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**THE SOCIAL CONSTRUCTION OF LEADERSHIP:  
A FOLLOWER-CENTRIC INVESTIGATION  
INTO INTEGRATED REPORTING**

by

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***I believe in Grace and choice!***

(Mumford & Sons)

## ABSTRACT

This thesis explored the social construction of leadership in a disaggregated context. As leadership theory developed, it became evident that leadership can be described as a socially constructed process, rather than as a form of personal influence exerted by a heroic individual. The leadership construction process has also been conceptualized as a reciprocal process between leaders and followers, of claiming and granting leader and follower identities in an organisational context (DeRue & Ashford, 2010). However, thus far, this conceptual model as a means to understand leadership construction has not been explored outside the organisational context.

The thesis argued that the International Integrated Reporting Council (IIRC), the self-proclaimed governing body of integrated reporting, has claimed a leadership identity for integrated reporting. The IIRC's leadership claim asserts that "integrated reporting will be a force for financial stability and sustainability". The IIRC posits that integrated reporting will influence the capital allocation decisions of providers of financial capital (investors) by offering such investors better and more holistic information, so that they can adjust their investment decisions. Decisions should be sustainable in the long term to become instrumental in achieving the goals that drive integrated reporting, namely financial stability and sustainability. The IIRC thus claims that integrated reporting offers leadership to the proclaimed followers of integrated reporting to serve providers of financial capital.

Building on existing theory on the social construction of leadership, the thesis has explored and expanded leadership theory. A critical realist ontology and constructivist-interpretive epistemology were adopted. Semi-structured interviews were conducted with 30 providers of financial capital, representing seven different investor categories. The findings of this qualitative survey illustrate that the proclaimed followership of integrated reporting do not in fact claim a follower identity for themselves. Nor do they grant a leadership identity to integrated reporting. Thus the findings point to the existence of a leadership void in this disaggregated context.

Moreover, the thesis investigated possible explanations for the leadership void in the form of non-following. The empirical results confirm some of the suggestions in the

prior literature regarding the reasons for leadership voids, but also contradict some of the findings in the prior literature. The empirical findings point towards further constraints to the construction of leadership, namely the perceptions of followers about their own roles and responsibilities about the leadership phenomenon itself, and about the declared goals of the leadership phenomenon. These perceptions are, in turn, determined by governing rationalities which determine the world view of followers. The thesis concluded that governing rationalities are a major constraint to the construction of leadership in a disaggregated context.

**Key words:**

Leadership construction; integrated reporting; providers of financial capital; financial stability; sustainability; leadership void; governing rationalities.

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# CHAPTER 1: INTRODUCTION

## 1.1 BACKGROUND AND RATIONALE FOR THE STUDY

In 2013, in her thesis “Thinking differently about leadership: a critical history of the form and formation of leadership studies”, Wilson argues that

...far from being a stable enduring fact of human nature now revealed to us by modern science, as is typically assumed, leadership is most usefully understood as an unstable social invention, morphing in form, function and effect in response to changing norms, values and circumstances. (Wilson, 2013:i)

Her comment opens a useful avenue to fresh engagement with the vast literature on leadership. It has been said that there are as many definitions for leadership as there are authors who have written about it (Stogdill, 1974). Moreover, the study of leadership is a multi-disciplinary endeavour, attracting scholars from the fields of philosophy, sociology, history, psychology, management, education and political sciences (Bryman, 2011; Riggio & Harvey, 2011). In fact, so much has been written about leadership that a number of authors (Bryman, 2011; Landis, Hill & Harvey, 2014; Van Seters & Field, 1990; Wilson, 2013) have been able to trace the evolution of thought on leadership in literature reviews, including overviews of the history of leadership studies. These authors provide divergent accounts of the history of leadership.

Since the 1990s, an emerging trend in the conceptualisation of leadership is to move away from individual-centric ideas of leadership (which attach leadership to a heroic individual with specific traits), towards a more fluid notion of leadership that sees leadership as a socially constructed process between various role players (Collinson, 2005; Crevani, Lindgren & Packendorff, 2010; DeRue, 2011; Uhl-Bien, 2011). These developments have triggered much debate, revealing the difficulty of studying leadership (Spoelstra, 2013) and even questioning the existence of leadership (Gemmill & Oakley, 1992). Some authors have explored the nature (ontology) of leadership (Drath, McCauley, Palus, Van Velsor, O'Connor & McGuire, 2008; Kelly, 2014). It is difficult to study leadership, because, as Spoelstra (2013) points out, it is

not an objective phenomenon: we cannot touch leadership and dissect or measure it objectively.

A common definition of leadership describes it as “a social influence process that motivates and enables a group of individuals to achieve a collective goal or shared purpose” (DeRue, 2011:141).<sup>2</sup> This is related to the idea of a “leadership tripod” (Bennis, 2007:3), consisting of leaders, followers and shared goals, which is a widely accepted starting point for discussions about leadership (Bennis, 2007). Indeed, it has been argued that leadership cannot be separated from followership (Hollander, 1992a; Meindl, 1995; Uhl-Bien, 2011; Uhl-Bien, Riggio, Lowe & Carsten, 2014). Spoelstra (2013:186) concurs with this idea; he has proposed that leadership studies should be approached from a follower perspective: “Hence if leadership studies can be said to study a distinct phenomenon, it must precisely be a phenomenon that is seen with, and sometimes established by, the eyes of the follower.”

Of the leadership-related literature, very little thus far has focused on followers and how followers perceive themselves – a few exceptions are the studies by Carsten and Uhl-Bien (2012), Carsten, Uhl-Bien, West, Patera and McGregor (2010) and Uhl-Bien *et al.* (2014). Studies that answer questions about leadership from a follower perspective are called follower-centric studies, whereas studies that explore how followers perceive themselves and their own roles are called followership studies (Carsten *et al.*, 2010; Collinson, 2006). Both follower-centric studies and a consideration of followership are fruitful avenues to contribute to leadership theory, especially if a study aims to promote a better understanding of the social construction of leadership.<sup>3</sup>

Empirical research in these fields is even more uncommon (Carsten & Uhl-Bien, 2012; Carsten *et al.*, 2010; Uhl-Bien *et al.*, 2014). One of the exceptions is the work of Carsten *et al.* (2010), who studied how followers construct their identity as followers in organisations. They made an important contribution to the followership field with their finding that individuals perceive their own followership along a spectrum, ranging from being obedient to being hands-on. Importantly, people’s

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<sup>2</sup> In this study, this definition of leadership by DeRue (2011:141) is adopted throughout.

<sup>3</sup> Hereafter the term “social construction of leadership” is replaced with “construction of leadership” as it is implied that the construction of leadership is a social process that requires leaders as well as followers (Uhl-Bien, 2011).



workplace contexts, and their superiors' leadership styles influence how they think about their followership (Carsten *et al.*, 2010). Contextual variables seem to be important determinants of the construction of followership. In a follow-up study, Carsten and Uhl-Bien (2012) specifically looked at what followers believe regarding their role in the co-construction of leadership. The findings illustrate a positive relationship between co-production beliefs and upward communication with leaders. Their study also indicates that contextual variables such as leadership style and the quality of the relationship with the leader determine how followers communicate with their leaders and how much they feel they contribute to the leadership process. Carsten and Uhl-Bien (2012) also established that followers who do not really believe that they co-construct leadership are less inclined to communicate negative results or circumstances, whereas followers who believe that they co-construct leadership continue to participate in spite of negative circumstances.

Leadership is not possible without followership (Hollander, 1992a) and, as DeRue's (2011:141) seminal definition (already cited above) suggests, the achievement of shared or collective goals is a common denominator in leadership definitions. If leaders and followers co-construct leadership in order to achieve shared goals (Bennis, 2007), it is essential to contemplate how this process takes place and how it varies in different contexts. DeRue and Ashford (2010) describe one way of thinking about the construction of leadership: they see it as a reciprocal process of claiming and granting leader and follower identities. This implies that if one person (or group) claims a leader identity and grants a follower identity to another individual or group, then the other individual or group has to reciprocate by claiming a follower identity and granting a leader identity to the group or individual that claimed the leader identity in the first place. These identities have to be constructed at three levels: the individual level, the relational level and the collective level (DeRue & Ashford, 2010). In order for leadership to be constructed, this process of claiming and granting a particular identity must be completed. This conceptual model for the construction of leadership by claiming and granting leadership and followership was conceptualized for the organisational context (DeRue & Ashford, 2010).

According to DeRue and Ashford (2010), the identity construction process of claiming an identity as either a leader or a follower is made apparent through actions. These actions can include a direct statement such as "I am the leader of the

group”, or can be a more nuanced action, such as taking the seat at the head of the table in a meeting. Regardless of the form that the initial claim takes, it has to be reciprocated by another claim and a grant. DeRue (2011) refers to the corollary of non-reciprocation as a leadership void. He has identified two types of leadership voids (DeRue, 2011): one is a result of non-leading, and the other is a result of non-following. DeRue (2011:136) lists three possible reasons for non-following, namely “low credibility of the person attempting to lead, political maneuvering, or leadership attempts that are ambiguous or not visible to others”.

In this thesis, it is argued that, if leadership is constructed, and is not necessarily “a stable enduring fact of human nature” (Wilson, 2013:i), then leadership can also be granted or attributed to a *phenomenon* (rather than to a person, group or institution). The study therefore considers the claiming of a leadership identity *for* and a granting of a leadership identity to the phenomenon of *integrated reporting*: the self-proclaimed governing body of integrated reporting, the International Integrated Reporting Council (IIRC), has claimed such a leadership identity for integrated reporting as a phenomenon. This claiming of a leadership identity is made explicit in the IIRC’s (2013c:2) statement that “[t]he cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability”.<sup>4</sup>

The IIRC clearly implies that integrated reporting is a process of influence that will lead to the achievement of the collective goals of financial stability and sustainability.<sup>5</sup> It is also clear from the abovementioned IIRC statement that the allocation of capital is central to the IIRC claiming a leadership identity for integrated reporting. Indeed, the centrality of capital allocation in the IIRC’s claim hints that a central responsibility should be or has been granted to what the IIRC (2013c:4) refers to as “providers of financial capital”.<sup>6,7</sup> After all, the purpose of integrated

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<sup>4</sup> The phrase “financial stability and sustainability” is grammatically ambiguous. It could mean “financial stability and financial sustainability” or “sustainability (in the broad social sense) and financial stability”. It is unclear whether this ambiguity is intentional or accidental. Either way, if an organisation that claims the right to undertake the task of drafting a global standard does not eliminate such ambiguity from its standard, then it must be prepared to entertain scrutiny of the standard, and has to accept that readers will form their own interpretations.

<sup>5</sup> As indicated on p. 2, the definition for leadership used in the thesis is “a social influence process that motivates and enables a group of individuals to achieve a collective goal or shared purpose” (DeRue, 2011:141).

<sup>6</sup> The IIRC (2013b:33) defines providers of financial capital as “[e]quity and debt holders and others who provide financial capital, both existing and potential, including lenders and other creditors. This

reporting is described as the communication of value creation by organisations to providers of financial capital: “The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time” (IIRC, 2013c:4).

If integrated reports are developed for providers of financial capital, and if financial stability and sustainability are the envisioned goals of integrated reporting to be achieved through the capital allocation decisions made by providers of financial capital, then it stands to reason that the IIRC as the governing body “grants” the responsibility of achieving financial stability and sustainability to the providers of financial capital (investors). For the purposes of this study, this granting of responsibility is interpreted as a followership grant. A number of pressing questions undoubtedly arise from this followership grant to the providers of financial capital. One of the more important ones is to ask whether leadership is indeed constructed through a reciprocal process of claiming and granting leadership and followership, in a “disaggregated” context (and not just within an organisation).

The intention of the study was therefore to explore the construction of leadership in a disaggregated context where there are no clear hierarchies or defined roles, such as the ones typically found in organisations. For the purposes of this study, a *disaggregated context* is thus defined as a context where there are numerous, heterogeneous and different categories of role players that work for different organisations, or who work independently. The disaggregated context in this study is the investment chain, represented by providers of financial capital. In the disaggregated context used in this study, it was already apparent that a leadership identity has been claimed by the IIRC *for* integrated reporting and that a follower identity has been granted to providers of financial capital. Based on these propositions, it was necessary to investigate whether the providers of financial capital reciprocate by claiming a follower identity for themselves and granting a

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includes the ultimate beneficiaries of investments, collective asset owners, and asset or fund managers”. This very broad definition includes both actual owners of capital and agents acting on their behalf through a network of trust-based fiduciary relationships. These fiduciary relationships are well documented (e.g. Hawley & Williams, 2007; Richardson, 2008, 2011; Clark, 2011; Hawley, Johnson & Waltzer, 2011). For critical perspectives, see Sandberg (2013) and Eccles (2016).

<sup>7</sup> For the purposes of this thesis, for ease of reading, the term “providers of financial capital” (both owners of capital and their agents) is used interchangeably with the term “investors”.

leadership identity to the phenomenon of integrated reporting. This was done by applying the conceptual model developed by DeRue and Ashford (2010) to explain the claiming and granting of leader and follower identities, to a disaggregated context.

To begin the exploration of the construction of leadership in a disaggregated context, this study undertook a series of in-depth, qualitative interviews with various categories of providers of financial capital in the investment chain. The aim was to determine whether providers of financial capital have claimed a follower identity for themselves and granted a leadership identity to integrated reporting. In order to do this, data had to be gathered on the perceptions of providers of financial capital of their own roles and responsibilities, integrated reporting, and financial stability and sustainability, without pre-empting the results. The interview schedule was designed in such a way that no “artificial awareness” (Öberseder, Schlegelmilch & Gruber, 2011:449) of integrated reporting and its vision or goals was created. Öberseder *et al.* (2011) have criticised some prior quantitative surveys for creating such an “artificial awareness” of issues, as well as for frequently suffering from what they refer to as a “social desirability bias” Öberseder *et al.* (2011: 452). Therefore, the study at hand took the form of a qualitative survey, as recommended by Jansen (2010).

The study reported in this thesis is ground-breaking, because only one published study has been identified that applied DeRue and Ashford's (2010) conceptual model empirically (but did not cover the same ground), namely an article by Marchiondo, Myers and Kopelman (2015). These authors tested leadership identity construction theory empirically. Their research was a simulation focused on capturing the reactions of observers of leadership claims and grants. They explored how these reactions influence leadership perceptions based on claiming and granting. Their results suggest that observers' leadership ratings are not influenced by a team member's acceptance or rejection of the leadership claim. They found that female participants vary more in their responses to claiming and granting of leadership identities. Although this research had an empirical component, it did not focus on the identity construction of followers, and it was also not applied to a real world problem. It only tested how people would (re)act in a scenario where they observe relational leadership negotiation (Marchiondo *et al.*, 2015).

The study reported in this thesis is different, in that it applied an existing theory, the conceptual model of DeRue and Ashford (2010), to a disaggregated context (as defined above), by empirically investigating the construction of leadership through the claiming and granting of leadership and followership from the perspective of the proclaimed *followers*, the providers of financial capital (investors). The study therefore addresses a number of gaps identified in the literature on the construction of leadership. The study answers the call for more follower-centric and followership studies. It also acknowledges previous research that illustrated the importance of contextual variables in the construction of follower identities (Carsten *et al.*, 2010), by focusing on a disaggregated context, as opposed to an organisational context. The study is therefore intended to expand on the work of DeRue and Ashford (2010) by applying their model outside of an organisational context. The study also contributes to the body of knowledge on leadership and followership by exploring explanations for the existence of a leadership void, as first identified by DeRue (2011).

## **1.2 DELIMITATIONS OF THE STUDY**

This study focuses on the construction of leadership outside an organisational context. It remains within the management studies domain and does not include a political perspective. The study was conducted in a South African context and focused specifically on seven different categories of providers of financial capital as the proclaimed followers of integrated reporting (as the proclaimed leadership phenomenon).

The importance of the construction of leadership outside an organisational context cannot be overstated, because responsibility for achieving the collective goals of a social movement is often granted to the followership. In disaggregated contexts, where there is no formal hierarchy to establish and manage responsibilities, it is therefore vital to investigate whether leadership and followership is co-constructed through a claiming and granting process and how followers become aware of and execute their responsibilities.

The context of integrated reporting provided an interesting platform for a follower-centric investigation of leadership construction, because a leadership identity is claimed for the phenomenon of integrated reporting, and a follower identity is granted, but it is not known whether this claim and grant are reciprocated by the

supposed followership. There are also no formal hierarchies to enforce the execution of the responsibilities granted to this followership. In the absence of such a hierarchy, it is worth pursuing the construction of leadership in this system. In order for integrated reporting to achieve its goals, the proclaimed followers, the providers of financial capital, need to be persuaded to make investment decisions that will result in financial stability and sustainability. An in-depth description of how these investors perceive their own roles and responsibilities and integrated reporting was therefore required to explore the construction of leadership in a disaggregated context. This in-depth description of the investors' perceptions was derived from semi-structured, personal interviews and included their perceptions of the investment decision-making process. Investment decision-making is influenced by numerous factors, but the study only focused on the influence of integrated reporting as a leadership phenomenon on investment decision-making.

The literature chapters (Chapters 2 and 3) provide context, describing some recent developments in leadership studies. Chapter 2 reviews prior studies on the construction of leadership and followership. Chapter 3 provides an overview of the development of integrated reporting as a leadership phenomenon.

The study reported in the thesis engaged with the research objective in one extensive empirical phase, consisting of 30 semi-structured, in-depth personal interviews with providers of financial capital and their fiduciaries. The empirical phase of the research was conducted in South Africa. The reason for choosing South Africa is that it was the first country in the world where some form of integrated reporting became *de facto* mandatory for listed companies (Atkins & Maroun, 2015). This mandatory reporting came about from the inclusion of the imperative for companies to produce integrated reports as outlined in "Chapter 9: Integrated Reporting and Disclosure" in the King III Report on Governance for South Africa (Institute for Directors Southern Africa, 2009).<sup>8</sup> The King reports have traditionally been included as part of the listing requirements on a comply-or-explain basis for all companies listed on the Johannesburg Stock Exchange (JSE), and the King III Report which came into effect on 1 March 2010 was no exception. Hence, by the

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<sup>8</sup> Tweedie and Martinov-Bennie (2015) distinguish clearly between the position adopted in King III regarding integrated reporting and sustainability, and that adopted by the IIRC in its Framework. In 2016, King III was replaced by King IV, which seems to have been aligned with the Framework to a large extent.

time the IIRC released its Framework in 2013, South African companies were already primed to adopt its recommendations. By 2014, several listed companies (seven<sup>9</sup> out of the JSE top 20 by market capitalisation) already indicated that their integrated reports were prepared in accordance with the Framework. Moreover, in spite of being labelled a “developing” country in many respects, South Africa is acknowledged to have a highly sophisticated financial market, and was ranked 11<sup>th</sup> in the world for this in the WEF Global Competitiveness Report for 2016-2017 (Schwab, 2016).

The sample was drawn in an explicitly stratified manner to enable the voices of as many different categories of providers of financial capital as possible to be heard. The final sample consisted of the following:

- seven portfolio managers working for asset management firms;
- six investment analysts (most of whom also worked for asset management firms);
- two investment bankers;
- two asset consultants;
- six pension fund trustees;
- four pension fund members; and
- three “other”<sup>10</sup> participants connected to socially responsible investment (SRI).

The providers of financial capital and their fiduciaries are identified for the purposes of this study as asset managers, asset consultants, investment analysts, investment bankers, pension fund trustees, pension fund members and “other investment experts”.

These categories were identified based on the definition of providers of financial capital provided by the IIRC:

...[e]quity and debt holders and others who provide financial capital, both existing and potential, including lenders and other creditors. This includes the ultimate beneficiaries of investments, collective asset owners, and asset or fund managers. (IIRC, 2013c:33)

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<sup>9</sup> Barclays Africa Group, MTN, Nedbank, Sanlam, Sasol, Standard Bank, and Vodacom.

<sup>10</sup> Two of these can be described as SRI specialists, the third is a venture capitalist with a special interest in SRI.

### 1.3 PROBLEM STATEMENT AND RESEARCH OBJECTIVES

The problem that prompted the research question of this study is the following: the process of leadership construction has been described as a reciprocal process of claiming and granting leadership and followership in an organisational context (DeRue & Ashford, 2010), but this conceptual model requires further investigation and development for application in disaggregated contexts. The fact that the IIRC (the self-proclaimed governing body of integrated reporting) claims a leadership identity for integrated reporting and by implication grants a follower identity to the providers of financial capital, provided the ideal platform to investigate the construction of leadership through a process of claiming and granting in a disaggregated context.

In order to extend and develop leadership theory, the conceptual model developed by DeRue and Ashford (2010) was applied to the context of integrated reporting. By the time when this study was conducted, the construction of leadership through the reciprocal process of claiming and granting outside of an organisational context had not yet been investigated empirically in the form of an in-depth qualitative study. Furthermore, the construction of leadership in a disaggregated context (in this study, the investment chain) had not been explored from a follower perspective in which the followers (providers of financial capital) are granted responsibilities, but it is not known whether they are even aware of the followership grant and the responsibilities attached to it. It was also not known whether the followers in this context reciprocate by claiming a follower identity for themselves and by granting a leadership identity to the phenomenon under review (integrated reporting).

In order to understand better whether the purported followership of integrated reporting reciprocated with a claim of a follower identity for themselves and a grant of a leadership identity to integrated reporting, it was necessary to explore whether the providers of financial capital

- accept and acknowledge their role as followers of integrated reporting;
- perceive the achievement of financial stability and sustainability as part of their responsibilities in their role as providers of financial capital;
- perceive integrated reporting as a crucial source of information that is used in the process of investment decision-making;



- perceive integrated reporting as a leadership phenomenon that influences them in making investment decisions;
- have an in-depth understanding of integrated reporting and how it could inform potentially better investment decisions that could in turn lead to financial stability and sustainability; and
- demonstrate a clear understanding of financial stability and sustainability that is in line with the IIRC's descriptions of these goals.

These propositions were investigated in order to achieve the purpose of the study, namely to explore the construction of leadership through the reciprocal process of claiming and granting leadership and followership in a disaggregated context. The context of integrated reporting provided a unique platform for the exploration of the construction of leadership, through the reciprocal process of claiming and granting, because in this case, the leader is not a person, but a phenomenon, and the followers are heterogeneous role players in a disaggregated context (the investment chain).

The research objectives inferred from the purpose of the research are presented in Table 1, below.

**Table 1: Research objectives of the study**

<b>Primary research objective</b>	
<b>Primary research objective</b>	To explore the construction of leadership through the reciprocal process of claiming and granting leader and follower identities in a disaggregated context.
<b>Secondary research objectives</b>	
<b>Secondary Research Objective 1</b>	To understand whether the proclaimed followership of integrated reporting have accepted and acknowledged their role as followers of integrated reporting.
<b>Secondary Research Objective 2</b>	To explore whether the providers of financial capital perceive the achievement of financial stability and sustainability as part of their responsibilities in their roles as investors.
<b>Secondary Research Objective 3</b>	To explore whether integrated reporting is perceived as a crucial source of information that is used in the process of investment decision-making.

Secondary research objectives	
<b>Secondary Research Objective 4</b>	To explore whether integrated reporting is perceived as a leadership phenomenon that influences providers of financial capital in making investment decisions.
<b>Secondary Research Objective 5</b>	To provide an in-depth understanding of perceptions of integrated reporting and how it could inform better investment decisions that can in turn lead to financial stability and sustainability.
<b>Secondary Research Objective 6</b>	To explore whether the providers of financial capital demonstrate a clear understanding of financial stability and sustainability that is in line with the IIRC's descriptions of these goals.

#### 1.4 BENEFITS OF THE STUDY

Several studies in the last 15 years have established that leadership is a socially constructed process (Collinson, 2005; Crevani *et al.*, 2010; DeRue, 2011; Uhl-Bien, 2011). The process of leadership construction has been conceptualized as a reciprocal process of claiming and granting leader and follower identities (DeRue and Ashford, 2010), but thus far only in an organisational context. This process of leadership construction through a reciprocal process of claiming and granting has not previously been investigated empirically in a disaggregated context. The process of claiming and granting a leadership identity has also not been explored from a follower perspective.

The primary significance of this study thus lies in the fact that it critically interrogates the proposition that the IIRC has claimed a leadership identity for integrated reporting and has granted a follower identity to providers of financial capital. This study contributes to the body of knowledge on leadership by studying the construction of leadership from a follower perspective, and does so outside the traditional setting of a single organisation. It specifically explores the importance of the self-concept of followers by establishing whether they have individually internalized their role as followers, thus addressing the study's primary objective, namely exploring the construction of leadership, through the claiming and granting of leader and follower identities in a disaggregated context.

The specific benefits of the study include the following:

- The study contributes to the development of theory on the construction of leadership outside of the organisational context.
- The study contributes to the body of knowledge on followership, specifically where role players are granted followership with the attached responsibility of achieving collective goals, but where they work in a disaggregated context, where there are no hierarchical structures to enforce the execution of responsibilities.
- The IIRC claims a leadership identity for the integrated reporting phenomenon, including a claim that integrated reporting will lead providers of financial capital and their fiduciaries to better investment decisions, which will in turn result in financial stability and sustainability. A leadership identity is claimed and a follower identity is granted to the providers of financial capital. This process of claiming and granting identities necessitated an in-depth study of the followership to address the questions of whether they are in fact following integrated reporting in any way and whether integrated reporting does influence their decision-making to such an extent that it will result in financial stability and sustainability, as envisioned shared goals.
- The study explores the perceptions of providers of financial capital and their fiduciaries on integrated reporting, and on whether it could be seen as a leadership phenomenon.
- The study investigates the different meanings that providers of financial capital and their fiduciaries attach to “financial stability” and “sustainability” and provides answers on how these goals can be achieved through better investment decisions, what these better decisions would look like and who might make them.

. Ultimately, the important goals of financial stability and sustainability are at stake. Given the obvious urgency of these goals, it is worth developing a formal understanding of whether leadership is indeed being constructed through integrated reporting and its proclaimed followership (providers of financial capital).

## **1.5 RESEARCH DESIGN**

A research paradigm can be seen as the foundation of any research project. All research is informed by underlying assumptions and beliefs, and the world view of the researcher, which in turn influences the chosen research approach in one way or

another (Creswell & Clark 2011:38). Creswell and Clark (2011) explain that researchers make five philosophical assumptions: ontological, epistemological, axiological, rhetorical and methodological.

Researchers' ontological assumptions represent their views on the nature of reality. The ontological assumption made in this study is that of critical realism (Maxwell, 2012). A critical realist position acknowledges that there is a real world that we can observe, and that it has an effect on us, but it also recognizes that how we construct our views of this reality is socially constructed, and will result in multiple realities, because of our differing backgrounds, cultures and personalities (Maxwell, 2012).

The epistemological assumption in the study is that knowledge is constructed from the subjective views of both the participants and the researcher. A researcher forms an active part of the knowledge construction process, because the researcher is the instrument through which the data is collected and analysed.

The axiological assumption addresses the issue that "research is value-laden" (Creswell & Poth, 2017:21). In this study, research biases are acknowledged and described in detail (see Section 4.6), along with the descriptions of participant views (see Chapter 5).

The rhetorical assumption in the study is that the language of research is an emerging narrative where the researcher may use the first-person pronoun – the voice of the researcher should be evident in the text. The methodological assumption is that the topic is studied within its context in an interpretive manner.

The philosophical assumptions adopted in this study point to a qualitative research approach. Hence, the design of the study was developed and adapted as the study progressed, and as learning in the field occurred, as recommended by Creswell and Poth (2017). To some extent, the study relied on the work of Feyerabend, who argues for "epistemological anarchism" (Feyerabend, 1978:188). The study used a social constructivist interpretive framework. Within this framework, researchers seek understanding of the world around them (Creswell & Poth, 2017). They look for density of perceptions (Creswell & Poth, 2017), as opposed to attaching limiting connotations to the topic under review (Creswell & Poth, 2017). In a social constructivist interpretive framework, it is possible to do a qualitative survey (Jansen, 2010).

Jansen (2010) refers to qualitative studies that aim to discover a range of perceptions or behaviours in a population through semi-structured interviews with a small sample as qualitative surveys. Jansen (2010) explains that whereas statistical surveys analyse frequencies in the features of a population, qualitative surveys aim to describe the diversity of perceptions within a population. Although the primary focus of this study was on providers of financial capital as the followership of integrated reporting, its aim was also to explore the perceptions of these providers – to establish both how they viewed integrated reporting, and how they viewed their own responsibilities. This kind of exploration is typical of followership studies. I therefore used it in this study to explore the construction of leadership in the context of integrated reporting. The critical interrogation of the leadership identity that is claimed for integrated reporting by the IIRC makes an important contribution to the body of knowledge, because thus far it is not clear whether integrated reporting is indeed a leading phenomenon, or whether it leads to better investment decision-making. It is also not known whether or how granting a leadership position to integrated reporting might lead to financial stability and sustainability.

The empirical phase of the research consisted of a single data collection phase. The data were gathered by means of 30 in-depth semi-structured interviews. The questions revolved mainly around how the participating providers of financial capital perceived their own roles and responsibilities, and how they actually made investment decisions, specifically with regard to the sources of information that they used to inform their decisions. The participants were also asked about what they knew about integrated reporting. These questions did not ask directly whether they followed integrated reporting, but this information emerged organically from the interview, depending on whether or not the participants mentioned integrated reports as one of the sources they used to inform decisions. It was also apparent whether the goals of integrated reporting would be achieved through these providers from their answers regarding whether they perceived the achievement of financial stability and sustainability to be part of their responsibilities.

The broad research design of this study is summarised in Table 2, overleaf.

**Table 2: Summary of the research design**

Broad research design for this study		Motivation
Research topic		The social construction of leadership in a disaggregated context
<b>Research paradigm</b>		
Ontology	Critical realism	Recognition of the existence of the real world, but acknowledgement that perspectives of this world are socially constructed
Epistemology	Constructivist interpretivism	Multiple realities and descriptions of the phenomenon
<b>Research design and method</b>		
Research design	Qualitative survey	To understand how proclaimed followers view their own roles and responsibilities and the proclaimed leadership phenomenon, in order to gain insight about the construction of leadership through the process of claiming and granting
Research method	In-depth, semi-structured interviews	To provide gain an in-depth understanding of the perceptions of the proclaimed followership of their own roles and responsibilities, and of integrated reporting as a leadership phenomenon
<b>Data Collection and Analysis</b>		
	Sample selection	Participants representing the entire investment chain were included in order to exemplify the definition of providers of financial capital provided by the IIRC. Seven types of role-players: <ul style="list-style-type: none"> <li>• Asset managers</li> <li>• Asset consultants</li> <li>• Investment analysts</li> <li>• Investment bankers</li> <li>• Pension fund trustees</li> <li>• Pension fund members</li> <li>• Other investment experts</li> </ul>
	Place of research	South Africa
	Data analysis	Atlas.ti Open coding Axial coding
	Ethical considerations	Anonymity Consent forms
<b>Outcome</b>		
An in-depth understanding of the construction of leadership through the reciprocal process of claiming and granting leader and follower identities in a disaggregated context.		
<b>Contribution</b>		
Expanding the body of knowledge on the construction of leadership, specifically for disaggregated contexts, from a follower perspective. Developing the conceptual model of DeRue and Ashford (2010) that explains leadership as a process of claiming and granting leadership and followership identities by means of an empirical investigation outside an organisational context. Expanding the body of knowledge on leadership voids arising from non-following. Developing new knowledge of reasons for non-following in the form of constraints to the construction of leadership.		

## 1.6 ROLE OF THE RESEARCHER

The qualitative nature of this study required me as the researcher to be an active participant in the construction of knowledge. I conducted all 30 in-depth interviews – 29 in person and one telephonically. Throughout the research process, I went back and forth between a reflexive research journal, the actual transcripts and the analysis of the data. In order to mitigate the risk of subjectivity of the researcher's perceptions that emerged as a result of the study, an independent co-coder was used to enhance the credibility of the research. Notwithstanding, it was essential for me to remain aware of my own potential biases in the interpretation and analysis of the data. The role of the researcher is detailed in Section 4.6.

## 1.7 QUALITY OF THE RESEARCH

Qualitative researchers have a duty to ensure that the process followed in the method chosen for their study is rigorous enough, and makes provision for some flexibility in the process (Flick, 2008). It has been suggested that the quality of qualitative research can be found in the tension between rigour and flexibility (Flick, 2008). According to Bryman, Becker and Sempik (2008), trustworthiness as a marker of quality consists of four components: dependability, credibility, transferability and confirmability. The quality of this qualitative research and the steps taken to ensure trustworthiness are discussed in detail in Section 4.7.

## 1.8 RESEARCH ETHICS

The first step of the ethical consideration process for PhD students registered at the University of Pretoria is to comply with the University of Pretoria's (n.d.) *Code of Ethics for Research* throughout the research project, including in its reporting. Researchers' responsibilities as listed in the *Code* are the following:

- Social responsibility, in terms of which researchers accept the responsibility to address, where possible, by research and technology development the pressing problems in the broader South African communities.
- Justice, in terms of which researchers accept the responsibility for the equitable treatment of all individuals and organisations involved in the research process.
- Benevolence, in terms of which researchers should be inspired not only to protect others from harm, but also to ensure and promote the well-being of all those affected by research.

- Respect for the individual, where the focus is on the interaction between the researcher and all people he/she may encounter during the research process. The researcher is required to recognise the dignity and autonomy of all individuals and to maintain humanity as well as freedom of choice in all situations.
- Professionalism, in terms of which it is recognised that researchers form part of a specific profession and therefore should exhibit professional responsibilities such as integrity, quality and accountability. (University of Pretoria, n.d.:4-5).

This code was addressed in the following ways in preparing this thesis:

1. The IIRC claims a leadership identity for integrated reporting by stating that integrated reporting will lead to financial stability and sustainability. The IIRC also grants a follower identity to the providers of financial capital. As part of the process of exploring the construction of leadership through the reciprocal process of claiming and granting leader and follower identities in this disaggregated context, the study also explores the possibility of achieving the goals of financial stability and sustainability through capital allocation decisions. This is clearly a topic that addresses some of the most pressing problems, not only in South Africa, but also in the rest of the world, today.
2. Descriptions of the bias inherent to doing qualitative research and the fact that the researcher forms part of the knowledge construction process are provided in order to ensure that all participants were treated with justice.
3. Benevolence is addressed in that I kept a detailed research journal containing reflective notes and field notes to ensure sincerity and trustworthiness. This research journal is to be stored in a secure location for at least three years after the completion of the data collection process.
4. The aspect of “respect for the individual” was addressed in so far as all participants were requested to sign a consent form, but nobody was coerced to do so. All participants opted to participate voluntarily. The purpose of the study was explained to every participant before the interviews. The participants were assured of their anonymity and were informed that they could choose to discontinue the process if they did not feel comfortable. The transcriber was also required to sign a confidentiality agreement. The identity of each participant was protected by storing the name(s) and details of the person separately from the interview transcript and by using an anonymous designator for each of the



transcripts analysed on Atlas.ti, for instance, Group A; Participant 1– Asset Manager \_1.

5. Professionalism was maintained in all steps of the research, especially in respect of avoiding any negligence with regard to the data collection process. The researcher had access to a back-up recording app on her smartphone to control and mitigate for possible loss of data (e.g. if the voice recorder failed to record). Care was also taken when gathering data with specific regard to the *Protection of Personal Information Act, 4 of 2013*, Section 14 (RSA, 2013). Part of the purpose of this Act is to prescribe how personal information should be used by public and private institutions in order to protect the privacy of individuals subject to reasonable restraints.
6. No information in this study or regarding the study was fabricated in any way. All the data collected were verified by first checking the transcripts against the recordings once they were received from the transcriber. Then all the transcripts were sent back to the participants for member checking and to afford participants the opportunity to make any changes to the transcripts if they deemed it necessary to do so.
7. Full ethics clearance was obtained from the Research Ethics Committee of the Faculty for Economic and Management Sciences (See Appendix A for proof of the Research Ethics Approval) This was a robust application process that required the researcher to provide
  - detailed information about the research design and methods;
  - detailed descriptions of any possible conflict of interest;
  - the template used to obtain informed consent from the participants;
  - detailed explanations about the confidentiality of the information; and
  - the interview schedule used to conduct the interviews.

## **1.9 OUTLINE OF THE STUDY**

Chapter 1 provides an introduction to the study, including background on and a rationale for the study. The research problem and research objectives (primary and secondary) are stipulated. This chapter also provides a short overview of the research design and methodology, and the delimitations and benefits of the study. The quality of the research, including the ethical considerations of the study and the role of the researcher, are also emphasised.

Chapter 2 reviews recent developments in leadership studies, highlighting the emerging theory of the social construction of leadership. It shows that leadership and followership cannot be separated. Next, I look at the history and development of followership, focusing specifically on the role of the follower, which includes follower identity, follower behaviours and circumstances or situations in which followership emerges. The call for more follower-centric and followership studies is emphasised.

Chapter 3 contextualises integrated reporting as a phenomenon about which the IIRC, its governing body, has made leadership claims. Firstly, the debate regarding whether integrated reporting is a failure, or a success is reviewed. Secondly, the development of the integrated reporting literature is discussed. Part of this discussion addresses the conceptual and normative work done on integrated reporting, and the fact that there has been very little empirical work in this field that is not based on content analysis of integrated reports. Thirdly, the importance of providers of financial capital as the primary audience and consequently proclaimed followership of integrated reporting is raised.

Chapter 4 sets out the research design and methodology used in this study. The research paradigm is noted, followed by a discussion of the ontological and epistemological positions taken in the study. Then the theoretical framework and methodology are set out. Thereafter, the actual methods used to collect and analyse the data are presented. This chapter also describes in detail the role of the researcher as a co-constructor of knowledge. The quality of the research and the ethical considerations relevant to this study are also addressed.

Chapter 5 sets out the study's findings, grouped according to the clusters of questions into the study's four main themes. Explanations, confirmations and discrepancies between the literature and the findings are stressed and discussed.

Chapter 6 interprets the findings, applying the conceptual model of DeRue and Ashford (2010) to the findings that emerged from the interviews. The secondary research objectives are evaluated based on the findings presented in Chapter 5. The fact that a leadership void is observed in the findings are then discussed and the possible reasons for non-following is examined and extended. Thereafter, further constraints to the construction of leadership in a disaggregated context is then presented and discussed.

Chapter 7 provides the conclusions, recommendations and limitations of the study. Areas for possible future research are also identified. The purpose of the conclusion is to provide a short summary of the findings and interpretation and ultimately address the research objectives.

## **1.10 CONCLUSION**

The purpose of this chapter was to provide an introduction and background to this study of the construction of leadership through the reciprocal process of claiming and granting leader and follower identities in a disaggregated context. The process of leadership construction usually takes place between people – leaders and followers. Although some authors have referred to leadership as a phenomenon, no prior studies have explored whether the process of leadership construction can take place between a leading phenomenon and its proclaimed followers. This process has also not previously been explored outside of an organisational context, or investigated from a follower perspective. The chapter presented the rationale for the study and the research objectives. The role of the researcher, the quality of the research and the ethical considerations were set out in this chapter (they are discussed in detail in Chapter 4). Finally, a chapter outline of the thesis was provided.

The remainder of the thesis contextualises the construction of leadership with reference to the literature on studies on leadership focusing on leadership as a social process (Carsten *et al.*, 2010; Crevani *et al.*, 2010; Uhl-Bien, 2011). It also contextualises integrated reporting with reference to the literature on the development of integrated reporting and its envisioned goals of influencing investment decision-making through providers of financial capital. After the overviews of the literature on the construction of leadership as well as on integrated reporting have been presented, the empirical findings regarding the perceptions of providers of financial capital are presented.

In the next chapter (Chapter 2), developments in leadership studies are discussed, as well as the history and development of followership studies, with specific reference to follower identity and the mechanisms by which followership emerges.

## CHAPTER 2: THE SOCIAL CONSTRUCTION OF LEADERSHIP

### 2.1 INTRODUCTION

Leadership has been the focus of research for many decades. Scholars have debated different approaches to the study of leadership (Alvesson & Sveningsson, 2003:90), leadership styles (Bass & Bass, 2009), and even the very nature and existence of leadership (Drath *et al.*, 2008; Kelly, 2014). There are a variety of schools of thought on leadership. There is a vast literature that looks at the individual as a leader and studies the traits and characteristics of leaders (Lord, De Vader & Alliger, 1986; Stogdill, 1948). Then there are scholars who argue that leadership is not attached to a person but is a relational process (Crevani *et al.*, 2010; DeRue, 2011; Uhl-Bien, 2011). Next, there are some authors who focus on the point that leadership does not exist without followership (Hollander, 1992a; Uhl-Bien *et al.*, 2014). Finally, there are some scholars that deny the existence of leadership altogether (Gemmill & Oakley, 1992). Clearly, the field of leadership is not stagnant (Van Seters & Field, 1990; Van Vugt, Hogan & Kaiser, 2008).

One of the key developments in leadership theory is the insight that leadership is a socially constructed phenomenon (Block, 2014; Spoelstra, 2013): leadership is not attached to a person, but can be described as a relational process (DeRue, 2011; Uhl-Bien, 2011), or a practice or movement (Crevani *et al.*, 2010; Dinh & Lord, 2012). This idea is aptly captured in the following comment by Painter-Morland (2008:509):

Leadership is socially constructed, as the need for it arises within the complex interactions between individuals and groups within organizations, and can therefore not be described as a set of traits or behaviors possessed by only certain individuals who occupy positions of authority.

If the proposition that leadership is a socially constructed phenomenon or process is accepted, it follows logically that the construction of this phenomenon or process depends on the actions of individuals. Hence, despite some arguments that move away from approaches to the study of leadership based on individual and dyadic relationships (leaders and followers) (Uhl-Bien, 2011), it is difficult (if not impossible)

to conceptualize leadership without followership (Uhl-Bien *et al.*, 2014). After all, somebody has to do whatever it takes to achieve the goals, and often the responsibility for achieving goals is delegated to followers. For these reasons, a useful platform for starting discussions about leadership is the idea of a leadership tripod, consisting of leaders, followers and shared goals (Bennis, 2007). Based on the leadership tripod, it is important to establish who will lead and who will follow in order to achieve goals. DeRue and Ashford (2010) propose that this is established through an identity construction process in which individuals take part in a reciprocal process of claiming and granting leader and follower identities.

This chapter provides a brief summary of the diverse accounts of the history of leadership studies to illustrate the complexity of leadership in Section 2.2. Next, Section 2.3 discusses the ontology of leadership (Blom & Alvesson, 2015; Drath *et al.*, 2008; Kelly, 2014) and highlights the call for thinking in new and different ways about the study of leadership (Kelly, 2014; Wilson, 2013). Section 2.4 explores why the leadership tripod (Bennis, 2007) is a useful platform for the discussion of leadership. In Section 2.5, the growing emphasis on the social construction of leadership as a process is described. Section 2.6 considers the important focus on followership as part of this process. As part of the discussion on followership, the history and development of followership theory are provided. The discussion emphasises that there is a need for more empirical qualitative followership studies in leadership research, especially in contexts where leadership is not attached to a specific individual, but rather to a phenomenon or a process (Howell & Shamir, 2005; Uhl-Bien *et al.*, 2014). Section 2.7 then looks at follower characteristics, exploring the role of the follower, self-concept and follower identity. Section 2.8 moves on to describe follower behaviours. In Section 2.9, I provide a synthesis and evaluation of the literature that has been reviewed, before concluding the chapter in Section 2.10.

