Emerald Insight

Journal of Intellectual Capital

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Article information:

To cite this document:
John Dumay , (2016),"A critical reflection on the future of intellectual capital: from reporting to disclosure", Journal of Intellectual Capital, Vol. 17 Iss 1 pp. 168 - 184
Permanent link to this document:
http://dx.doi.org/10.1108/JIC-08-2015-0072

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A critical reflection on the future of intellectual capital: from reporting to disclosure

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Abstract

Purpose – The purpose of this paper is to offer a personal critical reflection on the future of intellectual capital (IC) based on my experience as an IC researcher, author, editor, teacher and practitioner.
Design/methodology/approach – Offers a first-hand reflection on the future of IC, using evidence collected from IC in the field and the author's personal reflections.
Findings – I argue that the authors need to abandon reporting and instead concentrate on how an organisation discloses what "was previously secret or unknown", so that all stakeholders understand how an organisation takes into consideration ethical, social and environmental impacts in keeping with an eco-systems approach to IC.
Research limitations/implications – While much of the empirical evidence presented in this paper is freely available to all scholars, the interpretation and findings is subjective. Other researchers, given the same opportunity and evidence, may not necessarily make the same conclusions.
Social implications – We are now on the cusp of the fourth stage of IC research (Dumay, 2013), whereby IC expands its boundaries into the wider eco-system, to "go beyond IC reporting" (Edvinsson, 2013, p. 163).
Originality/value – Offers a critical review of the impact of IC reporting which is relevant to consider because of the newfound resurging interest in IC, based on the current push for integrated reporting (<IR>), which arguably contains IC information targeted at investors.

Keywords Intellectual capital reporting, Intellectual capital, Intellectual capital disclosure, Integrated reporting, critique, Fourth stage intellectual capital research Eco-systems
Paper type Research paper

Introduction

The motivation for this paper comes from an ongoing research project I commenced in 2011 called "The Future of Intellectual Capital". The project's original aim was to gather stories from academics and practitioners who "get their hands dirty" working with intellectual capital (IC). From 2011 to 2013, I interviewed over twenty people in Asia, Europe, North America and Australia. Since then I have been reflecting on what the interviewees say and my observations of IC practice (or lack of IC practice). Therefore, what I present in this paper is not a synthesis of the interviews, but rather my first hand reflections on the future of IC, with an emphasis on IC reporting and evidence from the IC field. I emphasise IC reporting because of the newfound resurging interest in IC reporting, based on the current push for integrated reporting <IR>, which arguably contains IC information targeted at investors.

However, as I argue in this paper, the resurgence may be short lived because the evidence I present tells a very different story about how IC reporting appears to have died for listed companies. From promising beginnings at Skandia in 1994, I can no longer find any evidence of listed companies reporting their IC. IC reporting started well, but soon corporate social responsibility (CSR) and sustainability reporting took over and have become the mainstays of voluntary reporting internationally. Now, <IR> seeks to become the "corporate reporting norm" (IIRC, 2013, p. 2). But the evidence from academia

Journal of Intellectual Capital
Vol. 17 No. 1, 2016
pp. 168-184
© Emerald Group Publishing Limited
1469-1930
DOI 10.1108/JIC-08-2015-0072

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and my analysis of corporate reporting suggests that <IR> has a long way to go to achieve this end and may already be doomed to fail (Flower, 2015). However, some academic such as Adams (2015) have responded with a call to action for academics to support the IIRC's ambitions and only time will tell whether Flower's or Adam's position will be realised.

While my assessment of IC reporting and Flower's (2015) assessment of <IR> may dishearten the true believers, those who have placed their faith in the reporting "wealth-creation myth", all is not doom and gloom. Therefore, to conclude the paper I offer insights into what I see as the future for IC. I argue we need to abandon reporting and instead concentrate on how an organisation discloses what "was previously secret or unknown", so that all stakeholders understand how an organisation takes into consideration its ethical, social and environmental impacts. This is the cusp of the fourth stage of IC research (Dumay, 2013), whereby IC expands its boundaries into the wider eco-system to "go beyond IC reporting" (Edvinsson, 2013, p. 163) and to include other forms of value, beyond just monetary wealth.

IC and value creation

One problem with IC is there are many different definitions. However, in this paper I adopt Stewart's (1997, p. x) original one, with one major change whereby I replace "wealth" with "value":

> [IC] is the sum of everything everybody in a company knows that gives it a competitive edge […] Intellectual Capital is intellectual material, knowledge, experience, intellectual property, information […] that can be put to use to create [value].

I change the definition for two reasons. First, most IC researchers, practitioners and authors refer to "value-creation", rather than wealth-creation (Mouritsen *et al.*, 2001). Second, we can define wealth creation as increasing the stock of money or something convertible into money. However, we cannot always use money as a measurement unit for IC or the outputs of managing IC (see Dumay and Roslender, 2013, pp. 273-279; Sveiby, 2010). Therefore, I argue that changing IC's definition makes it more relevant to the way researchers and practitioners (should) apply IC.

