integrated reporting] was perceived by an investment officer to be "working" and "helping to drive what we are trying to achieve" so that "it's not just the financial sustainability that gets driven, but also the elements around social and environmental sustainability." Employees involved in sustainability described integrated reporting as driving "the sustainability agenda on the environmental side" and contributing to "the results that we actually achieve." Sustainability embeddedness was understood to be a process that "gets driven" by integrated reporting, which was seen to be "helping us drive what we are trying to achieve" by "influencing everything that we do." Two executives explained the "synergetic" relationship between integrated reporting and sustainability embeddedness. The "cogs" were seen to be "working together hand in hand" in the system, whereby the "activities on the sustainability side, and those on reporting processes feed off each other" and "work off each other and then push back from report." The interaction between the integrated reporting and sustainability embeddedness cogs was described by a middle manager in property acquisitions to have "gone beyond even our integrated report" and to have "spread all over our areas of business so our impact and our reach is much bigger than if you were just looking at the two".

Interpretation of this metaphor revealed that at the nexus, integrated reporting was believed to drive sustainability embeddedness. In the next section, nine related themes are introduced and discussed. The themes offer insight into how employees experienced and made sense of integrated reporting as driving sustainability embeddedness in their context.

1. Integrated reporting promotes a new mind-set

Integrated reporting was described by employees in compliance, strategy and marketing as having sparked "a new mindset" and "perspective change" around sustainability that facilitated "improved sustainability embeddedness." Integrated reporting was seen by a middle manager in property development and a top manager in finance to have "certainly driven a lot of thinking" and "brainstorming" around sustainability and they described its role as something that brings about "a change in the way you think of your business." A junior manager in sustainability experienced the integrated reporting framework as having helped her and her

colleagues to “get our heads around sustainability” and to “see how it all comes together” in practice. A middle manager in property acquisitions and a top manager involved in internal audit shared this view and confirmed that integrated reporting had caused a “healthy tension” amongst their colleagues where there were “active debates and discussions around sustainability”. Integrated reporting drove employees to “have those philosophical debates there [at meetings], saying, why’re you doing this? Why aren’t you doing it?” An executive at the company involved in financial management described integrated reporting as “forcing us to think wider than pure finance.” Integrated reporting was perceived by employees in various divisions, including sustainability, as having “allowed us to be able to look at our company’s journey holistically as opposed to just from a financial perspective.”

2. Integrated reporting impacted the embeddedness of sustainability in strategy

A top manager involved in internal auditing expressed the view that integrated reporting prompted employees to start asking themselves questions such as: “What is our purpose? What is our vision? What is our mission? What is our strategy? What is our impact? And, how do we fit in, in the world?” This view was shared by a top manager in marketing who expressed the view that “integrated reporting definitely impacted on the strategy where we were actually forced us to sit down and formalize it.” Integrated reporting, according to these employees and the sustainability manager, had challenged the organisation to “incorporate sustainability into our vision, our mission and our values” and to develop a formal “strategy for sustainability... to capture all these things and to make sense of it and to make it actually embedded.” Middle managers involved in property development and corporate finance recall how the strategy “to achieve sustainable value was communicated” and then “given to various people on the team.” A middle manager involved in corporate finance and an executive in strategy explained how integrated reporting had provided management and employees with “guidelines that influence what we actually do here in our strategy” and with guidance on how “to utilise core elements of your business and your core strategy to impact sustainability elements.” A junior and middle manager involved in operations and utilities shared the view that integrated reporting’s influence on the sustainability strategy had caused them to “be more aware of risk” and to “think from a bigger perspective.”