## **2.2 SUMMARY OF THE DIVERSE ACCOUNTS OF THE HISTORY OF LEADERSHIP STUDIES**

A google scholar search of the term “leadership” produces almost 4 million results. Thousands of books have been dedicated to the topic and there are a number of academic journals that publish only research on leadership, such as *Leadership* and *The Leadership Quarterly*. The study of leadership is a multi-disciplinary endeavour,

engaging scholars from disciplines such as philosophy, sociology, history, psychology, management, education and political sciences (Bryman, 2011; Riggio & Harvey, 2011). In fact, so much has been written about leadership that Bryman (2011), Landis *et al.* (2014), Van Seters and Field (1990) and Wilson (2013) have done extensive literature reviews, including overviews of the history of leadership studies. Interestingly, these authors provide divergent accounts of the history and development of leadership studies.

Bryman (2011) argues that our knowledge of leadership is based on written accounts, suggesting that history is usually captured in writing by the winners. Hence, much of the early history of leadership consists of accounts of war, presented through the winners' eyes. He divides the history of leadership into three periods: Classical leadership studies; Renaissance leadership studies and Modern leadership studies (Bryman, 2011). Classical leadership studies are represented in descriptions of leadership such as those captured in Sun Tzu's *The Art of War*, Plato's *Republic* and Aristotle's *Rhetorica*. Renaissance leadership studies emerge from the 16<sup>th</sup> century onwards, and they are dominated by Machiavelli's *The Prince*, which argues that a leader should do whatever is necessary for the greater good. Modern leadership studies date back to the 19<sup>th</sup> century and continue into the present, and are marked by a constant shift between a normative view of leadership and a rational approach, encompassing systems and measurements. However, Bryman (2011) does not single out any specific works as the best representing the thinking in the modern leadership studies period (Bryman, 2011).

Unlike Bryman (2011), who includes Classical and Renaissance studies in his categorisation of leadership studies, Van Seters and Field (1990) only consider the development of leadership from the 19<sup>th</sup> century onwards. They indicate that they are interested in "the evolution of leadership theory" and categorise the development of leadership into nine eras: the Personality era, the Influence era, the Behaviour era, the Situation era, the Contingency era, the Transactional era, the Anti-leadership era, the Culture era and the Transformational era. These eras described by Van Seters and Field (1990) are not quite in chronological order, because some of the eras overlap in terms of the actual periods when they emerged.

The *Personality era* (1841-1927) was characterised by the Great Man theory and the Trait theory. The authors during this era focused on the idea of an individual leader as a hero and the hero's inherent personality traits. In the *Influence era* (1928-1959), power and dominance approaches became common. In the *Behaviour era* (1955-1983), behavioural theories such as the Action theory of leadership and Theory X and Y emerged. This era overlapped with the *Situation era* (1943-1978), during which authors explored issues beyond the characteristics of the individual as leader or subordinate, and looked into other factors surrounding the leader. The *Contingency era* (1964-1989) developed and considered contingency theory, path-goal theory and normative theory, to name only a few. It is also referred to as situational leadership, and posits that a good leader is one who can read the context and then determine appropriate behaviour for the specific situation. The *Transactional era* (1958-1980) also overlaps with the previous two eras, and can be divided into what Van Seters and Field (1990) call an exchange period and a role development period. In this era, the work of Hollander on emergent leadership (Hollander, 1959) and social exchange theory (Hollander, 1980) was particularly prominent. Van Seters and Field (1990) note that there was a brief *Anti-leadership era* (1977-1978), when there was considerable ambiguity regarding the actual existence and form of leadership. The *Culture era* (1978-1987) described leadership as something that is present in the culture of organisations. The last era described in this overview, which was published in 1990, is the *Transformational era* (1977-1989), which was known for descriptions of the intrinsic drive of leadership and described leaders as proactive and not reactive, charismatically influencing followers to commit to a particular goal or vision (Bass & Riggio, 2006).

Even though Van Seters and Field (1990) did not include Classical and Renaissance studies, unlike Bryman (2011), they still described the evolution of leadership theory as occurring in nine distinct eras over an extended period. By contrast, the more limited analysis of Lord, Day, Zaccaro, Avolio and Eagly (2017) focused only on the latter half of the 20<sup>th</sup> century and the start of the 21<sup>st</sup> century, and they identified three waves of leadership research, linking these to specific periods. Their review of the literature looked at seminal papers published on leadership research in the *Journal of Applied Psychology*.

According to Lord *et al.* (2017), the first wave (1948-1961) was interested in leadership behaviour and follower attitudes. The second wave (1969-1989) considered extensions and limitations of leadership style approaches. The third wave (1999-2007) expanded the focus of leadership studies through transformational, social exchange, team, and gender-related research. They conclude that they can only suggest the future direction of leadership research by referring to the work of Howell and Shamir (2005), who see leadership as a social process that is co-produced through leaders and followers.

Wilson (2013) has categorised the development of leadership over the last 6000 years into four major themes, which she has linked to specific disciplines. Philosophical research on leadership tended to adopt a strong normative and non-empirical approach. Leadership historiography focused more on descriptive, non-theoretical work. Practitioner research used anecdotal success stories of real life leaders. Social scientists engaged in positivist, empirical work, and the bulk of it was done in psychology. It is evident that Wilson's categorisation is based on the different disciplines in and approaches from which leadership has been studied. Wilson (2013) describes the development of leadership studies as problematic, and is especially concerned with the focus of recent years' empirical studies in the social sciences, where the focus has returned to the traits and characteristics of individual leaders in positivist studies.

It is evident that the historical overviews discussed above give different accounts of the historical development of leadership, giving divergent accounts of the applicable periods and labels attached to those periods. Nonetheless, three prominent themes emerge from these summaries of the historical development of leadership research. First, there has been a host of research on the individual leader and the leader's traits and styles. Second, since the 1990s, several authors have moved away from individual-centred studies and there is a greater focus on leadership in groups and teams, or on describing leadership as a process that is socially constructed. It is also clear that these studies are critical of the earlier studies focusing only on the individual. Third, some authors have questioned the nature (ontology) and even existence of leadership. In order to study leadership at all, it is therefore necessary to discuss the ontology of leadership.



### 2.3 THE ONTOLOGY OF LEADERSHIP

Questions concerning the ontology of leadership are an important aspect of leadership studies. To explain the elusiveness of the construct of leadership, Gemmill and Oakley (1992) use the analogy of a belief in UFOs – the issue is not whether UFOs exist objectively, but that they exist in people’s minds and therefore they are real. They argue that it is the same with leadership, and that followers want leadership to exist because it offers a way for them to escape responsibility. If followers do not want to take responsibility, they give the responsibility to leaders. The next question that arises is then whether leadership can in fact exist without identifying a specific person or group of people as either leaders or followers.

Spoelstra (2013) contends that leadership can exist outside of a specific person as “the leader”, and that leadership can be described as a phenomenon. A phenomenon is something that is observed as real, even though the explanation for it or its cause might be uncertain. Spoelstra (2013:174) makes a case for seeing leadership as a “non-objective phenomenon”. Such phenomena are also described as saturated phenomena:

These phenomena are saturated in the sense that they offer too much for our senses and understanding; they saturate our mind and senses because of their excessive nature. They are non-objective in the sense that they refuse objectification. (Spoelstra, 2013:179)

Block (2014:233) also describes leadership as a phenomenon but uses the term “super complex phenomenon” because of the fluidity of leadership. She argues that leadership is embedded in the experiences of the leaders and the followers. She adds that these experiences are subjective and constantly change, which contributes to the super complex nature of the phenomenon. A further consequence of seeing leadership as non-objective and fluid is the uncertainty associated with this phenomenon. Giles and Morrison (2010:65) also regard leadership as a phenomenon, positing that leadership is not a concept, role, position or power. They confirm that it is difficult to pinpoint precisely what leadership is.

It seems impossible to understand leadership and capture its essence. Nevertheless, at least in the popular media, if something (or anything) goes wrong, the problem is frequently ascribed to a “lack of leadership” and blamed on a particular person or group of people. Collinson (2005) therefore argues that leadership has often been

described in binary terms: leaders are described as either heroes or villains, as the solution or the problem. Wilson (2013) also questions why our understanding of leadership has come to take the form it does. She specifically describes the idea of a positive ontological attachment to leadership as problematic. In other words, she asks why leadership is so often described as a solution to all our problems.

Kelly (2014) concurs with Wilson (2013) and also questions the positive ontological position that has come to be attached to leadership. He suggests that there should be a move towards a negative ontology of leadership, because he describes leadership as an empty signifier that can contain a number of possible meanings (Kelly, 2014:918). Kelly (2014) emphasises two very important issues: firstly, that leadership is not concrete, and, secondly, that leadership always has to be represented through somebody or something – usually leaders and followers. A question that arises from this is whether the leaders and followers need to be people, or whether the leaders and followers can also be phenomena, so that we then deal with leading phenomena. A thorough literature search for the current study did not identify any prior studies in which this question is specifically addressed. The question only adds to the uncertainty regarding what leadership really is. This uncertainty is echoed by Burns (1978:1), who comments: “If we know all too much about our leaders, we know far too little about *leadership*” (emphasis added).

Drath *et al.* (2008) contend that leadership is present where there is direction, alignment and commitment to the achievement of future goals (they also use the acronym DAC for this). Like Kelly, Drath *et al.* (2008) also call for a new ontology of leadership, but it is not entirely clear how their “direction, alignment and commitment” ontology should be measured or explored to evaluate the presence of leadership. In other words, how would one determine whether there is direction, alignment and commitment in a specific context? And is leadership equated to direction, alignment and commitment? Surely it is possible for there to be direction, alignment and commitment in a context, but no leadership? Or does the ultimate determinant of leadership still remain the achievement of future goals? So although the direction, alignment and commitment ontology makes sense intuitively, it is difficult to test empirically and therefore fails to shed further light on the nature of leadership beyond the idea that leadership may be present where there is direction, alignment and commitment.

It is clear from the literature that there is no consensus on the ontology of leadership: beyond debates for and against positive and negative ontologies, much ambiguity remains. Yet, in spite of its critics, it seems difficult to get away from the notion of leadership as represented through the leadership tripod of leaders, followers and shared goals (Bennis, 2007).

## **2.4 THE LEADERSHIP TRIPOD: LEADERS, FOLLOWERS AND SHARED GOALS**

According to Bennis (2007:3-4), in “its simplest form, it is a tripod – a leader, followers, and the common goal they want to achieve. None of these three elements can survive without the others”. Despite its critics (Drath *et al.*, 2008), the leadership tripod remains a useful starting point for a discussion about leadership.

There has been ongoing interest in research on leaders and their traits and characteristics (Barker, 1997). Such studies represent individual-centred leadership research, and they are strongly associated with the Personality era research described by Van Seters and Field (1990), which was characterised by the Great Man theory and Trait theory. Leaders have traditionally been regarded as powerful, active decision-makers with the ability to influence groups of people to achieve a goal (Hollander, 1992a; Yukl, 2013).

Bennis (1989) argues that leaders are those who remain faithful to the four capabilities that, in his opinion, characterise true leadership, namely the capability to manage attention, to manage meaning, to manage trust, and to manage oneself. Bennis (1989:117) lists six virtues of leaders, namely “integrity, dedication, magnanimity, humility, openness, and creativity”. One of the four competencies of a true leader posited by Bennis (1989), namely managing oneself, is similar to the suggestion by Goleman (2003) that leaders are people who have mastered the art of emotional intelligence. Goleman (2003) explains that emotional intelligence consists of self-awareness, self-regulation, motivation, empathy, and social skill. He adds that intellectual and technical ability in a leader remain important, but that the essential difference between a successful leader and an unsuccessful one is emotional intelligence. Spears (2010) emphasised the need for servant leadership, listing ten characteristics of caring and effective leaders: listening, empathy, healing,

awareness, persuasion, conceptualization, foresight, stewardship, commitment to the growth of people, and building community.

Even though characteristics such as empathy and self-awareness seem to be prevalent in the literature on leaders, it is evident that there is no consensus regarding the definition of a leader or the specific characteristics of leaders. As already indicated in Section 2.2. above, these individual-centred leadership studies have been criticised, and it has been suggested that leadership should be seen as something more than a specific leader and her/his characteristics or leadership style. This is already evident from the following definition of leadership from the late 1970s:

[L]eadership is the reciprocal process of mobilizing, by persons with certain motives and values, various economic, political, and other resources, in a context of competition and conflict, in order to realize goals independently or mutually held by both leaders and followers. (Burns, 1978:425)

Burns (1978) was definitely not the last to refer to leadership as a reciprocal process (see also DeRue & Ashford, 2010; Uhl-Bien, 2011) or as a process that should lead to the achievement of collective goals. Leadership has also been called a phenomenon that can be found in relationships (Uhl-Bien, 2011) and processes and practices that are organised by people (Crevani *et al.*, 2010). The question that then emerges is who the people are that do this organising. It is not clear from the propositions of Crevani *et al.* (2010) whether the practices that need to be studied to understand leadership better are the practices of followers or the interactions between leaders and followers. Even authors who regard leadership as a phenomenon (Block, 2014; Spoelstra, 2013) indicate that leadership is represented through leaders and followers. Leaders have traditionally been seen as powerful, active decision-makers – people with the ability to influence groups of people to achieve a goal (Hollander, 1992a; Yukl, 2013).

By contrast, DeRue (2011) argues that in order for leadership theory to develop, it is necessary to debunk some of the assumptions about leadership attached to these traditional views. DeRue (2011) suggests re-evaluating the notion that leadership is a result of a hierarchical position and abandoning the idea that leadership involves one-directional influence or is based on personal attributes. The simplistic assumption that the environment can be separated from the leadership process should also be reconsidered (DeRue, 2011). If DeRue's points are taken to heart and

leaders are indeed not leaders because of their positions, or their ability to influence people with a specific set of character traits, then who are leaders?

Even Goleman's (2003) contention that leaders are people who have mastered the art of emotional intelligence (and that although intellectual and technical ability remain important, the difference between successful and unsuccessful leaders is emotional intelligence) reveals an individual-centred approach to leadership. As already indicated in Section 2.2 above, such individual-centred approaches have been criticised, and there has been a shift towards studies that describe leadership as a phenomenon that can be found in relationships (Uhl-Bien, 2011) and processes and practices that are organised by people (Crevani *et al.*, 2010), even though it is not necessarily clear who does the organising, or whether the practices of followers or interactions between leaders and followers should be the focus of research.

One possibility is studying the practices of followers to understand leadership better (Hollander, 1992a). Uhl-Bien *et al.* (2014) goes so far as to state that leadership cannot exist without followers. Kellerman (2008:xix) defines followers as “subordinates who have less power, authority, and influence than do their superiors and who therefore usually, but not invariably, fall into line”. Other scholars who have studied followership (Carsten *et al.*, 2010; Collinson, 2006; Uhl-Bien *et al.*, 2014) might disagree with this definition of followers, although Uhl-Bien *et al.* (2014) acknowledges that followers must be willing to be influenced. As with the definitions of leaders and leadership, there is no general consensus on the definition of followers. At this point, even less is known about followership than about leadership, so there has been a call for more research on followership (Uhl-Bien *et al.*, 2014). For this reason, Section 2.5 of this literature review, below, is dedicated to followership and the development of followership studies.

If followers play a pro-active role in the construction of leadership, as Carsten and Uhl-Bien (2012) believe, then followers are expected to take co-responsibility for achieving mutual goals, and, in some instances, followers are expected to lead. In other words, followers may be expected actually to do the work of leading. In this regard, DeRue (2011) points out that the construction of leadership is an adaptive process, with double acts of leading and following. The same person or group may lead in some scenarios, and follow in others. Still, whoever does the work, whether it

be leading or following, the main aim is to achieve shared goals. Leadership, and more specifically successful or effective leadership, is associated with achieving goals and getting results (Goleman, 2000).

It has been shown above that leadership is not necessarily something attached to a single heroic individual who influences a group to achieve goals. Moreover, leadership cannot come into being without followers. These followers are often expected to do the leading in order to achieve goals. It is thus obvious that followers play an extremely important role in the construction of leadership, as I discuss in the next section.

## **2.5 FOCUS ON FOLLOWERS: A BRIEF HISTORY OF THE DEVELOPMENT OF FOLLOWER-CENTRIC APPROACHES TO LEADERSHIP RESEARCH AND FOLLOWERSHIP STUDIES**

Followers and followership are often associated with negative ideas such as being subordinate, being passive bystanders or “sheep” (Collinson, 2006; Howell & Shamir, 2005; Kelley, 2008). Just as it is possible to question the positive ontology that has come to be attached to leadership (Wilson, 2013), it is possible to question the negative connotations attached to the words “follower” and “followership” (Hollander, 1992a; Kelley, 2008; Uhl-Bien *et al.*, 2014).

Several authors have pointed out that too much emphasis has been placed in the literature on leaders in leadership studies and that more research on followership is needed (Carsten *et al.*, 2010; Carsten & Uhl-Bien, 2012). The fact that leadership research has come to prioritize the study of leaders over a scrutiny of followers is problematic (Collinson, 2005), because it has resulted in a limited and one-sided view of leadership. Hollander (1992a) warns that leadership cannot be studied without studying followership. For this reason, many scholars have started to focus on followership (Carsten *et al.*, 2010; Collinson, 2006; DeRue & Ashford, 2010; Hollander, 1992b; Howell & Shamir, 2005; Kellerman, 2008; Kelley, 2008; Uhl-Bien *et al.*, 2014). Howell and Shamir (2005) were the first to use the phrase “reversing the lens” in leadership studies to indicate that followers need to be studied in order to understand leadership. The work of Howell and Shamir (2005) can therefore be labelled follower-centric research.

Carsten *et al.* (2010) make explicit the difference between follower-centric approaches to leadership research and followership studies. They explain that a follower-centric approach focuses specifically on how followers perceive leaders or the construction of leadership (Meindl, 1995). Followership studies, on the other hand, entail research on how followers perceive their *own* role of being a follower. Despite this specific categorisation provided by Carsten *et al.* (2010), it seems that, in general, most research about followers is referred to as followership research (Uhl-Bien *et al.*, 2014).

In answering the call for more research on followership (research about followers), Uhl-Bien *et al.* (2014) developed a “followership theory”. They contend that one can take two approaches to the study of followership: a role-based approach or a social constructionist approach. A role-based approach is only applicable in scenarios where there is a strict hierarchy and subordinates can be studied in relation to their leaders. Role-based studies typically look at follower qualities and behaviours, and how these can influence leaders and the organisation. A social constructionist approach, on the other hand, argues that leadership is a relational process where leaders and followers act together to co-construct leadership. This approach is called “the leadership process” (Uhl-Bien *et al.*, 2014:99). The “leadership process” approach is concerned with exploring how leaders and followers work together to construct leadership and its outcomes. This approach does not equate leading or following to a hierarchical position in an organisation, but acknowledges that leaders might sometimes have to follow and vice versa. If this approach is followed, the main objective of research is to establish what constitutes following behaviours and how following behaviours, together with leading behaviours, co-create leadership.

Uhl-Bien *et al.* (2014) have made an important contribution to the followership literature with their extensive review of research on followership. They refer to the main themes in followership research as theoretical constructs, and encourage future researchers in followership to use these constructs. The three theoretical constructs in followership that they have identified are followership characteristics, followership behaviours and followership outcomes (Uhl-Bien *et al.*, 2014:97). It should be noted that the bulk of followership research to date is not empirical or qualitative.

The discussion in the next section incorporates two of the identified theoretical constructs, namely followership characteristics and followership behaviour, as a framework to discuss the literature on followership.

## **2.6 FOLLOWERSHIP CHARACTERISTICS: ROLE, SELF-CONCEPT AND IDENTITY**

### **2.6.1 The role of the follower**

Role theory assumes that a role is a pattern of social signals that inform behaviour in a specific context (Solomon, Surprenant, Czepiel & Gutman, 1985). It is the study of behaviour linked to certain socially determined positions, as opposed to the study of individuals who fill certain positions. This is aligned with a role-based approach to the study of followership, which assumes that roles depend on hierarchical positions (Uhl-Bien *et al.*, 2014). Every role that one plays is a result of how one is taught to act in certain contexts. People form a role-specific self-concept based on how other people react to them in those contexts. It has been established that the roles a person takes on in certain contexts determine her/his identity for that context (Solomon *et al.*, 1985).

The claim that followers play a passive role in the co-construction of leadership has been criticised by Hollander (1992a), who contends that the role of followers should also be viewed as encompassing leadership capabilities. These capabilities can include a number of tasks that have traditionally been associated with leaders, such as providing guidance, making decisions, setting objectives, communicating, resolving conflicts and sustaining the organisation. The bulk of these tasks are usually assigned to followers to some extent. Moreover, several of the traits often ascribed to good leaders, such as accountability, trustworthiness and ability, are also required of good followers.

Tee, Paulsen and Ashkanasy (2013) confirm that followers do not necessarily fulfil a passive role in the leadership process. They also argue for a follower-centric approach to the study of leadership, where the focus is on the influence of followers on group identity. They emphasise that both a leader and a follower identity is important for a complete understanding of the leadership process. Uhl-Bien *et al.* (2014) share similar ideas in their description of the social constructionist approach



to leadership; they refer to leadership as the interactions between leaders and followers that together co-construct leadership in a reciprocal process. DeRue and Ashford (2010) explain this reciprocal process as a process of exchanging claims and grants of leader and follower identities. In this way, if a person or group is granted a follower identity by a leader, by way of a direct or indirect claim, this person or group can reciprocate by claiming a follower identity for themselves and granting a leader identity to the claimant of the leader identity. A person or group will only become a follower if they reciprocate by claiming a follower identity for themselves and granting a leader identity to the claimant of the leader identity.

In order to understand whether someone has claimed a follower identity for her/himself, it is essential to explore how s/he thinks about her/his own role(s). Carsten and Uhl-Bien (2012) use a role-based approach to followership and enquire into what followers believe about the co-production of leadership and how they communicate with leaders. They have made an important contribution with their definition of the beliefs of followers as the degree to which followers believe that the follower role depends on partnerships with leaders to achieve (shared) objectives and be effective. They have observed a positive relationship between what followers believe about co-production and how they communicate with leaders. In other words, if followers believe that they should play an *active* role in the construction of leadership, they are more likely to voice their concerns and ideas. Carsten and Uhl-Bien's (2012) research also looked at how the context may influence the behaviour of followers, and specifically their upward communication in an organisation. However, their research specifically looked only at the way followers communicated with their leaders within the boundaries of an organisation. They did not contemplate how this relationship might work if the follower(s) and leader do not work in the same organisation or operate in a disaggregated context.

### **2.6.2 Self-concept of followers**

Several studies have been done on the self-concept of followers. Shamir, House and Arthur (1993) conducted an interesting study exploring the self-concept of followers, using identity theory as developed by Stryker and Serpe (1982). Shamir *et al.* (1993) studied the basic consequences that charismatic leader behaviours have on followers. They argue that charismatic leaders influence followers because they

trigger the self-concept of the followers and associated concepts of “self-expression, self-esteem, self-worth and self-consistency” (Shamir *et al.*, 1993:590). Brewer and Gardner (1996) suggest that the self-concept entails three concepts of the self: the self as a separate entity, as a relational being, and as a member of a collective.

Moreover, DeRue and Ashford (2010), already mentioned earlier, posit that the claiming and granting of either a leader or a follower identity takes place through the three processes of individual internalization, relational recognition and collective endorsement. The idea of individual internalization can be linked to the notion of the self-concept as individual internalization, “a state where individuals come to incorporate the identity of leader or follower as part of their self-concept” (DeRue & Ashford, 2010:629).

The self-concept of a follower is also influenced by the kind of relationship that the follower develops with the leader (Howell & Shamir, 2005). Howell and Shamir (2005:99) differentiate between two types of what they refer to as “charismatic relationships” that can develop between a leader and a follower: personalized and socialized. A personalized relationship refers to how a follower’s relational self emerges through identification with the leader at a personal level. A socialized relationship refers to how a follower’s collective self emerges through identification at a social level with the group. The work of Howell and Shamir (2005) therefore illustrates that a follower’s self-concept in relation to the leader determines the kind of relationship that is established between the follower and the leader – personalized or socialized. These arguments are a reminder of earlier work on followership by Meindl (1995), who considered how a follower perceives the self, as well as how a follower perceives the leader.

Meindl (1995) argues that a follower’s self-concept and how a follower perceives the leader are interrelated, because followers should in fact know that they are followers and be committed to the causes and goals that the leader represents. In order for followership to emerge, the follower should identify as a follower at an individual and a group level, and if s/he does so, this will lead to the co-creation of leadership. Follower action is then an outcome that depends on the self-concept of the follower as well as commitment to the leader. It is evident that followership studies should

consider the self-concept of the follower. The self-concept of the individual in turn forms part of the construction of identity.

### **2.6.3 Follower identity**

Kellerman (2008) has explored follower identities and how followers can influence leaders. Her typology of followers places followers along a spectrum in terms of their level of engagement, from “Isolates” (disinterested and unengaged) to “Bystanders” (passively watching), “Participants” (involved and usually leading from the back), “Activists” (enthusiastically involved) and “Diehards” (intensely involved).

Collinson (2006) also investigated follower identities, but his interest is in how leaders can shape follower identities. He has pinpointed three follower identities: “The conformist”, “The resistant” and “The dramaturgical”. “The conformist” quite obviously refers to an obedient follower. Organisational culture, discipline and surveillance in different forms are often used to create these types of followers. However, Collinson (2006) warns that this kind of followership can have negative and unintended consequences; he uses Nazi Germany as an extreme example. “The resistant” follower is one who voices disagreement or discomfort with leadership. Such followers can do this through words and/or actions. Logically, “the resistant” is not a follower, but a rebel or non-follower, and the important question is then to ask why s/he is resistant. Chaleff (2009) seems to consider the same issue when he refers to “the resistant” as a “courageous follower”. “The dramaturgical” is a follower that strategically shares or withholds information in the theatre of work life to manage impressions. It is argued that the dramaturgical follower identity is also created because of observation processes (surveillance) in the workplace, and people therefore feel obliged to “act” in a certain manner.

It is evident that the literature mentions multiple follower identities and that it is impossible to attach a single identity to followers. According to Sy (2010), follower identities depend on the context, the leaders that the followers work with and how followers communicate with leaders. The individual agency of followers is not mentioned by Sy (2010), but should also be considered. In much of this literature, there is still a lingering sense that followers should either be submissive or be active participants in the leadership process. For this reason, it is essential to contemplate

the role(s) of followers, their self-concept and their identity construction in empirical followership studies.

## 2.7 FOLLOWER BEHAVIOURS

Uhl-Bien *et al.* (2014:92-94) have identified four categories of follower behaviour, namely “Obedience and subordination”, “Resistance”, “Proactive behaviours” and “Influence tactics” (Tepper *et al.*, 2006). Each category encompasses a number of different followership behaviours. The first category resembles the traditional view of follower behaviours, in that it includes the stereotypical view of followers as passive participants that carry out orders without question. The second category is subdivided into “constructive” resistance and “dysfunctional” resistance (Uhl-Bien *et al.*, 2014:93). Constructive resistance is displayed in situations where followers believe that they play an active role in the leadership process, and where they believe their input can make a useful difference. Dysfunctional resistance arises when followers resist and refuse to give their cooperation and may act in an aggressive manner. The third category of pro-active behaviours includes a number of positive behaviours. These are “creative and deliberate ways that employees plan and act on their environment to influence, change and alter” (Uhl-Bien *et al.*, 2014:93). There is some overlap between the third and the fourth categories in that using “influence tactics” is seen as a pro-active behaviour, but such tactics are also listed as the fourth category of followership behaviour. “Influence tactics” include followers’ acting in a strategic manner to influence the behaviour of the leader in order for the followers to achieve certain outcomes. The leadership style of the leader influence how followers approach their “influence tactics” (Uhl-Bien *et al.*, 2014:94). A distinction can be made between “rational” and “non-rational” tactics – followers are more likely to use “non-rational” tactics such as “blocking” if the leader has an authoritarian style, as opposed to a more inclusive leadership style (Uhl-Bien *et al.*, 2014:94). The four categories of followership behaviour consist of nine behaviours: “Proactive behaviour”, “Initiative taking”, “Obedience”, “Resistance”, “Upward influence”, “Voice”, “Dissent”, “Feedback seeking” and “Advising” (Uhl-Bien *et al.*, 2014:97).

Kelley (2008)), lists five follower styles, namely “Sheep”, “Yes-People”, “Alienated Followers”, “Survivors” and “Effective Followers”. These follower style categories

simply identify and group follower behaviours as described elsewhere in the literature, as followership styles. In his categorisation, “Sheep” are seen as submissive and gullible, and they do not take initiative or responsibility. “Yes People” are more energetic, but also not innovative – they depend on their leader for motivation. “Alienated Followers” are cynical and think for themselves, but are passive in carrying out their part. “Survivors” are fence sitters in order to survive change. “Effective Followers” think independently and carry out their tasks with vigour and boldness (Kelley, 1988:3). It is obvious that Kelley (1988) regards an “Effective Follower” as a good follower, but he explains that leaders do not always respond well to “Effective Followers” – in many cases, leaders prefer “Sheep”.

It is evident from the followership literature that follower identity is often investigated by looking at the role and behaviour of followers, as well as the mechanisms through which a follower identity emerges. In other words, these studies consider how followership emerges and what factors enable followership.

## **2.8 MECHANISMS BY WHICH FOLLOWERSHIP EMERGES**

Van Vugt *et al.* (2008) take an evolutionary approach to follower identity. They contend that follower identities have evolutionary origins. Van Vugt (2006) argues that some people inherently tend to lead, while others inherently tend to follow. The result of this is that leader/follower structures emerge even in scenarios where groups intentionally want to be leaderless.

Sy (2010), like Van Vugt (2006), claims that people have a natural inclination to classify others as leaders or followers. This natural inclination to judge others as leaders or followers is referred to as Implicit Leadership Theories (ILTs) and Implicit Followership Theories (IFTs). IFTs support the notion that people hold certain beliefs about followership and that these become the implied theories. The relationship between beliefs about followers, follower beliefs, whether followers should co-construct leadership, and the context in which followers function, as well as how they communicate upward, are identified as the determinants of IFTs. Sy (2010:78) developed a followership model identifying a “followership prototype” and a “followership anti-prototype”. The followership prototype is linked to three overarching categories of behaviours, namely industriousness, enthusiasm and

being a good citizen. Each one of these categories consists of three underlying behaviours. Industriousness, for example, consists of being “hardworking; productive and goes above and beyond”. By contrast, the followership anti-prototype is linked to insubordination and incompetence. Sy’s (2010) research took a role-based approach, as discussed by Uhl-Bien *et al.* (2014), linked to hierarchy within organisations, and was meant to be helpful for the evaluation of followers in organisations.

## 2.9 THE SOCIAL CONSTRUCTION OF THE LEADERSHIP PROCESS

Among the many different definitions for leadership, several include the idea that leadership is a process. Northouse (2004:3) describes leadership as “a process whereby an individual influences a group of individuals to achieve a common goal”. However, as I have shown in my review of the different accounts of the historical development of leadership studies in Section 2.2, since the 1990s the leadership literature has tended to focus more on non-individual descriptions of leadership. These studies have consistently argued that there should be a move away from the idea that leadership is attached to individuals (Crevani *et al.*, 2010; Uhl-Bien, 2011) and that leadership should rather be viewed as a process that is co-constructed in interactions and relationships between people (Grint, 2005; Uhl-Bien *et al.*, 2014). These people are generally categorised as leaders and followers, but it is also acknowledged that these roles are interchangeable, and that followers can be expected to do a lot of leading. Crevani *et al.* (2010) call for leadership to be redefined in terms of processes and practices organised by people.

DeRue (2011:26), for instance, states that “[s]cholars commonly define leadership as a social process of mutual and reciprocal influence in service of accomplishing a collective goal”. The idea of a reciprocal process of interactions between leaders and followers has been described by Uhl-Bien *et al.* (2014), as well as DeRue (2011) and DeRue and Ashford (2010). Uhl-Bien *et al.* (2014:90) see a reciprocal process as a “dynamic relational process”. They include this dynamic relational process in their description of the constructionist approach to followership.

As mentioned earlier, there are two main approaches to followership – a role-based approach and a constructionist approach. The constructionist approach is different

from the role-based approach in that it does not approach followership from a hierarchical stance in which followership is believed to emerge because of a particular position. The constructionist approach highlights the idea that leadership is a process and that the roles of leaders and followers are reciprocal and interchangeable, depending on the context and on goals. This means that in some contexts people who are usually classified as followers are expected to lead, and sometimes leaders are expected to follow.

This description of a “dynamic relational process” relates to the important work of DeRue (2011:125), who regards leadership as a “complex adaptive process”. DeRue (2011:126) has developed an “adaptive leadership” theory that describes leadership as “a social interaction process where individuals engage in repeated leading-following interactions, and through these interactions, co-construct identities and relationships as leaders and followers”. DeRue (2011) makes the important point that the leadership process is about interactions. People interact, and sometimes they perform leading activities, but the same people may in other scenarios perform following activities.

The adaptive leadership theory was preceded by the work of DeRue and Ashford (2010), which has significant implications for the study at hand. Their conceptual model primarily describes the construction of leadership as a reciprocal process of claiming and granting leader and follower identities. In other words, they argue that an individual or group must take on (claim) the identity of either a leader or a follower and grant the identity of leader or follower to the other group, person or entity. They contend that the process of constructing such a leadership or a followership identity is attached to roles, and that these roles depend on self-concept and identity work. Moreover, they proposed that three elements have to be present for a leader or follower identity to be constructed, namely individual internalization, relational recognition and collective endorsement.

Individual internalization relates to the self-concept and individual agency. Relational recognition implies that

...[i]ndividuals’ identities are often tied to various roles (Stryker, 1980; Stryker & Burke, 2000), and certain roles are reciprocally related (e.g., parent/child or leader/follower) such that individuals in the situation mutually recognize the role relationship, (DeRue & Ashford, 2010:629)

Collective endorsement involves “being seen within the broader social environment as part of a particular social group – for example, leaders or followers” (DeRue & Ashford, 2010:629). For instance, if a follower claims a follower identity by means of the three elements of individual internalization, relational recognition and collective endorsement, then a leader identity is granted to the leader, and vice versa. The co-construction of leadership then depends on whether the individual or group who is granted a leader identity, for instance, then reciprocates by claiming that leader identity and granting a follower identity to the individual or group that granted the leader identity.

DeRue (2011) points out in his follow-up research that the three steps (elements of identity construction, whether it is a leader or a follower identity) must be followed in a specific order. He posits that individual internalization is a prerequisite for relational recognition and collective endorsement. It follows that if a leadership claim is made and a follower identity is granted, but it is not reciprocated at least by the individual internalization of a follower identity as a reciprocal action, then relational recognition and collective engagement will not emerge.

The order in which the reciprocal claiming and granting takes place implies further categories. Focusing only on those situations where the reciprocation is complete (i.e. in which leadership is constructed), there are two possibilities:

- leader-led situations, where the leadership claim and the follower grant are made first, followed by the follower claim and leader grant; versus
- follower-led situations, where the follower claim and leader grant are made first, followed by the follower grant and leader claim (this would be a follower-leading category).

It is also apparent that DeRue and Ashford (2010) describe the construction of leader and follower identities in this way in the context of an *organisation*.<sup>11</sup> However, thus far, their conceptual model has not been applied to explore the construction of leadership in contexts where hierarchical structures are vague or do not exist. The literature seems to be silent on such a scenario. Even in the follow-up work of DeRue (2011), he does not address the issue of applying this conceptual model to

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<sup>11</sup> I would suggest that the meaning attached to the organisational context by DeRue and Ashford (2010:627) is “an institutionalized hierarchy”, i.e. an institution where structural hierarchies apply.



disaggregated contexts. He only expands the initial study by DeRue and Ashford (2010) by developing the “adaptive leadership theory”, which focuses on groups instead of individuals.

DeRue (2011:131) proposes a multi-level model for the development of leading-following processes in groups, based on five propositions:

- the basic unit of reciprocal action in the leadership process is a series of “double-interacts” of leading and following that develops over time;
- these double-interacts result in the development of leader or follower identities; this identity construction process in turn forms the basis for the development of leader-follower relationships;
- patterns of leading-following interacts are constructed in an environment that forms part of the leadership construction process;
- the leading-following process is flexible, which implies that at a given point one group may lead, but the same group may follow at a later stage; and
- the group’s capacity to change in high-powered environments arises from the level of variation in the configuration of leader-follower identities.

These propositions still clearly require that acts of leading and acts of following are accepted by individuals. But what about scenarios where a leadership identity is claimed on behalf of a phenomenon, and not an individual, and followership is granted to a heterogeneous group who work in a disaggregated context? How does this affect the responsibility of taking leading actions granted to the followership? My study emerges from the proposition that the prior studies have failed to explain the leadership construction process in disaggregated contexts.

It is necessary to look closely at the conceptual model of DeRue and Ashford (2010), because it provides a very useful conceptual model for thinking about the construction of leadership in terms of the interactions between leaders and followers, or followers and a leading phenomenon. Nonetheless, their research remains limited to an organisational context. This constrains the development of theory on the construction of leadership, given that it has been acknowledged that context is an important determinant of the construction of leadership – Grint (2005) focused specifically on context, arguing that leadership is constructed through leaders, followers and the specific context.

Earlier authors (Fiedler, cited in Miner 2015; Kerr, Schriesheim, Murphy & Stogdill, 1974) maintained that a good leader is one who makes the right decisions when a crisis hits (these are contingency models). The leader then emerges as the one who provides solutions to the problem in a specific context. According to these earlier authors, the context comes first and then the leader emerges. Grint's conceptualization is different, in that he argues that leaders are able to construct the context in which they can make the decisions they want to. In other words, instead of suggesting that leaders react on the basis of what is required of them in a specific context, Grint (2005) claims that decision-makers construct a reality for themselves in which they can execute decisions they want to make through individual agency. This stands in contrast to classical theories of leadership, such as the path-goal theory of leadership (House, 1996; House & Mitchell, 1975), which posits that leaders react and act appropriately in terms of what the context requires of them and then get followers to do what these leaders want the followers to do.

The idea that followers should be influenced to do things is expressed differently by Uhl-Bien *et al.* (2014). They argue that followers must be willing to be influenced. If followers must willingly accept being influenced to achieve certain goals, and they are in fact influenced by a phenomenon and not by other individuals, can that phenomenon be considered a leadership phenomenon? If it can, is it possible to attach a leadership identity to a phenomenon? These questions have not yet been addressed in the literature.

Even though the notion that the leadership process is socially constructed has been explored in the literature, the basic assumption still seems to be that the process occurs between *people*, who sometimes lead and sometimes follow. There is no evidence in the literature of a study that has explored the argument that this process can take place between a *phenomenon* and a group of followers who are then expected to do the leading in order to achieve goals.

## 2.10 CONCLUSION

This chapter reviewed divergent accounts of the history of leadership literature, and pointed out that research in the last two decades has called for new and different ways of thinking about leadership. It was clear from this review that the ontology of

leadership remains uncertain. It was also emphasised that leadership is not necessarily something that is attached to an individual or a specific group, and the fact that leadership has been recognised to be a socially constructed process was highlighted. It was acknowledged that theorists have found it difficult to move away from the leadership tripod in the form of leaders, followers and future goals (Bennis, 2007).

In this chapter, the importance of followers in the construction of the leadership process was identified. A summary of the development of ideas relating to followership was provided. The section on followership was divided into three sections: followership characteristics were discussed under subheadings relating to the role of followers, self-concept and identity. Then a description of follower behaviours was given. Thereafter, mechanisms through which followership emerges were discussed.

Finally, the idea that leadership is socially constructed was discussed, with a specific reference to the studies by DeRue and Ashford (2010) and DeRue (2011). Their work was singled out because it considers leadership as a socially constructed process, looking at the construction of leadership as a process involving the claiming and granting of either a follower or a leader identity. This leadership identity construction process is conceptualized as a three-step process of individual internalization, relational recognition and collective endorsement. This discussion provided a thorough understanding of this model, which is used as a theoretical framework to interpret and discuss the findings of this study in Chapter 6.

## **CHAPTER 3: INTEGRATED REPORTING AND THE PROVIDERS OF FINANCIAL CAPITAL**

### **3.1 INTRODUCTION**

In 2017, a statement which is relevant to this study was made by Humphrey, O'Dwyer and Unerman (2017:56):

At present, it is an unproven claim that integrated reporting will serve to direct financial capital to long term, sustainable businesses. It remains largely a belief statement, a testable proposition not a proven fact despite the proliferation of positive views from early integrated reporting adopters...

Since 2009, there has been a growing interest in integrated reporting (Cheng, Green, Conradie, Konishi & Romi, 2014; De Villiers, Rinaldi & Unerman, 2014; Eccles & Krzus, 2010; Loprevite, Rupo & Ricca, 2018; Solomon & Maroun, 2012). Integrated reporting emerged out of the broader social accounting movement (De Villiers *et al.*, 2014), and is described as a dynamic and evolving phenomenon (Adams, 2015). The success and/or failure of the broader social accounting movement has been debated in the literature. The recurring themes in the social accounting literature are legitimacy, transparency, accountability and sustainability (Gray, Adams & Owen, 2014). It is thus not surprising that these topics are also prominent in the integrated reporting literature.

Scholars who have debated the success of integrated reporting thus far, have mostly focused on whether and how integrated reporting is contributing to sustainability (Adams, 2015; Flower, 2015; Thomson, 2015; Tweedie & Martinov-Bennie, 2015; Van Bommel, 2014). Integrated reporting is claimed to promote sustainability, since the IIRC states that integrated reporting “will act as a force for financial stability and sustainability” (IIRC, 2013c:2). It can be argued that, in making such a bold leadership claim for integrated reporting, the IIRC directly claims a leadership identity for integrated reporting. The IIRC thereby also implicitly grants a followership identity to the providers of financial capital, by stating that the purpose of integrated reports

is to communicate the value creation of organisations to providers of financial capital (IIRC, 2013c).

Integrated reporting differs from its predecessors (social and environmental reporting and sustainability reporting) in that the target audience for integrated reports is providers of financial capital (Humphrey et al., 2017), rather than a broad range of stakeholders. A prominent concern in integrated reporting is therefore the fact the IIRC specifically states that “[t]he primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time” (IIRC, 2013c:4).

This chapter provides an overview of the history of and background to integrated reporting. First, in Section 3.2, I briefly describe the broader social accounting movement from which integrated reporting emerged. This section also highlights the call for transformation in corporate reporting in order to be more transparent and to contribute to accountability and sustainability. Section 3.3 discusses the scholarly debates in the integrated reporting literature, which centre around similar topics as the debates around the social accounting literature, and two broad camps in the integrated reporting literature are identified in Section 3.4. The centrality of the providers of financial capital in the context of integrated reporting is discussed in Section 3.5. The chapter concludes (Section 3.6) with the proposition that the IIRC has claimed a leadership identity for integrated reporting and has granted a followership identity to the providers of financial capital in order to achieve the goals of financial stability and sustainability.

## **3.2 HISTORY OF AND BACKGROUND TO INTEGRATED REPORTING**

The academic literature reveals longstanding discontent regarding traditional approaches to accounting and corporate reporting (Bebbington, 1997; Bebbington & Gray, 2001; Gray *et al.*, 2014; Gray, Kouhy & Lavers, 1995; Gray & Milne, 2004). The disillusionment with traditional approaches can be partially understood as a reaction to the failure of traditional accounting and reporting practices to address adequately the impact of corporate decisions and practices on broader social and environmental issues (Gray *et al.*, 2014). Responses to this discontent have varied. Arguably, the most consistent class of responses to address the inadequacies of

traditional accounting and corporate reporting is efforts to satisfy the desire for corporate actions to be described in a more transparent and holistic manner (Gray *et al.*, 2014).