However, redefining IC from the value-creation perspective then poses the problem of how to define value because the concept of value is much more than money. Thus, based on my IC experience and research I define value in four ways: monetary, utility, social and sustainable value. I will now outline each using examples from a bank. In this paper, I continually refer to Westpac bank because it is a company I continue to study, and it is renowned for being a leader in internal and external reporting beyond just financial information (Dumay, 2015; Dumay and Lu, 2010).

Money is the first and foremost value concept. Arguably, it is essential for all forms of value creation even if, in the long run, it is not the primary objective – some organisations, such as those in the public and third sector, have higher order goals (Dumay *et al.*, 2010). However, money is still required to make these organisations work. From a bank's perspective money is essential because a bank uses money to lend to customers, who use the money to buy houses, operate businesses or purchase goods and services. The profit generated helps the bank grow and provides dividends for its shareholders. For example, in 2013 Westpac Bank in Australia had a profit of AUD $6.816 billion. Westpac returned the majority of the profit back to shareholders in fully franked ordinary and special dividends (WBC, 2013b, p. iii).

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Second, utility value is the usefulness of the goods and services organisations produce and is "the price which a person is willing to pay for the fulfilment or satisfaction of his desire" (Marshall, 1920, p. 78). If products and services do not have a use then no one will buy them. Therefore, consumers value goods and services and exchange money for the right to use or consume them. For example, Westpac Bank provides the infrastructure through its branch and ATM network, for which it charges fees to customers using the network. The network is part of the wider financial services Westpac offers to its customers for which it charges fees and collects commissions. In 2013, Westpac collected AUD$2.723 billion in fees and commissions (WBC, 2013a, p. 146)[1].

Third, social value, often referred to as social capital, relates to the benefits an organisation provides to society in general (Nahapiet and Ghosal, 1998). Many organisations are so large that they affect the everyday lives of the society in which they operate. In the case of banks, they provide the economic infrastructure that allows Australia to function as a society. Without banks, we would probably still be hiding our money under mattresses or bury it in the garden. Additionally, banks are employers, providing people with the means to make a living, feed their families and pay for a place people call home. At the end of 2013, Westpac employed 33,045 people (WBC, 2013a, p. 14) and paid a total of AUD$4.287 billion in salaries and staff expenses (p. 86).

Fourth, organisations can also provide sustainable value and is the cornerstone of what Dumay (2013) refers to as being crucial to the fourth-stage of IC research. However, it is debatable if any organisation is truly sustainable (Gray, 2006), especially if we take the Bruntland (1987) definition of sustainability to heart, that is to "meet the needs of the present without compromising the ability of future generations to meet their own needs". Unfortunately, most organisations do not take into account the full cost of the resources used to produce their goods and services and rely heavily on externalities to reap their profits. However, the good news is that many organisations are becoming aware of their ecological footprint and are taking positive steps to ensure future generations have the ability to meet their needs. Interestingly, Westpac ranked number one in the "Global 100 Most Sustainable Corporations in the World" at the World Economic Forum in Davos, Switzerland in 2014[2]. The number one ranking demonstrates how Westpac arguably creates sustainable value, a point I will return to later in this paper.

While it is possible to look at value from a range of perspectives, all value is ephemeral. Value can disappear at any time if an organisation does not manage it well (Dumay, 2012). There are many examples of how organisations created value and then it all disappears overnight. For example, witness the demise of Arthur Anderson after the Enron scandal broke (Chatzkel, 2003; Mclean and Elkind, 2003). The most relevant IC example is the demise of Skandia as the seminal supporter of measuring, managing and reporting IC up until 2000 after which it suffered a decline in sales and share price (Dumay, 2012, pp. 9-11) from which it has never recovered, especially from an IC perspective. When I interviewed Skandia's former chief IC architect, Leif Edvinsson in 2012, I asked Leif "Why did you leave Skandia?" and the following conversation ensued (see Qu and Dumay, 2011, p. 242):

> LE: Because […] coming in [was] a new management team who were focused on the harvesting of the organisation […] when financial services and insurances were an over mature industry. And that was in 1999 which, of course, scrapped the possibility to keep up with the market.
>
> JD: Because they had a real dramatic drop in sales from about 2000 onwards?

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LE: Yes because it sold off, for example, American Skandia to some American big players [because] […] it had a strong impact on the [manager's] bonus schemes. Rapid, strong impact on the bonus schemes. And of course the value of the enterprise went up more than 100 times in the [previous] eight years. So there was a lot of financial muscle and market muscle and a lot of old customer value in it, and millions of customer relationships, which you could leverage if you renewed the organisation rather than doing the opposite saying "OK let's start to harvest!". They didn't actually say that but behaved that way. So they looked at the balance sheet and saw that "Wow, we can sell off!" […] then they stripped the organisation of its velocity. But, it's like sailing. If you make your tack on the wrong side […].