3. Integrated reporting helps employees understand the linkages between concepts

According to top managers involved in compliance and communications, “integrated reporting helps employees at the organisation to connect the jigsaw puzzle pieces” “between our vision, our mission and our strategy” and it helps them to “understand the linkages” and to “identify those relationships” between the elements of sustainability. Employees at other levels and in other divisions agreed with this view. A junior manager involved in sustainability expressed the view that integrated reporting had helped to “bridge those gaps” in her and her colleagues understanding and that it reinforces the idea that business “cannot divorce itself from what’s happening in the environment.” Employees at different levels noticed how their thinking had progressed “to practically integrated thinking where everything’s linked.” Integrated reporting “made sure” that employees were “always going to integrate... the environmental and a social approach to sustainability as well, in conjunction with your financial sustainability.” Integrated reporting was seen to assist employees gain “a much stronger focus, recognizing that you cannot live in an environment that is not successful.” There was agreement amongst employees that integrated reporting helped them to tie the elements of sustainability together and to connect them to the organisation’s strategy, risk, performance, which helped them to “embed sustainability.” An executive involved in corporate affairs confirmed that when “integrated reporting is done properly there is no doubt that strategy, risks, opportunities and your annual business plan are integrated, interwoven and interlinked. You can't separate them.”

4. Integrated reporting is a communication tool for engaging with stakeholders

Employees from property development and sustainability, described integrated reporting as a tool that helped them to “communicate in an integrated manner” and to “engage with stakeholders” in different areas of the business. The actual integrated report itself was described by a top manager in internal audit as something that assisted them “to keep stakeholders in the loop” by “telling them our story” and by providing insight into the various sustainability initiatives, performance and targets. Employees from strategy and corporate finance shared that “integrated reporting provides commentary” to stakeholders and helps us “open up on what our plans are.” Integrated reporting was considered by an investment manager to “benefit” all those “who read the report” especially stakeholders such as “tenants” who may “not really know our company but are signing a lease.” The integrated report was

described by managers involved in strategy and compliance as being “far easier to read because it is in narrative and with graphs and pictures” and because “financial statements are reported simply.” Top managers from marketing, internal auditing and strategy saw integrated reporting as “just explaining your business in such simple terms” by using “relevant and understandable communication” and “language that people find easy to understand.” One example that was given was of a time when stakeholders described how the company’s integrated report had helped them “understand your business” because the critical information had been made available to them “at our fingertips” through the integrated report.

5. Integrated reporting forced the organisation to put structures and processes in place

A junior manager involved in the operations of sustainability and a top manager involved in internal auditing shared that the adoption of integrated reporting had assisted leadership at the company to realize that employees had been operating in “pockets” and “silos” with an “almost uncoordinated, shotgun approach.” A middle manager involved in corporate finance explained that the need to intertwine strategy, governance and sustainability in an integrated report had prompted leadership to start “streamlining, coordinating” and “reviewing things” operationally which led to them “putting structures and processes in place.” A manager involved in corporate reporting noted how leadership “took action to decentralize the sustainability department” and to ensure that sustainability became an “integrated part of everyone’s practises, vision and operational plans.” This decision, according to a top manager in property development re-enforced the idea that “sustainability is not owned by anyone; it is the responsibility of everyone.” A top manager involved in strategy saw these strategic and operational changes in structures and processes as having “led to additional focus, additional thinking in the organisation so it’s not just kind of just a high level theme, it literally is operationally embedded that you’ll have different people focussing on different parts of this initiative and it literally runs through the organisation.” The changes to the organisational structure “forced people to think in a particular way, to respond in a particular way, to think more holistically than ‘my particular little section’.” Junior employees involved in executing sustainability projects acknowledged the role of integrated reporting in “creating more synergies between departments” which was believed to be fostering their transition into a sustainable organisation.