These efforts fall under the broad rubrics of social accounting and corporate reporting (Gray *et al.*, 2014). Early social reporting efforts of the 1970s, environmental reports since the Rio Summit in the 1990s, and the strong call for governance reporting after the Enron debacle in the 2000s are all instances of this kind of response. The term “social accounting” could serve as an umbrella term to include all the different forms of corporate accounting and reporting, as is illustrated in the following definition:

...social accounting can embrace any possible way in which we can imagine that individuals and/or groups/organisations might choose to request, give and receive accounts from one another. (Gray *et al.*, 2014:66)

It is clear from the above definition that social accounting serves as a broad term that includes both accounting and reporting. It is also evident that accounting and reporting are intertwined. The idea of the broader social accounting movement therefore includes developments in accounting and resultant changes in reporting. The long and active existence of the social accounting movement has led corporates to produce a number of additional reports besides traditional annual reports, which focus only on financial statements (Gray & Laughlin, 2012). Hence, a number of terms are used interchangeably in the broader social accounting movement, for example, social and environmental accounting, social and environmental reporting, accounting for sustainability, and sustainability reporting.

Based on the findings of a review of 25 years of social and environmental accounting research by Mathews (1997), it can be argued that the broader social accounting movement has been gaining traction for roughly 45 years. The question is perhaps not how long this movement has been existence, but rather what it has achieved to address the pervasive discontent with corporate accounting and reporting. The authors of various studies disagree about the success of the broader social accounting movement. Mathews (1997) contends that the movement had a lot to celebrate after 25 years of research, but cautioned that the discipline relied on a small number of researchers and experts. By contrast, Gray *et al.* (1995) believed at

that point in time, that the movement has failed to a certain extent, because it lacked legitimacy.

Legitimacy is one of four recurring themes in the social accounting literature. The other recurring themes are transparency, accountability and sustainability (Gray *et al.*, 2014). These are discussed below.

A large amount of the research in the broader field of social accounting looks at legitimacy (Deegan, 2002; Gray *et al.*, 2014; Lindblom, 1994). Lindblom (1994:2) defines legitimacy as

...a condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy.

The alignment of value systems is central to this definition.

O'Dwyer, Owen and Unerman (2011) differentiate between three types of legitimacy – pragmatic, moral and cognitive. Pragmatic legitimacy suggests that a practice is supported because of its practical value to its most important stakeholders. O'Dwyer *et al.* (2011) explain that pragmatic legitimacy in the context of assurance of sustainability reports entails consensus – between the assurance providers of sustainability reports and the clients requesting the service – that the practice is needed. Moral legitimacy is based on whether the practice is perceived as “the right thing to do” (O'Dwyer *et al.*, 2011:36). In other words, moral legitimacy entails convincing the larger social system of the validity of the practice, based on the belief that it will promote social wellbeing (O'Dwyer *et al.*, 2011). Moral legitimacy therefore seems to be aligned with Lindblom's (1994) definition of legitimacy. Cognitive legitimacy is achieved when a practice has become so entrenched in a system that it is perceived as obvious. A practice is only deemed legitimate when it has reached all three levels of legitimacy.

The lack of legitimacy in the social accounting movement has been ascribed to a lack of universal agreement on terms and definitions, the fact that social and environmental reporting are not legislated (Stubbs & Higgins, 2018), and a lack of systematic research and theorizing in the field (Gray *et al.*, 1995).

If a practice or phenomenon does not achieve legitimacy, it can be regarded as a failure. Failure generally refers to not achieving the set goals. Social accounting set out to address the inadequacies of traditional accounting and improve transparency and the accountability of corporates for their impact on the environment and society (Gray *et al.*, 1995). Gray *et al.* (2014) explicitly describe social and environmental reports as a failure because they argue that such reports are often used by corporates to validate their (mis)behaviour and to retain power. It has also been said that these reports are not produced because there has been a real change in corporates' behaviour, but because corporates want to use them as a tool to manage risk and enhance their reputations (Bebbington, Larrinaga & Moneva, 2008). Arguably, it is only possible for corporates to use social and environmental reports as tools to manage risk and enhance reputation as long as these reports are produced voluntarily.

There seems to be a misleading trend to associate an increased number of reports with responsible citizenship (Bebbington *et al.*, 2008), which may be far removed from the reality. In most instances, these reports are not assured externally. Still, regulatory frameworks for these reports and external assurance could assist in enhancing the legitimacy of social and environmental reports and make it possible for these reports to be transparent and contribute to accountability and sustainability.

It is important for corporates to account for and report on their use of resources transparently, in order to address the increasing pressure of human activity on a finite planet with limited resources. The ability of the human species to continue its existence and standard of living, given our planetary boundaries (Brundtland *et al.*, 1987), is a universally accepted description of sustainability (this is also known as the *Brundtland* definition). Sustainability is used here as an umbrella term to include sustainable development. However, Gray (2010) has specifically argued that it is almost impossible for corporates to account for sustainability, if sustainability is understood in relation to planetary boundaries. In fact, what corporates do can rarely *support* the sustainability of the planet, because most companies use natural resources and very few plough back into the environment.

Nonetheless, over time, the terms “accounting for sustainability” and “sustainability reporting” seem to have replaced the terms “social and environmental accounting”



and “social and environmental reporting”. De Villiers *et al.* (2014:340) maintain that the social accounting movement has evolved into the accounting for sustainability movement. This movement has also been considered a failure because it has not had any real impact in terms of transforming corporates into more sustainable (or socially and environmentally responsible) organisations (Gray, 2010).

Bebbington, Russell and Thomson (2017) contend that the goal of the broader social accounting movement is to achieve sustainability, and in order to achieve sustainability, new “solutions” seem to keep emerging, one of which is integrated reporting. It might well be argued that integrated reporting is a sub-form of social accounting, or simply the latest manifestation of these developments (Stubbs & Higgins, 2018). De Villiers *et al.* (2014) confirm that integrated reporting emerged from social and environmental reporting and suggest that integrated reporting scholars be well versed in social accounting. The recurring themes of legitimacy, transparency, accountability and sustainability are also prominent in the integrated reporting literature. In this context, it should be noted that the role of the IIRC in the development of integrated reporting has aroused significant academic debate, especially in research interrogating the IIRC’s development process and the final Framework (Humphrey *et al.*, 2017).

### **3.3 DEBATES IN THE INTEGRATED REPORTING LITERATURE**

#### **3.3.1 The role of the IIRC in the development of integrated reporting and the claim of a leadership identity for integrated reporting**

According to Dumay, Bernardi, Guthrie and Demartini (2016), the international integrated reporting journey began in South Africa, in 1994, with the release of the first King Code for Corporate Governance. However, several other authors regard the King III Code of Corporate Governance in 2009 as the starting point for integrated reporting (Cheng *et al.*, 2014; De Villiers *et al.*, 2014; Eccles & Krzus, 2010; Loprevite *et al.*, 2018; Solomon & Maroun, 2012). This dating of integrated reporting to 2009 is supported by the fact that two crucial meetings about integrated reporting were held in that year, in London and at Harvard respectively (Eccles & Krzus, 2010). The meeting in London, in particular, pre-empted the formation in August 2010 of the IIRC, which is an “extraordinarily high-powered” (Flower, 2015:2)

body that undertook the task of defining a global integrated reporting standard (Brown & Dillard, 2014). By December 2013, following a public development process which has been described and critiqued in detail by Humphrey *et al.* (2017), the IIRC released its International Integrated Reporting Framework (the Framework) (IIRC, 2013c).

In academic circles, the Harvard meeting is often seen as an important precursor to the publication of Eccles and Krzus's (2010) influential book, entitled *One report. Integrated reporting for sustainable strategy*. The broader integrated reporting discourse centred on the IIRC's activities, critically interrogating both the IIRC's development process and its final Framework (Humphrey *et al.*, 2017). The formal development of the Framework was published within a mere two years of the formation of the IIRC, in the form of the following five documents:

- *Towards integrated reporting* (IIRC, 2011);
- *The consultation draft* (IIRC, 2013b);
- *The International Integrated Reporting Framework*, 2013c);
- *Basis for conclusions* (IIRC, 2013a);
- *Summary of significant issues* (IIRC, 2013d).

The first document, also known as the *Discussion paper*, presents the rationale for integrated reporting, an initial proposal for an international framework and the outline of the steps that would follow for the preparation of integrated reports and process of integrated reporting. The objective of the *Consultation draft* was to disseminate a first draft of the international framework, and this draft was released for public consultation from April to July 2013 (IIRC, 2013b). Based on the public documentation process, the IIRC published two further documents: the *Basis for conclusions* (IIRC, 2013a) and the *Summary of significant issues* (IIRC, 2013d). The *Basis for conclusions* (IIRC, 2013a) provides the IIRC's basis for conclusions on the major technical issues raised by respondents to the *Consultation draft*. The *Summary of significant issues* (IIRC, 2013d) discusses other significant issues raised by respondents to the *Consultation draft* and includes a summary of the process that the IIRC followed in developing the Framework.

Flower (2015:15) has analysed the development process of the International Integrated Reporting Framework. He has criticised the IIRC's development process,

and claims that the IIRC has failed to achieve the aims it set out to achieve, particularly with regard to four issues:

- The integrated report is now only an add-on report, and is not meant to be a single, all-inclusive report that a firm presents.
- The sustainability agenda seems to have been abandoned in the content analysis of the formal documentation.
- An inclusive stakeholder model seems to have been abandoned, as the Framework instead names providers of financial capital as the primary audience of the report.
- Integrated reporting will probably make little or no significant impact on the way reports are prepared, because very few specific obligations are placed on the preparers of such reports.

Flower's (2015) critique goes further – he judges the work of the IIRC to be an irredeemable “story of failure” (Flower, 2015:1). His influential article has triggered further debate, and it highlights two very prominent issues in the literature related to the work of the IIRC. The first is the issue of abandoning sustainability as an objective, and the second is the targeting of providers of financial capital as the primary audience.

The IIRC does in fact suggest that integrated reporting offers solutions for sustainability (IIRC, 2013c), as it states that “[t]he cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability.” However, the IIRC is not *explicit* in its communication about sustainability. Even though the word “sustainability” is mentioned, references to the term “sustainable development” seem to have disappeared in the final framework (Thomson, 2015). In the discussion paper, the term “sustainability” is mentioned at least 20 times, whereas in the final framework it is only mentioned three times, and in two of these three instances, it is referred to in the context of sustainability reporting (IIRC, 2011, 2013c). The first reference to sustainability claims that integrated reporting will be “a force for financial stability and sustainability” (IIRC, 2013c:2). The second and third references to sustainability are references to the fact that integrated reporting is *not* sustainability reporting. The Framework does not deal in detail with the meaning of sustainability or the fact that

integrated reporting needs to contribute to achieving sustainability in any way, but instead emphasises long-term value creation (which may or may not obliquely imply a form of broader sustainability):

An integrated report is intended to be more than a summary of information in other communications (e.g., financial statements, a sustainability report, analyst calls, or on a website); rather, it makes explicit the connectivity of information to communicate how value is created over time. (IIRC, 2013c:8)

In the IIRC publication *Understanding transformation: building the business case for integrated reporting* (Black Sun PLC, 2012), sustainability is mentioned 39 times in a document of 32 pages. Notwithstanding, even though the document mentions sustainability so often, it does not explain how sustainability should be understood or interpreted. The term is used twice in the phrase “long-term sustainability of the business”. In the context, this seems to refer to the long-term viability of the business in a “going concern” sense. As illustrated, the IIRC only states that sustainability should be achieved, but never explains what is meant by sustainability, and how exactly it will be achieved through integrated reporting. Thus, the IIRC does not provide an explicit definition or framework for how sustainability should be interpreted in the context of integrated reporting. It is also not made explicit whether the IIRC subscribes to the most frequently quoted “Brundtland” definition (which I also quoted above). Various scholars (Stubbs & Higgins, 2018; Thomson, 2015) comment that one can only assume that “everybody knows”, or perhaps the IIRC’s use of vague language is intentional (Van Bommel, 2014) in order to make integrated reporting attractive to a larger audience.

The IIRC is also vague in its descriptions of other key concepts. For instance, it also does not define value, even though the term value creation is central to its definition of integrated reporting. According to Flower (2015), even though value is not defined explicitly, the IIRC implies that it is referring to value for investors. The issue of the definition of value was already raised by respondents to the *Consultation draft*, and the IIRC responded to the issue in its *Basis for conclusions* document, explaining that the IIRC had concluded that the Framework should

...not define value from any one particular perspective because what constitutes value depends on an individual’s own circumstances and perspective. Rather, paragraphs 2.4–2.9 of the Framework explain that value created by the organization: (a) manifests itself in increases, decreases or transformations of the capitals, and (b) has two interrelated aspects (value created for the

organization and for others) that are linked through a wide range of activities, interactions and relationships. (IIRC, 2013a:7)

It is clear from the IIRC's somewhat evasive response that it does not want to take a specific position on the definition of value and deliberately wants to keep the definition vague and open to individual interpretation. Humphrey *et al.* (2017:54) also note that this vagueness is used by the IIRC to make integrated reporting attractive to a wider audience: "...the broad idea of integrated reporting was attractive and worth pursuing, its precise meaning and practical content was less obvious and uniform."

The term "financial stability" is also not defined, even though financial stability and sustainability are listed as the ultimate goals of integrated reporting (IIRC, 2013c):

The IIRC's vision is to align capital allocation and corporate behaviour to wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking. (IIRC, 2019)

It is concerning that, despite the fact that the IIRC claims that it is the purpose of integrated reporting to explain the value creation by an organisation to the providers of financial capital (IIRC, 2013a:6), and that the goals of integrated reporting are to achieve financial stability and sustainability, these key concepts are not defined, but are left open to interpretation. The one thing that is not vague is the explicit claim by the IIRC that integrated reporting will achieve financial stability and sustainability. To this end, it is possible to argue that the IIRC makes a direct leadership identity claim (DeRue & Ashford, 2010) for integrated reporting. However, the ability of integrated reporting actually to achieve these goals through integrated thinking and the financial capital allocation decisions of providers of financial capital (IIRC, 2013c) has been debated in the literature.

### **3.3.2 The ability of integrated reporting to contribute to sustainability**

In academic circles, the terms "sustainability" and "sustainable development" are often used interchangeably, although sustainability is perceived as the broader term or end goal. Sustainable development is then the path by which to move towards sustainability. Hopwood, Mellor and O'Brien (2005) have commented on the inconsistencies regarding the use of the terms "sustainability" and "sustainable development", and they have identified two major approaches to sustainable

development. The first approach is support of the status quo (Hopwood *et al.*, 2005). Supporters of the status quo take the view that change can take place within the current system through management and small incremental changes from the top down. The second approach adopts a transformation view, which requires that change take place through political action that needs to work both in and outside the prevailing structures. Hopwood *et al.*'s (2005) two approaches seem to be reflected in the integrated reporting literature as well. Some authors believe that integrated reporting has the potential to achieve sustainability (Adams, 2015; Eccles & Krzus, 2014), but others say it will not do so (Brown & Dillard, 2014; Flower, 2015; Thomson, 2015).

Brown and Dillard (2014) specifically investigated the potential of integrated reporting as a sustainability change initiative. Their investigation draws on the social and environmental accounting literature, as well as science and technology literature, to develop various ways to evaluate and interrogate integrated reporting as a change initiative. They found that integrated reporting is currently framed in a business case manner, and concluded that as long as it is framed in this way, it will make no difference to sustainability issues. This business case framing is in line with the status quo approach to sustainability already identified by Hopwood *et al.* (2005). In terms of Brown and Dillard's (2014) contention, the IIRC has taken a status quo approach to integrated reporting, and as a result, it offers little hope that sustainability will be achieved. Brown and Dillard thus seem to be aligned with a transformation view of sustainability.

Several other authors also seem adopt a transformation view of sustainability, as they contend that integrated reporting has a greater chance of perpetuating current unsustainability through this business case framing (the status quo approach) than it has of contributing possible solutions to sustainability challenges (Stubbs & Higgins, 2018). Flower (2015) argues that (although integrated reporting is ostensibly supposed to be about sustainability accounting) the IIRC has clearly abandoned the idea of sustainability accounting in the Framework, because the IIRC's vague definition of value implies "value for investors" and not "value for society" (Flower, 2015:1). He also points out that companies are not required to report on externalities that do not have a direct impact on the company, because of the way in which materiality is defined in the Framework. Materiality is defined in such a way that it

translates only to those issues that influence the ability of an organisation to continue to create financial value.

In essence, Thomson (2015) agrees with Flower, confirming that the current structure of the Framework will not result in integrated reporting's achieving its original intentions of financial stability and sustainability, but he is less condemnatory in his article than Flower. Thomson (2015) grants that the IIRC is an organisation that may have noble intentions, and believes that integrated reporting has the potential to influence the corporate reporting landscape and to contribute to sustainability. However, Thomson (2015) points out that integrated reporting can only support sustainability if integrated reports meet a number of requirements. First, an integrated report should deliberate on what a sustainable corporation in a sustainable world would look like. Second, it should account for all the unsustainable consequences that could result from the existence of the corporation. Third, it should represent the voices and values of the communities in which the corporation operates. Fourth, it should also report on how the corporation contributes to sustainable change.

A few authors are much more optimistic about the possibility that integrated reporting can contribute to sustainability (Adams, 2015; Eccles & Krzus, 2014; Tweedie & Martinov-Bennie, 2015). They claim that integrated reporting has the ability to shift thinking to more long-term thinking and integrated thinking, and that this can lead to sustainability. These authors therefore seem to take a status quo approach to sustainability, in terms of Hopwood *et al.*'s (2005) classification. The debate in the literature regarding the ability of integrated reporting to achieve sustainability is inextricably linked to the debate of whether integrated reporting is a success or a failure. The success and failure debate is in turn related to a discussion regarding the legitimacy of integrated reporting.

### **3.3.3 The legitimacy of integrated reporting**

The broader social accounting movement has been labelled a failure because of a lack of legitimacy, as discussed in Section 3.2 above. Van Bommel (2014) specifically addressed the issue of the legitimacy of integrated reporting in an explorative study in the Netherlands to determine whether integrated reporting will

reach cognitive legitimacy. He applied Boltanski and Thévenot's sociology of worth (SOW) framework to a data set consisting of an analysis of integrated reports and 64 semi-structured interviews with a wide range of stakeholders. He therefore did not consider pragmatic legitimacy and moral legitimacy, unlike O'Dwyer *et al.* (2011, see Section 3.2).

Van Bommel (2014) posits that because integrated reporting has to report on the value creation by an organisation beyond only financial value, integrated reporting has to negotiate a balance between a number of differing ideologies to find a compromise between the different domains of business, the market, society and the environment. According to Van Bommel (2014), the inclusion of mutual interests, evasion of clarification and vagueness are in fact required in order to reach legitimacy. I have already mentioned the issues of creating the impression of mutual interests and upholding vagueness were discussed in Section 3.3.1. The topic is discussed at length by Humphrey *et al.* (2017:43-44), who comment:

...the boundary work of the IIRC to this point had been somewhat ambiguous about offering support for many of the distinct characteristics claimed for integrated reporting. However, the 'flattering contrasts' (Gieryn 1983, Mikes 2011) presenting integrated reporting as an alternative to current reporting norms had succeeded in stimulating increased questioning of the reporting status quo, against which integrated reporting, however vaguely specified, was favorably positioned.

Van Bommel (2014) concludes that integrated reporting runs the risk of not reaching legitimacy because the interests of shareholders have been prioritized over and above those of other stakeholders. By contrast, Stubbs and Higgins (2018:2) argue that "[o]ver time IR will be perceived as a legitimate practice, where the actions of integrated reporters are seen as desirable, proper, or appropriate". According to Stubbs and Higgins (2018), legitimacy will be based on the usefulness of integrated reports. The targeted users of the reports (providers of financial capital) will then determine the usefulness of reports. This seems to be a reference to pragmatic legitimacy. Thus far, there has not been a discussion of all three forms of legitimacy in the context of integrated reporting in the literature.

The assurance of integrated reports, which is an important prerequisite for the creation of legitimacy (see Section 3.2 for a discussion of assurance of sustainability reports and legitimacy), is addressed in the integrated reporting literature.



Nevertheless, Maroun (2017) calls for much more research on the topic of assurance of integrated reports, pointing out that, because integrated reports are forward-looking and contain both qualitative and quantitative information, it is difficult to assure the validity and reliability of the information. He has made a significant theoretical, practical and empirical contribution to the field, proposing three possible approaches to the assurance of integrated reports. The first approach is called “restricted assurance”, and refers to the focus’s remaining on the existing audit standards and the assurance of the financial statements. Auditors are only required to check for inconsistencies in the reporting of the financial statements and other qualitative or quantitative information contained in the integrated report (Maroun, 2017). The second approach is the integrated approach, where the board of directors takes responsibility for checking and verifying that the information contained in the integrated report is a truthful account (Maroun, 2017). The third approach is an adapted “Delphi technique”: a panel of experts is consulted to provide expert opinions on whether the methods used to collect and verify the data provided in the report are indeed valid and reliable (Maroun, 2017).

Farooq and De Villiers (2018) discuss the assurance of sustainability and integrated reports. They contend that the need for the assurance of integrated reporting emerged from a demand in the market to hold organisations accountable for the claims they make about sustainability. However, Farooq and De Villiers (2018) express concern regarding the scope and the objective of assurance engagements for integrated reporting. They explain that, because external assurance is not yet required by law, the scope and the objectives are determined by the market, based on demand and supply. As a result, it is difficult to know whether all the material issues are indeed investigated.

Despite these theoretical contributions proposing practical solutions for the assurance of integrated reports, there are no specific established practices or formal frameworks for the assurance of integrated reports as yet (Farooq & De Villiers, 2018; Maroun, 2017). The fact that most integrated reports only contain a limited assurance statement regarding the non-financial information limits the value that users of these reports attach to these reports, which in turn affects the legitimacy of integrated reporting.

### 3.4 OPPOSING CAMPS IN THE INTEGRATED REPORTING LITERATURE

Two camps or positions have crystallised in the debate in the integrated reporting literature. These camps were already identified by Brown and Dillard (2014), and are epitomised by the opposing articles by Flower (2015) and Adams (2015).

The first camp is comprised of those who emphatically judge the integrated reporting endeavour driven by the IIRC as an irredeemable “story of failure” (Flower, 2015:1). Flower initially noted promising signs in the early discussion documents and withheld his judgement until after the publication of the Framework, but then criticised the Framework sharply. Flower (2015) attributes the failure of integrated reporting to the fact that the IIRC is ruled by individuals from the accountancy profession and multinational companies, suggesting that it would not be in their interests to attain true accounting for sustainability. Gray (2012) was more precipitate. He was pessimistic from the outset regarding the direction in which the IIRC was moving, based on the IIRC’s 2011 discussion document entitled *Towards Integrated Reporting: communicating value in the 21st century* (IIRC, 2011). Gray’s article concludes with the following comment:

In these circumstances, trying to comprehend what the IIRC ha[s] in mind is difficult indeed. We know investors are unhappy with disclosure. We know that their interests in accountability and sustainability are marginal at best. There is nothing in this document that addresses the very real possibilities – and the very urgent exigencies – of accountability and sustainability. (Gray, 2012:6)

The central basis for the criticism by authors in this camp is the radical erosion in the IIRC’s work of a focus on sustainability in the broad sense implied in the Brundtland definition – Gray (2012:2) has accused the IIRC of abandoning sustainability in favour of “fairy tales of a Friedmanite neo-liberal utopia”. Arguments in line with this position were also advanced by several other authors, including Brown and Dillard (2014), Thomson (2015), Alexander and Blum (2016), and Humphrey *et al.* (2017).

Adams’s (2015) article representing the opposing camp was written as a direct response to Flower’s (2015) “story of failure” article. Although Adams did not deny that there was a basis for Flower’s pessimism, her basic proposition is that Flower’s critique was premature. In particular, she makes a plea for giving the IIRC’s integrated reporting initiative time to nurture a more long-termist attitude amongst corporations, members of the accounting profession, and providers of financial

capital. This plea assumes that such long-termist attitudes will allow social sustainability to emerge as a by-product of the pursuit of self-interest in general and profit maximization in particular. Somewhat more cautiously, Tweedie and Martinov-Bennie (2015) also advanced this long-termist possibility. In their discussion (which is characterised by the use of the conditional “if” and modal and auxiliary verbs signifying more or less vague possibility), they noted:

If this claim [that over the long term the interests of investors tend to align with those of other stakeholders] is plausible, then the IIRC can legitimately argue that a rigorous application of IR will incorporate the interests of non-financial stakeholders as a by-product. (Tweedie & Martinov-Bennie, 2015:65)

Eccles and Krzus (2014) also remain “cautiously optimistic” about integrated reporting and claim that the future of the movement is still to be shaped by those who participate in it. Their conclusion seems to take an approach very similar to that of Adams, in that they also argue that integrated reporting has the potential to cause a shift to more long-term thinking. Other support for this position has typically been somewhat less explicit – often, authors (e.g. Serafeim, 2015) simply endorse integrated reporting without acknowledging the scathing criticism of opposing camp. In their research, the validity of the long-termist argument is more or less taken as axiomatic.

It is clear that the arguments advanced by these opposing camps are grounded in fundamentally different, perhaps even irreconcilable, ideologies or “belief statements”, as Humphrey *et al.* (2017:38) put it. The “story of failure” position rests on a fundamental disbelief that an explicitly partial pursuit of self-interest can ever reliably deliver social sustainability. If justice does lie at the heart of social sustainability, as the Brundtland definition implies, then this disbelief is strongly rooted in modern political philosophy associated with distributive justice. If social sustainability is justice, then it can be thought of in terms of John Rawls’s idea of “justice as fairness” (Rawls, 1971:11). This leads to the idea of social sustainability as fairness, and then one has to recognise the need for the centrality of impartiality in achieving social sustainability, as Sen (2011) emphasises in relation to justice.

By contrast, the opposing position rests on the firm belief that, over the long term, the pursuit of self-interest can be relied upon to deliver social sustainability. Once again, assuming the connection between social sustainability and justice, this idea is

not new. It is rooted in philosophical arguments dating back almost 300 years to the 18<sup>th</sup> century Scottish enlightenment philosopher David Hume, who, in trying to overcome the paradox of satisfying egoism in relation to justice, argues that our long-term interests are best served by justice (MacIntyre, 2013).

It should be noted that the IIRC's ideology is aligned with the arguments of the second camp, in that it claims that integrated reporting will lead to financial stability and sustainability through the capital allocation decisions of providers of financial capital. This claim does indeed represent a neoliberalist position, as Gray (2012) points out, since it argues that the interests of investors are ultimately aligned with social sustainability and justice.

It can also be argued that the IIRC's claim is a direct claim of a leadership identity for integrated reporting (DeRue & Ashford, 2010). Integrated reporting is also indirectly suggested to be a leadership phenomenon in the literature:

Integrated reporting has been routinely discussed and advocated by such actors in positive terms as an innovation that needed to happen, and as something that will lead the way in terms of the future development of corporate reporting. (Humphrey *et al*, 2017:53-54)

Clearly, the debate about integrated reporting in the literature is far from settled, but the IIRC's claim that integrated reporting will be "a force for financial stability and sustainability" remains. Humphrey *et al.* (2017) note that the realization of this claim is largely seen to depend on the providers of financial capital, granting them a follower identity. It is therefore proposed that the IIRC's focus on providers of financial capital and the granting of responsibility to them to achieve the goals of integrated reporting, of financial stability and sustainability, is a significant development in integrated reporting.

### **3.5 THE GRANTING OF A FOLLOWER IDENTITY TO PROVIDERS OF FINANCIAL CAPITAL**

Although integrated reporting can be read as having evolved from broader movements such as social accounting, the IIRC's Framework is very specific in its specification of the audience of integrated reports (Thomson, 2015). The IIRC explains that its decision to specify that the purpose of integrated reporting is to communicate the value creation by organisations to providers of financial capital was

based on its assertion that integrated reporting will result in more effective capital allocation decisions and better long-term investment returns (IIRC, 2015). It can therefore be argued that the responsibility for achieving the goals of integrated reporting, namely financial stability and sustainability, is also granted to providers of financial capital.

Serafeim (2015) confirms that the purpose of integrated reporting is specifically to provide investors with useful information for decision-making. As already noted, the IIRC defines providers of financial capital as

...[e]quity and debt holders and others who provide financial capital, both existing and potential, including lenders and other creditors. This includes the ultimate beneficiaries of investments, collective asset owners, and asset or fund managers. (IIRC, 2013c:33)

It is evident from the IIRC's definition that providers of financial capital represent a number of different categories of role players, and includes the entire investment chain.

Because the purpose of integrated reporting is to communicate with all these providers of financial capital, it is critical to understand these providers' perceptions of integrated reporting. As a result, a number of academic and professional publications (Adams, 2015; Flower, 2015; Slack & Campbell, 2016) have focused on providers of financial capital. Two academic studies have specifically investigated the perceptions of providers of financial capital regarding integrated reporting (Atkins & Maroun, 2015; Stubbs, Higgins, Milne & Hems, 2014). Atkins and Maroun (2015) studied the perceptions of providers of financial capital in South Africa. They found that such investors perceive integrated reporting as an advance in corporate reporting and as a better tool to explain organisational sustainability than traditional corporate reporting. However, they warn that template-like reports, repetition in reports and the length of reports diminish the value of integrated reporting (Atkins & Maroun, 2015). It should be noted that although their article was published in 2015, their data were collected during 2012, before the formal release of the IIRC's Framework. Their study therefore provides only preliminary impressions of integrated reporting.

Shortly after the release of the Framework, Stubbs *et al.* (2014) also explored the perceptions of providers of financial capital. Investors were approached to capture

their perspectives on how integrated reporting and the six capitals influence investment decision-making. Stubbs *et al.*'s (2014) findings indicate that integrated reporting was still lacking in terms of supplying the information that investors wanted. They noted that the six capitals model, which is a key to understanding integrated reporting, was not well understood and was not perceived as particularly useful to investment decision-making. Stubbs *et al.*'s (2014) study used a very limited sample, as only four interviews were done, all with Australian providers of financial capital. Consequently, the study only provides the perceptions of four Australian investors who were all participants of the IIRC's pilot programme and therefore positioned to be more optimistic about integrated reporting than providers of financial capital that have no knowledge of integrated reporting.

A professional report by the Association of Chartered Certified Accountants (Slack & Campbell, 2016) also found a widespread lack of familiarity with integrated reporting among investment analysts. Like Stubbs *et al.* (2014), the Association of Chartered Certified Accountants' report noted that there was general misunderstanding regarding integrated reporting's six capitals model and its usefulness and possible integration into investment decisions (Slack & Campbell, 2016). The report cautions that the lack of understanding and acceptance of the six capitals by investors will undermine the ability of integrated reporting to become the corporate reporting norm.

A follow-up study to Stubbs *et al.*'s (2014) research by Stubbs and Higgins (2018) again investigated the perceptions of providers of financial capital. The 2018 study is part of a larger study of the perspectives of all users of integrated reports regarding the role of regulatory reform in integrated reporting. Their findings revealed strong overall support for voluntary integrated reporting, as many participants indicated that it was too soon to legislate integrated reporting. Among these participants, half of the investors participating in Stubbs and Higgins's (2018) study supported the idea of mandatory integrated reporting. This demonstrates that investors – more so than other participants – supported mandatory reporting. The participants also believed that integrated reporting would become the corporate reporting norm if things were left to market forces. This might be a result of the fact that shareholders are prioritized through integrated reporting, so it would not be surprising if markets responded positively to that. Stubbs and Higgins's (2018) findings also confirmed that integrated reporting privileges financial information over environmental, social

and governance (ESG) information and therefore tends to remain stuck in a weak sustainability paradigm (the status quo view of sustainability). This implies that the prioritization of investors and the privileging of financial information over ESG information may well help integrated reporting to become the reporting norm, but also that it will not necessarily assist in contributing to broader sustainability.

An earlier study by Rensburg and Botha (2014) in South Africa attempted to determine to what extent the financial information in integrated reports is used and consumed by stakeholders. This study included both providers of financial capital and other users. Rensburg and Botha (2014) found that very few stakeholders use integrated reports as their main source of financial and investment information. Stakeholders typically only drew on integrated reports to get extra information about a company. Stakeholders indicated that they would like to make more use of the internet to obtain financial information in the future.

Serafeim (2015) believes that studies on the relation between investors and integrated reporting are useful, because investors can influence the behaviour of management. His findings demonstrate that long-term investors are more likely than short-term investors to invest in companies that integrate ESG information into their strategy and business model reporting. Serafeim (2015) shows that in a sample of 1 114 unique US-listed companies integrated reporting was associated with a longer-term investor base. These results held even after controlling for other recognized determinants of the type of investors who own shares in a company. There is therefore a possibility that companies that adopt integrated reporting will attract long-term investors, rather than short-term investors. This study therefore aligns itself with the camp identified in the integrated reporting literature that is optimistic about integrated reporting, because of its purported ability to convince investors to take a more long-termist view. By contrast, the Association of Chartered Certified Accountants found that short-termism is still prevalent in the investment industry (Slack & Campbell, 2016).

A recent study by Loprevite *et al.* (2018) has contributed to the discussion concerning the relevance of integrated reporting for investors in the European context. Their results indicate that companies that produce integrated reports

displayed a significant improvement in the quality of accounting earning, and this in turn increased the probability that investors would interpret them.

At the heart of the debate in the integrated reporting literature lies the issue of whether providers of financial capital will indeed be led by integrated reporting to such an extent that it changes the way in which they allocate capital in order to achieve financial stability and sustainability. This idea is well articulated by Humphrey *et al.* (2017:32):

...the prospects of success for the IIRC's reconfiguration of the corporate reporting field have come to depend centrally on the IIRC being able to instigate institutional change in the rather more distantly related field of mainstream investment. In essence, the IIRC has sought to promote a greater focus on long term, sustainable investment not only by constructing a new form of (integrated) corporate reporting but also by *seeking to reconstruct the identity and interests of the mainstream investor* (with the success of the former depending centrally on delivering the latter). (Emphasis added)

This comment by Humphrey *et al.* (2017) suggests that the providers of financial capital are granted a follower identity in relation to integrated reporting.

### **3.6 CONCLUSION**

This chapter considered the most recent development in corporate reporting, namely integrated reporting. It started by looking at the social accounting movement as the origin of integrated reporting. The prominence of the role of the IIRC in the development of integrated reporting was then considered. It became evident that two broad camps have crystallised in the integrated reporting literature. The first camp is comprised of those who emphatically judge the work of the IIRC to be an irredeemable "story of failure" (Flower, 2015:1). The opposing camp holds the position that the IIRC's integrated reporting initiative needs to be given time to nurture a more long-termist attitude amongst corporations, members of the accounting profession, and providers of financial capital.

Chapter 3 showed that the IIRC has claimed a leadership identity for integrated reporting by clearly articulating its vision that integrated reporting must become the corporate reporting norm, with the goal of bringing about financial stability and sustainability in the world (IIRC, 2013c:2). The literature review led to the deduction that the IIRC has also granted a follower identity to providers of financial capital



because it has suggested that integrated reporting will lead to better investment decision-making, which will in turn lead to financial stability and sustainability. However, it is not clear to what extent providers of financial capital claim a follower identity for themselves or grant a leadership identity to integrated reporting.

## **CHAPTER 4: METHODOLOGY**

### **4.1 INTRODUCTION**

In Chapter 2, the theoretical underpinning of this study was provided in the form of a review of the leadership literature, including emergent theories of leadership as a phenomenon and of leadership as a socially constructed process. I emphasised that leadership and followership cannot be separated, and that it is challenging to move beyond the constructs of leaders, followers and shared goals in leadership studies. Based on the literature, it was concluded that DeRue and Ashford (2010) provide a useful framework for thinking about the construction of leadership through a reciprocal process of claiming and granting leadership and followership. In addition, it was established that more follower-centric and more empirical followership studies are needed in order to understand the construction of leadership better.

In Chapter 3, a context for this study was provided by a review of the integrated reporting literature, focusing on the contention that the IIRC has claimed a leadership identity for integrated reporting. It was also highlighted that the purpose of integrated reporting is communicating value creation by organisations to providers of financial capital. The literature reveals an ongoing debate about the success and/ or failure of integrated reporting, especially in relation to its claims to address financial stability and sustainability.

The aim of this academic study is to address the gap in the literature regarding the construction of leadership through the reciprocal process of claiming and granting leadership and followership, from a follower-centric perspective, in a disaggregated context. The purpose of this chapter is to discuss the research process that I followed in order to meet the research objectives. Crotty (2003:2-3) explains that there are four elements to research: methods, methodology, theoretical perspective and epistemology. Methods are “the techniques or procedures used to gather and analyse data related to some research question or hypothesis” (Crotty, 2003:3). Methodology is “the strategy, plan of action, process or design lying behind the choice and use of particular methods and linking the choice and use of methods to

desired outcomes” (Crotty, 2003:3). A study’s theoretical perspective is the philosophical stance that informs the methodology and that provides a context for the process, grounding its reasoning. Epistemology is defined as the theory of knowledge underlying the theoretical perspective. It is clear that these four elements or steps are intertwined. Some authors include a fifth element, which is referred to as the ontology (the researcher’s convictions about the nature of reality). The norm in methodology chapters is to start with a researcher’s ontological and epistemological views, followed by the theoretical perspective and a discussion of the methodology and methods.

The chapter follows six steps. The first step is to reiterate the research problem and the research objectives that emerged from it (also see Section 1.3). The second step is to give an account of my ontological and epistemological views. The third step is to set out the theoretical perspective. The fourth step is to present the research design or methodology. The fifth step is to discuss the chosen method to collect and analyse the data. The final step is to discuss the quality criteria and the ethical considerations contributing to the accountability of the research process.

## **4.2 RESEARCH PROBLEM AND RESEARCH OBJECTIVES**

Crotty (2003:13) rightly remarks:

Not too many of us embark on a piece of research with epistemology as our starting point. ‘I am constructionist. Therefore I will investigate...’. Hardly. We typically start with a real-life issue that needs to be addressed, a problem that needs to be solved, a question that needs to be answered. We plan our research in terms of that issue or problem or question.

The problem that prompted the research objectives of this study is that the process of leadership construction through reciprocal claiming and granting of leadership and followership has been conceptualized for an organisational context (DeRue & Ashford, 2010), but has not been explored in disaggregated contexts, where organisational hierarchies are absent. It has also been established that leadership can be seen as a phenomenon (Spoelstra, 2013) and that more empirical, follower-centric and followership studies are needed to understand the construction of leadership better.

The IIRC, the self-proclaimed governing body of integrated reporting, claims a leadership identity for integrated reporting when it states that “integrated reporting will be a force for financial stability and sustainability” (IIRC, 2013c:2). Furthermore, the IIRC claims that financial stability and sustainability will be achieved as a result of what it vaguely refers to as the “better” allocation of financial capital by the providers of financial capital. As I mentioned in Section 1.3 of this thesis, at the time when I conducted this study, the legitimacy of these leadership claims by the IIRC for integrated reporting had not been investigated in the form of an in-depth qualitative study. Furthermore, no prior study has explored whether the followership of integrated reporting that is granted to the providers of financial capital by the IIRC has been reciprocated by providers of financial capital’s claiming a follower identity for themselves and granting a leadership identity to integrated reporting (DeRue & Ashford, 2010). In fact, it has not been established whether these investors are even aware that the onus is on them to achieve financial stability and sustainability through financial capital allocation decisions.

In view of the situation outlined above, it was clearly necessary to explore the construction of leadership in the disaggregated context of the investment chain, represented by the providers of financial capital, through the reciprocal process of claiming and granting leadership and followership. In order to study this, I applied the conceptual model developed by DeRue and Ashford (2010) to this disaggregated context. In this context, what is known is that a leadership identity has been claimed for integrated reporting by the IIRC, and followership has been granted to the providers of financial capital. In order to understand the construction of leadership in this disaggregated context better, it was necessary to investigate whether the proclaimed followership of integrated reporting have reciprocated with a claim of a follower identity for themselves and a grant of a leadership identity to integrated reporting. Therefore, it was necessary to explore<sup>12</sup> whether the providers of financial capital

- accept and acknowledge their role as followers of integrated reporting;
- perceive the achievement of financial stability and sustainability as part of their responsibilities in their role as providers of financial capital;

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<sup>12</sup> As already indicated in Section 1.3 – repeated here for the convenience of the reader.

- perceive integrated reporting as a crucial source of information that is used in the process of investment decision-making;
- perceive integrated reporting as a leadership phenomenon that influences them in making investment decisions;
- have an in-depth understanding of integrated reporting and how it could inform potentially better investment decisions that could in turn lead to financial stability and sustainability;
- demonstrate a clear understanding of financial stability and sustainability that is in line with the IIRC's descriptions of these goals.

These secondary research objectives led to the overarching objective of the study, which was to explore the construction of leadership through the reciprocal process of claiming and granting of leadership and followership, in a disaggregated context. This disaggregated context meant that the exploration of the construction of leadership through the reciprocal process of claiming and granting was undertaken where the "leader" is not a person, but a phenomenon, and where the context is not an organisation, but a disaggregated sector.

As explained in Section 2.9, according to DeRue and Ashford (2010), the claiming and granting of an identity has to take place at three levels: the individual level, the relational level and the collective level. DeRue (2011) points out that relational recognition and collective endorsement will not emerge if individual internalization does not take place first. This implied that the interviews had to explore whether the providers of financial capital had individually internalized their roles as followers of integrated reporting.

### **4.3 ONTOLOGY AND EPISTEMOLOGY**

A researcher's ontology refers to the researcher's belief about the nature of reality. In other words, what is the researcher's world view? My ontological position is one of a critical realism. Realism reflects "the idea that there is a real world with which we interact, and to which our concepts and theories refer" (Maxwell, 2012:3). Realism has been associated with positivist approaches because it seems objectivist, in the sense that it calls for a truth that can be observed. However, there are many different forms of realism. For instance, it is possible to merge a realist ontology with a social

constructionist epistemology (Crotty, 2003). It is also possible to acknowledge the existence of a world that is separate from our thoughts and theories about it, while accepting that how we observe and construct knowledge about that world depends on individual experience, which in turn depends on our culture, level of education, gender, and many other possible contributing factors (Maxwell, 2012). In this regard, it is important to remember that “[a]ll theories about the world are seen as grounded in a particular perspective and world view, and all knowledge is partial, incomplete, and fallible” (Maxwell, 2012:5).

Critical realism differentiates between the particles of knowledge and the outcomes of science. The particles of knowledge, also called intransitive objects, are the things or phenomena that science desires to explain (Bhaskar, 2008). For the social sciences, these intransitive objects include practices, principles and implications. The transitive objects, on the other hand, include theories, models and methods (Bhaskar, 2008). Critical realists hold that the intransitive objects of knowledge have related or causal influences. In order to understand these influences, critical realists differentiate between the micro and macro levels of analysis, and use the following three levels of analysis: structure, culture and agency. Structure refers to the systems of human relationships, because of specific positions. Culture refers to belief systems and ideologies in which social agents are rooted. Agency refers to the ability of the individuals to make choices about their plans of action (Archer, Bhaskar, Collier, Lawson & Norrie, 2013).