JD: You get in dirty wind and you stop?

LE: Yes. Exactly, it goes in minutes when you are sailing. That is the way you stop a ship.

Hence, IC and Skandia were no longer in a harmonious relationship.

While Skandia showed that managing and reporting IC could help grow the company, why is that more companies do not develop their IC and harvest the excess (rather than all of it)? Is it because IC is fleeting and requires managers to keep growing organisations? Or is it because as Dumay (2012, p. 5) outlines, the grand theory of "disclosing IC leads to greater profitability" is empirically unproven.

IC reporting and the reporting wealth-creation myth

Why should firms report their IC? According to Bismuth and Tojo (2008, p. 242) the theory is:

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

While Dumay (2012) has already extensively critiqued this theory, it is worthwhile re-examining it because, as I will argue, this rhetorical theory is still in use, despite lacking any comprehensive evidence of its truth. Theories are valuable tools that help us to understand how the world is and even to understand the future. However, when theories fail, then we should discard them. However, even under mounting evidence, showing that the theory does not hold true, this wealth-creation theory continues to be used to argue for more and more reporting of non-financial information in the form of intellectual and other capitals under the guise of <IR> (IIRC, 2013, pp. 11-12).

What is most interesting is that often we academics cannot see the forest for the trees, blinded by the wealth-creation myth. Therefore, many academics continue to ascribe to reporting models that receive little or no support in practice. Why is this so? Because, we academics like telling everyone what to do; after all it is our job. As my colleague Aino Kianto revealed in an e-mail in 2011[3] "[…] I find [IC] not being practised by managers far as much as it's being preached by us academics […]" When I first read Aino's e-mail, it triggered me to think that most IC academics I know are IC wealth-creation reporting believers.

However, I do not see IC reporting work much beyond Skandia (1994, 1995), the Danish IC Statement project (Mouritsen *et al.*, 2003) or MERITUM (2002), all of which

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had by 2011, nearly disappeared from existence. One could argue that some of these frameworks live on in the reports generated by Austrian Universities (Habersam *et al.*, 2013), the Wissensbilanz in Germany (Alwert *et al.*, 2004; Edvinsson and Kivikas, 2007), the Hong Kong Government IC reporting project (Inn *et al.*, 2015) or even the Japanese Government's Intellectual Assets Management programme (Johanson *et al.*, 2009). However, these programs still have not gathered enough steam to have any significant market impact or even impact on large listed companies, which is the dream the IC wealth-creation myth believers. Thus, the IC wealth-creation myth seems to be truly running out of steam from an IC reporting perspective.

While I argue that IC wealth-creation is running out of steam from a reporting perspective, this does not mean managers are not realising the benefits of managing their IC internally. As Tee Jeok Inn *et al.* (2015) outline in their study of IC reporting in Japan and Hong Kong, the main purpose for developing IC is to create value inside the organisation rather than report it. Oddly enough, this is also a finding of Mouritsen *et al.* (2001) in their assessment of developing IC reporting guidelines in Denmark whereby the participating companies were more concerned with the internal benefits of managing IC and not necessarily the purported external benefits such as attracting investors and additional finance. Thus, it is not surprising that none of the companies who participated in the original Danish Guidelines development still issue an IC report (Roslender and Nielsen, 2015).

The problem is not whether managers get the value-creation benefits of IC. As Ordóñez de Pablos (2003) argues, managing IC is the combination of managing separate business elements including human resources, organisational development, change management, IT, brand and reputation management, performance management and valuation. Thus, organisations continually measure, manage and report on these elements but not necessarily under the IC banner, but it is still IC.

On the contrary, it is because managers understand the power of managing IC for creating value that managers do not report it. If we follow the tenant of the resource-based-view that advocates that the most valuable resources that derive competitive advantage are intangible resources (Dierickx and Cool, 1989), why would a manager report their IC to their competitors? Doing so would more than likely hurt, rather than enhance their competiveness.

Similarly, if we take an agency theory perspective, which views managers as self-interested wealth maximisers, managers will continue to hold onto information, known as the information asymmetry problem, unless releasing that information benefits them (Healy and Palepu, 2001). Therefore, managers with valuable information about how IC creates value in their firm will not disclose this information unless it helps increase the value of the firm via the share price and the increase in share price results in them acquiring more wealth. On the contrary, if IC creates profits and it is the basis of the firm's competitive advantage, keeping it secret will create more wealth than reporting it. So while the Bismuth and Tojo (2008, p. 242) theory is a popular view of the IC wealth creation believers, there are ample contradicting theories and reasons for not reporting IC. However, if managers see that there is some advantage in reporting (or as I will argue later, disclosing IC) they will.