6. Integrated reporting assists employees to make sustainable decisions

There was a shared belief amongst employees that “integrated reporting influences sustainability embeddedness from management decision-making perspective.” Managers involved in corporate finance shared that making integrated, sustainability embedded decisions became “easier” for the “first time now that the information is always there.” A marketing manager suggested that for those who “needed that information” for decision-making experienced “massive benefits” from integrated reporting. An executive in strategy supported this view and expressed that integrated reporting supplied him with relevant and crucial information about “how sustainable something is and how much value is it adding” so “that future decisions can be taken with sustainability fully in mind.” He went on to share that the company has since begun “measuring and looking at things that you potentially never looked at in a certain context before...and [it] has educated us and changed our way of thinking”. The process of integrated reporting, according to a middle manager involved in property acquisitions, assists him to “identify and measure the various inherently linked social, environmental and financial aspects” for disclosure in the integrated report. As a result, he suggested that decision makers are better able to see “those linkages from a management decision-making perspective.” An executive in sustainability experienced how reporting on the details of what has been “done in the past is actually speaking to what we are putting on the table now”. He shared that the integrated reporting process influenced their commitments and efforts in the short and medium term. Two managers involved in property development found that the process of measuring and reporting the results was helping sustainability to become “practically embedded in our management and decision making and investments.” The “150% increase in information” was seen to “make your decision making process more holistic”, which supported the embeddedness of sustainability and facilitated their transition towards becoming a sustainable organisation.

7. Integrated reporting promotes a change in behaviour and thinking

Managers involved in compliance and sustainability, described integrated reporting as functioning as “a nice driver for people to change their behaviour.” Integrated reporting was described as having promoted “a change management process” that caused employees on all levels to “think and work together within the organisation...being cognisant of the impact”

of their efforts. A middle manager involved in corporate finance described integrated reporting as a mechanism that brought “governance and environmental issues” to “the forefront of our minds”. Integrated reporting was referred to by top managers in strategy as having driven a “cultural change” in behaviour and “a new way of doing business” that supports sustainability embeddedness. A top manager involved in company secretarial work shared that, “in order for you to be able to report on something like integrated reporting, you can't report on something that's not inculcated into the business.” Supporting this view, a marketing manager explained that the sustainability principles and “themes that go through the entire report get entrenched” and experienced how it “initially happened at a reporting level, and very little in the organisation, but now it's forcing the organisation to integrate.” Having adopted integrated reporting, a sustainability manager noted how he “can now see, if we do business, we simply do business on a different level, on a different basis, in a sustainable way.” An executive involved in finance and strategy, suggested that integrated reporting had challenged the way many employees “look at life” so that sustainability has “become part of what we do every day.” A top manager with a finance and auditing background noted that “integrated reporting is driving that type of behaviour quite the opposite way of what we would have expected” and he experienced “a complete change in the way we run business, and you'll probably see it in our integrated report.”

8. Integrated reporting helps drive a sustainable value proposition

Two middle managers involved in finance and a top manager involved in strategy shared their belief that “integrated reporting and our governance frameworks” have helped to “embed sustainability” and to create “a competitive advantage relative to our competitors.” The “competitive advantage is certainly” a message “that we try and drive home.” Two middle managers from finance and property acquisitions, and a top manager involved in sustainability explained that if an organisation “drives sustainability just from a compliance perspective” it will lead to “mediocre results,” however, if they are “innovative” by “driving sustainability as a value proposition” through their integrated reporting processes, then they can achieve “results on a different level” for a longer period. Integrated reporting was described as something that “helps grow our business faster than our competitors” by presenting “opportunities” to operate sustainably. Adopting integrated reporting “ahead of the curve” at this organisation was believed to have “help[ed]” the organisation to be seen favourably amongst “investors”,

especially by those “new investors who demand we embed sustainability” before “making decisions on whether they want to partner with us.” Employees recall receiving “recognition from offshore with regards to some of our [sustainability] initiatives and that obviously helped to encourage certain behaviour and certain focus” amongst staff. The adoption of integrated reporting was believed to have become “an intellectual property asset that we have” that helps us create and maintain a “sustainable competitive advantage over our competitors.” Employees believed that the requirements of integrated reporting helped employees “entrench it [sustainability] in the way we look at life and the way we are, so that we have something different from some of our competitors.”