For this study, the research objective emerged from both transitive and intransitive objects. The transitive objects were the actual integrated reports – reports that people can see, feel, touch and read. However, these reports are the result of a process which has been named “integrated reporting”. This overarching process entails a number of processes, actions and agents. The IIRC, the self-proclaimed governing body of integrated reporting, has claimed a leadership identity for integrated reporting. The possibility that leadership might or might not be constructed through a reciprocal process of claiming and granting leadership and followership between integrated reporting (the proclaimed leadership phenomenon) and the providers of financial capital (the proclaimed followership of integrated reporting), provided an excellent opportunity to explore the reciprocal construction of leadership in minute detail. In order for the providers of financial capital to claim a follower

identity for themselves, they should at the least be aware of the fact, and they should acknowledge, that they have been granted the responsibility for achieving financial stability and sustainability through the potentially better allocation of financial capital (as a result of the influence of integrated reports on their investment decision-making). In order to undertake such an exploration, one has to be aware of the structure of the investment chain, the roles and responsibilities of each of the role players and their ability actually to make decisions (agency).

The epistemological stance taken by a researcher is extremely important because this encapsulates the researcher's belief about how knowledge is created. The purpose of all research is to create new knowledge, and for this reason it is critical to explain what my beliefs about the creation of knowledge are. I offer this explanation in order to enable a better understanding of the chosen research design and methods. The epistemological position I took in this study is social constructionism.

In order to explain social constructionism it is necessary first to understand constructionism:

What, then, is constructionism? It is the view that all knowledge, and therefore all meaningful reality as such, is contingent upon human practices, being constructed in and out of interaction between human beings and their world, and developed and transmitted within an essentially social context. (Crotty, 2003:43)

It is vital to understand that this position does not rule out the existence of an objective reality which humans engage with and attach meaning to. The basic premise is that we, as humans, are the ones that attach meaning to whatever it is that we observe. What we observe can be things that are real even in the absence of humans (for example, trees), but it is humans who attach meaning to and construct knowledge about the things that they observe. To elaborate on the tree example: the meaning we attach to what we observe can differ from individual to individual, but each of the different perspectives is valid. For instance, the tree might have very different meanings to an environmentalist, a forester whose task it is to fell trees, and a person without electricity who needs wood to make a fire and stay warm at night. We do not only observe the "real world", we observe the abstract, as well as the meaning we attach to it. In the words of Crotty (2003:57): "We are born, each of us, into an already interpreted world and it is at once natural and social." This means

that we all find and experience the world in a certain way, and then we work with what we have (Crotty, 2003).

Burr (2006) contends that there is no single definition for social constructionism. He explains that social constructionism and all its varieties should be regarded as a family. In a family, the family members have diverse characteristics: some of them might have big eyes or small ears and others might be very tall, but all of them might have one distinct family characteristic, such as a distinctively crooked nose. Thus, even though two people in the same family might look very different, people would still be able to recognize that they belong to that family. Burr (2006:2-3) lists four key tenets that characterise the social constructionism “family”:

1. A critical stance towards taken-for-granted knowledge;
2. Historical and cultural specificity;
3. Knowledge is sustained by social process;
4. Knowledge and social action go together.

It is inherent to the constructionist paradigm for a researcher to construct new knowledge by means of a social process with the participants of the research. Social constructionism requires a researcher to identify a research problem based on her/his understanding of the world, and then do research with the socially constructed knowledge that the researcher has developed over time. This process is also referred to as sedimentation (Crotty, 2003).

#### **4.4 THEORETICAL PERSPECTIVE**

The term “theoretical perspective” refers to the philosophical standpoint that underlies a certain methodology. This theoretical perspective offers a context for the process to be followed in a study, as well as a foundation for its rationale. In other words, if a specific methodology is considered, one should be aware that an array of assumptions underlie that methodology, and by implication, the choice made by the researcher. These assumptions determine the researcher’s theoretical perspective and they have to do with the world imagined through the methodology (Crotty, 1998).

In this study, I adopted an interpretivist theoretical perspective. The focus in this approach is understanding social phenomena. Interpretivist approaches come from a Weberian perspective and focus on understanding (Crotty, 1998). Weber (cited in Crotty, 1998) argued that this focus on understanding should be substantiated by



empirical research. For these reasons, the study reported in this thesis involved qualitative, empirical research, with a focus on understanding the construction of leadership in a disaggregated context.

There are three main approaches within interpretivism, namely phenomenology, hermeneutics and symbolic interactionism (Crotty, 2003). It is difficult to situate my research specifically in any one of these approaches. To resolve this dilemma, I drew on pragmatist philosophy, which is categorized as a sub-set of symbolic interactionism (Crotty, 2003). My study is closest to this philosophy, in comparison with the other interpretivist approaches. The most obvious reason for this is that the research problem is not a philosophical or conceptual one, but one that emerged from the real world. The research objectives designed to address this real world problem developed into a more theoretical question, because of the fact that the research is approached through a specific leadership theory lens, namely the social construction of leadership in a disaggregated context – that of integrated reporting.

To explain this further, it is essential to reiterate the thought process that resulted in the emergent research objectives: integrated reporting is purported to assist in solving two of the most prominent issues in the world we live in today – financial stability and sustainability. The IIRC, the governing body of integrated reporting, has therefore claimed a leadership identity for integrated reporting. The IIRC then goes further and grants the responsibility for achieving the goals of financial stability and sustainability to providers of financial capital. This is done by stating that the purpose of integrated reporting is to communicate the value creation of organisations to providers of financial capital, and that financial stability and sustainability will be the result of better allocation of financial capital by these investors (IIRC, 2013c).

Recently, the pragmatist philosophy has been criticised, suggesting that it has become so practical and solution-oriented that it has lost its ability to be critical. Generally, interpretivist research is understood as research that aims to understand and describe social phenomena by reviewing the variety of perspectives out there (Crotty, 1998). There is no desire to make a generalization about a certain phenomenon; instead the intention is to gain an in-depth understanding of the perspectives that are out there from people who are involved with or deal with these phenomena.

The only way in which this research deviates from what some believe pragmatism has become is that it is not necessarily uncritical (Crotty, 1998). It was not the intention of the researcher to criticise, but in the process of analysis and the interpretation of the data, some criticism of neoliberalism became inevitable.

#### **4.5 METHODOLOGY: THE QUALITATIVE SURVEY AS RESEARCH DESIGN**

Jansen (2010) argues that qualitative studies aimed at exploring a range of perceptions or behaviours in a population through semi-structured interviews, with a small sample of population members, should be defined as qualitative surveys. Statistical surveys analyse frequencies in the features of a population, but qualitative surveys describe the diversity of perceptions within a population (Jansen, 2010).

Crafford (2015:123) explains the difference between a qualitative and a quantitative survey as follows:

The qualitative survey is used to describe a phenomenon in its context taking into account contextual demands, thus employing a logic of contextualisation. The quantitative survey, on the other hand, aims to transcend the details of the context and seek generalisations (based on statistical frequencies) thus employing a logic of generalisation.

For example, in a 2008 study by Kane, the purpose was to gather Catholic priests' perceptions and attitudes towards the priesthood and the church. Kane (2008) used a qualitative survey as method. In Kane's study, structured interviews were conducted with 22 priests in order to understand and describe the variety of perceptions in a small population of priests. It was important to gain a better understanding of these priests' perceptions about the priesthood in the context of the scandals associated with the exposure of priests' sexual misconduct and the accompanying media attention. It is clear that a specific contextual setting is an important element of qualitative surveys as a research design.

In qualitative surveys, researchers first have to specify the material object or topic to be studied, then the formal object (the aspect of the topic to be studied), followed by the empirical domain to be covered, and then the unit to be observed (Jansen, 2010). For the study reported in this thesis, the topic studied is the construction of leadership in a disaggregated context; the formal object is the granting of followership of integrated reporting to providers of financial capital; the empirical

domain is the investment chain, and the units to be observed are the individuals representing the different categories of providers of financial capital in South Africa.

For the purposes of this study, it was necessary to understand the variety of perceptions of the providers of financial capital on integrated reporting. It was also essential to understand how the providers of financial capital perceive their own roles and responsibilities. This is because self-concept forms part of identity construction (DeRue & Ashford, 2010), and part of the study aimed to determine whether providers of financial capital have claimed a follower identity for themselves in relation to integrated reporting. It was also important to include different categories of providers of financial capital, because all the providers in the investment chain have different functions, and consequently different responsibilities. The study's objectives therefore included enhancing understanding of and describing how different categories of providers of financial capital perceive their own roles and responsibilities. It was also essential to investigate the providers' of financial capital perceptions of financial stability and sustainability in order to establish whether they think it is part of their responsibility to achieve those goals.

This is significant because the IIRC claims a leadership identity for integrated reporting. They also grant followership to providers of financial capital. In order for leadership to be constructed through integrated reporting and its proclaimed followership, a reciprocal process of claiming and granting leadership and followership identities (DeRue & Ashford, 2010) must take place. In order for the reciprocal process to occur, the followership of integrated reporting must reciprocate by claiming a follower identity for themselves and granting a leadership identity to integrated reporting. The claim of leadership by the IIRC brings a number of sub-questions to mind:

- Do providers of financial capital take on a follower identity in relation to integrated reporting?
- What process do providers of financial capital typically use to make investment decisions?
- How do providers of financial capital perceive integrated reporting?
- How do providers of financial capital perceive financial stability and sustainability?

These sub-questions emerged from the overarching research objective and the secondary research objectives and informed the questions in the interview schedule that guided the semi-structured interviews. The schedule consisted of 18 questions – all linked to the sub-questions and the overarching research objective:

Question 1: Do you see yourself as a provider of financial capital?

Question 2: Could you describe the role you play in investment decision-making?

Question 3: Do you take responsibility for any specific steps in the investment decision-making process?

Question 4: Could you describe your fiduciary responsibility and how it informs your decision-making?

Question 5: How would you typically make investment decisions?

Question 6: Could you describe what specific investment decisions you make?

Question 7: What sources of information do you use to inform your investment-decision-making?

Question 8: Do you have any knowledge of integrated reporting?

Question 9: Do you know what the goals of integrated reporting are?

Question 10: Do you make use of integrated reports?

Question 11: Would you say integrated reporting influences your decision-making in any way? If so, how?

Question 12: Do you think that integrated reporting might influence your decision-making in the future? If so, how?

Question 13: Would you describe integrated reporting as a leadership phenomenon?

Question 14: Do you think integrated reporting can “better” your investment decision-making? If so, how?

Question 15: How would you define “better” investment decision-making?

Question 16: How would you define financial stability?

Question 17: How would you define sustainable development?

Question 18: Do you think integrated reporting could lead to financial stability and sustainability? If so, how?

It should be noted that the interview schedule was only used as a guide, and not all eighteen questions were asked in the same order to all participants. In some instances, it was not necessary to ask all the questions, because participants already spontaneously addressed a question in answering another question. The questions were also not necessarily asked in the listed order because some of the participants often spontaneously addressed later questions as part of their answers to some of the earlier questions.

It is important to note that the interviews started with questions that might seem deliberately obtuse or to which the answers might seem obvious. Halfway through the interview, the questions then zoom in on integrated reporting specifically. This was done deliberately, in order to prevent the creation of “artificial awareness” (Öberseder *et al.*, 2011:449) of integrated reporting and its influence on their decision-making among the participants. Öberseder *et al.* (2011) criticised quantitative surveys for creating such an “artificial awareness” of issues, as well as for frequently suffering from what they referred to as a “social desirability bias”. All of these elements are important to the data collection method of semi-structured interviews.

#### **4.5.1 Selecting the participants**

In an interpretivist study, the selection of participants who can provide data on the multiple meanings attached to the phenomenon is essential to the research process. Perceptions of integrated reporting by providers of financial capital have been explored in two previous studies, those of Atkins and Maroun (2015) and Stubbs *et al.* (2014). However, integrated reporting has not yet been studied through a leadership lens, framed as a leadership phenomenon attempting to lead its proclaimed followership toward achieving the goals of financial stability and sustainability.

It was therefore important to select participants (members of the population) who matched the definition of a provider of financial capital, based on how the IIRC has defined these providers. It was also important to include the whole range of categories of providers of financial capital to ascertain the multiple perceptions that exist, in order to address the research objectives. The sample was drawn from the

South African investment community. This decision was based on the fact that South Africa was the first country in the world where integrated reporting became *de facto* mandatory for listed companies (Atkins & Maroun, 2015). This was brought about through the inclusion of the imperative for companies to produce integrated reports as outlined in “Chapter 9: Integrated Reporting and Disclosure” in the King III Report on Governance for South Africa (Institute for Directors Southern Africa, 2009). The King reports have traditionally been included among the listing requirements, on an apply-or-explain basis, for all companies listed on the JSE, and the King III Report was no exception. The King III report came into effect on 1 March 2010. Moreover, South Africa is acknowledged as having a highly sophisticated financial market – it was ranked 11<sup>th</sup> in the world in the WEF Global Competitiveness Report for 2016-2017 (Schwab, 2016). This also explains why vast numbers of studies refer to South Africa (e.g. Adams, 2015; Atkins & Maroun, 2015; Brown & Dillard, 2014; Humphrey *et al.*, 2017; Perego, Kennedy & Whiteman, 2016; Serafeim, 2015; Tweedie & Martinov-Bennie, 2015).

The participants in this study consisted of different categories of providers of financial capital, based on the IIRC’s definition of such investors. The IIRC’s definition (see Section 1.2) is a very broad and interesting definition. It includes both the actual owners of capital and the host of agents (fiduciaries) who, in theory, act on behalf of these owners via a network of trust-based fiduciary relationships. These fiduciary relationships are well documented in the literature. See, for example, studies by Hawley and Williams (2007), Richardson (2007, 2008), Clark (2011), and Hawley *et al.* (2011), and for critical perspectives, Sandberg (2013) and Eccles (2018).

Seven categories of providers of financial capital were included in the study in order to represent the actual owners of capital, as well as all the agents working in the entire investment chain. These were asset managers, investment bankers, pension fund trustees, pension fund members, asset consultants, investment analysts and other investment experts. The last category (other investment experts) consisted of three participants, namely two SRI specialists and a venture capitalist with special interests in SRI. These are usually individuals who are mandated to implement responsible investment strategies or policies in their organisations. Responsible investment can be defined as “investment that incorporates an active consideration

of environmental, social and governance (ESG) issues into investment decision-making and ownership” (Eccles, De Jongh, Nicholls, Sinclair & Walker, 2007:7).

#### 4.5.2 Categories of participants

As a realist researcher with a constructionist-interpretivist approach (as in Sections 4.2 and 4.3, above), it is important for me to acknowledge that I brought my own ideas, preconceptions and intentions to this study. Because a qualitative researcher makes extensive use of reflexivity (Crabtree & Miller, 1999) in the process of collecting and analysing data, it is essential to provide my own understanding of the roles and responsibilities of the different categories of providers of financial capital:

For a realist there is a relationship between mental processes and that which is directly observable and recordable. Both must be accounted for in any description of the research we do. By extension, sampling in realist qualitative research works out the relation between theory and evidence of the samples we select. (Emmel, 2013)

According to Emmel (2013), the sample description therefore requires more than a simple description of the participants, but should include an explanation of why the researcher specifically chose to include certain views. A realist sampling approach should include contextual information with explanations of why certain participants were chosen to participate and reasons for this, because of possible power relationships and issues regarding causality (Emmel, 2013). The reasons for including the categories of providers of financial capital included in this study are set out below.

- *Stakeholder Category 1: Asset managers who are responsible for managing investment portfolios, often referred to as portfolio managers*

Portfolio managers are manage the investment portfolios of large pension funds and/or private investors. They are responsible for giving ultimate instructions to the traders on what stocks to buy and what to sell, and making sure the investment portfolio is managed within legal prescriptions.

- *Stakeholder Category 2: Investment bankers*

Investment bankers facilitate transactions between providers of financial capital and debtors who need financial capital to finance new ventures, projects and/or developments in business. In essence, their role is to match capital providers

(whether these are the institutions that employ them, or capital from others) with projects or investments in the hope that these projects or investments will provide these investors with the required return on investment. (It should be noted here that gaining access to investment bankers proved to be exceptionally challenging. The snowball sampling approach used in this study identified contact details for a list of five investment bankers all currently working for the five largest investment banks in South Africa. An initial introductory e-mail was sent to all five, but no response was received. A second follow-up e-mail was also ignored. Another route to access this category was then taken by e-mailing a media representative specializing in the investment industry who interviews investment bankers on a regular basis, but this process also did not produce any results. In the end, I did interview two investment bankers, gaining access to them through the snowball sampling strategy.

- *Stakeholder Category 3: Pension fund trustees*

Pension fund trustees represent the employees of institutions in terms of their retirement savings. Half of the board are employee representatives and the other half are employer representatives. The employer is also represented on the board, because institutions also contribute to retirement savings on behalf of permanent employees as part of their salary packages. The board of trustees of a pension fund is often responsible for investing very large amounts of capital on behalf of employees because of the accumulation of contributions over time. In terms of fiduciary responsibility, the pension fund trustees are ultimately responsible for the pension savings of employees, and if anything goes wrong they can be held legally responsible for financial losses.

- *Stakeholder Category 4: Pension fund members*

Pension fund members represent the owners of financial capital. The idea of fiduciary capitalism through pension funds is well documented in the literature. These stakeholders might not think of themselves as owners of capital, but through pension fund savings and millions of small contributions, vast pools of financial capital are accumulated and then managed through a network of role players referred to as the pension fund investment chain.



- *Stakeholder Category 5: Asset consultants*

Asset consultants are mostly qualified actuaries who are contracted to advise pension funds on a number of issues. One of their key responsibilities is to do asset liability modelling for the fund in order to determine how much cash the fund would need by when to be able to make benefit payments to retiring employees. They usually also play a crucial role in assisting the fund to determine and document the fund's investment strategy. Asset consultants often also advise on issues regarding which asset manager(s) should be given the mandate to manage the portfolio, based on their research.

- *Stakeholder Category 6: Investment analysts*

Investment analysts can work as independent researchers for companies that provide third party research to asset management firms, but they often work as in-house analysts for asset management firms. Their role is to present the portfolio managers with research and advice on what to buy and what to sell in a specific portfolio. It was important to include their views, as they are the category most likely actually to work with companies' integrated reports on a daily basis.

- *Stakeholder Category 7: Other investment experts*

Two of the three participants in this category can be classified as SRI experts. They are appointed in asset management firms to advise on and develop policy with regard to responsible investing. In most instances, these positions were created because the firm is a signatory to the United Nations Principles for Responsible Investment (UNPRI) and subscribes to the Code for Responsible Investing in South Africa (CRISA) locally. It is necessary for the firm to illustrate that they are subscribing to responsible investment principles, and it is then the responsibility of such a specialized individual to drive the integration of responsible investment practices within the firm. The third participant in this category has many years of experience as a portfolio manager but recently moved into the venture capital space. The participant also has a keen interest in ESG issues and seeks opportunities to find funding for new ESG-focused businesses. This was an important category to include, because if integrating reporting is indeed influencing the allocation of financial capital to achieve financial stability and sustainability, it would be specifically observed in the

perceptions of people this category.

Although this is unconventional, these participants in some ways represent a control group, because it was expected that these individuals would have an explicit familiarity and solidarity with sustainability issues and the integration of ESG issues into investment decision-making.

### **4.5.3 Number of participants selected**

In order to attain the objectives of this qualitative study, a sample of 30 participants was selected to participate in the in-depth interviews. The sampling strategy was a combination of purposive sampling, followed by a snowballing sample strategy.

I started out by selecting one participant in each of the categories (where possible) who was known to me because of prior research in the investment industry. These included asset managers, asset consultants, pension fund trustees, pension fund members and other investment experts. However, I did not have any initial contacts among the investment bankers or investment analysts. The analysts were recruited fairly easily through the asset managers but recruiting investment bankers to participate in the research proved to be a very difficult task. In each of the initial interviews, I requested the participant to refer me to a possible interviewee of the same category, and this snowballing strategy proved to be effective. At the same time, I did not attach a high weighting to the number of participants, and rather focused on the adequacy of the sample with regard to knowledge and experience as providers of financial capital.

Arguably, one of the limitations of the research is the limited size of the sample, because in some categories (investment bankers, asset consultants and “other” experts), only two or three participants were interviewed. There is a potential risk in using the snowballing strategy, which can result in a parochial sample. Hence, it would be problematic to argue that data saturation was reached after doing only two interviews in certain categories, but the difficulties in finding investors willing to participate in these groups may be perceived as a finding in itself. These participants were contacted by telephone. Initial e-mails with the subject line “Request to participate in PhD research” were also sent with a request to participate in the research. These participants did not respond to any of the communications. There

are several possible explanations. These individuals could be too busy to answer e-mails from unknown persons, or they may not perceive participation in research as their responsibility, or as an important priority.

**Table 3: Categories of providers of financial capital interviewed and interviewee codes**

Category	Interviewee code
Asset managers	P1, P2, P4, P5, P6, P7, P8, P9
Investment bankers	P11, P12
Pension fund trustees	P13, P14, P15, P16, P17, P18
Pension fund members	P19, P20, P21, P22
Asset consultants	P24, P25
Investment analysts	P26, P27, P28, P29, P30
Other investment experts	P31, P32, P33

## 4.6 METHOD

The method refers to the actual way data for research are gathered and analysed (Crotty, 2003). The decision of how the data are gathered and analysed should be based on the research objective. One should ask what the best way will be to answer the specific research question or address the research problem (Babbie & Mouton, 2001). The decision regarding data gathering, in turn, determines how the data are analysed. The method for this research is discussed in the following order: data collection and data analysis.

### 4.6.1 Data collection: in-depth, semi- structured interviews

A total of 30 individual, semi-structured interviews were conducted between May and November 2016 with all the categories of providers of financial capital identified for this study, based on the IIRC's definition of providers of financial capital (see Section 4.3). All the interviewees were contacted via e-mail and asked to participate in the research. The e-mail briefly set out the purpose of the research, but did not provide detailed information about the leadership lens or the content of the study, as the researcher did not want the participants to prepare for the interviews in any way and then provide textbook answers. It was essential to capture their real perceptions

about integrated reporting, their roles and responsibilities and how integrated reporting may or may not influence their investment decision-making.

Interviewees were asked to provide a possible time and location that suited them. Once the interviewees agreed to participate, they were supplied with a combined letter of introduction and consent form which explained that participation was completely voluntary and that anonymity was guaranteed. On the day of her/his interview, each interviewee was provided with a hard copy of the combined letter of introduction and consent form, and was asked to sign the document. All these records were stored. The interviewees were informed that the purpose was to have a conversation in order to really understand their views. It was emphasised that the aim of the research was to understand their perceptions and learn from them.

All the interviews were recorded with a voice recorder and then transcribed by an independent third party. The interviews ranged between 30 and 90 minutes each. During the interview, short notes were made in a research journal, but priority was given to listening to the interviewee in order to probe effectively. After every interview, summaries were made of the most important narratives emerging from that specific interview in a research journal.

The reason for following these steps is grounded in the literature. According to Qu and Dumay (2011), it is important to understand the position taken in conducting interviews. For the study at hand, a “localist” position was used for the interview process. The localist position is built on the understanding that interviews take place within a specific context and that understanding that context is more important than gathering information and viewing it in isolation (as if it were in silos) (Qu & Dumay, 2011). Hammersley (2007) explains that a localist contends that it is impossible to separate social phenomena from people’s understandings of them, and that those understandings are essential in the development of knowledge. A localist therefore does not regard the interview as a process of simply transmitting information from the interviewee to the interviewer, but rather as a process in which narratives are constructed. Interviews can be conducted from a localist position by holding conversations or discourse analysis (Alvesson, 2003).

Semi-structured interviews were chosen as the data collection method in this study, because they are also distinctively localist. Semi-structured interviews are different

from structured interviews in the sense that they allow for a conversation to take place. Yet it is not unstructured, because the interview is guided by an interview schedule. In essence, the same questions are posed to all the interviewees, but not necessarily in the same sequence or format. The fact that the interviewer can change the sequence of the questions and probe matters that are clearly important to the interviewee assists in gathering in-depth data and providing thick descriptions. The purpose of the interview remains taking a consistent thematic approach in all the interviews (Qu & Dumay, 2011).

Qu and Dumay (2011) mention three important skills that an interviewer using a localist approach needs to deploy. The first skill is that the researcher should be able to step back from a particular viewpoint (Qu & Dumay, 2011). A researcher should not take a neopositivist or a romanticist position but should apply a middle-range thinking position (Laughlin, 1995). According to Laughlin (1995), when a middle-range thinking approach is applied, a medium rating is assigned to the three levels of theory, method and change. This means that there is a medium level of acknowledgement of prior theory in the field under investigation. But it is also acknowledged that previous theories do not provide the entire story, and that existing theory should be further developed with empirical research of a qualitative nature. A medium rating is also applied to the change level where the intention of the research being undertaken should be to analyse the status quo critically. Although it might be very critical of some of the aspects of the status quo, it might not intend to reject it in its entirety. The middle-range thinking approach is best captured using the metaphor of a body: the skeleton represents the theory and the empirical research the flesh that could be added to the skeleton to build a more realistic picture of the actual reality (Laughlin, 1995).

The second skill that a researcher needs is the ability to step in and out of the interview (Qu & Dumay, 2011). In other words, the researcher should be able to move between the notion of being an “insider” and an “outsider”, consistently making use of a reflective approach. The researcher should reflect after each interview, not only about what was actually said, but also consider what was not said and what the reasons for silence on certain questions could be (Qu & Dumay, 2011).

The third skill that is suggested is that the researcher should be developing discourse. In the process of developing discourse, the researcher should be self-critical – constantly trying to re-think questions and approaches to certain questions to get better data. The researcher should also be critical of the information that is received and try to read between the lines (Qu & Dumay, 2011).

Hannabuss (1996), on the other hand, makes a case for four important interviewing skills. First, the interviewer has to build rapport with the interviewees. Second, the conversations should be kept alive by not asking answers that only require a quick yes or no answer. Third, a strong focus should be placed on pacing the interview and not interrupting the interviewee unnecessarily. Fourth, a non-judgmental approach should be taken towards the interviewee, which is similar to the idea of Qu and Dumay (2011) of moving between being an “insider” and “outsider”.

#### **4.6.2 Data analysis and interpretation (preparing and organising the data)**

The interviews resulted in 424 pages of raw data in the form of transcriptions in MS Word documents. These Word documents were converted into rich text documents and were loaded onto the qualitative data analysis software programme Atlas.ti. The data analysis method used for the interviews was thematic analysis. Thematic analysis is a process where codes are attached to qualitative data. This coding process requires that specific codes or themes are linked to sections or sentences in individual transcripts, but also between the different transcripts, where similar trends are identified as themes (Boyatzis, 1998).

Qualitative data analysis in the form of coding involves doing detective work (Patton, 2002). Some of the questions the researcher continuously has to ask are the following: What is going on here? What are the data telling me? Am I missing something? This process should be approached in an extremely systematic manner and a specific skill set is required of a qualitative researcher (Patton, 2002).

As a starting point, five main themes of the study, derived from the topic and the secondary research objectives, were identified:

- the self-concept of roles and responsibilities;
- the investment decision-making process;
- perceptions of integrated reporting;

- perceptions of integrated reporting as a leadership phenomenon; and
- perceptions of financial stability and sustainability.

These themes were also linked to questions in the interview schedule, as is explained in Chapter 5 of this thesis. The open coding was done by coding only questions relating to a specific theme at a time. This meant that I went into each transcript and then only looked at the content of questions related to one of the five main themes of the study, one at a time. I started with the theme “self-concept of roles and responsibilities” and then only coded the sections in every interview related to that theme, and so on, until all the themes were addressed.

Open coding means attaching themes or labels to the content of the interviews inductively:

A theme is a pattern found in the information that at the minimum describes and organizes possible observations and at the maximum interprets aspects of the phenomenon. A theme may be identified at the manifest level (directly observable in the information) or at the latent level (underlying the phenomenon). The themes may be initially generated inductively from the raw information or generated deductively from theory and prior research. The compilation or integration of a number of codes in a study is often called a codebook. (Boyatzis, 1998:vii)

All the open codes were numbered and a code register was created. Separate code registers were created per each of the five themes and each of the categories of providers of financial capital.

The field notes in my research journal were then used as a secondary coding process with the purpose of moving from open codes to axial codes (Goulding, 2005). In merging the first and second parts of the coding process, a mind map was created for each category of provider of financial capital, combining the major themes from all the interviews with the themes emerging from the reflexive notes. The data analysis process was iterative, moving back and forth between the transcripts, the code register, the mind maps and the reflexive notes.

The 35 mind maps for each broad theme and each of the categories were then merged into one mind map for each of the five main themes, with only the most prevalent themes. During this process, the advice of Seidman was used:

Researchers must ask themselves what they have learned from doing the interviews, studying the transcripts, marking and labelling them, crafting profiles, and organizing categories of excerpts. What connective threads are there among

the experiences of the participants they interviewed? How do they understand and explain these connections? What do they understand now that they did not understand before they began the interviews? What surprises have there been? What confirmations of previous instincts? How have their interviews been consistent with the literature? How inconsistent? How have they gone beyond? (Seidman, 1998:110-111)

The narrative for the particular theme was then constructed based on the final mind map. These narratives are presented in the findings chapter (Chapter 5) of this thesis. These findings were then interpreted (Chapter 6) by making use of prior theory as suggested by the middle-range thinking approach (Laughlin, 1995).

The conceptual model on the construction of leadership developed by DeRue and Ashford (2010) was used as a guide to develop the secondary research objectives. In the interpretation phase, the answers to the interview questions were interpreted and discussed to address these secondary research objectives (see Section 1.3). More importantly, the interpretation and discussion of the secondary research objectives served as a starting point for the expansion of the current theory of leadership construction in organisational contexts (DeRue & Ashford, 2010) to disaggregated contexts. The aim here was to expand current theory and address the gaps in the literature by doing an empirical study, from a follower-perspective, to understand the construction of leadership better.

As a starting point, it was assumed that in order for leadership to be constructed, a reciprocal process of claiming and granting leadership and followership should take place. This conceptual model was then applied to the integrated reporting context, where it is evident that the IIRC has claimed a leadership identity for integrated reporting and granted a followership identity to the providers of financial capital. The emergent question was then whether the three elements for the construction of a follower identity (individual internalization, relational recognition and collective endorsement) were present for providers of financial capital. Based on the follow-up work of DeRue (2011), it was, however, established that relational recognition and collective endorsement depend on individual internalization. As a result, it was necessary to investigate whether the findings provided any evidence of individual internalization of a follower identity in relation to integrated reporting by the providers of financial capital. If these investors did individually internalize a follower identity, why did it happen? And if it has not happened, why not? What is different in the



disaggregated context, as opposed to the organisational context? What barriers/drivers were in place?

If one reflects on the interpretation process in this research, the ideas of Crabtree and Miller (1999) ring true: they see the interpretation process as a dance between the researcher and the data. It involves a complex artistic process and requires many steps and iterations, such as reading and re-reading transcripts, member-checking, and consulting with colleagues for critical feedback. These activities assist a researcher to be creative, self-aware, and disciplined in the interpretation of the data. This should also allow for new understandings to be constructed, and potential incongruities and unexpected insights from the data to emerge (Crabtree & Miller, 1999). In this study, the interpretation process indeed took on the form of a complex, artistic process with many steps and iterations. The interpretation process in some senses diverged from that of a typical qualitative study, as deductive reasoning was applied, based on the prior theory of DeRue and Ashford (2010) and DeRue (2011).

#### **4.7 TRUSTWORTHINESS OF QUALITATIVE RESEARCH**

The issues of trustworthiness and rigour in qualitative research have been discussed widely in the literature (Krefting, 1991; Morrow, 2005; Shenton, 2004). The reason for this is that qualitative research can differ immensely from one study to the next, and these inconsistencies can make positivist researchers uncomfortable, because qualitative methods are more flexible than the quantitative ones that positivist researchers rely on. It is the responsibility of every qualitative researcher to ensure that the process followed in the method is rigorous, but the researcher also has to make provision for some flexibility in the process (Flick, 2008). It has therefore been suggested that the quality of qualitative research can be found in the tension between rigour and flexibility (Flick, 2008).

According to Bryman *et al.* (2008), trustworthiness is comprised of four components: dependability, credibility, transferability and confirmability.

*Dependability* refers to the idea of reliability in quantitative research and includes the “audit trail” that is kept of the data collection and analysis process.

*Credibility* is the qualitative equivalent of validity and refers to the notion of accurate research. This usually includes steps such as sending transcriptions back to the participants to allow them a chance to reflect on it and to decide whether it is a true reflection of what they said. This process is called member checking and it was done for this research in the following manner: all the transcriptions were sent back to the participants in an e-mail message, stating that if they agreed that the transcript is a true reflection of the conversation, they did not need to reply, but if they wanted to make any changes to the transcript, they could do so and send it back to me. Only three out of 30 participants made minor changes to their transcripts. The changes that the participants requested mostly entailed language editing, because people tend to speak in a less organised manner than they write. (This is evident in many of the verbatim quotations presented in Chapter 5.) Almost no changes were made to the actual content of the conversations.

Ensuring the credibility of the research could also include a process of independent co-coding to check whether another researcher would interpret the data in a similar manner. For this research, an independent co-coder was contracted to co-code seven interviews – one for every category of provider of financial capital. The co-coding took place independently in June 2018, and the researcher and the co-coder then held a consensus discussion. During this discussion, the independent co-coder and the researcher compared the inductive open codes and the broader themes that emerged from the data for disparities in interpretation. The researcher and the co-coder agreed on the major themes that emerged from the data.

*Transferability* refers to the idea that the findings in the specific context could be useful for other contexts as well. The research envisaged contributing to the broader understanding of social construction of leadership outside of a single organisation, in the investment industry. The study confirmed some of the arguments in the leadership literature (as discussed in Chapter 6 of this thesis) that leadership can be a social process (Crevani *et al.*, 2010). The study considered leadership as a socially constructed process between leaders and followers but in this case, the “leadership” is a phenomenon, namely integrated reporting, not a person. It also suggested that the construction of a leadership or followership identity entails a three-step process of individual internalization, relational recognition and collective endorsement (DeRue & Ashford, 2010), but expanded the literature because it identified important

constraints to the ability of followership to follow a leadership phenomenon. Moreover, the findings pointed to an incongruity in the work of DeRue (2011), suggesting that collective endorsement influences relational recognition and individual internalization, and not necessarily the other way round.

*Confirmability* is concerned with the issue of not allowing personal biases disproportionately to influence the way in which the data are interpreted and described. In most qualitative studies, as with this one, the researcher is the research instrument who collects and analyses the data. For this reason, it is essential for a qualitative researcher to explain any personal biases that could have influenced the way in which the data were collected and analysed.

In order to address the issue of confirmability of the research, I provide a full disclosure of my personal background and possible biases in the text box below.

*I approached this research as a middle-class woman and a single mother of two boys. I am now a full-time lecturer at a private Afrikaans university. I was raised in an Afrikaans family and I have two older sisters.*

*I went through a divorce process during the middle of my PhD. As a result, the third and middle year of my studies were very challenging at a personal level.*

*My children attend an Afrikaans school. I have taught at a distance learning university in both Afrikaans and English for seven years and I have done research on contract basis at a previously Afrikaans university for five years. I have also taught part-time at the same university in English. I therefore believe that I have a fair understanding of at least the cultures of the white Afrikaans-speaking and English-speaking populations in my country. I am by religion a Christian, but have struggled with many doubts regarding my faith because of the nature of my work as well as the realities of daily life.*

*I am passionate about justice – more specifically social and environmental justice. This is also the reason why I initially studied law and was admitted as an Attorney of the High Court of South Africa in 2006.*

*Through this study, I have become very interested in what drives human decision-making, and how law and policy should be approached to enhance human kindness*

*and curb greed. I am also passionate about teaching and hope to uplift the next generation of South Africans through education. I believe that education is the starting point for addressing the inequalities and discrimination that came about as a result of Apartheid.*

*I have studied business with a focus on finance, as well as law, and for this reason I am influenced by both financial and legal discourse. I have supervised a Master's student in Commerce and I teach in four different degree programmes: Business Management, Economics and Law, Financial Management and Financial Planning. Because of my own Master's study and the research that I did for that study, I have a fairly good understanding of the investment industry, but more specifically, the pension fund industry in South Africa. These perceptions have influenced the way I have made sense of my data and explains why I have prioritized certain issues over others. I will highlight one example: I come from a privileged background and I have undoubtedly benefited from the legacy of Apartheid. For this reason, I do have a certain degree of white guilt. Because I have this guilt, I find it difficult to process incidents where other whites, particularly white males, do not show any awareness of their privileged status, and, in these situations, I find it difficult to avoid judging them. The bulk of the participants in this study could be placed into the category of privileged white males. It was therefore important for me to make notes and debrief after every interview to make sure that I did not over-analyse the responses or read meanings or messages into the data that were not explicitly communicated.*

Because of these personal biases, it is also important to create extra steps in the research to strengthen the reliability of the analyses. For this study, this was done by making use of a professional, independent co-coder (see Sections 4.6 and 4.7).

Apart from methods to triangulate the data, reflexivity is also an important part of the qualitative research process. Reflexivity refers to the fact that the researcher keeps a field journal to keep an audit trail of all the steps taken to access the participants, and to record all the notes made during and after the interviews. I reflected in my research journal after every interview about what the participant said, and about what I felt s/he did not say, or if s/he acted in a manner that suggested inauthenticity. I also reflected on how the participant treated me and how I felt during and after the interview. A part of this reflection process and the reason for keeping the research

journal was to also reflect on possible ways in which my personal biases could have influenced the way I interpreted and analysed the data, as Kitto, Chesters and Grbich (2008) suggest.

#### **4.8 ETHICS OF THE RESEARCH PROCESS**

It is widely accepted that in social research participation should be voluntary (Babbie & Mouton, 2001). In my research, participants were purposefully selected and thereafter I made use of personal contacts and a snowballing sample method. I contacted most of the participants via e-mail first, but also made phone calls to follow up and ensure participation. On the day of the interview, every participant received a hard copy of the combined letter of introduction and consent (attached in Appendix C), and was requested to sign the document. The combined letter of introduction and consent was also sent to participants before the day of the interview via e-mail in order for them to familiarise themselves with the content. All these documents are in secure storage, and will be kept for ten years, in accordance with the University of Pretoria's (n.d.) policy. It was emphasised that the participants had the right not to participate and to withdraw from the process if they felt uncomfortable. Anonymity of participation was also explained, and the confidentiality of their answers was guaranteed (Babbie & Mouton, 2001). It was also highlighted that my interest was in understanding their perspectives, and that I wanted to learn from them, as they are the experts in their field.

I only made notes in my research journal about the participants' names and contact details for the purpose of contacting them. Thereafter, the participants were numbered chronologically as the interviews took place and per investor category. This was done in order to ensure the anonymity of the participants during the transcribing and co-coding processes. I am confident that the research will not result in any personal harm to any of the participants.

#### **4.9 SUMMARY**

In this chapter, the research process that I followed in this study was explained. I began at the very start – the actual research problem and traced how that research problem led me to the research objectives. The ontology and epistemology, as well as the theoretical perspective, were explained. Next, I indicated the methodology

(research design) and actual methods that I used to collect and analyse the data. Given that the study adopted an interpretivist approach and I was the research instrument, I provided an in-depth description of my own identity, in order to explain how my views could have influenced the construction of knowledge in this research and the trustworthiness of the study. The study concluded with information on the ethical considerations and precautions relevant to the study.

## CHAPTER 5

### FINDINGS OF THE QUALITATIVE SURVEY

#### 5.1 INTRODUCTION

The investigation of the proclaimed followership of integrated reporting took the form of a qualitative survey (Jansen, 2010) conducted on a sample of providers of financial capital. The sample was drawn from the South African investment community. It was decided to use this market for the survey, despite the relatively small size of the South African financial market, because South Africa is widely recognised as a global leader regarding integrated reporting (Adams, 2015; Atkins & Maroun, 2015; Brown & Dillard, 2014; Cheng *et al.*, 2014; De Villiers *et al.*, 2014; Humphrey *et al.*, 2017; Perego *et al.*, 2016; Serafeim, 2015; Tweedie & Martinov-Bennie, 2015). In the literature, it is almost anomalous to find a paper on integrated reporting that does not mention the integrated reporting “experiment” in South Africa.

The sample was drawn in an explicitly stratified manner with a view to hearing the voices of as many different categories of providers of financial capital (as broadly defined by the IIRC) as possible. The final sample consisted of eight portfolio managers working for asset management firms, five investment analysts (most of whom also worked for asset management firms), two asset consultants intimately involved in providing advisory services to pension funds, six pension fund trustees, four pension fund members, and three “other”<sup>13</sup> participants.

The interview questions (see Appendix D) were not provided to participants prior to the interviews. Beyond this schedule of questions, interviews were unstructured and probing questions were asked as the need arose. At first glance, these pre-prepared questions may seem to approach the issues investigated in the research (an exploration of the construction of leadership from the proclaimed followers’ perspective) in an unnecessarily oblique manner – beyond noting an overarching interest in integrated reporting to the participants beforehand, at no point did I mention that I might be interested in the claiming and granting of followership in the

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<sup>13</sup> Two of them might be described as SRI specialists and the third as a venture capitalist with a special interest in SRI.

context of integrated reporting in particular. Opting for these general questions at the beginning of the interview schedule and not providing participants with the questions before the interview was an intentional strategy aimed at mitigating the risk of creating an “artificial awareness” (Öberseder *et al.*, 2011:449) amongst the interviewees.

This chapter sets out the findings based on the initial, inductive analysis, and discusses the overarching themes that emerged from the interviews. Four main themes emerged from the interviews, with 15 sub-themes. The four main themes emerged as a result of the categories of questions that were asked to the participants. The questions from the interview schedule can be categorized into the following four central themes:

- Theme 1: Self-concept of role and responsibility;
- Theme 2: The process of investment decision-making;
- Theme 3: Perceptions of integrated reporting; and
- Theme 4: Perceptions of financial stability and sustainability.

Table 4 provides a broad overview of the findings of the study and illustrates how the emergent themes link directly to the questions from the interview schedule. It also lists the major sub-themes (or axial codes) that emerged from the interviews.

**Table 4: Themes and sub-themes emerging from the qualitative survey**

Themes	Sub-themes	Interview Schedule Questions
Theme 1: Self-concept of role and responsibilities	<ul style="list-style-type: none"> <li>• Compliance</li> <li>• Fiduciary responsibility</li> <li>• Return and risk</li> <li>• Abdication of responsibility</li> </ul>	Q1: Do you see yourself as a provider of financial capital? Q2: Could you describe the role you play in investment decision-making? Q3: Do you take responsibility for any specific steps in the investment decision-making process? Q4: Could you describe your fiduciary responsibility and how it informs your decision-making?
Theme 2: The process of investment decision-making	<ul style="list-style-type: none"> <li>• Formal and Informal Processes</li> <li>• Sources of information</li> <li>• Engagement</li> <li>• Abdication</li> </ul>	Q5: How would you typically make investment decisions? Q6: Could you describe what specific investment decisions you make? Q7: What sources of information do you use to inform your investment-decision-making?