The trouble is that most of the reporting based IC wealth-creation believers are not managers. Rather, most of the believers are management gurus, accountants, consultants and academics with their own self-interest in promoting IC reporting. I attended one such gathering of the IC believers in September 2012 in Heidelberg, Germany, headed by Ahmed Bounfour, Leif Edvinsson, and Guenter Koch of the New Club of Paris[4].

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The theme of the gathering was the "German and French Alliance on Advances in IC Reporting". Leif Edvinsson invited me there as the gathering was happening a few days after our interview in Stockholm. Coincidently, I was going to be in Amsterdam visiting family, so I agreed with Leif that a few hours on the train to present on "Intellectual Capital Reporting: Advances in Australia" would complement the gathering's agenda.

While working on PowerPoint slides for the presentation on the train from Amsterdam to Heidelberg, I struggled to come up with any great IC reporting examples from Australia. My work on IC reports at the New South Wales Department of Lands ended almost two years previously and a change of Government and management saw IC reporting abandoned (see Dumay and Rooney, 2011). I had no fresh news to offer, so I decided to change the title of the presentation to "Intellectual Capital Reporting: Advances [from] Australia?" After changing the title, Aino Kianto's words began to resonate in my mind and an epiphany came to me, as I realised I was going to attend a meeting at the "Church of Intellectual Capital".

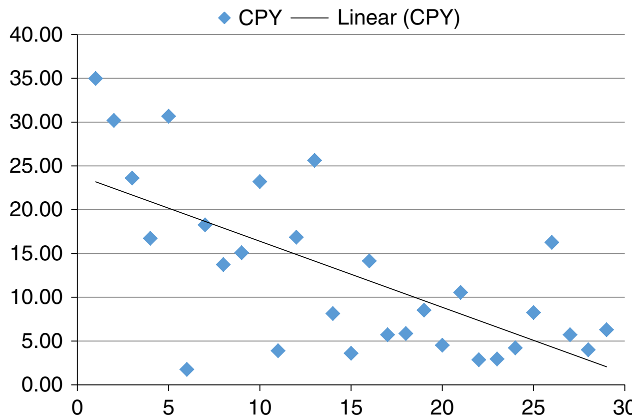
When it was my turn to present, I introduced the gathering to the "Church of Intellectual Capital". Present with me were the Bishops and the Cardinals (Leif Edvinsson, Ahmed Bounfour, Guenter Koch), the priests (Manfred Bornemann, Kai Mertins) and, of course, the new converts (PhD students). However, the Bishops and Cardinals were not happy, as their message was not converting managers in companies, especially big listed companies. "Why have they not seen the light (IC)?" My answer – it's not the message, rather the way you preach it. I called for them to become "missionaries" spreading the word through education in schools and offices, rather than trying to convince the firm believers in reporting financial balance sheets, profit and loss statements and cash flows that they needed to repent and take up the mantra of reporting intangible assets and IC.

Then I declared IC reporting dead and flashed up on the screen a tombstone with the epitaph "Intellectual Capital Reporting: 1994-2012". The year 1994 is the year Leif Edvinsson gave birth to IC reporting at Skandia and I chose 2012 to signify the death of reporting, at least from a listed company perspective. While there may be one or two IC reports out there I had not seen one for a long time. Certainly there is not the plethora of reports as envisaged by the founding fathers or – as Leif Edvinsson now describes himself – grandfather of IC.

The last listed company report that even resembles an IC report or statement to my knowledge is published by INFOSYS (2011), which includes an economic value added statement, alongside a balance sheet including intangible assets and an intangible assets score sheet. The statements are not in the annual report, but rather in a document entitled 30 years of Infosys: additional information. So there are now more academics interested in IC reporting than listed companies actually reporting IC. But why is this so? (Figure 1).

I believe academics are still interested in IC reporting because the wealth-creation myth gives them grist for the academic mill. Unfortunately, many academics see something interesting that a fellow academic publishes and thinks it is a good idea to repeat the study. This "copycat" research (see Dumay, 2014b) is a problem because it has diminishing impact and creates little or no new knowledge. As I show in Figure 2, research impact, as measured by average citations per year (CPY[5]), of IC disclosure content analysis research (mainly annual reports) published in the *Journal of Intellectual Capital* is continually declining since Guthrie and Petty's (2000) original seminal article (Dumay, 2014a, p. 14). Not only does the impact decline, but my further research finds that most studies do not make significant new findings (see Dumay and Cai, 2014).

Figure 1.
Intellectual capital reporting: rest in peace?