9. Integrated reporting promoted consideration of other stakeholders

Integrated reporting was believed to have “called us to consider more than the good old shareholder situation” according to a middle manager in sustainability, and in doing so, it assisted the organisation to embed sustainability. A marketing manager expressed that the adoption of “integrated reporting was like this constant kind of nagging to motivate how our business affects the bigger picture aside from just benefiting shareholders and increasing the bottom line.” A manager involved in compliance at the organisation noted that integrated reporting had contributed to a “shift that has moved our focus from purely the shareholder, the provider of capital, to a broader perspective.” Even though the integrated report was said to “always be for shareholders,” a development officer expressed that as a company, “we have learnt to look beyond our shareholders, who clearly have a brutally financial view.” Employees expressed that they felt prompted to consider the needs of communities, tenants, analysts and regulators who have different needs. A middle manager in sustainability mentioned how these “other stakeholder groups want to know holistically how you do all aspects of your business function from a triple-bottom line perspective.”

A top manager involved in financial management and a manager in sustainability admitted that considering a wider group of stakeholders felt like “you're walking a tight rope” yet, the “triple-bottom line approach to reporting on things” and their efforts to engage a lot more on all levels with all our stakeholders had not only “created value” but also aided the creation of higher levels of trust, credibility and transparency between parties which was necessary for embedding sustainability. A middle manager in corporate finance agreed and shared that “if

you don't have that [Integrated reporting] then a company only targets financial gain [financial capital] and is not enhancing the lives of the community [human, social and relationship, and natural capitals] around them.” Employees saw a connection between the shift from being only shareholder focused, towards being stakeholder focused, as “part of the reason why we are embedding sustainability.”

Support for findings:

The cog and chain metaphor and these nine themes discussed here were discussed with seven employees in a feedback verification session in 2017. During the session, the researchers shared the headings and direct quotes that had been provided by their colleagues without revealing the sources. Employees present in this discussion came from different levels of management and represented the retail, commercial and industrial divisions as well as corporate finance, internal auditing and sustainability. These employees supported the metaphor and the nine themes and there was consensus among them that integrated reporting drives sustainability embeddedness around core activities and that it facilitates change within their organisation. The same findings (and direct quotations) were presented later in 2017 to thirteen members in executive management who represented various functional areas and geographic areas of the case company. They supported the findings as a true reflection of their experiences and understanding of the phenomenon.

Discussion:

Integrated reporting was found to have had a profound impact on the organisation. Employees reported how their thinking, decision making and practices had been impacted by integrated reporting. The process of integrated reporting was found to have fostered changes to the systemic and embedded thinking amongst employees and led them to have debates amongst themselves about business and sustainability concepts. Interpretations of employee sensemaking and narratives resulted in the emergence of the metaphor of a cog and a chain, which the researchers see as a unique contribution in this study. The metaphor explains the way in which the integrated reporting ‘cog’ functions within the organisation by driving the sustainability embeddedness ‘cog’. Metaphors are common in organisational studies, particularly with regard to understanding organisations, because they enable individuals to explain different aspects of complex phenomena (Cornelissen and Kafouros, 2008). It was found that the cog and chain metaphor made the social reality of employees comprehensible

and that it reflected their sensemaking and actions around integrated reporting in practice (Barter and Russell, 2013, Coulson *et al.*, 2015).