Themes	Sub-themes	Interview Schedule Questions
Theme 3: Perceptions of integrated reporting	<ul style="list-style-type: none"> <li>• Awareness</li> <li>• Usage</li> <li>• Purpose &amp; Goals</li> <li>• Leadership phenomenon</li> </ul>	<p>Q8: Do you have any knowledge of integrated reporting?</p> <p>Q9: Do you know what the goals of integrated reporting are?</p> <p>Q10: Do you make use of integrated reports?</p> <p>Q11: Would you say integrated reporting influences your decision-making in any way? If so, how?</p> <p>Q12: Do you think that integrated reporting might influence your decision-making in the future? If so, how?</p> <p>Q13: Would you describe integrated reporting as a leadership phenomenon?</p> <p>Q14: Do you think integrated reporting can “better” your investment decision-making? If so, how?</p> <p>Q15: How would you define “better” investment decision-making?</p>
Theme 4: Perceptions of financial stability and sustainability	<ul style="list-style-type: none"> <li>• Financial stability</li> <li>• Sustainability</li> <li>• Influence of integrated reporting</li> </ul>	<p>Q16: How would you define financial stability?</p> <p>Q17: How would you define sustainable development?</p> <p>Q18: Do you think integrated reporting could lead to financial stability and sustainability? If so, how?</p>

The findings are discussed according to theme in the sections below. The voices of the interviewees are included by quoting them verbatim, without altering their words, grammar or expression. The participants’ words are printed in italics to distinguish their comments from quotes from the literature. Where a particular comment illuminates more than one theme or sub-theme, the quote is repeated for the convenience of the reader.

## 5.2 THEME 1: SELF-CONCEPT OF ROLE AND RESPONSIBILITIES

Self-concept theory is an important strand of research in psychology which has produced a vast literature (Wylie, 1974). The idea of the self-concept stems from identity work (DeRue & Ashford, 2010). Identity is grounded in social interactionism and refers to individuals involved in shaping, reshaping, upholding and improving

their identities (DeRue & Ashford, 2010). The literature suggests that individuals have differing identities, depending on the context and the role that they believe they should play in those contexts.

An area of particular interest is the individual's work identity (Walsh & Gordon, 2008). An individual's work identity is based on a work-based self-concept, which is in turn based on a mixture of structural, professional and other identities that influence the roles a person accepts and how the individual then behaves as a result in performing work duties (Walsh & Gordon, 2008). This in turn, influences individuals' perceptions of their responsibilities.

In order to understand the self-concept of providers of financial capital in the specific context of providing financial capital, it was required, firstly, to establish whether they saw themselves as providers of financial capital. In other words, did they accept the role of provider of financial capital? In terms of the question of whether these investors viewed themselves as providers of financial capital, only a third of the participants regarded themselves in this light. Interestingly, all four pension fund members perceived themselves as providers of financial capital. Many of the other participants saw themselves rather as custodians or stewards, facilitators or simply managers of money. A comment by P1 illustrates this:

*P1: You provide financial capital in the sense that you participate in the price discovery mechanism; the price discovery mechanism means that when you buy what you believe are under-valued securities or avoid or short, whatever the case may be of valued securities you participate in the price discovery mechanism which is part and parcel of the market system, that price discovery system or mechanism sets the price for capital, the cost of capital as it is and the cost of capital at the end of the day determines asset allocation across the whole economy. So to a big degree, yes, what we do here or do as asset managers impacts throughout the economy through what we call the price discovery mechanism. (P1:1, Portfolio manager)<sup>14</sup>*

It is important to note that P1 regards her/himself as a provider of financial capital to a certain extent. P1 more explicitly referred to her/himself as a participant in the price

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<sup>14</sup> All reference codes are formatted as follows: participant number: code number in transcript, category of provider of financial capital. The participants are not indicated as male or female, to increase their anonymity.

discovery mechanism and there was a very strong focus on market forces.<sup>15</sup> The following responses came from P4 and P17:

**P4:** *Provider of financial capital? I wouldn't see myself as a provider, more a steward, or a manager of financial capital. I think we're certainly not in any way are providing a portion of the capital like single stock futures or those type of products where an entity that may issue it, may provide a section of that capital. But we merely just get the capital in, and then manage it in the best way we can for the prospective objectives. (P4:9, Portfolio manager)*

**P17:** *I see myself really more as a custodian in order to facilitate the provision of financial capital to members of a retirement fund, more than the provider itself. So the trustee's main task is managing a fund, and ensuring that there's good governance in a fund, the targets of members in terms of income after retirement are met as far as possible. (P17:23, Pension fund trustee)*

It was also necessary to investigate how they viewed the specific role they have to play in the context of providing financial capital. Furthermore, it was essential to understand how they perceived their responsibilities in terms of their role. The subthemes for Theme 1 are set out in Table 5, below.

**Table 5: Outline of Theme 1: Self-concept of role and responsibilities**

Theme 1: Self-concept of role and responsibilities	
Sub-theme	Codes
<b>Sub-theme 1: Return and risk</b>	Financial return
	Long-term return
	Risk
<b>Sub-theme 2: Compliance</b>	Regulation in general
	Mandates
	Regulation 28
<b>Sub-theme 3: Fiduciary principles</b>	Care or prudence
	Impartiality or fairness
	Loyalty
	Compliance
	ESG or sustainability issues
<b>Sub-theme 4: Abdication of responsibility</b>	Abdication of responsibility
	Deference

<sup>15</sup> The answer of P1 and the very specific focus on the price discovery mechanism and market forces is very important for the discussion on governing rationalities as a constraint to the construction of leadership in Chapter 6.

As is illustrated in Table 5, four sub-themes emerged from the interviews linked to the questions aligned with the theme of “Self-concept of roles and responsibilities”. The first sub-theme was *Return and risk*: providers of financial capital understood their responsibility to be a focus on risk and associated financial return when making investment decisions. The second sub-theme was *Compliance*. Here, providers of financial capital seemed to hold the view that they fulfilled their responsibility to a significant degree as long as they were compliant with national regulations and with contractual mandates issued by the ultimate asset owners through their representatives. The third major sub-theme that inevitably arose from the interviews, given the question in the schedule pertaining to fiduciary responsibility, was that of *Fiduciary principles*, where the responsibilities of providers of financial capital were described in fiduciary terms. The final sub-theme to emerge was that of *Abdication of responsibility*. Here, instead of mentioning their own responsibilities, interviewees pointed to those of other role players in the investment chain.

### 5.2.1 Return and risk

The sub-theme of *Return and risk* emerged strongly across all categories of providers of financial capital. For example, P24 stated:

**P24:** *Of course, the asset manager’s fundamental and primary goal is to get an investment return, or even collect excess investment return at lower than market risk. (P24:2, Asset consultant)*

This finding is not surprising. After all, most investment textbooks contain a sentence similar to that offered by Gitman (2010:207): “One basic assumption of portfolio theory is that as an investor you want to maximize the returns from your total set of investments for a given level of risk.” Among the codes that emerged, the first was the absolute centrality of financial return as the ultimate end of investment in general, and in terms of risk and return considerations in particular. For example, when P4 was asked about how s/he perceived her/his role and responsibilities, the interviewee stated that this was simply to manage the capital “in the best way that you can”. When asked what was meant with “in the best way that you can”, the response was:

**P4:** *What I mean by the best way that we can, I mean to actually get the best potential return for that client, for that specific level of risk. (P4:1, Portfolio manager)*

Interviewee P30 stated:

**P30:** ... we look at returns, return on invested capital, return on equity. **(P30:2, Analyst)**

P18 put it as follows:

**P18:** Well look, we are custodians of members, of beneficiaries' money, we have a role to ensure that we get the best return on that money. **(P18:1, Pension fund trustee)**

Further support could be drawn from the interviews for this code of financial returns as the ultimate end in general. But how did the interviewees describe their responsibilities in relation to risk in particular? This code was far more complicated and in many instances nothing short of confused – the word “gobbledegook” frequently came to mind in considering the transcripts. For example, P1 stated the following:

**P1:** *It's all qualitative, in that we need to understand the business model of the company and from there we can move to quantitative factors. What is the growth of the company looking forward? Earnings growth? What is the quality of this growth? What is the quality of the last earnings report? What is the risk of the business? And I'm not talking about volatility. Volatility is not real risk. Real investment risk is called business risk or business leverage, operating leverage or earnings volatility and then there is financial leverage. So it's either operation leverage or financial leverage. That's the real risk factors we look at. And one of the other qualitative factors that we look at is, what managements' track record with regards to their management or their stewardship? How does the long-term return on their assets look?* **(P1:32, Portfolio manager)**

Beyond the emergence of “gobbledegook”, the reference to “long-term return” emerged. This might perhaps hint lightly at a consideration of sustainability in relation to risk. In the interview with P24, an asset consultant who is also considered an expert in socially responsible investment (SRI), the consideration of ESG issues as a means to mitigate investment risk emerged strongly. It is worth quoting this interview at length. S/he commented:

**P24:** *Our view really around ESG is very much amoralistic, if you want to call it that. [...] We are very strong on this idea that integrating a values-based approach to ESG decision-making is a non-starter from an asset management, or from a business risk point of view from within an asset management industry. [...] As such, you know, the obvious corollary to that is therefore the only sensible way to discharge fiduciary responsibility with regard to ESG is to speak to the implication of ESG issues for investment risk and investment return, and that's really how we place our whole philosophical outlook towards ESG integration into investment decision-making.* **(P24:15, Asset consultant)**

From this interview, it was patently clear that sustainability issues are considered *only* in so far as they might have a bearing on returns. According to this interviewee, any suggestion that sustainability issues might be considered out of some sort of sense of responsibility toward sustainability for sustainability's sake was explicitly rejected. Similar sentiments were expressed in the interviews with P31, P32 and P33, all considered SRI specialists.

### 5.2.2 Compliance

The second sub-theme was *Compliance*. Specific codes that emerged from the interviews under this sub-theme included regulation in general, the Financial Services Board (FSB),<sup>16</sup> Regulation 28<sup>17</sup> specifically, and mandates (the contractual agreements between clients and their service providers). Although this sub-theme was a strong theme generally, this strength was not uniform across all categories of providers of financial capital with whom I engaged. It was most prevalent in the interviews with portfolio managers and pension fund trustees. It was less prevalent in interviews with pension fund members, asset consultants and investment analysts. It did not surface at all in interviews with investment bankers or the category labelled "other investment experts".

Amongst portfolio managers then, this was the consensus:

**P7:** *Compliance is very important. Make sure you comply with all the rules; that you're never outside the rules. (P7:7, Portfolio manager)*

When asked to describe her/his role, asset manager P6 instantly referred to the regulator (the FSB), indicating that responsibility is perceived as being compliant with the dictates of this specific regulator:

**P6:** *...in terms of the FSB you have to, you have to address a client's risk in terms of their short-, medium- and long-term cash flow needs, okay. And you can then structure advice according to more information, we believe. And if you look at the FSB's, you know, applicable laws, you have to, you can only give advice as good as what the client will, you know, will give to you. (P6:3, Asset manager)*

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<sup>16</sup> "The FSB is an independent institution, established by statute to oversee the South African non-banking financial services industry in the public interest, and fully funded by fees and levies imposed on this industry". (FSB, n.d.). The FSB has since been replaced with the Financial Sector Conduct Authority (FSCA).

<sup>17</sup> Revised Regulation 28 of the Pension Funds Act, 24 of 1956 published in the *Regulation Gazette* No. 9485 Vol. 549 No. 34070 on 4 March 2011. (RSA, 2011).

Beyond references to the central role of the FSB, compliance was described as including compliance with both regulations and mandates provided to asset managers by their clients:

**P2:** *We have a responsibility towards the clients, number one. If it's just the discretionary money, then our fiduciary responsibility is to them only. And then if we run a pension fund or a provident fund for a client, then we also have a responsibility, well, towards the, I think you would say the **FSB**. Although they don't do all of the, um, enforcing, but you have a responsibility towards them as well to make sure that you **follow the rules, the laws of the land**, so that is our responsibility to clients, that is also set out in the **mandate**. (P2:3, Portfolio manager; emphasis added)*

In addition to touching on several of the major sub-themes, P2's comment also sheds some light on the variance in terms of the strength of the sub-theme of compliance amongst the categories of providers of financial capital. A clear distinction is drawn here between what P2 refers to as "*discretionary money*" and "*a pension fund or a provident fund*". It is in the latter context specifically that "*laws of the land*", "*the mandate*" and the "*FSB*" are mentioned.

This suggestion that it is in the context of pension funds specifically where compliance is a strong theme is further supported by the fact that the sub-theme was prevalent in interviews with pension fund trustees. For example, P17 indicated the following:

**P17:** *They [pension fund trustees] serve the members, but at the same time, they should also not be prejudiced so the job of the board of trustees is really to look at all the stakeholders of the fund and be fair, so that no member is prejudiced and within the framework that is provided by the Pension Funds Act, by the Income Tax Act, by the various acts and also the Financial Services Board with all the regulations, so within that framework one needs to be fair to all members. (P17:14, Pension fund trustee).*

From this, while it is quite clear that the responsibility to "*members*" (which appears in the beginning, middle and end of the excerpt) is perceived as a primary responsibility of trustees, it is also clear that exercising this responsibility must take place "*within that framework*" of the law, and under FSB regulation. This sense of the centrality of compliance in the context of pension funds was perhaps cemented by one of the pension fund members interviewed, who said:

**P22:** *...pension funds are highly regulated and there's certain, you know, there's certain regulations around the risks that pension funds can take with pension fund money. (P22:3, Pension fund member)*

Beyond passing references to specific legislation (such as the Pension Funds Act, 24 of 1956, and the Income Tax Act, 58 of 1962, noted in P17's comments above), the so-called Regulation 28 of the Pension Funds Act was so frequently mentioned as to warrant its being afforded the status of a prominent code. For example, asset manager P2 stated:

**P2:** *What we do, is we form part of a team that looks after a certain set of portfolios. For example, in my case, we look after pension and provident fund portfolios so usually Regulation 28 portfolios. (P2:1, Portfolio manager)*

In general, the discussions on Regulation 28 revolved around the prescriptions in Regulation 28 regarding asset allocation parameters, for example:

**P7:** *Running pension fund money, we obviously have to abide by certain rules. So we are Reg 28 compliant. That means that you're not allowed to have more than 75% in equity exposure, you can have 25% offshore exposure. (P7:2, Portfolio manager)*

Or as asset manager P2 put it:

**P2:** *There are certain things like the Regulation 28 portfolios. If it is a pension or a provident portfolio, it has to be a fully, a full discretion mandate, because the client doesn't get to say he wants to hold 20% of British American Tobacco. The rules say you can only hold ten or 15. And for that, we need to be able to make the decisions. (P2:22, Portfolio manager)*

### 5.2.3 Fiduciary principles

Specific codes that emerged in response to Question 4 included the generally agreed fiduciary duties of care or prudence, impartiality or fairness, and loyalty (Hawley *et al.*, 2011). In addition, compliance was again a feature (a code in this case), and this led to the final code of sustainability or ESG issues.

Regarding general duties, the following excerpt from the interview with P21 alludes to fiduciary responsibility as the duty of care or prudence by highlighting the need not to be negligent:

**P21:** *Well, fiduciary duty ... my understanding of it is that it ... you are appointed as an agent. So the fund is appointed as an agent to look after my money. So I'm the principal and they're the agent and with that agency comes fiduciary duty. They must do the best they can do as if they are a director, take all the responsibilities. They cannot be... what is that... **negligent**. I'm not sure whether one can always prove it, that they are not [negligent] and that will be I mean a big, legal battle...*



***Interviewer:** And what would you expect of the agents then? What do you expect if we talk about acting on your behalf and in your best interests because that is definitely...*

***P21:** Optimise the investment. Optimise. Optimise and at the same time, there should not be unnecessary overheads. (P21:6, Pension fund trustee)*

The emphasis on the word “*optimise*” suggests that in P21’s view, a duty of care in effect means taking care to maximize financial returns.

In respect of the duty of impartiality or fairness, interviewee P17 stated the following:

***P17:** The fiduciary responsibility of the board of trustees is really to ensure that all stakeholders of a fund are being looked after, so to speak. And the stakeholders are, I mean the obvious stakeholders are the members [of the fund]. And there, no member should be prejudiced in any way and one should be fair to all members or member groups in a fund. That is important. (P17:22, Pension fund trustee)*

It is important to recognise that the “impartiality” mentioned here is inherently closed or parochial (Sen, 2011). P17 first referred to “*all stakeholders*”, but s/he quickly clarified that what s/he was actually referring to here was all the members of the fund only. In effect, under this interpretation, the duty of impartiality is constrained by the duty of loyalty.

Finally, regarding the generally recognised fiduciary duties, the fiduciary duty of loyalty (or good faith or best interests) arose in a number of interviews. For example, P27 emphasised the importance of acting in the “best interest” of the client:

***P27:** Fiduciary duty in our sense means that you act as though you were the client, you act in their **best interest**. (P27:8, Analyst)*

Interviewee P26 also mentioned acting in “*faith*” (presumably good faith) and acting in the best interest of a client:

***P26:** Okay, my view really ... it really stems from FAIS actually. I’ll tell you why, because the investment management agreement (the IMS) that we sign between the asset manager and the client ... it’s actually founded on **faith**. Faith that describes what needs to go in there and whatever, whatever. Now by signing that as an asset manager, we actually now have that fiduciary duty to our client and investors to say, “Can you manage your assets in the **best** possible way we can, literally put your **interests** ahead of ours”. (P26:17, Analyst)*

In addition to referring to the duty of loyalty, this excerpt also introduces the next code associated with the sub-theme of *Fiduciary principles*, namely the code of compliance. Here, interviewees mentioned the Financial Advisory and Intermediary Services Act, 37 of 2002 (FAIS) and the investment management agreement or

mandate (the IMS). Another example of this sub-theme was found in the transcript of the interview with P24, who repeatedly spoke of “*regulation*”. Referring to pension fund trustees as the “*asset owner*”, P24 stated:

**P24:** *Remember, the regulation very much speaks to the asset owner level, so the fiduciary responsibility with regard to ESG is very much embodied by the asset owner. Ultimately, you know, in South Africa, especially given some of the other fund regulation, around membership and representation by trustees, it doesn't necessarily lend itself to professionalization and capacity to evaluate both investment issues and ESG issues at asset owner level, and that means that in many cases, you know, the formalization of processes to evaluate ESG and other investment related issues are often delegated to the asset manager level. (P24:26, Asset consultant)*

It is, however, the code of sustainability (again under the proxy of ESG issues) in relation to the sub-theme of *Fiduciary principles* that actually emerges most strongly in this excerpt. P24's position in relation to this code is clarified in the excerpt already presented under the section on the sub-theme of *Return and risk*:

**P24:** *As such, you know, the obvious corollary to that is therefore the only sensible way to discharge fiduciary responsibility with regard to ESG is to speak to the implication of ESG issues for investment risk and investment return, and that's really how we place our whole philosophical outlook towards ESG integration into investment decision-making. (P24:15, 25: Asset consultant)*

Again, it is not surprising that this code would emerge in the interview with P24 who, as we have already noted, is an asset consultant who is considered to be an expert in SRI. The final excerpt illustrating this code of sustainability comes from the interview with P26:

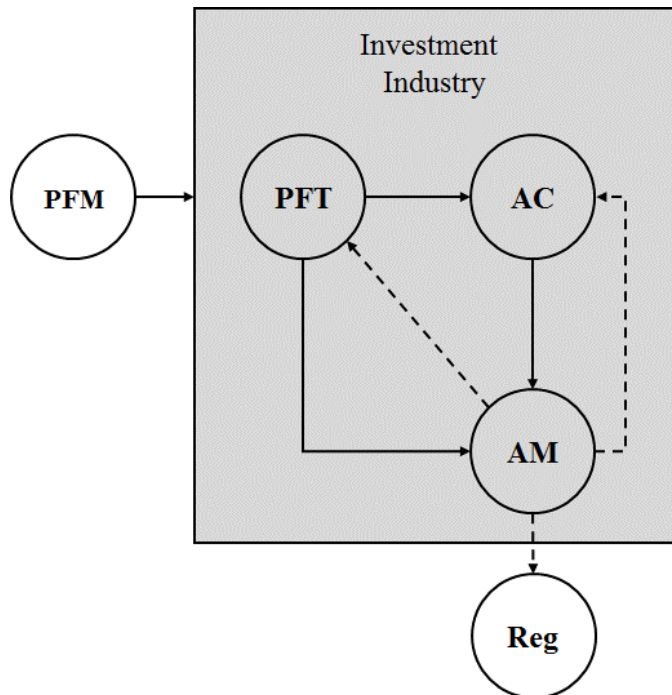
**P26:** *Now I think where I see my [fiduciary] duty really at play, or significant, is in the fact that I'm employed to actually raise up my hand if, on the numbers side, things look good, but from a long-term view (which I believe sustainability is all about right) things don't look good. (P26:17, Analyst)*

Here, for the first time, there is a reference to long-termism *and* the possible link between this and sustainability.

#### **5.2.4 Abdication of responsibility**

The theme of *Abdication of responsibility* emerged as a very strong theme across most of the categories of providers of financial capital that I interviewed. Furthermore, it was by far the most prominent observation recorded in my reflexive

notes.<sup>18</sup> In short, when asked to describe their responsibilities, many interviewees simply went on to explain how they are not really responsible at all, and how other role players actually bear all responsibility associated with capital allocation, generally “passing the buck”. One way to visualize the web of abdication that emerged is to present this graphically (see Figure 1, below).



**Figure 1: Web of abdication detected amongst providers of financial capital**

PFM = pension fund member; PFT = pension fund trustee; AC = asset consultant; AM = asset manager; Reg = the regulator

Pension fund members (the ultimate asset owners) noted the passive character of their involvement in their investments. Interviewee P19 stated this explicitly:

**P19:** *I think I play a passive role in making investment decisions, because it's one of those – I pick one [a fund option] that seems safe and then I go ahead with it. So I'd say it's more of a passive role, but I do play a role in identifying where I can put my money in. (P19:1, Pension fund member)*

The perceived responsibility here was simply to pick a fund option that “seems safe” presumably from a self-interest perspective. Implicit in this is the notion that the responsibility of keeping a fund safe lies with the investment industry in general. Interviewee P21 noted the absence of “powers”, as well as a lack of skills as reasons for stepping back:

<sup>18</sup> Admittedly, this might be an expression of my surprise and disbelief.

**P21:** *I could probably have been more involved ... I think it's my fault? I'm not sure that I have the powers as a member of the fund to say I want the money to go there and there and there because I'm not a specialist. That's probably also the reason that I stood back and that I'm making other provisions outside of my pension fund which I can control. So there I take all the accountability but that in the pension fund here ... I'm not involved. (P21:3, Pension fund member)*

Interestingly, there appeared to be a trace of guilt or regret regarding this abdication in this excerpt. This sense of guilt was not detected in interviews with the other categories of providers of financial capital.

Among the pension fund trustees, while there was a sense that, in terms of legislation, they took ultimate responsibility for asset allocation activities, very often they seemed to want to rationalise their responsibilities away, in much the same way that pension fund members did. In essence, they argued that they were not the experts and therefore could not be held responsible for decision-making that was outsourced to the so-called experts in the form of asset consultants and asset managers. These sentiments are illustrated well in the following excerpt:

**P14:** *Look, normally there's also an asset consultant involved, so the trustees don't have to do all the homework. The asset consultant will do **all** the homework and they will come to us and say, ... (P14:4, Pension fund trustee; emphasis added)*

Another trustee explained it as follows:

**P13:** *...okay, and then they [referring to pension fund trustees] rely **completely** (they give full discretion mandates in most cases) to the asset manager and they state targets that needs to be met, okay... (P13:5, Pension fund trustee; emphasis added)*

Finally, P15 cemented this notion as follows:

**P15:** *...basically you give your asset manager a mandate, and the mandate is to manage for you an equity portfolio, bond portfolio, a local portfolio, foreign portfolio and you do sit down but you don't have any insight into what equities they're going to buy. What they do is, annually, we do an assessment of the asset manager as the board of trustees and then they give you an indication of where they invested, what they invested in, and then they tell you Naspers 12% or whatever. But that's after the event and the picture at that point of time and that may change from today to tomorrow so... (P15:1, Pension fund trustee)*

Closely allied to this was the claim that their primary responsibility as trustees was simply to choose the right asset consultants and asset managers, because these other role players are ultimately responsible for decision-making. As P14 noted:

**P14:** *Obviously the asset manager there's a whole lot of criteria to select the asset manager. But from a member perspective you want to make sure that the member is comfortable because you're acting most of the time on their behalf. (P14:3, Pension fund trustee)*

Amongst the asset consultants, the finger of responsibility was typically pointed in the direction of asset managers. The basic argument here echoed that presented by P15 above, which held that asset managers ultimately make the investment decisions, and therefore they bear the ultimate responsibility for the consequences of those decisions. Interviewee P24 was most emphatic in asserting this:

**P24:** *Well, fiduciary responsibility really again rests on the asset manager by virtue of the fact that they are a custodian of assets for the asset owner community and ultimately for institutional... providers of institutional assets and ultimately beneficiaries. That's really the chain of fiduciary responsibility. From our perspective, that again, fiduciary responsibility doesn't necessarily fall directly on us. (P24:7, Asset consultant)*

To some extent, asset managers themselves actually confirmed their overall responsibility for decision-making. As P8 noted:

**P8:** *Well, as a portfolio manager [asset manager] you take ultimate responsibility. But you rely on your team. So we've got a team of people and we have, you know collective input. But ultimately the portfolio manager does have responsibility, takes full responsibility so I don't know if there's an answer in terms of quantum but I'm responsible. (P8:2, Portfolio manager)*

However, in this regard, it is necessary to think back to the sentiments that emerged from asset managers earlier in this discussion under the theme of *Compliance*. Asset managers in particular were at pains to emphasise that their decisions are profoundly constrained by mandates supplied by trustees, in turn guided by asset consultants, and by regulation (see, for example, the excerpt from P6:3,37:37). In effect, there is a strong element of abdication of responsibility inherent in this.

Finally, the investment bankers both perceived themselves purely as advisors for and facilitators of transactions. Both made it clear that they do not really view themselves as accountable to any of the ultimate asset owners in the investment chain, because they simply facilitate transactions which others presumably participate in of their own free will.

### 5.3 THEME 2: THE PROCESS OF INVESTMENT DECISION-MAKING

Table 6 shows the four sub-themes that emerged from the interviews linked to the questions aligned with the theme of the process of investment decision-making.

**Table 6: Outline of Theme 2: The process of investment decision-making**

Theme 2: The process of investment decision-making	
	Codes
<b>Sub-theme 1: Formal and informal processes</b>	Formal processes: Structure in-and-outside the organisation
	Formal processes: Models
	Formal processes: Mandates
	Informal processes: Advice
	Informal processes: Team work
	Informal processes: Art
<b>Sub-theme 2: Sources of information</b>	Personal sources of information
	Internal sources of information
	External sources of information
<b>Sub-theme 3: Engagement</b>	Internal engagement
	External engagement
<b>Sub-theme 4: Abdication of investment decision-making</b>	Abdication of investment decision-making

The first sub-theme that emerged relating to the process of investment decision-making was that of *Formal and informal processes* used as “standard operating procedures” when the interviewed providers of financial capital talked about the investment decision-making process. These processes varied significantly between the different categories of providers of financial capital, but generally, it was suggested that there are definitive processes in place for making investment decisions.

These processes then inform the second sub-theme that emerged from the interviews, namely sources of information. These are the sources of information that are actually integrated into the process of investment decision-making. Here, providers of financial capital mentioned personal sources of information, internal sources of information and external sources of information.

The third sub-theme that arose from the interviews was the theme of *Engagement*, which takes place internally, within organisations. Internal engagements typically occur within asset management firms where analysts and portfolio managers work together in teams to make decisions. External engagements were also mentioned quite often, where there is engagement with companies that the providers invest in. In this sub-theme, proxy-voting was specifically emphasised.

The fourth and final sub-theme to emerge was the theme of *Abdication of investment decision-making*. Here, instead of describing a decision-making process, interviewees stated that they are not responsible for investment decision-making and that the responsibility of decision-making lies with other providers of financial capital, more specifically the portfolio managers, as illustrated in Section 5.2.4 above.

### 5.3.1 Formal and informal processes

Specific codes that emerged in response to the questions relating to the actual process of investment decision-making included the notion that providers of financial capital generally follow very specific processes, whether formal or informal, in making investment decisions. These processes differ greatly, depending on the category of provider of financial capital and the context they function in:

**P8:** *Well, as a portfolio manager you take ultimate responsibility but you rely on our team so we got a team of people and we have, you know collective input but ultimately the portfolio manager does have responsibility, takes full responsibility so I don't know if there's an answer in terms of quantum but I'm responsible.*  
**(P8:5, Portfolio manager)**

**P2:** *What we do, is we form part of a team that look after a certain set of portfolios, for example, in my case we look after pension and provident fund portfolios so usually Regulation 28 portfolios. What happens then is every morning we have a meeting with our chief strategist, our head of research and the analysts to discuss what's happening in the markets; we get a house view that we can either follow, or give to clients, or implement, and then we also do a separate meeting, in the branch, where we discuss things that happen during the day. From that, we make a decision, for example, there's a corporate action that's going to impact our clients, do we have enough of this company in question, holdings of the company in question? Do we have too little? Too much? Should we sell? What should be the decision? And then we go through the individual client accounts and the portfolio manager decides whether or not this would fall into the mandate that we have for the client in question. So, would the client in question be better off if we did what we proposed to do or not? And from there we make the decision.*

**Interviewer:** *So in some sense, you as the portfolio manager would make a final decision based on whatever is presented in these morning meetings?*

**P2:** *Correct. Yes. (P2:27, Portfolio manager)*

One investment banker, for instance, explicitly stated that his decision-making was short-term decision-making, whereas other participants were not as outspoken about short-termism. This does not mean that investment bankers are generally more focused on the short-term than other providers of financial capital, because P11 clearly explains her/his short-termism as a very personal preference:

**P11:** *So I'm probably a lot more short-term than say, some of the other investment people and you know, I would look to probably change... you know, review things on a quarterly basis, but probably, realistically at least every six months. So it's just your make-up. Some people are more long-term. They like, they'll see value long-term and they'll buy it, I'm a bit more sceptical about that. But, it's just your own make-up. (P11:77, Investment banker)*

It was also clear that the processes followed are determined by the specific organisation that the providers of financial capital work for, although this did not apply to individual decision-makers, such as the pension fund members.

### **5.3.1.1 Formal processes: the structure of the investment chain in and outside of organisations**

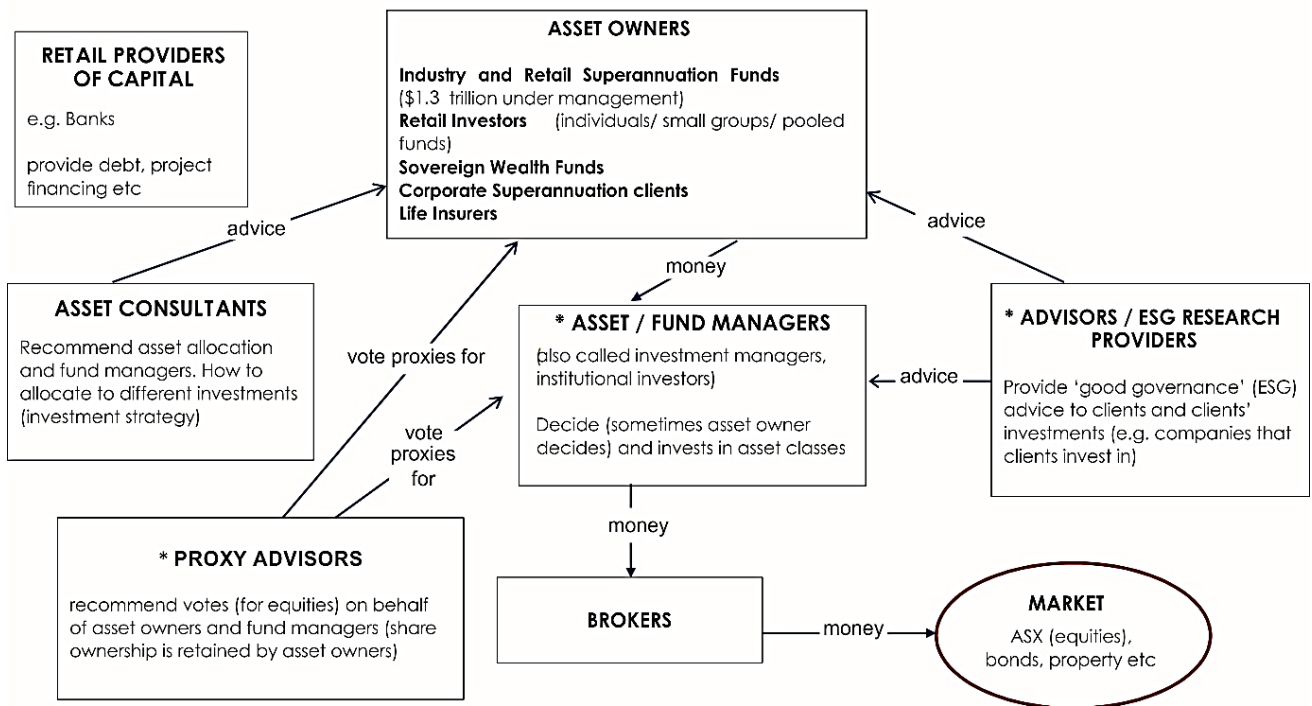
The participants clearly described their decision-making processes in the context of specific structures in place in the investment industry. Several formal decision-making structures are in place because of the way the investment chain is set up.

The structure of the pension fund investment chain, in particular, is well covered in the literature (Clark, 2000). The flow of pension fund money can be summarized as follows: pension fund contributions are collected in a pension fund, and the pension fund has a board of trustees who are responsible for managing the fund on behalf of the pension fund members. The pension fund trustees engage with asset consultants to assist them in developing an investment strategy for the fund and to be advised on finding the right service providers to execute the investment strategy in the form of asset managers. The pension fund trustees then identify the asset managers that they want to use and prepare a mandate that, together with the investment strategy, becomes the framework within which the asset managers must manage the fund's investments. In asset management firms, teams are made up of analysts and portfolio managers who work together to make informed investment



decisions. The portfolio managers then work with brokers to buy and sell the actual shares, or they may use in-house traders that actually buy and sell shares.

Stubbs *et al.* (2014:17) provide a visual presentation of what they call the “Australian Investment Supply Chain”. Because their work is also based on providers of financial capital, as defined by the IIRC, it is relevant for the study at hand. The role players that they included that are not represented in my study are sovereign wealth funds, corporate superannuation clients, life insurers and brokers (Stubbs *et al.*, 2014). Nonetheless, most of the role players presented in their illustration were included as categories of providers of financial capital in my study. The illustration is given in Figure 2, below.



Financial Capital Providers' Perceptions of <IR>

**Figure 2:** The Australian Investment Supply Chain

Source: Stubbs *et al.* (2014:17)

When asked to describe how they make investment decisions, P18, a pension fund trustee, clearly referred to the structure of the investment chain. It is evident from P18’s response that the investment policy statement developed in consultation with the asset consultants is seen as the guide for investment decisions:

**P18:** *The majority of boards that I sit on, we are not a direct investor, okay, so we will use selective asset managers but within those asset managers we're going to use an asset consultant to guide us with the asset management choice but within those asset management. [...] managers we have a very strict investment policy statement, okay. (P18:7, Pension fund trustee)*

### 5.3.1.2 Formal processes: mandates

The code of mandates also emerged in the discussion on how the providers think about their roles and responsibilities. As I have mentioned in Section 5.2, providers believe that they fulfil their responsibilities if they execute the mandate. The execution of the mandate was also highlighted in terms of the process of investment decision-making. P24 makes it clear that the mandate should outline what investment decisions should be made:

**P24:** *So, the investment decision-making process ultimately is defined by the asset manager in consultation with the asset owner; so that happens through the **mandate process** and through ongoing communications. (P24:2, Asset consultant, emphasis added)*

**P4:** *Now obviously if the client comes in and we... and it expresses a certain mandate, has a certain risk profile, then we'll manage it according to that. So we will always try to manage it in respect of the mandate – manage the client's money in the best way that we can. (P4:1, Portfolio manager)*

**P1:** *Asset managers get a case, asset manager draws up a mandate whereby he executes within certain parameters for a client be it retail or institutional and within that mandate he is assigned or he signs himself and the client signs them to a certain benchmark to which the client must perform and also then there's certain parameters, certain instruments, certain weightings within certain instruments or asset classes that the asset manager must stay within... (P1:8, Portfolio manager)*

### 5.3.1.3 Formal processes: models

It was already indicated that the findings suggested that the actual investment decision-making was done by asset management firms (see Section 5.2.4). The bulk of the role players involved in the investment chain place this responsibility squarely in the hands of asset management firms. Asset management firms differ quite significantly in terms of their structure and approaches. Some small firms are often made up of two or three people designated as portfolio managers who take responsibility for everything – research, decision-making and execution. Other large firms have very specific hierarchical structures and have investment committees who

make the investment decisions. The investment committees are usually made up of analysts and portfolio managers. Portfolio managers take the ultimate responsibility for making the investment decisions, based on information provided to them by the analysts. Some of the larger asset management firms then also have an in-house execution arm of “brokers” or “traders”.

First, one needs to distinguish between active and passive portfolio managers:

**P2:** *We're an active manager there, so we make the decision, and we implement it immediately. So if I decide I'm selling all of your SAB's today, I will sell them all today if you are a full discretion client of mine and I will let you know via the contract note and maybe via an email or a call that this we actually did. (P2:19, Portfolio manager)*

Second, terms often used when asked about portfolio managers' approach are “top-down” or “bottom-up”. A “top-down approach” refers to the consideration of macro-economic factors first and then moving down to more sector-specific and company-specific research. A “bottom-up” approach suggests starting with specific analysis of the companies first, then moving to the sector, the industry and broader macro-economic factors.

P1 explained the difference between top-down and bottom-up models:

**P1:** *...first there's a top-down approach and I'm still talking about active managers here, the top-down approach where you determine the different discourses of economies, you start with the economy and you work your way down from there, the other is commonly referred to as a bottom-up approach, we are biased towards a bottom-up approach, although no bottom-up approach is reliable on its own, one needs to understand the economy to understand a company, its earnings, drivers, its industry and thus forth... (P1:8, Portfolio manager)*

It was also clear that the portfolio managers, who were identified by the interviewees as the actual decision-makers, mentioned specific formal processes that they follow to make investment decisions, but these vary greatly, depending on the investment philosophy of the specific organisation they work for. P7 clearly indicated a three-step process that they always follow with their decision-making:

**P7:** *So first of all, I think you have to have a very structured and rigid investment process. So you can break it up, the first part as an allocation, right? And in the second part is right... so what we do is... I'll quickly work through our investment process. So we approached the market from three different angles [...] The second component of our research is a bit of quantitative research. Now we... our investment process does slant a bit more towards the quantitative side,*

*because that's one of the strong backgrounds that I've had over time [...] And then the third component of our investment process, so what we do is we create, we do a lot of factor... risk factor back testing, and those risk factors determine the stock selection process and as those stocks migrate up and down the ranking table, the third point comes in, which is fundamental research. (P7:7, Portfolio manager)*

P9, who worked for another organisation, explained that they make decisions based on a framework consisting of two ideas:

**P9:** *So if I take our framework of price and theme, certainly the price – so the valuation – comes from the analyst. Analysts sit with the financial statements, they do the modelling, they do the projections, they put a valuation the company and that is the analysts' evaluation and obviously there's a recommendation that goes with it. Strong buy, weak buy, weak sell, strong sell, no neutrals as you've noticed which I personally believe is a good thing. So ja, the analyst does that but now if you think about my team being asset allocators, equity is just one of the building blocks, so there's a layer of asset allocators in the team, they are more macro people, so within their framework, we then identify the themes, combine it with the valuation and we've got a score for a company. (P9:7, Portfolio manager)*

This finding is unsurprising in the sense that it is obvious that price would be a major, if not the most important, consideration, for investors when they have to decide what stocks to buy. However, it seems surprising that there are almost no significant differences between the way normal consumers, who do not have any specific education or training in investment, make buying decisions and the way that these highly trained investors make their decisions (Öberseder *et al.*, 2011). Öberseder *et al.* (2011) considered the importance of CSR in consumption decisions; they found that price remains the central factor around which consumption decisions are made:

*With price being a very important criterion in decision-making among interviewees, the financial situation of the consumer is highly relevant when purchasing goods. These findings are in accordance with previous research on the importance price (Carrigan and Attalla 2001) and the dominance of financial rather than ethical values in purchase decisions (Bray et al. 2011). (Öberseder et al., 2011:455)*

This suggests that price remains one of the most important considerations in investment decision-making.

#### **5.3.1.4 Informal processes**

The informal processes seemed to be informed by the formal processes such as the internal policies and models used in a specific organisation. An interesting

phenomenon was that several participants perceived investment decision-making as an art and interpreted it as an informal process:

**P28:** *It is an art. Don't let people tell you anything else [...] So some people do have it. I actually sat next to someone like that for a long time, Person A\*. He's now at Organisation B\*, but he's one of those people and it's a talent. But what investment managers try and tell you is that because they've got the process and everything down pat, they will always make the correct decisions. They won't. This is very much an art, and for an art, you were born to do that. (P28:32, Analyst)*

**P9:** *So, management is a big deal when picking a stock and it's interesting, you know they talk about the art and the science of investments. (P9:8, Portfolio manager)*

**P1:** *The second part of the identification process comes from the right brain side. Mathematics or screening processes or whatever can only take you so far, we read very far and very wide, be it macro, be it micro, be it on a company level and what we find is some of the best investment ideas comes from your **right brain**, you find something and it just makes **intuitive sense** that you should do more homework on the company that's just, that you just glanced and ja I think that is a, that is a big part of the investment process that has been discarded, or not discarded but neglected by a scientific method... (P1:19, Portfolio manager; emphases added)*

Another interesting code that emerged as part of the process that influences investment decision-making is fear. P13 mentioned that fear is an important consideration that drives investment decision-making. As mentioned earlier, participants also saw the investment decision-making process as an art, something that is done intuitively. The fact that fear (an emotion) is also mentioned as an important factor that influences investment decision-making is in stark contrast with the traditional investment textbook thinking that the process is strictly aligned to rational choice theory. The participants provided perspectives that indicate that investment choices are not always rational:

**P13:** *So in the past you made investment decisions based out of greed, now the pendulum is swinging and it's swung significantly to making investment decisions out of fear. (P13:15, Pension fund trustee)*

### 5.3.2 Sources of information

It was particularly important to determine what sources of information providers of financial capital use in order to establish whether they draw on integrated reports in any way. It seems fair to deduce that if providers often use integrated reports as a

source of information in their decision-making, it would be something they would mention in answering the question of what sources of information are used in decision-making. Interestingly, very few participants referred to integrated reports spontaneously. Although a number of participants referred to company reports and annual reports, only a very small minority referred to integrated reporting. Even those who did refer to integrated reporting explicitly stated that they mainly use the financial information in the integrated report. Specific codes that emerged in response to the question of what sources the participants employ to inform their investment decisions were personal sources of information, internal sources of information and external sources of information.

### **5.3.2.1 Personal sources of information**

Personal sources of information refer to information that participants received from friends, colleagues or family in informal discussion, but that participants use to base their investment decisions on. This sub-theme was specifically prevalent in the pension fund member category, where members relied on the advice of family members to help them with their investment decision-making. It is also evident that they sought advice because they felt that they themselves did not have the expertise to make informed choices.