Source: Based on Dumay (2014a, p. 14) and updated 16 June 2014

Figure 2.
CPY of content analysis research published in the *JIC* (2000-2010)

Hence, while researchers continually publish these studies, over time other academics pay little or no attention to copycat research based on the wealth-creation myth. The future looks even bleaker as journal editors are interested in research that contributes to new knowledge, is interesting to readers and generates citations.

The wealth-creation myth extends to other forms of reporting that arguably contain some IC. With a solid start in the late 1990s and early 2000s IC reporting was subsequently supplanted by CSR reporting, and frameworks such as the United Nations Global Compact (2009) and the Global Reporting Initiative (GRI) (2013) soon overtook any hope that IC reporting would become mainstream reporting practice. However, there is new hope for the IC wealth-creation myth believers in <IR> because value (wealth) for investors is at the heart of its rhetoric. The International Integrated Reporting Council (IIRC) holds "the view that communication about value creation should be the next step in the evolution of corporate reporting"

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(IIRC, 2013, p. 1) and "The primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time" (p. 7). It seems the wealth-creation and reporting nexus is experiencing resurrection! (Alleluia).

IC wealth-creation myth believers are heartened because the <IR> framework includes six capitals. When you take away the physical capitals of financial, manufactured and natural capital, the remaining three intangible capitals broadly align with IC's three capitals: human capital with human capital; social and relational capital with relational capital; and IC with structural capital. This has ushered in a new era of hope for the IC reporting faithful that IC reporting is firmly back on the agenda of companies, especially large listed companies, which are the target of the IIRC and <IR>.

Sadly, my news for the IC reporting faithful is not good. While there is definitely a significant interest in <IR> among academics and those aligned to the IIRC as accountants and accounting regulators (Adams, 2015; Flower, 2015; Strong, 2014) it appears <IR> is not gaining the necessary groundswell of support. In fact, some academics are already branding the IIRC's efforts as a failure. Flower (2015, p. 1) attributes this to:

> […] the IIRC's abandoning of sustainability accounting to the composition of the IIRC's governing council, which is dominated by the accountancy profession and multinational enterprises, which are determined to control an initiative that threatened their established position. In effect, the IIRC has been the victim of "regulatory capture".

Therefore, the IC wealth-creation myth believers must recognise that some academics (myself included) will continue to question the IIRC's rhetoric and critically comment on why <IR> will find it increasingly difficult to achieve becoming the "corporate reporting norm" (IIRC, 2013, p. 2).

Despite there being continual calls for over 40 years for the inclusion of additional information for investors beyond the financial, there is still no framework that has succeeded in achieving this end (Milne and Gray, 2013). But that has not stopped <IR>'s supporters from re-echoing the "call to action" as set out by Adams (2015) in her article responding to Flower's (2015) criticism:

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

Thus, Adams (2015) "call to action" provides evidence that <IR> has a long way to go before it can become the corporate reporting norm because even its supporters admit that they have not achieved the groundswell of support required to achieve this objective. If the case were opposite, the "call to action" is not needed.

To support the argument that the IIRC will not achieve becoming the corporate reporting norm is the fact that it has entered into memorandums of understanding (MoUs) with the purveyors of competing frameworks. As Bernardi (2015) highlights:

> It is interesting to note that the IIRC has entered numerous alliances by signing MoUs with competing reporting and standard-setting bodies such as the International Federation of Accountants (IFAC), the International Accounting Standards Board (IASB), the Carbon Disclosure Project (CDP), the Climate Disclosure Standards Board (CDSB), the World Intellectual Capital Initiative (WICI) and the Sustainability Accounting Standards Board (SASB). Similar to the one signed with the GRI, these arrangements reflect a common interest

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> between the interested parties but, at the same time, their wording provides assurances that <IR> will not interfere with existing reporting spaces. Therefore, it is questionable whether the IIRC and the involved parties are genuinely seeking to contribute together to the creation of a global reporting framework or rather they are trying to defend their existing positions.

Furthermore, according to Flower (2015), the main reason <IR> will not become the reporting norm is that it lacks regulatory enforcement. Therefore, unless the IIRC can convince international regulators to make <IR> compulsory in the same way International Financial Reporting Standards (IFRS) or generally accepted accounting principles (GAAP) are compulsory for financial reporting, then <IR> will struggle to become the reporting norm. To back up Flower's (2015) argument, Figure 3 presents the reporting landscape for listed companies in 2013. The first column shows that at the beginning of 2013 there were just over 47,500 listed companies on all stock exchanges in the world[6]. Thus, using deductive reasoning, I argue that local regulators require all these companies to produce an annual financial report using IFRS or US GAAP or domestic GAAP/rules.

The second column shows an estimate of the number of CSR, GRI and UN Global Compact Reports. In this case I queried the corporateregister.com website to find out how many registered reports are in their database. For 2013, this is nearly 11,000[7]. However, there are many reports for private companies and public and third sector organisations. Therefore, my optimistic estimate is that there are about 10,000 reports from listed companies.