The study also introduced nine themes that emerged from interpreting practitioner sensemaking of the nexus. The themes described employees understanding of how integrated reporting drove sustainability embeddedness to foster change around core activities on their journey to becoming a sustainable organisation. Interpretation of these findings, reflects similar findings in recent literature by offering support for integrated reporting's ability to (1) spark a new type of thinking that challenges employees to think wider than financial capital and to see the connection between their practices and broader sustainability (Steyn, 2014a, Setia *et al.*, 2015). The findings demonstrated how integrated reporting has become an instrument that progresses the development of (2) sustainable strategies and practices (Adams, 2015). The findings also confirm the role of integrated reporting in advancing management's (3) greater consideration of the linkages and interdependencies between social, environmental and financial matters (Tweedie and Martinov-Bennie, 2015, Adams, 2015). Even though the South African context is known to be especially stakeholder orientated, employees established that integrated reporting had initiated their (4) consideration of the information needs of a diverse group of stakeholders. They also reported how it had assisted the organisation in telling its story and in developing new and intelligible ways to communicate their shared values with stakeholders (Higgins *et al.*, 2014, Lueg *et al.*, 2016). Integrated reporting was described in this case study as having driven the organisation to redesign its (5) operational and reporting structures so as to establish "company-wide interlocking of the individual corporate areas which often operate in isolation" (Velte and Stawinoga, 2016). This was interpreted to have promoted sustainability embeddedness. The findings revealed how the practice of systematically measuring, monitoring, and managing of sustainability initiatives facilitated a link between sustainability and the company strategy (Lueg *et al.*, 2016). Despite literature purporting that sustainability may be disconnected from decision-making processes in practice (Steyn, 2014a, Adams, 2015), the findings in this study found that (6) integrated reporting promotes the making of sustainable and integrated decisions. This study found that integrated reporting does in fact (7) lead to cultural and strategic change in behaviour in practice, and that it can be associated with (8) an improved competitive position that helps organisations' gain an competitive

advantage over competitors (Higgins *et al.*, 2014, Eccles and Saltzman, 2011). Integrated reporting was found to have influenced employee thinking, operational and behavioural changes and to have affected sustainable outcomes and value creation in practice (IIRC, 2016, van Zyl, 2013). The findings emphasized the role of integrated reporting in (9) establishing and maintaining ongoing positive relationships with a broad range of stakeholders (Setia *et al.*, 2015, Adams and Frost, 2008). Integrated reporting concepts were found to be sufficiently well developed in practice and these practices are clearly driving robust organisational reflection or reporting (Feng *et al.*, 2017). Overall, the metaphor and themes suggest that the organisation underwent a significant strategic and organisational change effort. Interpretation of practitioner sensemaking, whilst not proven, all point to a fundamental shift in corporate behaviour associated with sustainability embeddedness (Valente, 2012).

Even though the findings substantiate existing literature, reflect the intended outcomes of integrated reporting and offer a positive account of integrated reporting adoption, they also revealed that integrated reporting adoption and sustainability embeddedness was not easy for those in practice. Employees shared how there were active debates and discussions that emerged around sustainability and they shared how integrated reporting had forced them to sit down and formalize sustainability. The process included “tension” and its execution made employees feel as if they were “walking a tight rope” at times. A possible explanation for the wide-spread acceptance and adoption of integrated reporting in this study is the influence of the South African context. As discussed earlier, South Africa has an established culture of sustainability reporting and mandatory disclosure of integrated reporting. Therefore, it is important to acknowledge the context of this study when interpreting the findings.

Conclusion

Although the researchers were wary of taking on such a controversial topic (Brown and Dillard, 2014, Thomson, 2014), they felt prompted to respond to the various calls in literature for a study such as this. The study addressed the call to elucidate an understanding of the intersection between sustainability and integrated reporting (Lueg *et al.*, 2016, Cox and Schoon, 2017) and offers deeper insight into how integrated reporting advances sustainable business practices and functions as a change agent for sustainability embeddedness in practice (Steyn, 2014b, Rinaldi, 2017).

The study set out to explore the nexus between integrated reporting and sustainability embeddedness and to offer a better understanding of the phenomenon by obtaining in-depth insight into the sensemaking of those in practice. We suggest that this study was necessary, both because these fields are still developing and more research is needed, and because the topic has been part of a lively debate in academic discourse.