P21 explained that his daughter takes care of their investment portfolio because she is an expert and works in the industry:

**Interviewer:** *Okay, and we've talked about the investment decisions that you've made in order to plan for your retirement. Now I want to know what sources of information generally do you use to make those decisions? You mentioned that your daughter is actually taking care of some of the funds, I assume that she works in the industry...*

**P21:** *Ja, she works in the industry, investment manager for Company X, so the biggest portion of my money and my wife's money is under control. (P21:7, Pension fund member)*

P19 simply noted taking advice from the participant's parents in terms of making an investment decision:

**P19:** *So, just to give an example, that one I picked because of my parents you know they mentioned that I should, you know, get a retirement annuity. (P19:10, Pension fund member)*

### 5.3.2.2 Internal sources of information

The internal sources of information were understood, primarily as the information that is supplied to decision-makers through structured internal processes within the organisations they work for. In terms of the pension fund members, as P22 explained, the organisation s/he works for provided her/him with information in order to choose a portfolio that would align best with the needs of a pension fund member:

*P22: There were two options in whether I wanted my... what type of growth I desired for my pension fund and there was a... there was an aggressive option and then there was a more conservative option and the person I spoke to, who I consulted with regarding the option I should choose was, it was someone internally within the organisation as a representative of the pension fund here and he or she – can't remember – recommended that I select the more aggressive option because of the longer term horizon that I have, it's been proven that the aggressive option over the longer term gives better growth.*

**(P22:1, Pension fund member)**

It can be deduced from the explanation provided by P22 that the most important consideration for P22, ultimately, was the growth of her/his pension fund savings – in other words, financial return.

P9, a portfolio manager, clearly indicated how information is supplied to the portfolio manager to make the final decision through a specific process, where the analysts in the same organisation are responsible for doing the in-depth research and then present this information to the portfolio managers. Based on the research and presentations of the analyst, the portfolio manager then makes a decision. P9 added that portfolio managers then have a set way of doing further analysis to reach a decision. Finally, P9 noted the specific twofold philosophy used in the organisation s/he works for: what matters is theme and price. Based on this notion of theme and price, it becomes evident that the major consideration for P9 is the future projection of earnings for the company:

*P9: ... If it's below that fundamental value there is room for returns and you expect to get a return and then also that expectation a return better than the market from that particular share, so price is the easy part, at least that's what all managers out there do anyway. We've got an added dimension which we call theme, and theme speaks to what are the conditions out there that will boost this company's earnings or detract from this company's earnings, positive theme if it will boost the earnings, negative theme if it will detract from the earnings.*

**(P9:3, Portfolio manager)**

### 5.3.2.3 External sources of information

External sources of information were categorised as such because participants mentioned them as coming from external sources. The information from these sources does not refer to research based on in-house knowledge and in-house models. Company reports and third-party research reports were mentioned frequently in this regard. P8 emphasised the importance of company reports and described it as a very “*pure*” form of information. However, P8 did not specifically talk about integrated annual reports:

**P8:** *So there's a whole, there's an array of different sources of information we use. But principally, on a company work, given that we're all experienced we use company, company reports because ultimately it's the purest form of information.*

**(P8:4, Asset manager)**

In contrast to P8's perception that company reports are the “*purest*” form of information, several participants mentioned reservations with regard to company reports. These participants described a sense of distrust with company reports, describing them as marketing tools.

Both P30 and P2 mentioned third-party research, which is done by companies that specialize in investment research. Investors then buy their research reports from these companies. These research companies base their reports on several sources, including news, macro-economic factors and in-depth analysis of companies:

**P30:** *Okay, so we from a companies' perspective, obviously our main source of information is the annual report and obviously presentations that they do, the company does, so you'll have annual presentations, semi-annual, you'll have reporting. So those kind of things we do and then also conferences they do presentations, so it's all linked to companies, right, but then we also look a lot at the sell-side brokerage, so “Y” banking, all these kind of companies, their analysts look at the companies as well, so we look at their reports on the companies... (P30:19, Analyst)*

**P2:** *They get the information from several sources, Bloomberg, Reuters, FactSets, Collate, all of the research reports from different analysts, and then they read these, they also attend the meetings from the companies so they get the annual financial results there, it is published on SENS as well. (P2:3, Portfolio manager)*

It was mentioned a few times that the providers are specifically interested in the management of companies, and that they meet with the management of companies



to establish whether they think the company is in good hands and that it will remain a good investment:

**P9:** *So the numbers, that's the science but for me as a portfolio manager when I sit opposite a CEO, to read that person, to evaluate that person, somebody said they don't, the impression I got is that there was referral to, you can't believe the financial statements and just yesterday, because I act as a mentor for one of the younger people in the team, I said "remember you can't believe management anyway". So we've got this thing that we, oh and I said "remember they are marketers of their company" so you've got to be sort of level-headed to know that that CEO is going to try to portray the best picture of his company that he can... so you get to read people and that's the art of investments I believe, that soft side to understand, to ja, what kind of person am I dealing with? In the long run you've got to evaluate management and it's fascinating actually. (P9:8, Portfolio manager)*

**P2:** *The business model. We check the business model, then we go and we look at the directors, the management of the company, what's their track record, what type of decisions have they made that have turned out very badly or very well? What we then do is we actually go through the numbers, and we say okay, this is what the company says they did. This is the company's plans, press releases, et cetera for new capital going into the company. (P2:23, Portfolio manager)*

### 5.3.3 Engagement

Participants also described a number of engagement processes in which they take part and which assist them in making investment decisions. These engagements occur within the organisations in which they work. They can also be seen as teamwork. Proxy voting was described by several participants as part of their responsibility in the investment decision-making process; I categorized this as an external engagement.

#### 5.3.3.1 Internal engagement

As part of describing the investment decision-making process, participants articulated the idea that they do not make decisions alone and that it takes a team of people working together to reach to an investment decision. These internal engagement processes were only described by participants who work in asset management firms – i.e. analysts and portfolio managers:

**P27:** *Let me explain to you how we work, we've got [...] teams according to asset class, so we've got an equity team. The equity team will be divided between analysts and fund managers, with some overlaps, so some people are*

*analysts and fund managers and the analysts make recommendations and evaluations and the fund managers execute. (P27:10, Analyst)*

**P2:** *What we do, is we form part of a team that look after a certain set of portfolios, for example, in my case we look after pension and provident fund portfolios so usually Regulation 28 portfolios. What happens then is every morning we have a meeting with our chief strategist, our head of research and the analysts to discuss what's happening in the markets, we get a house view that we can either follow, or give to clients, or implement, and then we also do a separate meeting, in the branch, where we discuss things that happen during the day. From that, we make a decision, for example, there's a corporate action that's going to impact our clients, do we have enough of this company in question, holdings of the company in question? Do we have too little? Too much? Should we sell? What should be the decision? And then we go through the individual client accounts and the portfolio manager decides whether or not this would fall into the mandate that we have for the client in question. So, would the client in question be better off if we did what we proposed to do or not? And from there we make the decision. (P2:1, Portfolio manager)*

The interviews also illustrated that the internal engagements vary significantly, depending on the organisation that the participant works for and that individual's specific role in the organisation. Generally, teams in asset management firms consist of portfolio managers and analysts, but it is also quite common for asset management firms to have a portfolio for implementing the responsible investment strategy – especially if the organisation is a signatory to the Principles of Responsible Investment (PRI). P31, an investment expert whose role in the organisation is to create ESG awareness and to implement responsible investment strategies, indicated that there is a difference between the way s/he thinks and the way portfolio managers and analysts think:

**P31:** *No, they're not taught how to think beyond financial metrics. They only think from the financial point of view. So it's – I found that over the few years it's taken, it takes conversation and it takes experience and people sort of get it now. But it's not something that happens overnight. (P31:25, Other: Investment expert)*

P31 described that investors do not think beyond financial metrics, but indicated that investors are trained to think in such a manner. This suggests that investors are educated in a way that is narrowly focused on financial metrics. Brown (2017) argues that the inability to think beyond financial metrics is a symptom of neoliberalism.

### 5.3.3.2 External engagement

It was also apparent that the providers of financial capital engage outside of their own organisations, and that these engagements are perceived as part of the investment decision-making process. A topic mentioned a number of times regarding external engagements was proxy voting. It was evident that several participants perceived proxy voting as an important part of their responsibilities. Some participants explained that proxy voting is used as a method to engage companies on ESG issues. It was evident that ESG issues would not determine whether the providers' bought a share, but proxy voting was described as the tool used to influence issues relating to ESG in the companies:

**P28:** *The reason why I have this background in both analysis and portfolio managing, because I'm an old guy, I've been around, I've got the experience, because a lot of these votes [proxy votes], there's not always a clear-cut answer to resolutions at annual general meetings. Like most issues in investments there're lots of grey areas and I have the background, I've made decisions to buy and sell shares and all those kind of things, so....* **(P28:3, Analyst)**

**P28:** *You have to engage. You have to vote. You have to become a pest. And that's it.* **(P28:34, Analyst)**

**P33:** *So actually, the whole proxy voting process is actually being decentralised from the various boutiques, and now sits with myself as the overall custodian of that process. So I physically vote all our proxies, in accordance with our proxy voting policy, which we've now overlaid to all meetings, but I have ... the ultimate decision is mine as to how we vote at each meeting of the company and on each specific matter.* **(P33:12, Other: Investment expert)**

The interviews illustrated that engagement with the management of companies was perceived as an important part of the providers of financial capital's responsibilities. The literature confirms that investors can influence how companies are managed through their engagements with companies (Serafeim, 2015). It was also clear that this was an area where ESG issues are actually considered. Again, it was evident the ESG issues would not determine whether they will hold the share or not, but if there are perceived ESG issues, the providers will engage with the company on it. Still, it was only the role players that have the responsible investment portfolios in organisations that described engagements on ESG issues, so it is not necessarily something that is done by other categories of providers:

**P33:** *I focus on engaging our company on all ESG related matters. I set out a proactive engagement plan to discuss those areas of concern around ESG risk*

*and opportunities, whichever present themselves for the companies we assess. We conduct our own proprietary research in regard to the governance practices of those companies, as well as a few external research from time to time to inform our view. That view is then discussed with portfolio managers and analysts and an engagement may follow as a result of that with the company involved. Bring along myself and the portfolio manager. (P33:6, Other: Investment expert)*

### 5.3.4 Abdication of investment decision-making

The broader theme of abdication of responsibility was the most prominent theme in the interviews (as illustrated by the number of quotations below):

**P14:** *Because really, a trustee is not an asset manager, I think it's the biggest mistake if you try and select individual companies.... (P14:7; Pension fund trustee)*

**Interviewer:** *Okay. And could you describe your specific role in terms of making the actual investment decision?*

**P27:** *Zero.*

**Interviewer:** *Sorry?*

**P27:** *Zero, I've got no role in making investment decisions. (P27:9, Analyst)*

**P25:** *We don't get involved with the actual management of the assets, we have a Category 2 license. We just basically tell the pension funds where and how much of that money should be invested in which fund.*

**Interviewer:** *Okay. So am I correct in my understanding of an asset consultant, that you will never really get involved with the decisions taken to decide on equities that you invest in? . That is something that is given to the asset manager?*

**P25:** *Ja, we operate on a manager level. (P25:6, Asset consultant)*

From providers' comments on the investment decision-making process specifically, it was clear that the actual investment decision is abdicated almost entirely, delegating to portfolio managers. The other categories of providers of financial capital made it clear that the investment decision is not perceived as part of their responsibility:

**P21:** *Well in terms of the pension fund I'm actually really uninvolved at this point. In terms of decision-making, ja, I rarely go to any meeting, I mean I'm up to date in terms of how the funds are doing, but I know very little about anything else about the fund. (P21:3, Pension fund member)*

The participants confirmed the notion that investment decision-making is a complex process that involves an array of different role players (Clark, 2000). P17, a pension fund trustee, explained that trustees now have less responsibility and that pension fund members now have more responsibility. However, P21, a pension fund

member, indicated that s/he was not involved in any decision-making. A definite narrative of “passing the buck” was prominent throughout the interviews:

**P17:** *I think the landscape has changed over the last couple of years, previously, you had a situation where the trustees were solely responsible for making investment decisions on behalf of members and members did not really have any options or choices in the fund. That has changed that these days in most of the defined contribution funds, which makes up the majority of funds in South Africa, there is investment choice for members, so the trustees' responsibility has shifted, at this stage, the responsibility of the trustees is to provide, to the members of the fund, suitable portfolios. And to guide members, or rather... ja, to guide members on how to choose between the different portfolios. (P17:1, Pension fund trustee)*

Four sub-themes emerged from the interviews based on the questions relating to the investment decision-making process. The participants indicated that there are formal and informal processes used to make investment decisions. These varied greatly, depending on the role they play in the investment chain and the organisation that they work for. The type of processes that are followed then in turn influence the sources of information that are used to inform those decisions. It was evident that participants employ personal sources of information such as colleagues, friends and family to inform their decisions, especially among the pension fund members. Participants also used internal sources of information, where information was provided in the organisation that they worked for. Participants also mentioned external sources of information, such as specialized third-party research, for example, Bloomberg reports. This kind of research is supplied by organisations that specialize in providing investors with independent research on companies.

Company reports were mentioned several times as an important external source of information. However, integrated reports were only mentioned specifically very rarely. Clearly, if and when integrated reports are used, this is almost as a last resort. It was clear that the portfolio managers do not specifically use integrated reports to make investment decisions. Even if they did refer to integrated reports, they seemed to only use them for the purposes of analysing the financials or numbers. P2 was the exception to this rule and indicated that he/she makes use of information in integrated reports regarding the business model and the management of the company.

It was confirmed that portfolio managers in asset management firms are the ultimate decision-makers, but they are governed by investment mandates and investment policies. These are compiled by pension fund trustees in consultation with asset consultants in the majority of cases. In terms of how the portfolio managers then went about making investment decisions, it was clear that they depended on the models and frameworks used in the organisations they worked for. Some participants referred to top-down models, where macro-economic issues are considered first, whereas others use bottom-up models, where issues in the company are considered first. Several portfolio managers mentioned that an important consideration before investing in a company was the management of companies. Investment decision-making was also described as an art.

The ultimate asset owners, represented in this study by pension fund members, described full abdication of their decision-making to their fiduciaries. Interestingly, the pension fund members were the only investor category that described a sense of guilt because of this abdication of responsibility. It was also telling that not even one participant mentioned the consideration of integrated reports or the information in integrated reports specifically in discussing the investment decision-making process. If integrated reporting was something that influenced their investment decision-making significantly, surely it should have emerged from these descriptions.

#### 5.4 THEME 3: PERCEPTIONS OF INTEGRATED REPORTING

Table 7 provides an outline of the third theme with its sub-themes and codes as they emerged from the interviews. For the questions that explored the perceptions of the providers of financial capital on integrated reporting, four sub-themes arose as well.

**Table 7: Outline of Theme 3: Perceptions of integrated reporting**

<b>Theme 3: Perceptions of integrated reporting</b>	
<b>Sub-themes</b>	<b>Codes</b>
<b>Sub-theme 1: Awareness of integrated reporting</b>	No awareness
	Aware but lack of understanding
	Complete awareness
<b>Sub-theme 2: Usage of integrated reports</b>	No use of integrated reports
	Limited use of integrated reports
	Regular use of integrated reports

<b>Theme 3: Perceptions of integrated reporting</b>	
<b>Sub-themes</b>	<b>Codes</b>
<b>Sub-theme 3: Knowledge of the purpose and goals of integrated reporting</b>	No knowledge
	Limited knowledge
<b>Sub-theme 4: Integrated reporting as a leadership phenomenon</b>	Limited influence

The first sub-theme was the awareness of integrated reporting. It was obvious that a number of participants did not even know about integrated reporting. Where it was clear that a participant did not know anything about integrated reporting, I explained it to them and then asked the other questions about integrated reporting. Some participants did not make any distinction between an integrated report and an annual report or company reports, as they called them. For many participants, an integrated report is still simply a report in which one can find a company's financial statements. After establishing the participants' awareness levels of integrated reporting, the goal was to determine to what extent they use integrated reporting, especially to inform their investment decisions. Only a small minority indicated that they used integrated reports regularly. Most participants described integrated reports as something they would consult only after looking at many other sources of information. It was described as a source to consult for extra information about a company that one cannot find anywhere else.

The second sub-theme was the use of integrated reports. It was essential to understand whether these providers of financial capital do use integrated reports, because it follows logically that if they do not use integrated reports, they are not influenced by them, and this in turn indicates that they are not followers of integrated reporting. The participants' responses can be categorized into three groups: not using integrated reports at all, using them sometimes, and using them regularly.

The third sub-theme that emerged from the interviews was the level of knowledge of the goals and purpose of integrated reporting. Here, it was especially important to establish whether the participants knew that the declared goals of integrated reporting are financial stability and sustainability. To determine whether the followership of a phenomenon/movement are aware of the goals of that movement is vital, because if the followers are not even aware of what the goals are, they will not

be able to contribute to the achievement of the goals through their actions. Only a few participants explained ideas related to financial stability and sustainability in their attempts to describe the goals of integrated reporting, but none explicitly mentioned “financial stability and sustainability”.

The fourth and final sub-theme to emerge was integrated reporting as a leadership phenomenon. Here, participants were asked about the level of influence that integrated reporting had on their decision-making, given the basic definition of leadership as a process of influence to achieve specific goals. The question of whether they considered integrated reporting to be a leadership phenomenon was asked directly. Here, very few providers indicated that integrated reporting really had an influence on their investment decision-making, but many of them agreed that integrated reporting was a leadership phenomenon. This might mean that they think it is a leading phenomenon in the corporate reporting space, but it is not leading their decision-making, per se.

#### 5.4.1 Awareness of integrated reports

It was clear from the participants’ responses that many of them were not aware of integrated reporting at all. For example, P7 said:

*P7: Reporting is always very important, and I’m not sure what you mean by integrated reporting. Please explain to me what you mean by integrated reporting. (P7:8, Portfolio manager)*

It was obvious from P9’s response to the question that s/he really did not have any real understanding of what integrated reporting entails:

**Interviewer:** *Ja. Okay, and more specifically then what do you understand under or as integrated reporting?*

**P9:** *It’s interesting that you should say that because first of all as a team we think we’ve got an integrated approach, meaning if we’ve got a weak rand view we can either take it through having less bonds, less local bonds or overseas property, we needn’t take it through one asset class, so we take the whole portfolio, so we, usually people just think of equities but we take the whole portfolio and if I don’t have enough rand hedges within my equity I can still have it in another place by having offshore equity or offshore property or, so we, the term, the concept integrated is certainly present in our thinking. If you talk about integrated reporting, I’ve got a less sort of clear view as to what that would mean, ja. (P9:9, Portfolio manager)*



After an explanation of integrated reporting was provided to P7, s/he asked:

**P7:** *Okay, what's the difference between the integrated report and the annual financial statements? (P7:9, Portfolio manager)*

It was also apparent that some of the providers that apparently knew about integrated reporting could not necessarily provide an explanation of it, but argued that it is important because it is a compliance issue:

**Interviewer:** *Okay, and tell me a little bit about your understanding of integrated reporting.*

**P11:** *Okay, listen, I think it's becoming more and more important, okay. And I think what I've noticed is that a lot of people do it because it's almost, they have to, okay. (P11:8, Investment banker)*

Other participants had an incomplete or incorrect understanding of integrated reporting. It was worth noting that P1, a portfolio manager, equated integrated reporting to financial statements:

**Interviewer:** *Okay, and in your understanding, what do you know about integrated reporting or what is your understanding of integrated reporting?*

**P1:** *We're talking about financial statements of companies? (P1:37, Portfolio manager)*

The comments quoted above suggest that when company reports are mentioned, whether they are integrated reports or reports by another name, these portfolio managers automatically think of financial statements. This can be an indication that they automatically equate company reports to financial statements, because that is the only part they use or refer to.

However, some participants (the minority) had a clear understanding of what integrated reporting is, and even went so far as to explain that integrated reporting, as it stands now, is not enough to report transparently on environmental impacts, and that more should be done. It is evident that P32 had a bias towards reporting on ESG issues – and this can be explained by the fact that s/he falls into the “Other investment experts” category. P32 specifically had a long history in integrating ESG issues into investment decision-making:

**P32:** *They were talking about a report, they wanted to do another report, and myself and a gentleman by the name of [Person A], we were advocating a reporting culture, integrated reporting, not integrated reports, and that was like a fundamental difference, like they couldn't, and it took, it was a very, very difficult sort of time because we were trying to get the people to understand that integrated reporting is about a culture of transparency rather than a moment of transparency... Company X should be disclosing every single day what their total*

*energy output is at the moment, and what they're projecting it to be for the day. Based on that information, a high energy intensity user can make decisions about what plant to bring on, what workers to bring in etcetera...which sounds like I'm advocating kind of, quarterly reporting type of idea, but that's not what I, I actually don't believe you should report quarterly, on your financials, I just think that there's certain types of information that can be continuously made available to consumers of that sort of data. (P32:35, Other: Investment expert)*

P32, an investment expert with a special interest in ESG issues, thus clearly articulated her/his in-depth knowledge of the field. P32 also expressed the idea that integrated reporting should result in a culture of transparency. This is also an aspiration of the IIRC for integrated reporting (IIRC, 2011).

#### 5.4.2 Use of integrated reports

With regard to the question of whether the participants use integrated reports, the responses could be categorized into three groups: not using integrated reports at all, using them sometimes, and using them regularly.

In response to the question of whether s/he used integrated reports to inform investment decisions, P11, an investment banker, answered:

**P11:** *No... Because I'm actually too short-term. Like, I'm literally thinking one year, two years out. (P11:16, Investment banker)*

P11's response raises questions regarding the proposition that integrated reporting will shift investors to take a more long-term view (Adams, 2015). P11 creates the impression that s/he specifically excludes integrated reports from her/his research because s/he is too short-term minded. However, the response that integrated reporting is not something that is considered at all was not a prevailing response.

To the question whether s/he used integrated reports, P4 and P28 responded:

**P4:** *Ja, I mean, you do reference **sometimes** to that. (P4:10, Portfolio manager; emphasis added)*

**P28:** *I know the basics of King I, II, III, IV. I **sometimes read the integrated report**, but this is going back to their recent stuff. (P28:21, Analyst; emphasis added).*

When P1 was asked whether s/he used integrated reports, the answer was a resounding yes:

**P1:** *Yes, absolutely, absolutely. We seldomly rely on third party research. Most other asset managers that I find rely only on third-party research. The really*

*successful, and I think South Africa to a large extent is an anomaly, but oosh, your US-based asset management companies use primarily third-party or broker research actually, not independent third-party but broker-based research and there's a lot of broker-based research. (P1:35, Portfolio manager)*

P1's response was not a typical response to this question at all. P2 indicated that the company did make use of integrated reports, but made it clear that this was only for the purposes of analysing the financials:

*P2: ...so from our point of view, really, if we look at integrated reporting we actually only look at the financial capital part of integrated reporting, so we would look at the assets, the income sheet, the balance sheet, even the cash flow that the client would be able to bring in, that is what we look at, we add, to certain clients, the human capital part, as they are let's say directors or employees of companies that provide them with deferred bonus plans and so on so the human capital part does come into our integrated reporting but not much else comes into it as we only focus on the financial part, really. (P2:28, Portfolio manager)*

P4 also specified that s/he did use integrated reports, and explained that integrated reports are used to be able to analyse companies well and to do comparative research. P4 nonetheless explained that integrated reports are only used to get more information, but they are not the sole thing that investment decisions are based on:

*P4: I think there's much more than as I said, just the numbers. Just the thing of how you grew earnings by this and that. It certainly is there and it's more to get information, not to make the decision, necessarily. I think you get the information from that. But then the decision-making really starts in terms of how can you... um, how can you sort of kick it around? And um, sort of, your conclusion that you draw out of it; how consistent is it with what you've seen in this broader sector and if it's... and if it's like I said, very different and why is it happening? You know, those type of questions. If one company reports zero bad debts and if another company reports 4% then it's like... in the same sector, you know, industry, then it's clearly like one of those things when you say, but wait a sec, there's something different here. And the problem is, I mean, it's even when you look at these mining companies, how they report costs. What do they capitalise, what don't they? (P4:13, Portfolio manager)*

#### **5.4.3 Knowledge of the purpose and goals of integrated reporting**

When the participants were asked whether they know what the goals of integrated reporting are, none of the 30 participants answered correctly with "achieving financial stability and sustainability". Some participants were very honest about the fact that they really did not know (P2:31), and others made it obvious that they were just making some logical assumptions. Overall, it was fairly clear that the providers of

financial capital were generally not familiar with the fact that the stated vision of integrated reporting is to achieve financial stability and sustainability:

**Interviewer:** *Okay, and now, do you know what the specific goals or, sort of vision, of integrated reporting is?*

**P2:** *No. To be very honest, no. [...] Okay. I'm sure it's supplying the market with all the softer information, if we're going to call it that. (P2:31, Portfolio manager)*

Even though the terms financial stability and sustainability were not explicitly mentioned, one of the portfolio managers (P8) described the goals of integrated reporting accurately; s/he just used other but related terms:

**P8:** *I'm just trying to think of these... these whole... addressing some of the requirements that are growing from an ESG point of view, I've spoken of social responsibility investment but this is the whole ESG. This is the impact on the environment, the social dynamic, governance, you know those are all very important, as be it your carbon footprint, be it your...just the social side of... the social impact that business is having on society. The impact that business is having on society. So that's kind of what my understanding of the catalyst for a separate report was, is this growing global requirement of investors to ensure institutions invest with social conscience and corporates are run with social conscience and it's not social conscience necessary from a charitable point of view, just from an impact on society generally. So my understanding of an integrated report is that it addresses those issues. (P8:10, Portfolio manager)*

P12, an investment banker also did not know what the goals of integrated reporting are, but described what s/he thought they should be. Nonetheless, P 12 touched on an important code that emerged in the sub-themes – the notion of distrust. This refers to the fact that investors do not trust company reports, because they believe companies are not willing to be completely transparent and only produce integrated reports for compliance purposes:

**P12:** *So what it's supposed to do is piggyback on the global trend of giving it 360° view of a company, which I think is essential and brilliant if achieved. Are we there yet? We're far from there yet. I think most companies don't do it. Most companies do it as a PR and window-dressing exercise. (P12:9, Investment banker)*

Because nobody specifically mentioned financial stability and sustainability, I mentioned to some of the participants that the IIRC has specifically declared that the vision of integrated reporting is to achieve financial stability and sustainability, and asked whether they would agree that integrated reporting is going to achieve these goals. Participants indicated that integrated reporting might be a contributing factor, but that achieving this goal would require other interventions as well:

**P2:** *I think it [integrated reporting] would assist, I don't think it would be primarily through that, no, it would definitely assist, but you can still hide a lot of things, even in an integrated report, and that is the problem. (P2:32, Portfolio manager)*

#### 5.4.4 Integrated reporting as a leadership phenomenon

The participants were asked directly whether they think integrated reporting can be described as a leadership phenomenon. The aim of this question was to determine whether they think integrated reporting is something worth following. It can be argued that this question activated a social desirability bias (Öberseder *et al.*, 2011) and that the majority of respondents would react by assenting to such a question. (The argument is that as soon as one asks a question such as whether the respondent thinks something is a leadership phenomenon, participants would generally realize that it is socially desirable to say yes.) P8's response to this question could be seen as a good example of this:

**Interviewer:** *Do you think integrated reporting is something that will lead investors to make other decisions? Make decisions differently?*

**P8:** *Ja, I can't tell you a difference in what way but...*

**Interviewer:** *Ja.*

**P8:** *But I think the more information that's available, the more information, integrated reporting has been a big driver of this increase in information, there's no doubt it could lead investors to make more informed decisions.... (P8:12, Portfolio manager)*

P8 immediately answered in the affirmative, but her/his hesitance in terms of providing an explanation of why integrated reporting could be leading investors to change their investment decision-making could be an indication of social desirability bias.

However, participants gave varied responses to the question of whether integrated reporting is a leadership phenomenon. Again, P6's initial response was to say yes, but then s/he started to hesitate and stated that integrated reporting is not a leader:

**P6:** *I think if it, I think the practical implication, you know, of what integrated reporting would like to achieve, if you look at that then I'd say, yes I do think it will have that effect but I don't think it's a leader as such, I think it's more of a, of a extra, or a back up.... (P6:14, Asset manager)*

P33 did not really answer the question outright and did not complete her/his entire thought process on the issue, but it was evident that P33 thought that integrated reporting will only lead investors to make different investment decisions if the

investors took a long-term view. This was an important finding in the light of the literature on integrated reporting and the divergent views (Adams, 2015; Flower, 2015) on whether integrated reporting is a failure or a success. Authors who argue that integrated reporting can still be a success specifically emphasise that integrated reporting can shift the providers of financial capital to take a more long-term view (Adams, 2015). In this regard, P33 responded as follows:

**P33:** *I think that investors need to attach value to that reporting [integrated reporting] before they decide how they... how important it is for the company to rely on... or how they think around integrated reporting will inform how the company behaves and how it invests in the long-term. If investors are taking a long-term view, that's a key point...* (P33:11, Other: Investment expert)

In an Australian study on providers of financial capital, Stubbs *et al.* (2014) reported a similar finding. They cite a fund manager who specifically said that integrated reporting will be more useful to long-term investors, and it was made clear that not all investors are long term investors. The results of my study thus support previous findings that there is no resounding yes to the question of whether providers of financial capital consider integrated reporting a leadership phenomenon.

## 5.5 THEME 4: PERCEPTIONS OF FINANCIAL STABILITY AND SUSTAINABILITY

By stating that “[t]he cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability” (IIRC, 2013c:2), the IIRC, the self-declared governing body of integrated reporting in the world, identifies the two goals of integrated reporting: firstly, financial stability, and secondly, sustainability. While the IIRC is somewhat imprecise about exactly what is meant by these two objectives, some inferences can reasonably be drawn. Regarding “financial stability”, given the correlation between the strong emergence of integrated reporting in 2009 (Eccles & Krzus, 2010) and the 2008 financial crisis, it seems reasonable to assume that the IIRC is concerned here with the imperative of ensuring that financial markets are less volatile and are not exposed to the kind of systemic risk that precipitated the 2008 global financial crisis, arguing along similar lines to those discussed by Dombret and Lucius (2013).

The IIRC’s understanding of sustainability, on the other hand, is somewhat more difficult to unravel, especially given the grammatical positioning of the word in the

IIRC's statement. As briefly indicated in Section 1.1, "financial stability and sustainability" might be interpreted as meaning "financial stability and financial sustainability" or as meaning "sustainability and financial stability". In the first of these, one would likely understand sustainability to refer specifically to narrow financial sustainability, and in particular the narrow financial sustainability of those businesses that prepare integrated reports, or of investments in these businesses. The second interpretation is likely to be much more ambitious and, in its broadest sense, can perhaps best be thought of in terms of the Brundtland definition of sustainable development, which requires that we "meet the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland *et al.*, 1987:n.p.). Notwithstanding some critical perspectives on the matter, based on the fact that integrated reporting emerged from the broader social and environmental accounting movements (Gray, 2012), and that it compels corporates to report on six capitals, as opposed to only one (financial capital), an argument might reasonably be made that the IIRC subscribes (at least in the ideal sense) to a more inclusive notion of sustainability than simply financial sustainability.

Beyond identifying these two goals for integrated reporting, it is also clear from the opening quote of this section that capital allocation is central to the IIRC's schema. The ties between this proposal and the broad idea of socially responsible investment or the more recently coined ideas of "sustainable investment" (Juravle & Lewis, 2009) or "ESG investment" (Himick, 2011) are quite obvious. These ideas also cover issues of sustainability under the broad rubric of ESG issues. Investors, through their investment activities, can then be regarded as central players who have some responsibility for achieving these goals. Likewise, the centrality of capital allocation in the IIRC's schema hints that a similar central responsibility is being granted to the providers of financial capital (IIRC, 2013c:4). After all, the IIRC describes the purpose of integrating reporting as communicating the value creation of organisations to providers of financial capital (IIRC, 2013c). If these investors are the primary audience for integrated reporting, and if financial stability and sustainability are the envisioned outcome of integrated reporting, then it stands to reason that the IIRC sees providers of financial capital as central actors with an associated responsibility for achieving the envisioned outcome.

For this reason, it was essential to understand the perceptions that providers of financial capital hold about financial stability and sustainability. If these goals need to be achieved through investment decisions, investors need to have and display a clear understanding of these concepts and perceive them as part of their investment goals. Even if financial stability and sustainability are understood, but are perceived to be completely separate from investment decisions, then the providers of financial capital are not, in fact, owning the responsibility of achieving financial stability and sustainability through their investment decision-making.

The sub-themes that emerged regarding financial stability and sustainability are listed in Table 8, below.

**Table 8: Outline of Theme 4: Perceptions of financial stability and sustainability**

<b>Theme 4: Perceptions of financial stability and sustainability</b>	
<b>Sub-theme</b>	<b>Codes</b>
<b>Sub-theme 1: Financial stability</b>	Future profits/Growth of a company
	Managing risk and return
<b>Sub-theme 2: Sustainability</b>	Financial sustainability
	Governance
	Environmental and social sustainability
<b>Sub-theme 3: Influence of integrated reporting on financial stability and sustainability</b>	Distrust
	Limited influence

The theme of *Perceptions of financial stability and sustainability* emerged automatically, because the participants were asked specifically to provide their own definitions and interpretations of these concepts. This was done in order to understand whether they believe these goals can be achieved through investment and whether it forms part of their responsibility to do so. It was clear that providers of financial capital mostly held a very restricted view of financial stability: they generally interpreted this term to mean the potential future profits of a single company. It was also evident that there was a wide range of perceptions regarding what sustainability means. A few interviewees had a clear understanding of sustainability that aligned very well with Brundtland *et al.*'s (1987) definition of sustainability, but others did not connect sustainability to the future of our species or planet at all, and perceived



sustainability through a purely financial lens. On the question of the possible influence of integrated reporting to attain financial stability and sustainability through better investment decision-making, interviewees were generally of the opinion that it was possible, but added that integrated reporting would be only one of many factors to have an influence.

### 5.5.1 Perceptions of financial stability

In respect of the sub-theme *Financial stability*, all the participants were asked to state in their own words what they thought financial stability means. In general, participants described financial stability in very narrow terms and none of them defined financial stability in a broad macro-economic sense. It is very obvious from P8 that s/he perceived financial stability only in the narrow sense of the sustained cash flow and earnings of a single company:

**P8:** *Financial stability, I guess is, would be, the ability of the company to either sustain its current earnings profile or manageable levels of debt....* **(P8:11, Portfolio manager)**

None of the participants defined financial stability as non-volatility of the entire financial system. P15, a pension fund trustee, also described financial stability along the same narrow lines, but went further in tying it to the past financial performance of a company:

**P15:** *Financial stability. I think financial stability is, in the case of equity, it's more a historic thing. It's based on history, how the company performed over the past.* **(P15:14, Pension fund trustee)**

P6, a wealth manager, also described financial stability in a narrow way, simply viewing it in terms of her/his job responsibility to grow the portfolio of the client. Not surprisingly s/he added a component of managing risk to her/his definition. As indicated in the first theme of the findings on the self-concept of roles and responsibilities, risk and return remained an important recurrent topic in the findings:

**P6:** *Well, when it comes to wealth management, financial stability would mean, you know, to see a positive growth every year or not to make, you know, not to expose your clients to severe market volatility, to mitigate you know volatility as a risk in the short term.* **(P6:12, Asset manager)**

In no uncertain terms, P6 described financial stability as the management of risk and return, with the caveat that it should achieve positive growth. P6's statement also revealed a short-termist perspective. Closely linked to the idea of managing risk, one

interviewee, an investment expert that specializes in ESG, described financial stability in a slightly different way, by referring to the management of externalities. It was also detected in Theme 1: Self-concept of role and responsibilities, that ESG issues (often referred to as externalities) are seen as an investment risk and therefore ESG issues should be considered – but only to mitigate financial risk:

**P33:** *I would say financial stability is really the management of externalities.*  
**(P33:9, Other: Investment expert)**

It should be emphasised that the broader understanding of financial stability here is not surprising, given that P33 was one of the ESG specialists.

In describing financial stability, the interviewees typically also did not talk about regulation and how regulation could assist in achieving more stability. This is surprising, seeing that compliance and regulation was a very prominent part of their responses to other questions. This might be an indication that they feel there is enough regulation in this area already. The providers of financial capital also did not mention how they think investors could and should play a role in achieving overall financial stability in financial markets.

### 5.5.2 Perceptions of sustainability

The idea that sustainability simply referred to the sustainability of a business in terms of the continuation of making profits was a very strong sub-theme in most participants' responses regarding sustainability. P8 first indicated that s/he did not know what I meant with the term, but then continued to describe it as the ability of a business to continue to exist in the future:

**Interviewer:** *Sustainable development.*

**P8:** *Ja I don't know what you mean by that...*

**Interviewer:** *Perhaps just sustainability?*

**P8:** *Ja so... Actually I don't know it's all quite, it feels quite soft, quite a theory. I don't... the ability of business to be around in the next decade. (P8:12, Portfolio manager)*

P 12, an investment banker, also described sustainability in very narrow terms, focusing on the ability of a business to continue to grow in the future:

**P12:** *For me sustainability in a business is ability to continue providing and growing and being around the block for a couple of years to come. (P12:10, Investment banker)*

P15, a pension fund trustee, saw sustainability as future-oriented, but argued that one should look at historical performance to estimate future performance. This idea was expressed in the responses regarding financial stability as well. P15 included the idea of trust in management as a component to guarantee the sustainability of business. The importance of the management of companies or governance was a code that regularly emerged throughout the interviews:

**P15:** *Sustainability is about looking into the future, getting to be, can this position be sustained. And the, once again, I think the history is an indication of sustainability into the future and so the trust you have in the management.*

**(P15:15, Pension fund trustee)**

In some ways, P4, a portfolio manager, described sustainability in very similar ways, but specifically added the ability to manage financial risk as important:

**P4:** *So again, I think it is about how can you grow without putting... and more so many times the financial side, your financial leverage side at risk.*

**(P4:15, Portfolio manager)**

P7, also a portfolio manager, talked about sustainability only in terms of the financial sustainability of the company and aligned the sustainability of the company strongly with the prudence of the management of the company. It is worth quoting at length from P7's interview to illustrate exactly how the same codes were repeated in the interviews. It is clear from this excerpt from P7's interview that s/he thinks about sustainability only as the sustainability of a business, that the prudence of management is one of the first things to consider, and that it is the primary responsibility of the investor to analyse and manage risk:

**P7:** *So when you start talking about sustainability, I must make sure that the company's management actually acts prudently, right. [...] Now that to me is risk and that is what we need to analyse when we look at our companies. Is management prudent? Are they looking at their cash flows? Are they pushing up their gearing ratios? If they are pushing up gearing ratio, right, is it to be buying new companies, is it to be growing and is that growth going forward? Is it sustainable or not? That's what I'm seeing sort of sustainability, for the longer term. So are you prudent in managing your company in such a way that that company's going to be here in the next fifty years still? Or are you attracting risk by gearing up the company and possibly don't have the growth profile going that can sustain that gearing that you attracting.*

**(P7:14, Portfolio manager)**

The importance of growth was also highlighted in the participants' views of sustainability. Business management textbooks argue that for a business to keep

growing, it needs a competitive advantage (Jones, George & Langton, 2013). It was fascinating that P1 equated sustainability with a company's competitive advantage:

**P1:** *It's a competitive advantage and the ability of companies or nations for that matter to unlock their competitive advantage, to nurture it, that is what sets nations and companies apart. (P1:45, Portfolio manager)*

With the exception of two of the participants, the vast majority perceived sustainability as the continuation of profits. The two exceptions described sustainability along the lines of Brundlandt *et al.*'s (1987) definition, mentioned in the introduction to Section 5.5. For example, P9 stated:

**P9:** *Sustainability to me is to make sure, and these are just my own words, that whatever it is, is handled in a healthy fashion that doesn't detract from the future. (P9:10, Portfolio manager)*

The Brundtland definition refers to providing future generations with the ability to have no less than what we have. P33 described sustainability specifically as the impact of business on society. Although this is not very close to the Brundtland definition, it does contain ideas of responsible citizenship in line with the idea of building a future through responsible behaviour, and these ideas often include the consideration of ESG issues:

**P33:** *...whereas sustainable development is recognizing your role, or the company's role as a responsible corporate citizen and how many touch-points they have in society in relation to the business that they practise. Or the effect on society. (P33:10, Other: Investment expert)*

P6's response is in some ways an outlier, but is worth mentioning, because P6 specifically excluded the idea that investment can have anything to do with sustainability. However, P6 emphasised that sustainable development is context-specific, and then added a comment that seemed to refer to good governance:

**P6:** *It's different in every country, but sustainable development in South Africa, that would not have to do with investing specifically, it will have to do with the company investing in itself and the area around it like if you look at the King code. (P6:13, Asset manager)*

It is a significant finding that P6 did not consider sustainable development to be something that could be achieved specifically through investment decisions.

### 5.5.3 Perceptions of the influence of integrated reporting on financial stability and sustainability

It should be emphasised that the interviews could be split into two phases. In the first phase, oblique questions were asked and integrated reporting and its goals were not mentioned or introduced. Then, in the second phase of the interview, the topic of integrated reporting was introduced, and the participants were asked directly to consider what integrated reporting is, whether it could be described as a leadership phenomenon, and whether it could lead to financial stability and sustainability. In respect of the question whether integrated reporting could lead to financial stability and sustainability, the overall responses were optimistic. This finding was perhaps anticipated given the notion of socially desirability biases, as explained by Öberseder *et al.* (2011). The responses should be interpreted with caution, however, since, up to the point when I actually asked the participants whether they thought integrated reporting was a leadership phenomenon, some did not even know what integrated reporting was. This suggests that participants perceived it as socially desirable to describe integrated reporting as a leadership phenomenon. In other words, they perceived themselves as providing me with the answer that they thought I wanted to hear. The participants' responses was optimistic in the sense that many of them described integrated reporting as something that could potentially influence investment decision-makers to consider more and other information.

However, almost none of the participants described integrated reporting as something that greatly influence their decision-making at the present moment. P8, a portfolio manager, was the most optimistic of all the participants about integrated reporting in terms of its influence on investment decision-making:

**P8:** *But I think the more information that's available, the more information, integrated reporting has been a big driver of this increase in information, there's no doubt it could lead investors to make more informed decisions. (P8:13, Portfolio manager)*

P2 expressed the idea that integrated reporting might have an influence, but acknowledged that it would be one of a number of things to have an influence – it alone will not bring about change:

**P2:** *I think it would assist, I don't think it would be primarily through that, no, it would definitely assist, but you can still hide a lot of things, even in an integrated report, and that is the problem. (P2:32, Portfolio manager)*

Again, as observed throughout the interviews, participants expressed a sense of distrust with company reports and then more specifically integrated reports. For example, P1 unequivocally stated that integrated reports were “window-dressing”:

**P1:** *...a lot of those integrated reports is nothing other than window dressing, especially the corporate governance part. It's window-dressing and you've got companies with beautiful mission and vision statements but it's only out there in an integrated report, it's not part of the culture really of the company. (P1:43, Portfolio manager)*

I therefore have to conclude conservatively that integrated reporting may have the potential to influence providers of financial capital in the future to make investment decisions in other ways, but that integrated reporting has a fairly small influence on the decision-making processes of providers of financial capital at this point – in the words of one participant:

**Interviewer:** *Do you think, you know, the IIRC will achieve those goals? Do you think integrated reporting can achieve those goals?*

**P11:** *I hope so. I mean, it definitely creates a bit more awareness. You know, I...Listen, I think it's a step in the right direction ... you know. (P11:20, Investment banker)*

## 5.6 CONCLUSION

I stated in the introduction of this chapter that the overarching aim in this study was to explore the construction of leadership through the reciprocal process of claiming and granting leader and follower identities in the context of integrated reporting. In order to determine whether the followership of integrated reporting are indeed followers of integrated reporting, it was necessary to approach the study from a follower-centric perspective, and to consider followership. This meant that it was essential to understand the followers' self-concept. However, I did not want to understand the providers of financial capital's self-concept in a broader sense – I focused on the self-concept of these investors in terms of the specific roles and responsibilities they take on in the allocation of financial capital.