This brings us to the next two columns, which represent some form of <IR> [8]. The middle column represents the 348 listed companies on the Johannesburg Stock Exchange (JSE) at the beginning of 2013 that are required to publish an integrated report on a "comply or explain" basis (Institute of Directors in Southern Africa (IDSA), 2009a, p. 4). I am being very optimistic counting the JSE company annual reports as integrated reports when the evidence from research examining the South African experience concludes "reports are imbued with stakeholder accountability rhetoric" (Solomon and Maroun, 2012, p. 5) rather than being faithful to the King III objective of "a holistic and

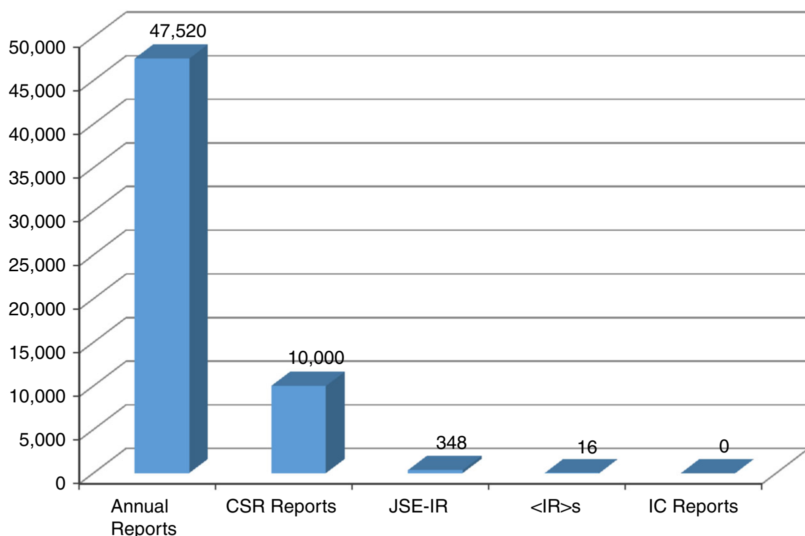

Figure 3.
Listed company reporting 2013

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integrated representation of the company's performance in terms of both its finances and its sustainability" (Institute of Directors in Southern Africa (IDSA), 2009b, p. 91). Therefore, 348 is the maximum number of potential integrated reports produced to the King III report guideline, rather than the actual number of integrated reports.

Next, the column marked <IR> s represents the number of integrated reports of listed companies in 2013 (16) found in the IIRC's Emerging Integrated Reporting Database as at 29 October 2014[9]. Here I apply signalling theory (Deegan, 2002) to argue that if the IIRC has good examples of <IR>, they would showcase these articles in the database. However, these good examples do not exist much beyond the 16 integrated reports in the database, signalling that <IR> has yet to take hold as a reporting norm in any significant way with listed companies. Therefore, the evidence shows that <IR> has a long way to go to live up the IIRC's rhetoric.

I argue that <IR> will most likely suffer the same fate as IC reporting, which was lauded by prominent academics such as Mouritsen *et al.* (2001, p. 735) to allow the "dark, tacit knowing of individuals to come into the open space of calculation and action at a distance". The quote implies that IC encourages managers to develop actions inside their organisations, in the same way that <IR> encourages developing "integrated thinking" leading "to integrated decision-making and actions that consider the creation of value over the short, medium and long term" (IIRC, 2013, p. 5). However, this rhetoric is similar to the rhetoric surrounding IC. Despite the rhetoric, IC reporting has ceased being interesting to listed companies because when I searched the internet via Google, I could not find a single IC report or statement issued in 2013. Hence, the final column in Figure 3 shows zero IC reports.

Another argument put forward by the wealth-creation myth believers is that businesses and investors demand more information as the IIRC allude to on its website[10]:

> <IR> is needed by business and investors. Businesses need a reporting environment that is conducive to understanding and articulating their strategy, which helps to drive performance internally and attract financial capital for investment. Investors need to understand how the strategy being pursued creates value over time.

However, it seems the IIRC's rhetoric ignores lessons learned from early IC research, where companies participating in the Danish IC Guidelines project emphatically stated that "attaining bank loans" and "attracting investors" were low priorities when it came to reporting IC. Rather, internal and external reasons, such as creating and showing innovation, along with attracting and retaining employees featured prominently. Thus, IC tells a "local story" which is "oriented towards organisational ends" (Mouritsen *et al.*, 2001, p. 735). In this way, IC is valuable, helping organisations to achieve their strategy, rather than as the basis for another form of reporting (see Dumay, 2012; Dumay and Rooney, 2011).