The study contributes to a growing practice based agenda by offering a critical and performative analysis of integrated reporting practices in action (Guthrie *et al.*, 2012). The findings of this study could also serve as a frame of reference for academics interested in the interpretive analysis of integrated reporting. The findings are likely to inspire management in other organisations to adopt integrated reporting if they have not already done so. The results of this study will probably be of interest to regulators and the IIRC regarding the implementation of mandatory integrated reporting, and of course, to the IRC in South Africa who have been forerunners for integrated reporting. The study offers a case study example of how integrated reporting has been institutionalized and how this type of pressure is not merely resulting in compliance as some might have expected, but has driven organisational change and sustainability embeddedness (Eccles and Saltzman, 2011, Higgins *et al.*, 2014). The study's findings offer insight into integrated reporting adoption, which is a new and developing concept. Its potential benefits and expected outcomes for companies are currently the subject of ongoing global debate (Adams, 2015, Thomson, 2014). This study adds weight to this debate by offering insight from a case study where the practice of integrated reporting was found to be a driver for transformed behaviour associated with sustainability embeddedness (Setia *et al.*, 2015).

The study is not without its limitations. The findings emerged from a single exploratory case study in a unique context. It is also known that integrated reporting has been reported to differ across contexts (Jensen and Berg, 2012, Lueg *et al.*, 2016) and therefore the findings are not generalizable nor globally significant. In spite of this limitation, the findings may resonate with other adopters of integrated reporting both in mandatory and voluntary reporting contexts and with managers seeking guidance and support with sustainability and integrated reporting adoption. Even though the findings alluded to changes in employee perceptions over time and may have insinuated that a transition into sustainability organisation occurred, the study was limited to answering its research question. Discussing the temporal aspect of change in

the findings and establishing whether a transition to a sustainable organisation occurred was beyond the scope of this paper and should form part of future research. An interesting observation, which could be seen as a limitation in this study, is that the findings did not reflect the challenges associated with integrated reporting and sustainability embeddedness adoption mentioned in literature. These challenges include conceptual ambiguity, too many narratives in practice, inherent unsustainability, investor bias and exhibiting stakeholder preferences (Thomson, 2014, Grey, 2010, Setia *et al.*, 2015, Higgins *et al.*, 2014). These were not intentionally omitted but rather explored as part of earlier, associated research (reference inserted after review). This study was limited to exploring the nexus at a particular point in time when these challenges had been overcome. Closely associated with this observation, is the fact that the study only reflected the intended outcomes of integrated reporting and they are overwhelmingly positive. Whilst some might view these observations as limitations, we suggest that they could be avenues for future research. We echo the call for studies that explore the unintended (or potentially negative) consequences of integrated reporting in order to offer a balance of perspectives (Barter and Russell, 2013).

In spite of this study's unique contributions, a lack of conceptual or empirical clarity on how integrated reporting is developing globally remains a key issue for future research. Future studies should look to investigate the role of integrated reporting in embedding sustainability in similar settings where integrated reporting is mandatory (e.g. South Africa) or in voluntary settings (e.g. United Kingdom). Future research could also conduct a cross case analysis comparison study which may yield different or additional ways in which integrated reporting plays a role in fostering a sustainable organisation. Future research could test the metaphor and nine themes presented in this exploratory study by obtaining quantitative data from a larger sample of respondents.

The social reality and relationship portrayed by the cog and chain metaphor appears to offer only a partial view of the nexus (Barter and Russell, 2013). Employees communicated and supported the idea that there are 'other drivers', in addition to integrated reporting, that are influencing sustainability embeddedness within their organisation. Exploring these other drivers in this metaphor and the aspect of causality was beyond the scope of this exploratory study, but is recommended for future research as it may enhance an understanding of the

phenomenon and offer a more comprehensive view (Cornelissen and Kafouros, 2008, Coulson *et al.*, 2015).

The nexus between integrated reporting and sustainability embeddedness proved to be an interesting and interdisciplinary domain for empirical research that we anticipate will continue to be explored and developed through future research as societal awareness around the topic continues to increase.

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