I have now presented the major themes and sub-themes as they emerged inductively from the qualitative survey. The findings show that the participating providers of financial capital did not necessarily perceive themselves as providers of financial capital, but rather as stewards, custodians, facilitators and managers of money. The only group that unanimously (sometimes after an explanation of the

term) agreed that they are indeed providers of financial capital were the pension fund members. This is interesting: technically this is accurate, because ultimately the pension fund members are the only role players in the investment chain that literally provide financial capital. The other role players are there to manage that capital as fiduciaries.

Regarding how providers of financial capital think about their responsibilities, it was evident that they believed they fulfilled their responsibilities if they maximised returns and managed risk, whilst being compliant with regulatory frameworks. This is directly linked to their understanding of their fiduciary responsibility, which they described as being prudent and growing capital. They also expressed the view that one of the most important considerations in growing capital is to stay within the rules – compliance was an important sub-theme. However, the most profound finding was the narrative of abdication of responsibility.

With the second theme, the process of investment decision-making, it was essential to ask questions that provided participants with an opportunity to describe the actual processes of decision-making in their specific contexts. This differed significantly from category to category of provider of financial capital. I made a point of not leading the participants in any way by artificially introducing the idea of integrated reporting into the discussion at this stage. It was important to remain cognisant of the fact that if providers of financial capital did not mention integrated reporting spontaneously among the sources of information they used in making investment decisions, then the chances were they were not “following” integrated reporting in making investment decisions. If using and following integrated reporting, or alternatively achieving the goals of integrated reporting of financial stability and sustainability, did not form part of their descriptions of how investment decisions are made, this casts doubt on the IIRC’s vision of achieving its goals through the “better” allocation of financial capital on the basis of integrated reports.

The third theme that emerged revealed that some of the primary decision-makers, namely portfolio managers, did not even know what integrated reporting was. In these instances, it was difficult to gauge what their perceptions of integrated reporting really were. In these cases, I had to explain integrated reporting to the participants and then ask what they thought the potential of integrated reporting to

influence their investment decision-making was. Participants' responses overwhelmingly indicated that integrated reporting might influence their decision-making, but felt that it would never be a major influencer. For the rest, the providers of financial capital held positive perceptions of integrated reporting and its potential influence. In respect of the depth to which they currently use integrated reporting to inform their decisions, it was clear that integrated reporting is only one of many sources that informed decisions. Furthermore, it was evident that in most instances where integrated reports were indeed consulted, these providers of financial capital typically only referred to the financial information in the reports.

The fourth theme demonstrated that providers of financial capital perceive financial stability and sustainability in narrow terms. Most of them conflated these two terms, describing it as the ability of a single company to sustain profits in the future. Only a few participants connected these terms with social and environmental sustainability. In respect of whether financial stability and sustainability could be consequences of investment decision-making because of integrated reporting, I found no evidence that the participants perceived financial stability and sustainability as goals that they should or could achieve through their investment decision-making.

The findings and the themes described in this chapter are further interpreted and discussed in relation to the stated secondary objectives of the study in the next chapter. In Chapter 6, this initial inductive analysis is expanded through a more deductive interpretation of the findings, based on the prior theories of DeRue and Ashford (2010) and DeRue (2011).



## **CHAPTER 6: DISCUSSION AND INTERPRETATION**

### **6.1 INTRODUCTION**

Chapters 2 and 3 presented the literature review of this study, which aims to emphasise the widely held idea that leadership is a socially constructed process (Collinson, 2005; DeRue & Ashford, 2010; Meindl, 1995; Uhl-Bien, 2011) and that the IIRC has claimed a leadership identity for integrated reporting. I also highlighted that leadership can be described as a phenomenon (Block, 2014; Spoelstra, 2013) and that it is constructed through a reciprocal process of claiming and granting leader and follower identities (DeRue & Ashford, 2010). In Chapter 2, the evolution of leadership theory was considered, with specific emphasis on the importance of follower-centric and followership studies to enhance understanding of leadership. In Chapter 3, integrated reporting was contextualised, and Chapter 4 considered the research design and methods applied to achieve the study's research objectives.

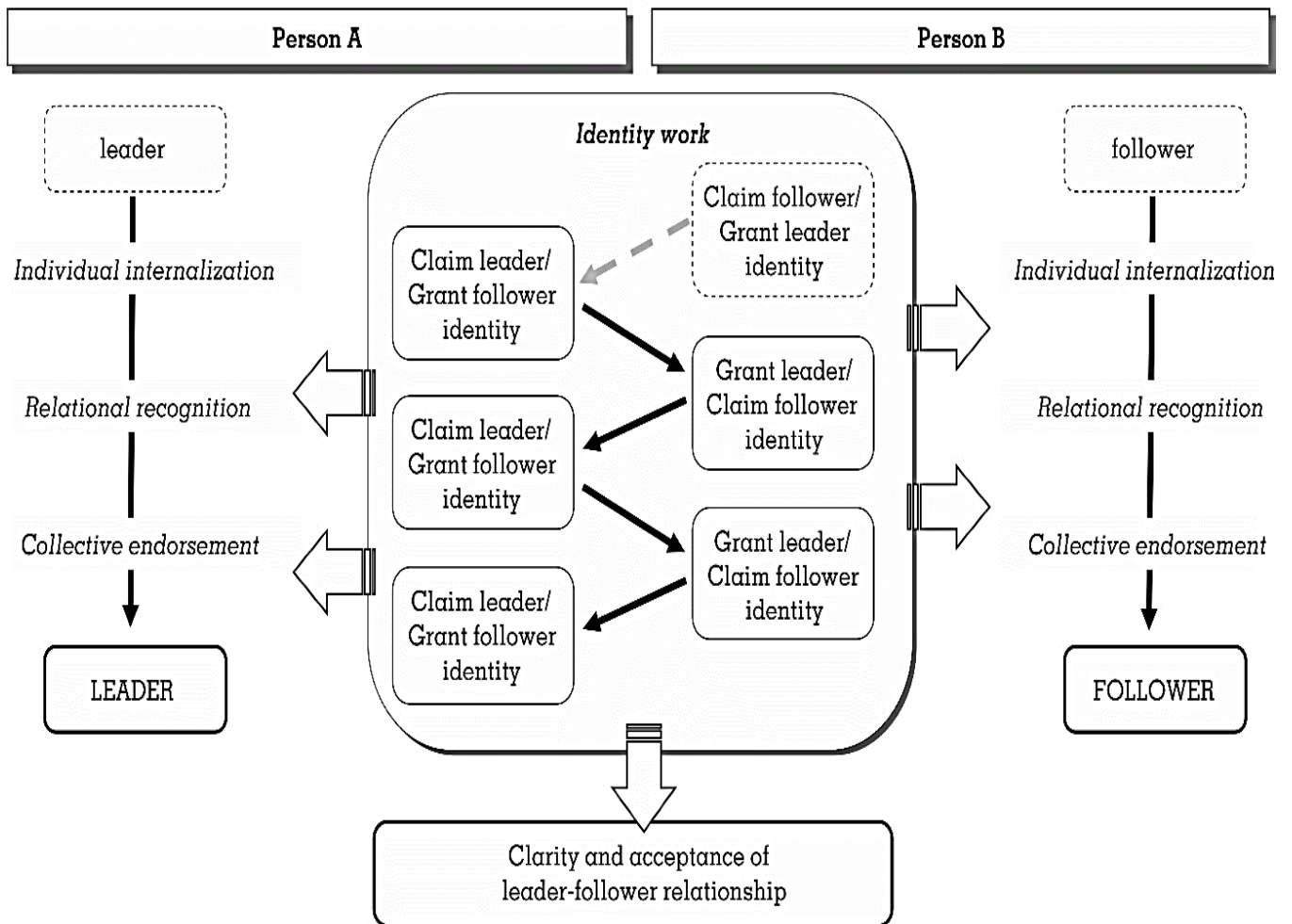
The aim of this chapter is to present a discussion and interpretation of the findings of the qualitative survey, as set out in Chapter 5. As mentioned in Chapter 1, data were collected in a single phase. This chapter provides an interpretation and discussion of the findings that emerged from the interviews, directly linking the findings to each of the secondary research objectives presented in Section 1.3, Table 1. Thereafter, an overall interpretation of the findings linked to the main objective of the study, which is to explore the construction of leadership in a disaggregated context, is presented. The critical importance of the existence of leadership voids, which has not been adequately developed in the literature, is discussed. Finally, a related, but adapted, conceptual model is proposed, based on the conceptual model of DeRue and Ashford (2010) for the construction of leadership in disaggregated contexts, based on the overall findings.

### **6.2 DISCUSSION AND INTERPRETATION OF FINDINGS IN RELATION TO SPECIFIC STATED OBJECTIVES**

If it is accepted that the IIRC has claimed a leadership identity for integrated reporting and granted followership to the providers of financial capital, the question

remains whether the proclaimed followers of integrated reporting have reciprocated by claiming a follower identity for themselves and granting a leadership identity to integrated reporting. These ideas were first proposed in a conceptual model by DeRue and Ashford (2010:631) and is illustrated in Figure 3, below.

### Leadership Identity Construction Process



**Figure 3: The process of identity construction of a leader and a follower identity**

Source: DeRue and Ashford (2010:631)

It is evident from Figure 3 that the identity construction process has to take place at the individual level, and has to occur in both the leader and the follower. The leader and the follower both have to claim and grant on three levels: the individual level, the relational level and the collective level. The conceptual model also indicates that the process starts with individual internalization, and then moves to relational recognition and collective endorsement. As I emphasised in Chapter 2, it is essential also to

consider the follow-up work of DeRue (2011), who expanded the initial work of DeRue and Ashford (2010) to an adaptive leadership theory. According to this theory, leadership is an adaptive process where leading and following are described as a complex process of double interacts of leading and following by individuals in groups. DeRue (2011) also refers to the three elements of individual internalization; relational recognition and collective endorsement in terms of identity construction, and he argues that individual internalization is required in order to move to the other elements, namely relational recognition and collective endorsement. He posits that “leading–following double interacts enable the construction of leader–follower identities, relationships, and structures”. He contends, in other words, that the double interacts that occur at the individual level are required to move to the relational and structural levels. This would imply that it is not possible for relational recognition and collective endorsement to occur if individual internalization does not take place first. Individual internalization then becomes the element that determines whether a leadership or followership identity is constructed. It follows that if a leadership claim is made and a follower identity is granted and it is not reciprocated, at least by the individual internalization of a follower identity as a reciprocal action, relational recognition and collective endorsement will not emerge.

Individual internalization forms part of the self-identity construction process, and perceptions of personal responsibility form part of self-identity (Thibodeau & Aronson, 1992). In order to establish whether the providers of financial capital in my study individually internalized their roles as followers of integrated reporting, I developed six secondary research objectives, based on the conceptual model of DeRue and Ashford (2010). The questions in the interview schedule were in turn linked to these research objectives. In order to focus the discussion on the overarching purpose of the study – to explore the construction of leadership in a disaggregated context – it is essential to link the empirical findings of the qualitative survey (Chapter 5), and discuss each of these individually. It is also important to highlight that the work of DeRue and Ashford (2010) and DeRue (2011) were conceptualized in an organisational context, rather than a disaggregated context, in the study at hand. The secondary research objectives are summarised in Table 9, overleaf, along with the associated interview questions.

**Table 9: Secondary research objectives and related interview questions**

Secondary research objectives	Interview questions linked to the secondary research objectives
<p><b>Secondary Research Objective 1:</b> To understand whether the proclaimed followership of integrated reporting have accepted and acknowledged their role as followers of integrated reporting.</p>	<p>Q1. Do you see yourself as a provider of financial capital? Q2. Could you describe the role you play in investment decision-making? Q10. Do you make use of integrated reports? Q11. Would you say integrated reporting influences your decision-making in any way? If so, how? Q12. Do you think that integrated reporting might influence your decision-making in the future? If so, how? Q13. Would you describe integrated reporting as a leadership phenomenon? Q14. Do you think integrated reporting can “better” your investment decision-making? If so, how?</p>
<p><b>Secondary Research Objective 2:</b> To explore whether the providers of financial capital perceive the achievement of financial stability and sustainability as part of their responsibilities in their roles as investors.</p>	<p>Q3. Do you take responsibility for any specific steps in the investment decision-making process? Q4. Could you describe your fiduciary responsibility and how it informs your decision-making? Q5. How would you typically make investment decisions? Q6. Could you describe what specific investment decisions you make? Q9. Do you know what the goals of integrated reporting are? Q16. How would you define financial stability? Q17. How would you define sustainability/sustainable development?</p>
<p><b>Secondary Research Objective 3:</b> To explore whether integrated reporting is perceived as a crucial source of information that is used in the process of investment decision-making.</p>	<p>Q5. How would you typically make investment decisions? Q7. What sources of information do you use to inform your investment-decision-making? Q8. Do you have any knowledge of integrated reporting? Q10. Do you make use of integrated reports? Q11. Would you say integrated reporting influences your decision-making in any way? If so, how? Q12. Do you think that integrated reporting might influence your decision-making in the future? If so, how?</p>

Secondary research objectives	Interview questions linked to the secondary research objectives
<p><b>Secondary Research Objective 4:</b> To explore whether integrated reporting is perceived as a leadership phenomenon that influences the providers of financial capital in making investment decisions.</p>	<p>Q11. Would you say integrated reporting influences your decision-making in any way? If so, how? Q12. Do you think that integrated reporting might influence your decision-making in the future? If so, how? Q13. Would you describe integrated reporting as a leadership phenomenon? Q14. Do you think integrated reporting can “better” your investment decision-making? If so, how? Q18. Do you think integrated reporting could lead to financial stability and sustainability? If so, how?</p>
<p><b>Secondary Research Objective 5:</b> To provide an in-depth understanding of the perceptions of integrated reporting and how it could inform better investment decisions that can in turn lead to financial stability and sustainability.</p>	<p>Q14. Do you think integrated reporting can “better” your investment decision-making? If so, how? Q15. How would you define “better” investment decision-making? Q18. Do you think integrated reporting could lead to financial stability and sustainability? If so, how?</p>
<p><b>Secondary Research Objective 6:</b> To explore whether the providers of financial capital demonstrate a clear understanding of financial stability and sustainability that is in line with the IIRC’s descriptions of these goals.</p>	<p>Q16. How would you define financial stability? Q17. How would you define sustainability/ sustainable development?</p>

Table 10 illustrates the links between the interview questions and the secondary research objectives. It is evident that some questions relate to more than one of the secondary research objectives. For instance, Question 11 asks whether integrated reporting influences the providers of financial capital decision-making in any way, and if so, how? Question 11 is linked to Secondary Research Objectives 1, 3 and 4, because all the questions aimed to explore whether the participating providers of financial capital are claiming a follower identity for themselves and granting a leadership identity to integrated reporting. In order to explore the identity construction of these investors, the participants were asked a number of questions that are oblique in their approach to the central issues in the beginning of the interviews. Only after answering these seemingly unrelated questions, where the participants were provided with an opportunity to share how they perceived their responsibilities and

the investment decision-making process, was the subject of integrated reporting introduced. Then the participants were asked directly about their perceptions of integrated reporting. In the discussion below, it is important to note of how the responses to the oblique questions and the questions that asked about integrated reporting directly differed.

### **6.2.1 Secondary Research Objective 1:**

**To understand whether the providers of financial capital accept and acknowledge their role as followers of integrated reporting**

The responses to Questions 1, 2, 10, 11, 12, 13 and 14 in the interview schedule would assist in addressing Secondary Research Objective 1:

Q1. Do you see yourself as a provider of financial capital?

Q2. Could you describe the role you play in investment decision-making?

Q10. Do you make use of integrated reports?

Q11. Would you say integrated reporting influences your decision-making in any way? If so, how?

Q12. Do you think that integrated reporting might influence your decision-making in the future? If so, how?

Q13. Would you describe integrated reporting as a leadership phenomenon?

Q14. Do you think integrated reporting can “better” your investment decision-making? If so, how?

The findings illustrated a definite transition from the participants’ answers to the questions during the first part of the interview, where integrated reporting has not been introduced, to their answers to the questions in the second part, where they were specifically asked about their perceptions of integrated reporting. Two thirds of the participants did not describe themselves as providers of financial capital. Most simply described themselves as custodians (fiduciaries), facilitators or managers of money. Some were obviously unfamiliar with the terminology and unsure about the meaning of the term “provider of financial capital”. However, the term is widely used in all the documentation regarding integrated reporting by the IIRC. The findings

might simply indicate that these providers of financial capital are not necessarily familiar with the IIRC's terminology.

It was also found that a number of participants did not even know about integrated reporting and that many others simply equated integrated reports with annual reports and financial statements. This is ironic in the sense that "[t]he primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time" (IIRC, 2013c:3), according to the IIRC, but the proclaimed followers are unaware of this.

Based on the IIRC's definition of providers of financial capital<sup>19</sup> (as provided in Chapters 1 and 2) and various publications by the IIRC (IIRC, 2013d, ,2015), it is clear that providers of financial capital are associated with the role of investment decision-making. Thus, it was important to investigate specifically how the participants thought about their role as investment decision-makers and whether integrated reporting was considered as something that forms an integral part of the process of investment decision-making. Until the topic of integrated reporting was introduced, there was also no evidence that the participants perceived it as part of their roles and responsibilities specifically to consider and incorporate integrated reporting into their investment decision-making. These findings contradict those of prior studies (Atkins & Maroun, 2015) that suggested that the investor community in South Africa welcomes integrated reporting and that investors are increasingly interested in including ESG issues (typically described in integrated reports) into their investment decision-making. Explanations for these opposing findings may be found in the fact that both studies were qualitative and that each presented findings on only small samples of providers of financial capital. It should, however, be emphasised that the participants for the study at hand was purposefully selected to address any possible sample bias towards ESG specialists.<sup>20</sup>

Initially, the findings did not provide any indication that the providers of financial capital were even aware that they belong to a group that could be named providers of financial capital or that they are supposed to be the followership of integrated

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<sup>19</sup> "Equity and debt holders and others who provide financial capital, both existing and potential, including lenders and other creditors. This includes the ultimate beneficiaries of investments, collective asset owners, and asset or fund managers" (IIRC, n.d.:n.p.)

<sup>20</sup> The earlier study on 20 participants included seven ESG and CSR analysts.

reporting. The findings of this study therefore stand in contrast to the claims made by the IIRC about integrated reporting, namely that “<IR> can help to fill the information gaps investors face and support investment decisions based on a broader view of value creation” (IIRC, 2015:3).

When the participants were asked directly about integrated reporting and whether they considered integrated reporting to be a leadership phenomenon, many of them agreed that integrated reporting is a leadership phenomenon. However, very few indicated that integrated reporting really has an influence on their investment decision-making. This might mean that they think it is a leading phenomenon in the corporate reporting space, but it is not leading investment decision-making, per se. This is a significant finding: the providers of financial capital, who have been granted the followership of integrated reporting, are not particularly influenced by integrated reporting. Consequently, the findings of this study did not provide evidence that the providers of financial capital accepted and acknowledged their role as followers of integrated reporting.

### **6.2.2 Secondary Research Objective 2:**

**To describe whether the providers of financial capital perceived the achievement of financial stability and sustainability as part of their responsibilities in their roles as investors**

The responses to Questions 3, 4, 5, 6, 16 and 17 in the interview schedule would assist in addressing Secondary Research Objective 2:

- Q3. Do you take responsibility for any specific steps in the investment decision-making process?
- Q4. Could you describe your fiduciary responsibility and how it informs your decision-making?
- Q5. How would you typically make investment decisions?
- Q6. Could you describe what specific investment decisions you make?
- Q16. How would you define financial stability?
- Q17. How would you define sustainability/ sustainable development?



The IIRC explicitly states that “integrated reporting will be a force for financial stability and sustainability” (IIRC, 2013c). Other authors have discussed the potential of the contribution of integrated reporting to sustainability. More specifically, Thomson (2015) has criticised the IIRC and integrated reporting for removing sustainability from its agenda and conforming to the status quo of neo-liberalism as a ruling ideology. Thus far, little research is available on the understanding of financial stability and sustainability by the providers of financial capital and whether they feel that it is their responsibility to achieve these goals.

If DeRue's (2011) contention that leadership is an adaptive process consisting of double interacts of leading and following is applied to this context, the necessary ingredient for the construction of leadership in the integrated reporting movement would be that the providers of financial capital reciprocate the leadership claim of the IIRC about integrated reporting with an act of following, by taking the responsibility for achieving financial stability and sustainability. This would then be a double act of following and leading at once, because the followers would then claim a follower identity for themselves by following integrated reporting, but they would take leading actions in allowing themselves to be influenced by integrated reporting and aligning their investment decisions accordingly. The participants were therefore asked to indicate how they perceived their own roles and responsibilities, without prompting them in the direction of financial stability and sustainability. In their descriptions of their responsibilities, there was almost no trace of the providers of financial capital's being aware of the fact that they had been granted the responsibility to achieve financial stability and sustainability through the “better” allocation of financial capital.

Only those providers of financial capital (P31, P32 and P33) who are specifically tasked with the responsibility in their organisations to lead “responsible investment” or to incorporate ESG issues into investment decision-making mentioned ideas related to the achievement of financial stability and sustainability. Responsible investment can be defined as “investment that incorporates an active consideration of environmental, social and governance (ESG) issues into investment decision-making and ownership” (Eccles *et al.*, 2007:7). Based on this definition of responsible investment, it is obvious that individuals who are responsible for implementing responsible investment strategies in their organisations would be more likely to mention ESG issues, which are associated with the notion of sustainability,

when they discussed their responsibilities. In general, participants did not display a holistic understanding of investment decision-making which includes an understanding that investment decision-making has immense repercussions for society and the planet, as described by the IIRC in its publications about investment decision-making. Consider the following statement by the IIRC:

This is because we fundamentally believe that successful investment strategies will increasingly require consideration of factors beyond financial capital in a world where both financial stability and sustainable development are becoming mainstream concerns. These trends create a magnetism that will pull all investors in a direction towards 'integrated investment' over time. (IIRC, 2015:5)

The majority of the providers of financial capital ultimately described their roles and responsibilities as maximising returns and managing risk within the legal boundaries imposed on them by regulation, as well as contractual mandates. The strongest narrative emerging from the interviews was abdication of responsibility. When the participants were asked to describe their roles and responsibilities in investment decision-making, the bulk of these role players (pension fund members, pension fund trustees, analysts, investment bankers, asset consultants and other experts) pointed to asset managers (portfolio managers) as the role players that have the actual responsibility of executing investment strategies. In their turn, the portfolio managers described a burden of responsibility in terms of executing investment strategies, but clearly stated that they were constrained by their mandates and regulation, again denying responsibility and/or refusing to be held accountable. There was little to no evidence that these providers of financial capital accepted any specific responsibility, let alone the responsibility of achieving financial stability and sustainability through investment decision-making. Thus, the findings reveal a clear disconnect between the responsibility that the IIRC grants to the providers of financial capital and the responsibility that these investors claim for themselves.

### **6.2.3 Secondary Research Objective 3:**

**To understand whether the providers of financial capital described integrated reporting as an important source of information that is used in the process of investment decision-making**

The responses to Questions 5, 6, 7, 8, 9, 10, 11 and 12 in the interview schedule would assist in addressing Secondary Research Objective 3:

- Q5. How would you typically make investment decisions?
- Q7. What sources of information do you use to inform your investment-decision-making?
- Q8. Do you have any knowledge of integrated reporting?
- Q9. Do you know what the goals of integrated reporting are?
- Q10. Do you make use of integrated reports?
- Q11. Would you say integrated reporting influences your decision-making in any way? If so, how?
- Q12. Do you think that integrated reporting might influence your decision-making in the future? If so, how?

The findings indicated that some of the participants were not even aware of integrated reporting. The participants were asked what sources of information they typically used when making investment decisions. It seemed reasonable to assume that if providers often used integrated reports as a source of information in their decision-making, it would be something they would mention in answer to Question 7. Interestingly, very few participants referred to integrated reports until the topic of integrated reporting was introduced, in Question 8. Although a number of participants referred to company reports and annual reports, only two referred to integrated reports. Even those that did refer to integrated reporting explicitly stated that they mainly used the financial information in the integrated report (see Section 5.3). It was evident that most of the portfolio managers, who have been described as the main decision-makers in the investment chain, drew on independent third-party research to inform their investment decisions.

Specific processes followed within the structures of the organisations that the individuals worked for were also described. Some portfolio managers and analysts explained that they worked together in teams where it is the responsibility of the analysts to do research on specific companies and then present the research to the portfolio managers in order for the portfolio managers to make an investment decision. The participants indicated that different investment companies use different models in the process of doing research on other companies. Top-down models and bottom-up models were mentioned specifically. It seemed reasonable to conclude

that no specific evidence was found that integrated reports were a major source of information that was incorporated into the investment decision-making process, with the exception of one portfolio manager out of 30 participants.

It was also vital to establish whether the providers knew that the declared goals of integrated reporting are financial stability and sustainability. Clearly, if the purported followers are not even aware of what the goals are, they cannot contribute to the achievement of these goals through their behaviour. Not a single participant could quote the stated goals of integrated reporting verbatim. It might be unreasonable to expect them to be able to do, but in organisational terms, it would definitely be expected of followers to articulate the vision of the organisation clearly. The findings therefore illustrated that the providers of financial capital did not perceive integrated reporting as a particularly important source of information for the purposes of investment decision-making.

#### **6.2.4 Secondary Research Objective 4:**

**To describe whether integrated reporting is perceived as a leadership phenomenon that influences the providers of financial capital in making investment decisions**

The responses to Questions 11, 12, 13, 14 and 18 in the interview schedule would assist in addressing Secondary Research Objective 4:

Q11. Would you say integrated reporting influences your decision-making in any way? If so, how?

Q12. Do you think that integrated reporting might influence your decision-making in the future? If so, how?

Q13. Would you describe integrated reporting as a leadership phenomenon?

Q14. Do you think integrated reporting can “better” your investment decision-making? If so, how?

Q18. Do you think integrated reporting could lead to financial stability and sustainability? If so, how?

If DeRue and Ashford's (2010) theory of claiming and granting leader and follower identities is applied to the integrated reporting context, not only is it necessary for the

providers of financial capital to claim a follower identity for themselves, but it is also required that they grant a leadership identity to integrated reporting. The findings showed that only a very small minority of the participating providers of financial capital are influenced by integrated reporting in making investment decisions. They did, however, indicate that there is potential that it will influence them in the future. In the interviews, many participants referred to “company reports”. When they were asked to clarify what they meant with company reports, they would indicate that the term included all the reports produced by a company, which would include integrated reports. Nevertheless, it was evident that several participants did not differentiate between annual financial statements and the integrated report, and indicated that they mostly used the financial statements. Some participants also expressed a general distrust of company reports and noted that integrated reports are perceived as marketing material, where companies do not report transparently, but only share the good news.

Interestingly, when they were asked up-front whether they would describe integrated reporting as a leadership phenomenon, the vast majority indicated that they would. This is an intriguing result, because there is no real evidence in their actual decision-making that they are influenced by integrated reporting, yet they state that it could be described as a leadership phenomenon. This finding is a good illustration of a “social desirability bias”, as described by Öberseder *et al.* (2011). The reason for my saying this is that as soon as they were asked whether they thought something was a leadership phenomenon, participants would generally realize that it was socially desirable to say yes. In response to Question 11, very few participants indicated that integrated reporting really had an influence on their investment decision-making, but many of them agreed that integrated reporting was a leadership phenomenon. This might mean that they think it is a leading phenomenon in the corporate reporting space, but it is not leading their own decision-making. At most, there were whispers of the perception that integrated reporting had the potential to be a leadership phenomenon, as one among many other possible influencers of investment decision-making.

### 6.2.5 Secondary Research Objective 5:

**To provide an in-depth understanding of the perceptions of integrated reporting and how it could inform better investment decisions that could lead to financial stability and sustainability**

The responses to Questions 9, 14, 15 and 18 in the interview schedule would assist in addressing Secondary Research Objective 5:

Q9. Do you know what the goals of integrated reporting are?

Q14. Do you think integrated reporting can “better” your investment decision-making? If so, how?

Q15. How would you define “better” investment decision-making?

Q18. Do you think integrated reporting could lead to financial stability and sustainability? If so, how?

In terms of the IIRC’s narrative, it must follow that integrated reporting will result in the “better” allocation of financial capital (however “better” is defined) by providers of financial capital, and that this “better” allocation of financial capital will achieve financial stability and sustainability. When the providers of financial capital were asked whether they knew what the goals of integrated reporting are, not one of the 30 participants answered correctly with “achieving financial stability and sustainability”. Some participants were very honest about the fact that they really did not know, and others made it obvious that they were just making some logical assumptions. As mentioned in Section 6.2.3, it might be unreasonable to expect the providers of financial capital to quote the goals of integrated reporting verbatim, but it was fairly clear that the providers of financial capital were generally not familiar with the fact that the stated vision of integrated reporting is to achieve financial stability and sustainability. Because nobody specifically mentioned financial stability and sustainability, it was suggested to some of the participants that the IIRC has specifically declared that the vision of integrated reporting is to achieve financial stability and sustainability. They were then asked whether they would agree that integrated reporting was going to achieve these goals. In response to this, participants indicated that integrated reporting might be a contributing factor, but that it would require other interventions as well.

In terms of the question of whether integrated reporting can improve investment decision-making, some participants stated that it would be possible, but could not really explain why or how. As mentioned earlier, many participants expressed distrust towards company reports, and in light of that, it is difficult to conclude that these providers of financial capital are convinced that integrated reporting would lead to better investment decision-making. In respect of these investors' perceptions of "better" investment decision-making, it was clear that the majority perceived "better" outcomes to be better returns or growth.

These findings seem to confirm the prior literature arguing that it is highly unlikely that financial stability and sustainability will be achieved through the actions of investors (Atkins & Maroun, 2015; Gray, 2012). The findings thus contradict the IIRC's claim that integrated reporting will be the force to achieve financial stability and sustainability.

#### **6.2.6 Secondary Research Objective 6:**

**To explore whether the providers of financial capital demonstrate a clear understanding of financial stability and sustainability that is in line with the IIRC's descriptions of these goals**

The responses to Questions 16, 17 and 18 in the interview schedule would assist in addressing Secondary Research Objective 6:

Q16. How would you define financial stability?

Q17. How would you define sustainability?

Q18. Do you think integrated reporting could lead to financial stability and sustainability? If so, how?

As already discussed in Chapter 3, the IIRC is ambiguous and imprecise in its use of the terms financial stability and sustainability, and this has also been discussed in the integrated reporting literature (Tweedie & Martinov-Bennie, 2015; Van Bommel, 2014). For the purposes of this discussion and interpretation, a number of inferences are made. In respect of "financial stability", given the correlation between the strong emergence of integrated reporting in 2009 (Eccles & Krzus, 2010) and the 2008 financial crisis, it seems reasonable to assume that the IIRC is concerned here with the imperative of ensuring that financial markets are less volatile and are not

exposed to the kind of systemic risk that precipitated the 2008 global financial crisis (see Dombret & Lucius, 2013). It is also evident from the IIRC's publications that financial stability is associated with a shift to longer-term investment decision-making and long-term thinking:

At the heart of this is a shift from short-term thinking to sustainable capital markets – with dialogue between investors and companies based on a wider view of strategy, the utilization of all relevant capitals and value creation over time. (IIRC, 2015:4)

The critical perspectives on the IIRC's position on sustainability in the literature has also been discussed in Chapter 3.<sup>21</sup> Seeing that integrated reporting emerged from the broader social and environmental accounting movements (Gray, 2012) and that it compels corporates to report on six capitals instead of only financial capital, it is reasonable to assume that the IIRC subscribes (at least in the ideal sense) to a more inclusive notion of sustainability than only financial sustainability.

Until the providers of financial capital were asked to define financial stability and sustainability in Questions 16 and 17, there was very little evidence of these themes in the conversations. When the participants were asked explicitly to define these terms, most of the participants described financial stability as stable future returns or growth. This finding confirms the IIRC's assumptions, as also described in Adams (2015), that “[p]roviders of financial capital equate value creation with the potential for future cash flows and sustainable financial returns...” (IIRC, 2013e:11).

The participants' descriptions of sustainability were more diverse. They defined sustainability mostly as financial sustainability, but some also mentioned environmental and social sustainability. A few interviewees had a clear understanding of sustainability in line with the Brundtland definition of sustainability, as described in Chapter 3, but others did not connect sustainability to the future of our species or the planet at all.

On the question of the possible influence of integrated reporting to attain financial stability and sustainability through better investment decision-making, interviewees were generally of the opinion that it is possible, but that integrated reporting will only

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<sup>21</sup> For example, Flower (2014) and Thomson (2015) both suggest that an uncomfortable intermediate position actually prevails. They argue that the IIRC supports a business case approach to sustainability in which broad (Brundtland-like) sustainability issues are contemplated only if adopting a particular (investment) strategy is supported by a profit-driven business case.



be one of many factors to have an influence. Therefore, the findings show that these providers of financial capital do not necessarily think of financial stability in terms of more stable markets, with a specific shift away from short-term thinking. There was no consensus in their descriptions of sustainability, and almost no evidence to suggest that financial stability and sustainability will be achieved as a result of integrated reporting.

### **6.3 OVERALL INTERPRETATION OF FINDINGS IN RELATION TO THE EXPLORATION OF THE CONSTRUCTION OF LEADERSHIP**

The purpose of this section is to provide an overall interpretation of the research findings in relation to the overarching objective of the study to explore the construction of leadership in a disaggregated context. Based on the interpretation of the findings in relation to each of the secondary research objectives, it is argued that the providers of financial capital have not claimed a follower identity for themselves in relation to integrated reporting. There is little to no evidence to suggest that they have individually internalized a follower identity for themselves. There is also little evidence to support the idea that the providers of financial capital have granted a leadership identity to integrated reporting. Despite the fact that many of the participants were of the opinion that integrated reporting could be described as a leadership phenomenon (when they were asked directly), there was very little evidence earlier in the interviews that they actually used integrated reports or that integrated reporting influenced their decision-making to any degree. There was very little evidence in the interviews that integrated reporting was actually leading (influencing) their investment decision-making. Based on these findings, it is reasonable to conclude that leadership is not constructed through the reciprocal process of claiming and granting leadership and followership in this disaggregated context.

The findings in fact point to the existence of a leadership void (DeRue, 2011). As described in Chapter 1, a leadership void is regarded as a scenario where leaders fail to lead, or where followers fail to reciprocate with acts of following. DeRue (2011:136) described a leadership void as follows:

Therefore, a leadership void can emerge when group members attempt to follow but no one is attempting to lead, thus producing a diffusion of responsibility (Wallach, Kogan, & Bem, 1964). Alternatively, a leadership void can emerge

when group members attempt to lead but those acts of leadership are not reciprocated with acts of following. Although leadership voids are often discussed as a lack of leadership, it is important to recognize that a leadership void can also reflect a lack of following, which might arise due to low credibility of the person attempting to lead, political maneuvering, or leadership attempts that are ambiguous or not visible to others.

In terms of the above definition of a leadership void (DeRue, 2011), a reciprocal process has to take place. In the context of the study at hand, this reciprocal process has to occur in a disaggregated context, where the “leader” is actually a leadership phenomenon, the claim and the grant are made on behalf of this phenomenon, and the responsibility of achieving the collective goals is granted to the proclaimed followers.

DeRue (2011) mentioned three possible reasons for a lack of following. The three possibilities for why there could be a lack of following are described as “low credibility of the person attempting to lead, political manoeuvring, or leadership attempts that are ambiguous or not visible to others” (DeRue, 2011:136). DeRue (2011) does not pursue this discussion of leadership voids. I would argue that the absence of further elaboration regarding the reasons for the existence of a leadership void is a major gap in the literature on leadership theory. An obvious next step is to interrogate the reasons for non-following that DeRue (2011) mentioned, based on this empirical study, and to consider whether other reasons for non-following emerge from this study. As a starting point for this discussion, the reasons for non-following provided by DeRue (2011) are interrogated in order to determine whether they also apply in the context of my study.

### **6.3.1 Reasons for non-following**

#### ***6.3.1.1 Low credibility of the person or phenomenon attempting to lead***

One of the reasons for why followers do not follow that DeRue (2011) lists is that the leader is not seen as credible. This can also be described as a legitimacy issue. As I have shown in Chapter 5 and Section 6.2, a fairly common topic raised in the findings was distrust. A number of the participants stated that they did not trust company reports, including integrated reports (P12:9; P1:43). P1:43 described integrated reports as “window-dressing”.

A possible explanation for not trusting integrated reports is that these reports are not often assured externally. The bulk of integrated reports only have limited assurance on the qualitative information in the report (Maroun, 2017). The fact that there is uncertainty about the credibility of integrated reports is also addressed elsewhere in the integrated reporting literature (Adams, 2015). Adams (2015) also ascribed the lack of credibility of integrated reports to limitations with regard to the external assurance of integrated reports. It was argued in Section 3.4 of this thesis that the non-assurance of integrated reports limits their legitimacy. It is also known that in many integrated reports the only section that has full assurance is the financial statements. The findings in this study therefore confirm that providers of financial capital only perceive the sections (the financial statements) that are externally assured in integrated reports as credible and as a source of information they would use to inform their investment decision-making (P30:2; P1:37; P7:9).

If it is accepted that leadership is constructed through a reciprocal process of claiming and granting leadership and followership, then it would make sense that the followers would not reciprocate with a followership claim and a leadership grant to something that they do not perceive as credible. The idea that people rarely follow leadership that they do not trust is also expressed in the literature (Greer, 2002). The findings of this study therefore confirm the suggestion by DeRue (2012) that a reason for non-following (or phrased in a different way, a constraint to the construction of leadership) is the credibility or legitimacy of the leadership phenomenon. It should, however, be acknowledged that this is only true for the socially constructed formulation of leadership. In contexts where there are structures and hierarchies in place, followers might follow untrusted or illegitimate leadership – particularly if that leadership has the power of coercion behind it.

### **6.3.1.2 Political manoeuvring**

Another possible reason for not following leadership provided by DeRue (2011) is what he calls “political manoeuvring”, which he mentions as a reason for not following in the context of groups within organisations. He did not unpack the argument for the organisational or other contexts.

Little seems to have been written on political manoeuvring specifically as a reason for not following leadership. Moore and Kreth (2005) discuss “political maneuvering” in relation to technical communication. In their article, they refer to the work of Riker (1986). In Riker’s book *The art of political manipulation*, he coined the idea of “heresthetic”. He described heresthetic as “structuring the world so you can win” (Riker, 1986:ix). It is reasonable to assume that the idea of heresthetic is closely related to political manoeuvring. Furthermore, Riker (1986) specifically proposed three broad categories of political manoeuvring, namely “agenda control, strategic voting and manipulations of dimensions”. In respect of heresthetic and the three categories of political manoeuvring, it is clear that an individual or a group that uses such techniques has an agenda or certain goals that they would like to achieve. If political manoeuvring is provided as a reason for not following, then it would mean that it is the followers that use methods of political manoeuvring in order not to follow. This implies a specific intention to sabotage the goals of others or the leadership. In the integrated reporting context, this would mean that the providers of financial capital have goals they want to achieve that differ from the goals of integrated reporting and that they then use political manoeuvring in order not to follow.

The findings did not reveal any specific intention among the providers of financial capital to sabotage the achievement of financial stability or sustainability. A more accurate interpretation of the findings would simply be that the providers of financial capital are ignorant of their central responsibility to achieve the goals of integrated reporting. Another possible explanation could be that the goals that the providers of financial capital want to achieve (maximising returns and minimizing risk) and the goals of integrated reporting are irreconcilable. Gray (2010:59) explains the irreconcilability of economic growth and sustainability as follows: “...in looking for primary sources of un-sustainability, economic activity in general and corporate and financial growth and success in particular are strong candidates.” The literature abounds in discussions acknowledging that sustainable development might be an oxymoron (Lafferty, 1999). It is therefore reasonable to conclude that the providers of financial capital are unable to follow because they are constrained to pursue the goal of maximising profit, which is diametrically opposed to the goals of integrated

reporting, rather than to conclude that the providers of financial capital use political manoeuvring as a method not to follow.

Moore and Kreth (2005) explain that individuals who want to make use of political manoeuvring first try to get into positions in the organisation where they work so that they can control the agenda. As soon as they can control the agenda, they can also determine the issues that will be voted on. In respect of the providers of financial, it can be argued that they have gained control over the integrated reporting agenda, because the purpose of integrated reports is to explain the value creation of organisations to them. However, this is not necessarily their own doing – there are some indications in the literature that the integrated reporting agenda has been captured by the investment community, and that it was done purposefully (Flower, 2015; Van Bommel, 2014). However, there was no evidence in the findings of this study that the providers of financial capital intentionally tried to control the integrated reporting agenda.

Regarding strategic voting, the providers of financial capital do not have any explicit voting powers. Their “voting” has to take place through their investment decision-making. The findings illustrated that the providers of financial capital are not particularly influenced by integrated reporting in their actual investment decision-making. If “voting” is equated to investment decision-making in this context, it is evident that the providers of financial capital are using their “votes” to achieve the goals that they perceive as their responsibility to achieve – the goals of maximising returns and minimising risk.

Moore and Kreth (2005) also explain that manipulations of dimensions could take on almost any form outside a majority rule context, but timing, rules and accessibility are described as important constituents of dimensions. The most prominent sub-theme in the data was *Abdication of responsibility* by the providers of financial capital. It is possible to argue that this abdication of responsibility is a technique to manipulate dimensions, but this would be almost impossible to prove. It is much more likely that the abdication of responsibility is a result of this particular disaggregated context. The importance of the context or environment and the resulting effect on the perceptions of the followers that function in that context has already been identified as salient and was discussed in Chapter 1 of this study. The complexity of the

investment chain with its numerous and heterogeneous role players that all fulfil different roles makes it difficult to ascribe specific responsibility to specific individuals. The scenario is complicated even more by regulatory aspects and mandates. Mandates are developed by pension fund trustees together with asset consultants, and these mandates outline the investment strategies that are executed by asset managers. The findings illustrated that abdication of responsibility is at least partly a result of the context and complexity of the investment chain, and not a result of manipulation of dimensions as a form of political manoeuvring.

DeRue (2011:138) specifically addressed the issue of the importance of the environment or context as an element of the process of leadership construction. As part of his adaptive leadership theory, he proposed that “[e]nvironments are endogenous to the leadership process”. DeRue (2011) posits that the construction of leadership cannot be separated from the environment or context within which it occurs. The findings of this study confirmed this proposition, because it is evident that the context in which the proclaimed followers function in fact determines their ability to reciprocate by claiming a follower identity and granting a leadership identity. This idea is discussed in more detail below, where governing rationalities as a constraint to the construction of leadership are discussed in detail.

### **6.3.1.3 Ambiguous leadership attempts**

DeRue (2011) also cited leadership attempts that are ambiguous or not visible to others as a possible explanation for non-following. In the disaggregated context explored in this study, the findings seemed to indicate that ambiguous leadership attempts are definitely a reason for non-following. Despite the fact that the IIRC makes a bold and direct claim of a leadership identity for integrated reporting, the findings in this study suggested that the leadership claim and the followership grant may be ambiguous and/or not visible. Several providers of financial capital in the sample were completely ignorant regarding integrated reporting (P7:8; P9:9; P11:8; P1:37). The logical deduction is that a reason for non-following is simply ignorance. The proclaimed followers cannot be expected to be followers of a phenomenon that they are not even aware of. The majority of those that were ignorant were asset managers who manage billions of Rands worth of pension fund money.