Similarly, the call for improvements to financial reporting has been going on for over 40 years (Milne and Gray, 2013). However, despite the shortcomings of external reporting, users somehow obtain the information they need (Jenkins, 1994). If users, namely investors were not receiving appropriate information they would be demanding more information and our capital markets would be dysfunctional. In the case of the IIRC, this call is being made by accountants "determined to control a new initiative that threatened their established position" (Flower, 2015, p. 2). Therefore, the call for changes to reporting seems to be in the self-interest of accountants rather than a genuine attempt to reform financial reporting's shortcomings.

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The reality is that investors are the scapegoats for increased reporting. However, investors use a variety of information sources, just one of which is reports. A recent survey by the Financial Reporting Council (FRC) of Australia[11] discovered that retail investors' primary information source is newspapers, followed by the annual report to shareholders. However, there is no mention of other reporting such as IC, CSR, sustainability or <IR> as a primary information source. Thus, the value to investors for all forms of reports beyond regulated financial reports is questionable. Imagine if an investment advisor waited for the latest integrated or IC report before making a recommendation to buy or sell shares. I suspect the advisor would soon be searching for another job because the timeliness and value of these reports are not relevant to active investors (see Dumay and Tull, 2007).

What is the future for IC?

> Where we are heading is not going to solve anything. It is a dead end. It has actually been a dead end for quite some time. Karl-Erik Sveiby (Interview, September 2012).

Up to this point I have used two words synonymously: disclosure and reporting. However, these are two different terms, especially from an IC reporting perspective. Disclosure is: "the revelation of information that was previously secret or unknown" while reporting is a "detailed periodic account of a company's activities, financial condition, and prospects that is made available to shareholders and investors[12]". However, as indicated above, investors are always looking for more timely and relevant information, especially if "previously secret or unknown". Additionally, effective capital markets have regulated disclosure provisions whereby if a company has information that a reasonable person would think it may affect its share price (price sensitive) it has a legal obligation to release it to the market or face sanctions that include substantial fines. Therefore, it is highly unlikely that any information contained in the annual report would be price sensitive because annual reports detail periodic rather than current information. Should a company reveal price sensitive information in the annual, IC, CSR, sustainability or integrated report, I suspect the company would get a "please explain" from the local regulator and be penalised for not disclosing the information sooner. Therefore, I argue that companies should be concerned more with disclosing information in a timely manner than with reporting information.

I also argue that a lot of disclosure is not price sensitive, as much as the wealth-creation believers would like it to be. For example, in Australia, Westpac Bank disclosed in a press release "that it has been ranked number one in "Global 100 Most Sustainable Corporations in the World" at the World Economic Forum in Davos, Switzerland". As part of that press release, it also disclosed the following information, and I have added how we can classify it as IC:

- employee engagement 87 per cent (global high performing norm of 85 per cent) – Human Capital;
- 42 per cent of Westpac's leadership roles were held by women (target of 50 per cent by 2017) – Human and Relational Capital;
- 62 per cent of employees use flexible work arrangement, up from 18 per cent in 2010 – Human, Relational and Structural Capital;
- employees spent 423 weeks' worth of time sharing skills with Indigenous people (76 work years since 2001) – Human and Relational Capital;

- $6 billion lending and investment in CleanTech and environmental services by 2017 (renewable energy, two wind and one solar farm) – Relational and Structural Capital; and
- committed $2 billion for lending and investment in social and affordable housing and services by 2017 – Human, Relational and Structural Capital.

Therefore, Westpac demonstrates that it discloses IC rather than reports IC.

I imagine this example will make the IC wealth-creation believers happy to see that IC is not dead. However, they may also be disappointed to hear that Westpac does not consider this price sensitive information. When I searched the ASX website there were no disclosures from Westpac on the day (23 January 2014) as would be required under the ASX's disclosure provisions if the information were price sensitive.

However, I still argue that the disclosure is important to investors and other stakeholders because they expect these types of disclosures from a company like Westpac. Any current or potential investor with access to the internet can see from Westpac's website that it builds sustainability into its business model and has done so since 2002. Therefore, the good news about Westpac being the number one ranked sustainable company in the world is not surprising to any investor who is reasonably informed about Westpac's business model and strategy. What might be surprising, and detrimental to Westpac, would be if Westpac significantly slipped down in the rankings unexpetedly.

All is not doom and gloom for the true believers. All they need to do is change their focus from reporting that does not provide any information that is relevant to share prices to timely disclosure. Companies generally disclose to the market their financial reports, prepared to IFRS or GAAP standards long before publishing the annual report. Most of the time, these disclosures are expected and priced into the market. Therefore, as long as the IC disclosure is what investors are expecting, rather than being overly good or bad news the disclosure will not be price sensitive (Dumay and Tull, 2007).