The ignorance of asset managers in the South African investment industry is especially surprising, seeing that South Africa is regarded as a leader in integrated reporting. These findings are also surprising because the IIRC puts so much emphasis on providers of financial capital. Based on the findings, it is suggested that the IIRC has failed to inform its target audience properly about the purpose and goals of integrated reporting and how it should be used for their benefit and the benefit of larger society by establishing financial stability and sustainability. This finding confirms similar sentiments expressed by Humphrey *et al.* (2017) in their critique of the Framework.

A number of ambiguities in the IIRC's communication about integrated reporting have been identified, and these have been discussed at length in the literature (Adams, 2015; Flower, 2015; Van Bommel, 2014) and in Chapter 3 of this thesis. The key ambiguities can be identified as the lack of clarity of the definition of value, the absence of clear definitions of financial stability and sustainability, and the unconventional categorization of providers of financial capital to include the ultimate providers of capital, such as pension fund members. In a communication to the investor community, the IIRC (2015:5) itself admits that "investors themselves are not a uniform group and that there are multiple roles and functions involved in capital allocation".

Based on the findings of this study, it is possible to confirm the suggestion by DeRue (2011) that followers sometimes do not follow because the leadership attempt is ambiguous. Moreover, the findings of the study reveal that DeRue's (2011) listing of reasons for non-following is incomplete and that the reasons for non-following need to be developed further, which I undertake below.

## **6.4 MORE REASONS FOR NON-FOLLOWING EMERGING FROM THE FINDINGS OF THIS STUDY**

### **6.4.1 The perceptions that followers hold of the leadership phenomenon, their own roles and responsibilities and the declared goals of the leadership phenomenon**

Based on the findings of this study, it is possible to extend the reasons provided for non-following first cited by DeRue (2011). It is also proposed that these reasons for

non-following should rather be called constraints to the construction of leadership. This is because the findings illustrated that the followers in this study were constrained in a number of ways, and these constraints prevented them from following the leadership phenomenon and therefore constrained the construction of leadership. The findings indicated that the proclaimed followership were constrained by their own perceptions. These included their perceptions of the leadership phenomenon, of their own roles and responsibilities, and of the declared goals of the leadership phenomenon. All these perceptions were discussed in detail in Chapter 5 and Sections 6.1. and 6.2.

Some might argue that the perceptions of followers of the leadership phenomenon correspond to one reason provided by DeRue for non-following, namely the (lack of) credibility of the leadership phenomenon. A distinction can, however, be made, based on the fact that the findings pointed specifically to the perceptions of the proclaimed followers regarding the leadership phenomenon, and not to the credibility of the leadership phenomenon in a broader sense, as previously reported by Van Bommel (2014), Adams (2015) and Flower (2015). It was evident that if it is expected of followers to take the responsibility for achieving the declared goals of the leadership phenomenon, it is necessary for the followers really to buy into (trust) the leadership phenomenon. If the followers do not perceive the leadership phenomenon as legitimate, they will not claim a follower identity for themselves.

The perceptions of the providers of financial capital regarding their own roles and responsibilities have been discussed in detail in Chapter 5. The findings showed that the proclaimed followers' perceptions of their roles and responsibilities were limited to minimizing risk, maximizing returns and compliance (P24:2; P4:1; P30:2; P18:1; P1:32; P24:15). Consequently, there was no alignment between what the proclaimed followers believed about their own roles and responsibilities and the responsibilities that have been granted to them as a result of their proclaimed followership. The findings therefore indicated that the construction of leadership will be constrained if there is no alignment between followers' perceptions of their roles and responsibilities and the goals that need to be achieved as a result of the construction of leadership. This confirms the earlier literature which argues that leadership will only be constructed when there is direction, alignment and commitment in a movement (Drath *et al.*, 2008). The findings of this study reveal that the construction



of leadership is constrained if the proclaimed followers are not aware of the direction of the leadership phenomenon, if the proclaimed followers are not aligned with the declared goals of the leadership phenomenon, and if the proclaimed followers are not committed to the declared goals of the leadership phenomenon.

The perceptions that followers hold about the declared goals of the leadership phenomenon can also be a constraint to the construction of leadership. If followers do not align themselves with the goals and if they do not perceive it as part of their responsibility to achieve the declared goals of the leadership phenomenon, then leadership will not be constructed. The findings in this study indicated that the proclaimed followers are not even sure what the declared goals of the leadership phenomenon are, and this is logically a constraint to the construction of leadership. Some might argue that this finding is closely related to one reason for non-following proposed by DeRue (2011), namely ambiguous leadership attempts, because of the IIRC's ambiguity regarding the definitions of financial stability and sustainability, as discussed earlier. Even though it should be acknowledged that these two constraints are interrelated, the findings suggest a more nuanced reason: followers must perceive the achievement of the declared goals of the leadership phenomenon as part of their own responsibility in order for the construction of leadership to occur.

A pressing question that emerged from these findings is why the providers of financial capital are so constrained in their perceptions about the leadership phenomenon, their own role(s) and responsibilities and the declared goals of the leadership phenomenon. A possible answer could be what Brown (2017) refers to as "neoliberalism as a governing rationality". "Governing rationalities" are identified as an all-encompassing constraint to the construction of leadership in a disaggregated context, and are discussed in more detail below.

#### **6.4.2 Governing rationalities**

As indicated in the discussion above, the findings of this study reveal that the perceptions of followers can constrain the construction of leadership. Based on the findings of this study, it became evident that the perceptions of followers in a disaggregated context are still immensely influenced by structures or hierarchies. Even though the typical organisational structures and hierarchies are absent, other

hierarchical structures come into play. These hierarchies determine the intellectual schemas of individuals and ultimately govern the way they view the world and themselves in relation to the world – in other words, their perceptions of their roles and responsibilities in the world.

These intellectual (and regulatory) hierarchical structures can be described as governing rationalities. The construct of a governing rationality comes from the notion of a “political rationality” (Foucault, 1984, quoted in Brown, 2017:116), which is described as “conditions, legitimacy, and dissemination of a particular regime of power-knowledge that centers on the truths organizing it and the world it brings into being” (Foucault, 1984, quoted in Brown, 2017:116). Brown (2017) further describes governing rationalities as “that by which worlds are ordered” and compares it to systems or ontologies such as Christianity and liberalism. This is reminiscent of the concept of heresthetic mentioned earlier (Riker, 1986). The difference lies in the intentions of individuals. Whereas heresthetic is described as constructing a world you want, governing rationalities are described as something over which individuals do not specifically have any control, even though it influences every dimension of their lives. Gramsci referred to this idea as hegemony (Mouffe, 2014). Hegemony is described as an all-encompassing ideology obstructing the ability of people to think beyond the dominant world view. The findings in this study suggested that the proclaimed followers were entirely constrained in their thinking. It seemed as if they were unable to think beyond maximizing returns, minimising risk and compliance.

Brown (2017) argues that our current world view has developed over the last three decades partly as a result of the increasing financialization of the economy (Epstein, 2005). She contends that humans have lost the ability to see value beyond an investment lens. In other words, value does not necessarily have to be monetary value, but every sphere of life is approached from an investment perspective. The following example can be considered: What would the return on my investment be if I invest my time and affection in a relationship? And if the return on that investment is not good enough, or does not grow according to expectation, we are advised to leave the relationship. This is neoliberalism in a nutshell – the inability to understand value beyond investment value, which translates to growth or maximization of whatever it is we feel that we have invested in.

Brown (2017:9-10) describes neoliberalism as follows:

[A] normative order of reason developed over three decades into a widely and deeply disseminated governing rationality, neoliberalism transmogrifies every human domain and endeavour, along with humans themselves, according to a specific image of the economic. All conduct is economic conduct; all spheres of existence are framed and measured by economic terms and metrics, even when those spheres are not directly monetized. In neoliberal reason and in domains governed by it, we are only and everywhere homo oeconomicus, which itself has a historically specific form.

Neoliberalism is generally understood as endorsing a range of economic policies aligned with its fundamental principle of upholding free markets (Brown, 2017). The idea of upholding free markets is associated with minimum government interference in the market's function of determining prices through supply and demand (Brown, 2017). Rationality is often associated with economic theory, where a rational agent is described as a person who acts in self-interest with the objective of wealth maximization (Sen, 1977). If one's governing rationality is neoliberalism it would mean that one is only perceived as rational if one pursues self-interest with wealth maximization as the ultimate goal, through trust in the free market system. In essence, this would require that a rational agent abandon control and personal responsibility and hand over this power to the free market.

Neo-liberalism in simple terms is the belief that free markets have the ability to find solutions to the bulk of the problems that humanity are faced with, because markets behave rationally if they are not interfered with, and as a result everything should be done to uphold the functioning of free markets. Brown argues that this belief has a devastating effect on humanity, because it has created a reality where people are unable to contemplate anything outside of this investor-framed box. She argues that all aspects of life are contemplated through an investor lens and examined in terms of returns on investment.

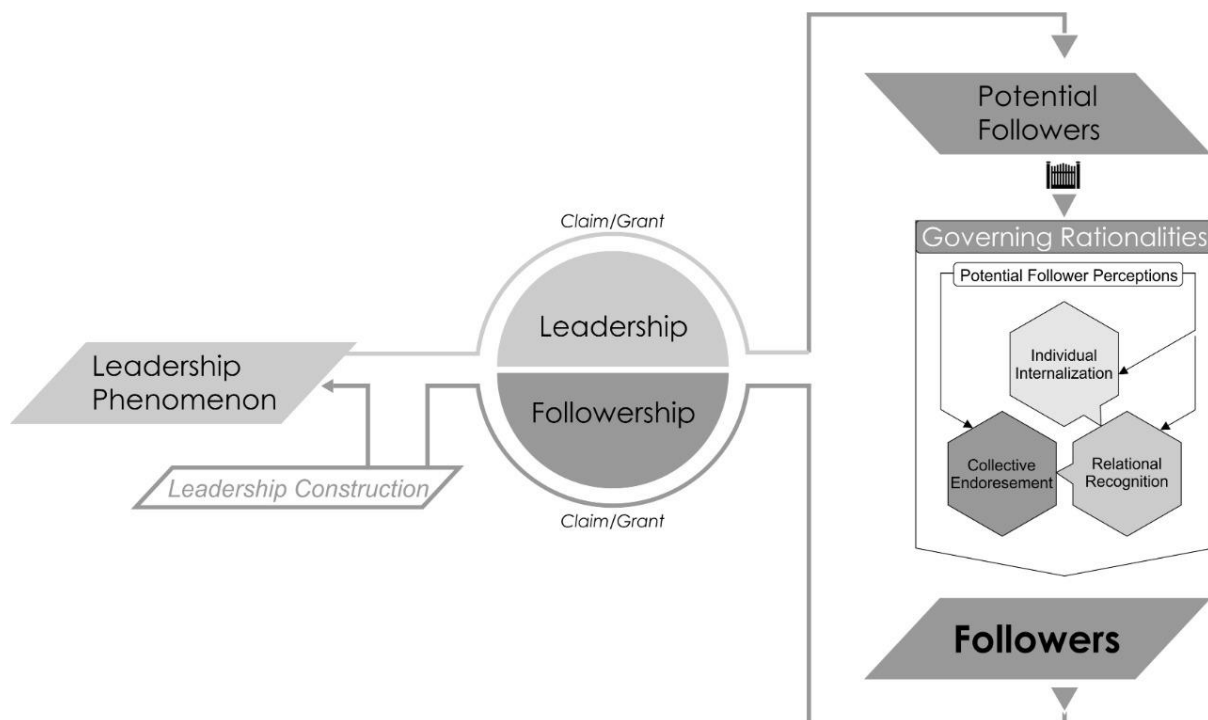
The constant returning of the participants in this study to the narrative of maximizing returns and managing risk in the interviews confirmed Brown's contention. However, this should not be surprising, seeing that the proclaimed followers are providers of financial capital and their primary purpose is to invest financial capital either for themselves or on behalf of others. Given that we live in an era described by some as fiduciary capitalism (Hawley & Williams, 1997), it ought not to be surprising that the

providers of financial capital are generally unable to think beyond the metrics of maximising returns and minimizing risk. Perhaps it would be a more fruitful endeavour to return to the question of the primary audience of integrated reports and to accept that transformation to long-term thinking and sustainability will surely not come from the very group that are mandated and incentivized to chase short-term profits and high returns.

If it is accepted that neoliberalism is our current governing rationality, as Brown (2017) suggests, then it would follow logically that the proclaimed followers in this particular study were unable to think outside of the very narrow ideas of profit maximisation and minimization of risk. If the average consumer today is unable to think beyond price (monetary value) in their buying decisions, as Öberseder *et al.* (2011) have shown, it can surely not be expected of the providers of financial capital to move beyond this governing rationality. After all, the core purpose of this particular group of followers in their role as investors is to guarantee return on investments for beneficiaries.

Neoliberalism is just one example of governing rationalities. The findings in this study demonstrate empirically how governing rationalities can constrain followers to construct leadership through the reciprocal process of claiming a follower identity for themselves and granting a leadership identity to the leadership phenomenon. Because governing rationalities determine the world view of individuals, it is argued that a leadership identity is granted to the governing rationality and that the governing rationality becomes an overarching leadership phenomenon. As I explained in Chapter 2 and in Section 6.1, the identity construction process for the leader and the follower must take place at the individual, relational and collective levels. It was also argued that relational recognition and collective endorsement depends on individual internalization. Governing rationalities determine the individual's world view. The individual's world view, in turn, determines how each person thinks about her/himself and how s/he relates to society and the world. Therefore, it can be argued that all three levels of identity construction, as mapped out in the conceptual model of DeRue and Ashford (2010), are subject to the leadership of governing rationalities. As a result, this thesis posits that governing rationalities are a major constraint to the construction of leadership in disaggregated contexts.

Based on these interpretations and the above discussion, I propose an adapted version of the conceptual model of DeRue and Ashford (2010) for the construction of leadership in a disaggregated context, as set out in Figure 4, below. This illustrates that a claim of a leadership identity is made for, or on behalf of, the leadership phenomenon and a follower identity is granted to potential followers. According to DeRue and Ashford (2010), leadership is constructed when this claim and grant is reciprocated with another claim and grant. The potential followers must reciprocate by claiming a follower identity for themselves and granting a leadership identity for the leadership phenomenon. In order for this identity claim to take place, the potential followers must go through the three-step process of individual internalization, relational recognition and collective endorsement. According to DeRue (2011), relational recognition and collective endorsement are subject to individual internalization. The proposed conceptual model illustrates that the three-step process is constrained by the perceptions of potential followers, but that these perceptions are in turn constrained by governing rationalities.



**Figure 4: Proposed conceptual model for the construction of leadership in a disaggregated context**

## 6.5 CONCLUSION

This chapter has discussed and interpreted the findings of the qualitative survey (Chapter 5) in relation to each of the secondary research objectives of the study. These interpretations led to the observation that the proclaimed followers in this study have not reciprocated the IIRC's leadership claim for integrated reporting and granting of followership with a reciprocal followership claim and a leadership grant. This pointed to the existence of a leadership void in this disaggregated context. Thereafter, the possible explanations for a leadership void, first mentioned by DeRue (2011), were considered. Based on the findings, it was then suggested that DeRue's reasons for non-following are incomplete and that the data pointed to more reasons for non-following. I proposed that "reasons for non-following" be rephrased as "constraints to the construction of leadership". Finally, I argued that the perceptions of followers that are primarily determined by governing rationalities is a major constraint to the construction of leadership in disaggregated contexts.

## **CHAPTER 7: CONCLUSION**

### **7.1 INTRODUCTION**

In the previous chapter (Chapter 6), the research findings were interpreted and discussed, based on the conceptual work of DeRue and Ashford (2010) and DeRue (2011). In this chapter, conclusions are drawn in an attempt to explain the achievement of the overarching research objective of this study to explore the construction of leadership, through the reciprocal process of claiming and granting leadership and follower identities, in a disaggregated context. Furthermore, the chapter reflects on the contribution made by this study to the emerging theory of the social construction of leadership. Resulting from the findings, recommendations for future research are made. The limitations of the study are also acknowledged in this chapter.

### **7.2 REVISITING PREVIOUS CHAPTERS**

In Chapter 1, the rationale for this study was presented and the overarching objective of this study was explicated, namely to explore the construction of leadership in a disaggregated context. The research design used to achieve the research objectives and the role of the researcher in the research process were also introduced. Chapter 1 also highlighted the quality of the research and ethical considerations, and provided an outline of the thesis.

In Chapters 2 and 3, the literature review for the study was presented. Chapter 2 showed that leadership is no longer seen as something attached to a heroic individual. It also emphasised the interdependence of leadership and followership and the need for more empirical follower-centric and followership studies. Specific attention focused on a discussion of the work of DeRue and Ashford (2010) and DeRue (2011), because their conceptual work on the construction of leadership as a reciprocal process of claiming and granting leader and follower identities was applied in this study to develop the secondary research objectives and to interpret the inductive findings. Chapter 3 contextualised integrated reporting and illustrated that integrated reporting emerged out of the social accounting movement and also aims

to address sustainability. However, integrated reporting is different from its predecessors in that providers of financial capital are specifically identified as the primary audience of integrated reports. The fact that the IIRC claims a leadership identity for integrated reporting by stating that integrated reporting will be “a force for financial stability and sustainability” was also discussed. The implied grant of a follower identity to the providers of financial capital was illustrated.

Chapter 4 explained the research design and methods applied to achieve the research objectives. The objective of the study was to explore the construction of leadership through the reciprocal process of claiming and granting leadership and follower identities, specifically in a disaggregated context, rather than in a hierarchical organisational one, as in the relevant previous studies reviewed. In order to achieve this objective, data were collected by means of semi-structured interviews with seven different categories of providers of financial capital, as this appeared to be the most suitable research design to apply. As a result of my critical realist ontology and constructivist-interpretive epistemology, I also set out the role of the researcher as a research instrument, and resulting biases, in detail.

Chapter 5 presented the findings that emerged in the form of themes and sub-themes from the inductive analysis of the interview transcripts. Four major themes linked to the interview questions were identified. The first major theme that emerged from the interviews was that of the *Self-concept of roles and responsibilities* of the providers of financial capital. The findings revealed that only a third of the participants perceived themselves as providers of financial capital. Many of the participants saw themselves rather as custodians or stewards, facilitators or simply managers of money. The first sub-theme was that of *Return and risk*, where the participants understood their responsibility to be the management of risk and maximization of financial return in making investment decisions. The second sub-theme was *Compliance*. The third sub-theme that arose from the interviews was *Fiduciary principles*, where the responsibilities of providers of financial capital were referred to in fiduciary terms. The participants mostly interpreted their fiduciary responsibility as maximising financial returns and minimizing risk. The final sub-theme to emerge was *Abdication of responsibility*.



The second major theme was related to the process of investment decision-making, where another set of four sub-themes emerged. The first sub-theme was that of the *Formal and informal processes* used in specific organisations, and by specific role players in the investment chain when making investment decisions. The second sub-theme was the sources of information used in the process of investment decision-making. The third sub-theme was *Engagement*. The fourth and final sub-theme to emerge was *Abdication of investment decision-making*.

The third major theme focused on the perceptions of the providers of financial capital around integrated reporting. Again, four sub-themes emerged. The first sub-theme was awareness of integrated reporting (or, to be more precise, a lack of such awareness). The second sub-theme that emerged was the sources of information that participants used to inform investment decisions. The third sub-theme was the (limited) level of knowledge of the goals and purpose of integrated reporting. The fourth sub-theme was integrated reporting as a leadership phenomenon.

The fourth major theme of *Perceptions of financial stability and sustainability* emerged because the participants were asked specifically to provide their own definitions and interpretations of these concepts. Three sub-themes emerged here: *Financial stability*, *Sustainability* and the *Influence of integrated reporting on financial stability and sustainability*. It was clear that the participating providers of financial capital mostly held a very narrow view of financial stability, interpreted as potential future profits, mostly of a single company. The majority of participants still perceived sustainability through a purely financial lens, regarding sustainability as potential future profits. On the question of the possible influence of integrated reporting to attain financial stability and sustainability through better investment decision-making, interviewees were generally of the opinion that it is possible, but that integrated reporting will be only one of many factors that contribute to change.

Chapter 6 presented the interpretation of the research findings, based on the conceptual work of DeRue and Ashford (2010) and DeRue (2011), as well as the secondary research objectives. The findings in relation to each of the secondary research objectives were discussed. This discussion led to the observation of a leadership void as a result of non-following. Explanations for a leadership void as a result of non-following are mentioned in the literature, but it is argued that the

literature is insufficient in its explanations and needed expansion. Two out of the three reasons listed for non-following by DeRue (2011) was confirmed in this empirical study, namely: low credibility of the leadership phenomenon and ambiguous leadership attempts. Constraints to the construction of leadership in a disaggregated context were then proposed as part of the development of an adapted conceptual model for the construction of leadership, based on the initial conceptual model of DeRue and Ashford (2010).

### **7.3 RECAPPING THE RESEARCH FINDINGS IN RELATION TO THE RESEARCH OBJECTIVES**

The purpose of this section is to provide a summary of the interpretation of the research findings in relation to the primary research objective, based on the interpretation of the findings in relation to the secondary research objectives.

#### **7.3.1 Secondary Research Objective 1:**

**To understand whether the providers of financial capital accept and acknowledge their role as followers of integrated reporting**

Based on the previous research by DeRue (2011) and DeRue and Ashford (2010), and using their ideas as a theoretical framework to interpret the findings of this study, the current study investigated whether there was any evidence in the findings that the providers of financial capital individually internalized their roles as followers of integrated reporting. Chapters 5 and 6 showed that the majority of the participants did not perceive themselves as providers of financial capital. It was also found that a number of participants did not even know about integrated reporting and that many others simplistically equated integrated reports to annual reports and financial statements. There was also no evidence from the interviews that the participants perceived it as part of their roles and responsibilities specifically to consider and incorporate integrated reporting into their investment decision-making, or to achieve financial stability and sustainability through their investment decision-making.

Therefore, it was concluded that there was almost no evidence in the interviews with providers of financial capital that they were even aware of the fact that they had been granted a follower identity in relation to integrated reporting. There was also no

evidence to suggest that these investors claimed a follower identity for themselves or granted a leadership identity to integrated reporting.

### **7.3.2 Secondary Research Objective 2:**

**To explore whether the providers of financial capital perceive the achievement of financial stability and sustainability as part of their responsibilities in their roles as investors**

The providers of financial capital were asked to describe how they perceived their own roles and responsibilities, without prompting them in the direction of financial stability and sustainability. There was almost no trace of any idea that they have been granted the responsibility to achieve financial stability and sustainability through the better allocation of financial capital (however such better allocation might be defined). Only those participants (P31, P32 and P33), who were specifically mandated in their organisations to lead “responsible investment” or to incorporate ESG issues into investment decision-making, mentioned ideas related to the achievement of financial stability and sustainability. Most of the participants ultimately saw their roles and responsibilities as maximising returns and managing risk within the legal boundaries placed on them by regulation and contractual mandates.

As a result, it is impossible to conclude that the providers of financial capital perceive it as part of their responsibilities to achieve financial stability and sustainability through their investment decisions. This finding in turn results in uncertainty about whether integrated reporting can achieve its stated vision through the providers of financial capital and their allocation of financial capital.

### **7.3.3 Secondary Research Objective 3: To explore whether integrated reporting is perceived as a crucial source of information that is used in the process of investment decision-making**

It seemed reasonable to assume that if providers often make use of integrated reports as a source of information in their decision-making it would be something they would mention in answer to the questions associated with secondary research objective 3. Very few participants referred to integrated reports spontaneously. Although a number of participants referred to company reports and annual reports,

only a very small minority referred to integrated reports. Even those that did refer to integrated reporting explicitly stated that they primarily used the financial information in the integrated report. Thus it was concluded that there was no specific evidence to support the contention that integrated reports are a major source of information incorporated into the investment decision-making process, with the exception of one portfolio manager out of 30 participants.

#### **7.3.4 Secondary Research Objective 4:**

**To explore whether integrated reporting is perceived as a leadership phenomenon that influences the providers of financial capital in making investment decisions**

Besides the fact that a number of participants were not even aware of integrated reporting, as already mentioned, it was also obvious that for many participants an integrated report is still equated to the financial statements of a company. Only a few of the interviewees demonstrated a clear understanding of integrated reporting. After establishing the participants' level of awareness of integrated reporting, the goal was to determine to what extent they used integrated reporting to inform their investment decisions. Only very few participants indicated that they draw on integrated reports.

It was also vital to establish whether the participants knew that the declared goals of integrated reporting are financial stability and sustainability. Clearly, if the followers are not even aware of what the goals are they will not be able to contribute to the achievement of these goals through their decision-making. Although a few participants mentioned ideas that could be associated with financial stability and sustainability, not one of the participants could quote the goals of integrated reporting accurately.

The participants were asked directly whether they thought integrated reporting can be described as a leadership phenomenon. It can be argued that this question activated a social desirability bias (Öberseder *et al.*, 2011) and that the majority of respondents would respond to such a question in the affirmative. The reason for this is that when one is asked whether one thinks something is a leadership phenomenon, one would generally realize that it is socially desirable to say yes. A number of the participants agreed that integrated reporting is a leadership

phenomenon. However, in response to the question regarding the level of influence that integrated reporting had on their decision-making, given the definition of leadership as a process of influence to achieve specific goals, very few participants indicated that integrated reporting really had an influence on their investment decision-making. At most, there were hints of a perception that integrated reporting had the potential to be a leadership phenomenon, as one of many other possible influencers of investment decision-making.

### **7.3.5 Secondary Research Objective 5:**

**To provide an in-depth understanding of the perceptions of integrated reporting and how it could inform better investment decisions that can in turn lead to financial stability and sustainability**

In respect of the question of whether integrated reporting can improve investment decision-making, some participants stated that it would be possible, but could not really explain why or how. As mentioned earlier, many participants expressed distrust towards company reports, so it is difficult to explain how or why the providers of financial capital would be convinced that integrated reporting can lead to better investment decision-making. The majority of the participants regarded better investment decision-making as investments resulting in better returns or growth.

These findings seem to confirm and reiterate studies in the literature that argue that it is highly unlikely that financial stability and sustainability will be achieved through the actions of investors (Atkins & Maroun, 2015; Gray, 2012), and the findings contradict the IIRC's claim that integrated reporting will be a force to achieve financial stability and sustainability.

### **7.3.6 Secondary Research Objective 6:**

**To explore whether the providers of financial capital demonstrate a clear understanding of financial stability and sustainability that is in line with the IIRC's descriptions of these goals**

It was clear that the providers of financial capital mostly held a very restricted view of financial stability, as they interpreted this to mean the potential future profits of a single company. A few interviewees had a clear understanding of sustainability that aligned very well with the Brundtland definition of sustainability, but others did not

connect sustainability to the future of our species or planet at all and perceived sustainability through a purely financial lens. On the question of the possible influence of integrated reporting in attaining financial stability and sustainability through better investment decision-making, interviewees were generally of the opinion that it was possible, but that integrated reporting would only be one of many factors to have an influence. If the goals of financial stability and sustainability need to be achieved through the investment decisions of the providers of financial capital, they need to show a clear understanding of these concepts and perceive them as part of their investment goals. Even if financial stability and sustainability are understood, but are perceived to be completely separate from investment decisions, then the providers of financial capital are not owning the responsibility of achieving financial stability and sustainability through their investment decision-making.

The findings therefore did not suggest that the providers of financial capital had a clear understanding of financial stability or sustainability in line with the achievement of stable financial markets and social sustainability as justice.

The outcome of addressing the secondary research objectives was that the findings pointed to the existence of a leadership void. A leadership void is regarded as a scenario where leaders fail to lead or where followers fail to reciprocate with acts of following (DeRue, 2011). Based on the findings, it was evident that the providers of financial capital did not claim a follower identity for themselves and did not grant a leadership identity to integrated reporting. As an obvious next step, it was essential to contemplate why leadership was not constructed, or more specifically why the providers of financial capital did not claim a follower identity for themselves and did not grant a leadership identity to integrated reporting. The findings suggested that the proclaimed or potential followers (providers of financial capital) are constrained to not claim and grant these identities. They are constrained because of their own perceptions about their roles and responsibilities, because of their perceptions of the leadership phenomenon, and because of the declared goals of the leadership phenomenon. The findings further show that these perceptions are in turn determined by all-encompassing and limiting governing rationalities.

## 7.4 IMPORTANCE OF THE STUDY

Many recent leadership studies have focused on leadership as a socially constructed process (Carsten *et al.*, 2010; Crevani *et al.*, 2010; DeRue, 2011; DeRue & Ashford, 2010; Uhl-Bien, 2011), as opposed to individual leadership. It has also been argued that leadership cannot be studied without studying followership (Carsten & Uhl-Bien, 2012; Meindl, 1995; Uhl-Bien *et al.*, 2014). Even so, the literature points out that very few studies are undertaken from a follower-perspective (follower-centric studies) and that there are even fewer followership studies (where followers are asked to present their perceptions about themselves as followers) (Carsten *et al.*, 2010). Empirical work in these areas is even more uncommon. Consequently, it is reasonable to conclude that there is a need for more empirical, follower-centric and followership studies.

One qualitative, empirical followership study has highlighted the importance of the context in order for followers to enact their roles and the construction of leadership to take place (Carsten *et al.*, 2010). One way of exploring this construction of leadership is to investigate whether a reciprocal process of claiming and granting leader and follower identities has taken place (DeRue & Ashford, 2010).

The IIRC has (explicitly and implicitly) claimed a leadership identity for integrated reporting and granted a follower identity to providers of financial capital. The leadership identity was explicitly claimed by declaring that integrated reporting will be a force for financial stability and sustainability as a result of the better allocation of financial capital because of the proliferation of integrated reporting (IIRC, 2013c). Achieving the goals of financial stability and sustainability is important for humanity. The responsibility for achieving these goals was implicitly granted to providers of financial capital by stating that these investors are the primary audience of integrated reports. However, until this study was undertaken, the leadership claim made by the IIRC about integrated reporting was based on mere speculation. Therefore, it was a worthwhile research endeavour to explore whether this process of claiming and granting was indeed reciprocated by providers of financial capital. In other words, did providers of financial capital claim a follower identity for themselves and did they grant a leadership identity to integrated reporting?

In this study, the sample of the proclaimed followership of integrated reporting, providers of financial capital, consisted of a heterogeneous group, comprised of seven categories of participants in the investment chain, each with varying levels of decision-making power. The context of the investment chain and the varying degrees of decision-making power held by the different investor categories had an important influence on their ability to claim a follower identity for themselves in relation to integrated reporting. Because of the focus in this study on providers of financial capital as the proclaimed followership of integrated reporting, important insights into the self-perceptions of the roles and responsibilities of providers of financial capital were also captured.

. It was worthwhile to explore the construction of leadership outside of an organisational context. The study contributes to the body of knowledge in leadership by confirming the importance of the context in which followers function, as well as suggesting that the perceptions of proclaimed followers of their own roles and responsibilities, the leadership phenomenon and the stated goals of the leadership phenomenon can be constraints to the construction of leadership. The theory of the social construction of leadership is expanded through the proposed conceptual model of the construction of leadership in a disaggregated context. Finally, the study makes a significant contribution to the development of knowledge regarding the existence of leadership voids as a result of non-following, by proposing that governing rationalities are a major constraint to the construction of leadership.

## **7.5 LIMITATIONS**

The study has a number of limitations. Considering that this study adopted an exploratory qualitative approach and that the sample size was small, the findings presented in this thesis should be interpreted with caution until the study has been replicated in other settings and/or countries and with other methodologies. It is essential to understand that this specific qualitative data set is a subjective reflection of the perception of providers of financial capital. This methodology was appropriate to achieve the objectives of this study, but future research will benefit from employing other methodological approaches to confirm the presence of a leadership void in a disaggregated context arising from the constraints on followers' perceptions imposed by governing rationalities.



Furthermore, the study was limited to the South African context, applying a purposive sampling technique to select participants from seven stakeholder categories. It is possible that the perceptions of providers of financial capital will differ across cultures. The seven different categories of providers of financial capital all have different degrees of decision-making power. It is therefore possible to argue that only providers of financial capital with actual decision-making power should have been interviewed, but the identification of the categories of providers of financial capital in this study was explicitly based on the definition of these investors provided by the IIRC. Moreover, South Africa's leadership role in the establishment of integrated reporting (Atkins & Maroun, 2015; De Villiers *et al.*, 2014) tells us that these finance experts should be among the most informed professionals in the world. The South African context is a sampling feature, not a flaw.

Another limitation of the study is that it was also not possible to consider personality profiles and how individual differences might have influenced the providers' perceptions of their own roles and responsibilities, of integrated reporting and of financial stability and sustainability.

Some might be of the opinion that the questions in the interview schedule were too non-explicit to explore the construction of leadership through the reciprocal process of claiming and granting leader and follower identities. However, the interview schedule was deliberately designed this way in order to limit the creation of artificial awareness (Öberseder *et al.*, 2011). The findings of the study can therefore not be generalised, although assuring the trustworthiness of the findings is explicitly addressed (see Section 4.6). Finally, the study was not a longitudinal study to determine changes over time to the construction of leadership in this disaggregated context.

## **7.6 RECOMMENDATIONS FOR FURTHER STUDY**

Firstly, this research focused only on the proclaimed followers of integrated reporting in South Africa. Future research could therefore explore the construction of leadership in other countries where claims are made in relation to the leadership role of integrated reporting and a follower identity is granted in relation to integrated reporting.

Secondly, whilst this research conducted an in-depth investigation into the perceptions of providers of financial capital, it paid no attention to the construction of follower identities in relation to integrated reporting by broader stakeholders. Future research could seek out other stakeholders' perceptions and perhaps look for leadership construction in the context of integrated reporting through the application of the direction, alignment commitment (DAC) ontology (Drath *et al.*, 2008) as a conceptual guide. This would extend the analysis of the potential of integrated reporting to become a leadership phenomenon that can assist in achieving financial stability and sustainability.

Finally, this research has not incorporated a simulation of real-life investment decision-making processes in order to determine what the actual influence of integrated reporting is on investor behaviour. Future research could investigate whether the providers of financial capital display followership behaviour (Uhl-Bien *et al.*, 2014) when they are confronted with a real-life investment decision and certain sources of information in a simulation.

All of these proposals for future research would directly address current gaps in the literature regarding variations in followership perceptions regarding the identity construction of followers.

## **7.7 CONCLUSIONS**

This study has expanded the theory on the construction of leadership, building on the existing literature (DeRue, 2011; DeRue & Ashford, 2010) by means of an empirical investigation in a disaggregated context. The study empirically demonstrated that leadership was not constructed in the specific disaggregated context, pointing to the existence of a leadership void, as a result of non-following. The study contributed to the body of knowledge by interrogating the reasons provided by DeRue (2011) for non-following. In addition, the study identified constraints to the construction of leadership in the specific context of integrated reporting, and found that potential followers (providers of financial capital) are constrained by their own perceptions, preventing them from claiming a follower identity for themselves and granting a leadership identity to the leadership phenomenon. These perceptions included the potential followers' perceptions of their

own roles and responsibilities, of the leadership phenomenon, and of the declared goals of the leadership phenomenon. Moreover, the study has shown that the perceptions of potential followers are determined by dominant governing rationalities.

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<sup>22</sup> Also commonly known as the Brundlandt report.

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## APPENDIX A: CONFIRMATION OF ETHICS APPROVAL



Faculty of Economic and Management Sciences

**RESEARCH ETHICS COMMITTEE**

Tel: +27 12 420 3395

E-mail: ronel.rensburg@up.ac.za

17 May 2016

**Strictly confidential**

Prof D de Jongh  
Department of Business Management

Dear Professor de Jongh

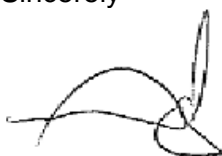
**Project:** The perceptions of integrated reporting as a leadership phenomenon on investment decision making  
**Researcher:** RL Swart  
**Student No:** 21188395  
**Promoter:** Prof D de Jongh  
**Co-promoter:** Prof N Eccles  
**Department:** Business Management

We refer to our letter dated 10 May 2016 granting conditional ethics clearance for the above candidate.

I have pleasure in informing you that the Registrar's permission has been obtained to involve the proposed UP Pension Fund members in the research.

The Committee requests that you convey this approval to the researcher.

Sincerely



**pp PROF RS RENSBURG**  
**CHAIR: COMMITTEE FOR RESEARCH ETHICS**

cc: Prof AF Grobler  
Student Administration

## **APPENDIX B: INITIAL E-MAILS TO PHD INTERVIEW CANDIDATES**

Dear <enter name>,

My name is Rene Swart, senior researcher for integrated reporting at the Albert Luthuli Centre for Responsible Leadership at the University of Pretoria. Would you consider yourself to be one of the following?

- Asset manager
- Asset consultant
- Investment banker
- Pension fund trustee
- Pension fund member

These are the individuals who I am interviewing for my PhD. My research focuses on integrated reporting and investment decision making.

Please let me know whether you fall into one of these groups, and if so, would you allow me 30 to 90 minutes of your time for an interview at a time and place that would be convenient for you? If you don't fall into one of these categories, but are able to refer me to some of your contacts who are, I would really appreciate your assistance!

I will be doing my Cape Town interviews from the 27<sup>th</sup> of June 2016 – 4<sup>th</sup> of July 2016, so if you are situated in Cape Town please check your diary for any available time slots during that week.

Thank you and warm regards,

## APPENDIX C: COMBINED LETTER OF INTRODUCTION AND INFORMED CONSENT



UNIVERSITEIT VAN PRETORIA  
UNIVERSITY OF PRETORIA  
YUNIBESITHI YA PRETORIA

**Faculty of Economic and  
Management Sciences**

### Combined Letter of Introduction and Informed Consent

**Dept. of Business Management**

### **The perceptions of integrated reporting as a leadership phenomenon on investment decision-making**

Research conducted by:

Ms RL Swart

21188395

Cell: +27 828729353

Dear Participant

You are invited to participate in an academic research study conducted by Rene Swart, Doctoral student from the Department of Business Management at the University of Pretoria.

The purpose of the study is to understand and describe the current and anticipated influence of integrated reporting on investment decision-making. More specifically, to understand whether integrated reporting will lead providers of financial capital to investment decisions that will achieve financial stability and sustainable development.

Please note the following:

- This is an anonymous study and your name will not appear on the interview schedule. The answers you give will be treated as strictly confidential as you cannot be identified in person based on the answers you give.
- Your participation in this study is very important to us. You may, however, choose not to participate and you may also stop participating at any time without any negative consequences.
- Please answer the questions in the interview that I will have with you as completely and honestly as possible. This might take anything from 30 – 120 minutes of your time.
- The results of the study will be used for academic purposes only and may be published in an academic journal. I will provide you with a summary of the findings on request.
- Please contact my study leaders, Prof D de Jongh or Prof N Eccles if you have any questions or comments regarding the study.

Please sign the form to indicate that:

- You have read and understand the information provided above.
- You give your consent to participate in the study on a voluntary basis.

\_\_\_\_\_  
**Participant's signature**

\_\_\_\_\_  
**Date**

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## **APPENDIX D: INTERVIEW SCHEDULE**

1. Do you see yourself as a provider of financial capital?
2. Could you describe the role you play in investment decision-making?
3. Do you take responsibility for any specific steps in the investment decision-making process?
4. Could you describe your fiduciary responsibility and how it informs your decision-making?
5. How would you typically make investment decisions?
6. Could you describe what specific investment decisions you make?
7. What sources of information do you use to inform your investment-decision-making?
8. Do you have any knowledge of integrated reporting?
9. Do you know what the goals of integrated reporting are?
10. Do you make use of integrated reports?
11. Would you say integrated reporting influences your decision-making in any way?  
If so, how?
12. Do you think that integrated reporting might influence your decision-making in the future? If so, how?
13. Would you describe integrated reporting as a leadership phenomenon?
14. Do you think integrated reporting can “better” your investment decision-making?  
If so, how?
15. How would you define “better” investment decision-making?
16. How would you define financial stability?
17. How would you define sustainable development?
18. Do you think integrated reporting could lead to financial stability and sustainability? If so, how?



## APPENDIX E: PROOF OF ARTICLE SUBMISSION

**From:** Critical Perspectives on Accounting [<mailto:EviseSupport@elsevier.com>]  
**Sent:** 05 October 2018 12:48 AM  
**To:** Eccles, Neil <[Ecclens@unisa.ac.za](mailto:Ecclens@unisa.ac.za)>  
**Subject:** Your manuscript YCPAC\_2018\_213 has been sent for review

*This message was sent automatically. Please do not reply.*

Reference: YCPAC\_2018\_213  
Title: Sustainability (un)consciousness in South African “providers of financial capital”: an early commentary on the sustainability insinuations of the IIRC’s International <IR> Framework.  
Journal: Critical Perspectives on Accounting

Dear Professor Eccles,

I am currently identifying and contacting reviewers who are acknowledged experts in the field. Since peer review is a voluntary service it can take time to find reviewers who are both qualified and available. While reviewers are being contacted, the status of your manuscript will appear in EVISE® as 'Reviewer Invited'.

Once a reviewer agrees to review your manuscript, the status will change to 'Under Review'. When I have received the required number of expert reviews, the status will change to 'Ready for Decision' while I evaluate the reviews before making a decision on your manuscript.

To track the status of your manuscript, please log into EVISE® and go to 'My Submissions'  
via: [http://www.evise.com/evise/faces/pages/navigation/NavController.jspx?JRNL\\_A CR=YCPAC](http://www.evise.com/evise/faces/pages/navigation/NavController.jspx?JRNL_A CR=YCPAC)

Kind regards,

Critical Perspectives on Accounting

### **Have questions or need assistance?**

For further assistance, please visit our [Customer Support](#) site. Here you can search for solutions on a range of topics, find answers to frequently asked questions, and learn more about EVISE® via interactive tutorials. You can also talk 24/5 to our customer support team by phone and 24/7 by live chat and email.

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## APPENDIX F: DECLARATION BY THE LANGUAGE EDITOR

1169 Karriboom St  
Moregloed  
Pretoria 0186  
South Africa  
2 March 2019

### TO WHOM IT MAY CONCERN

I confirm that I have edited the language in the thesis entitled *The Social Construction of Leadership: a Follower-Centric Investigation into Integrated Reporting* by René de Klerk.

The editing was done electronically, using Track Changes, to enable the candidate to accept or reject the suggested changes, thus retaining her authorial discretion and right to assert authorship. The editing included checking the grammar, style, the format of the referencing and general formatting in line with the guidelines of the University of Pretoria supplied to me by the candidate.

I assert that I am qualified to do such editing, as I have a DLitt in English, have been lecturing English at the University of Pretoria since 1985, and have been a freelance editor since 1990. I have also offered courses in Editing: Principles and Practice at the undergraduate and graduate levels for more than 20 years.

I declare that I undertake editing in my private capacity, with permission from my employer. My employer takes no responsibility whatsoever for the editorial suggestions made in the course of this work.

Yours faithfully

*I Noomé*<sup>23</sup>

Idette Noomé (Dr)  
Senior Lecturer: Department of English

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Dr Idette Noomé  
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Faculty of Humanities  
Fakulteit Geesteswetenskappe  
Lefapha la Bomotho

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<sup>23</sup> signature withheld for confidentiality purposes