Returning to Westpac, they are a good example of how companies use the internet to disclose information, including what we classify as IC, to all stakeholders, including investors (Dumay *et al.*, 2015). As part of Westpac's sustainability strategy, it provides disclosures about sustainability and the key programs it has in place that exemplify how it puts strategy into action. Additionally, unlike periodic reporting, which comes in the form of a printed report or its PDF equivalent, internet-based disclosures are dynamic and followed. For example, the Westpac Sustain website[13] allows users to follow new disclosures via Twitter and e-mail, and has a website whereby interested stakeholders can provide feedback via e-mail. Thus, Westpac exemplifies how technology makes disclosure easier, reporting irrelevant and makes possible communication with a wide variety of stakeholders (Dumay *et al.*, 2015).

Last, new business models that no longer put shareholder wealth creation as the primary organisational objective will also challenge the wealth-creation believers. For example, in Australia the primary objective of a community owned bank called bankmecu is responsible banking, rather than just banking to make a profit. bankmecu's shareholders are its customers, and they share a common belief in taking responsibility for the ethical, social and environmental consequences of banking. bankmecu also differs in many respects from its peers, such as being the sole Australian member of the Global Alliance for Banking on Values and a signatory to the United Nations (UN) Environment Programme Finance Initiative, UN Global Compact and Principles for Responsible Investment (bankmecu, 2012a). Thus, bankmecu's

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strategy is to attract "socially progressive" customers who "respond to ethical, social and environmental issues" as it aims to become "the pre-eminent socially responsible banking brand in Australia" (bankmecu, 2012b; mecu, 2008). Hence, from an IC perspective, bankmecu is a prime example of an organisation that expands its boundaries into the wider eco-system (Edvinsson, 2013), which is branded the fourth stage of IC (Dumay, 2013).

As Edvinsson (2013, p. 163) rightly states and asks "We need to go beyond IC reporting. We are on the edge of something, but what?" My answer is that we need to abandon reporting, and concentrate on how an organisation discloses what "was previously secret or unknown", so that all stakeholders understand how an organisation takes into consideration its ethical, social and environmental impacts. This is not to say that making money is bad – without profits, businesses cannot sustain themselves. But it is possible to consider a company's stewardship to society and not concentrate solely on wealth-creation, focusing instead on providing monetary, utility, social and environmental value. This is the future for IC!

Limitations

While much of the empirical evidence presented in this paper is freely available to all scholars, the interpretation and findings are subjective. Other researchers, given the same opportunity and evidence, may not necessarily come up with the same conclusions.

Acknowledgements

This paper uses the author's plenary speech to close the 10th Interdisciplinary EIASM Workshop on "Intangibles, IC and Extra-Financial Information", University of Ferrara (Italy), 18-19 September 2014 as its basis. The author thanks the conference organisers, especially Professor Stefano Zambon, for his support and the opportunity to present challenging ideas to the IC community. Thanks also to the conference participants for their feedback and constructive critique of the ideas presented in this paper and to Fiona Crawford of the Editorial Collective for her sterling editorial work.

Notes

1. In Australia the financial year for most companies is from 1 July to 30 June. However, some companies have different reporting periods as does Westpac, which reports results as at 30 September.
2. "The Global 100 is a data-driven corporate sustainability assessment published annually since 2005 by Corporate Knights, an independent media and investment research company based in Toronto, Canada". See www.westpac.com.au/about-westpac/media/media-releases/2014/23-january
3. Personal e-mail correspondence between myself, Aino Kianto and Paola Demartini (May, 2011).
4. "The New Club of Paris is the agenda developer for the Knowledge Economy. The Club's main objective is to create awareness on what the knowledge society is and will be, and also support nations, regions, cities, communities organizations and companies in their transformation into the Knowledge Economy". See http://new-club-of-paris.org/ (accessed 10 September 2014).
5. Based on Google Scholar data as at 16 June 2014. The basic formula for citations per year is (current year – issue year)/citations.

6. Data from the World Bank found at http://data.worldbank.org/indicator/CM.MKT.LDOM.NO (accessed 10 September 2014).
7. Data from CorporateRegister.com, (accessed 10 September 2014).
8. My analysis shows that the original South African concept of integrated reporting is based on a corporate governance model, while the IIRC version of integrated reporting is based on a model arguing that integrated reporting provides more information directly to investors. So while the name is the same, they were two distinctly different reporting concepts. However, the current IR model is advocated for reporting in South Africa.
9. See http://examples.theiirc.org/home (accessed 10 September 2014).
10. See www.theiirc.org/ (accessed 10 September 2014).
11. The FRC is the key external advisor to the Australian Government on the "financial reporting system". See www.frc.gov.au/about_the_frc/strategic-plans/strategic-plan-2013-16/ (accessed 10 September 2014).
12. Encarta online dictionary feature in Microsoft Word.
13. See http://a.content1.westpac.com.au/?R3iPmuhf-sAigfuQ7hlaR0UyVXrEDaloR (accessed 10 September 2014).

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