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Using the International Integrated Reporting Framework to comply with EU Directive 2014/95/EU: can we afford another reporting façade?

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Abstract

Purpose – Motivated by claims that the International Integrated Reporting Framework (IRF) can be used to comply with Directive 2014/95/EU (the EU Directive) on non-financial and diversity disclosure, the purpose of this study is to examine whether companies can comply with corporate reporting laws using *de facto* standards or frameworks.

Design/methodology/approach – The authors adopted an interpretivist approach to research along with current regulatory studies that aim to investigate business compliance with the law using private sector standards. To support the authors' arguments, publicly available secondary data sources were used, including newsletters, press releases and websites, reports from key players within the accounting profession, public documents issued by the European Commission and data from corporatergister.com.

Findings – To become a *de facto* standard or framework, a private standard-setter requires the support of corporate regulators to mandate it in a specific national jurisdiction. The *de facto* standard-setter requires a powerful coalition of actors who can influence the policymakers to allow its adoption and diffusion at a national level to become mandated. Without regulatory support, it is difficult for a private and voluntary reporting standard or framework to be adopted and diffused. Moreover, the authors report that the <IRF> preferences stock market capitalism over sustainability because it privileges organisational sustainability over social and environmental sustainability, emphasises value creation over holding organisations accountable for their impact on society and the environment and privileges the entitlements of providers of financial capital over other stakeholders.

Research limitations/implications – The authors question the suitability of the goals of both the <IRF> and the EU Directive during and after the COVID-19 crisis. The planned changes to both need rethinking as we head into uncharted waters. Moreover, the authors believe that the people cannot afford any more reporting façades.

Originality/value – The authors offer a critical analysis of the link between the <IRF> and the EU Directive and how the <IRF> can be used to comply with the EU Directive. By questioning the relevance of the compliance question, the authors advance a critique about the relevance of these and other legal and *de*

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facto frameworks, particularly considering the more pressing needs that must be met to address the economic, social and environmental implications of the COVID-19 crisis.

Keywords Corporate reporting, Directive 2014/95/EU, Integrated reporting, Reporting façade, Reporting integration

Paper type Research paper

1. Introduction

> Companies who adopt integrated reporting fully comply with the requirements of the EU Non-Financial Reporting Directive.
>
> – International Integrated Reporting Council (IIRC) (2018).

The quote above is indicative of many claims made by the International Integrated Reporting Council (IIRC) in support of using the International Integrated Reporting Framework (IRF) to comply with the EU Directive on non-financial and diversity disclosure (European Union, 2014). Arguably, in 2005, the EU Directive is the most significant change to European corporate reporting regulation after the introduction of International Financial Reporting Standards (IFRS) for listed companies. Similarly, the <IRF> represents an influential and novel change to corporate reporting that builds on previous attempts to require reporting beyond mandatory financial statements to integrate additional information for report users.

As such, we refer to *reporting integration* as a broad movement that recognises how regulated financial reporting alone cannot provide sufficient insight into business performance and advocates for a more holistic and long-term approach to rebuilding trust in companies. While the IIRC claims to provide such additional information and links this to a firm's strategy, reporting integration goes beyond <IRF>. For example, the EU Directive is a form of reporting integration because it integrates several different corporate disclosure issues – such as human rights, labour, the environment and anti-corruption – into one regulated reporting requirement to rebuild trust in European companies. However, the integration reflected in the <IRF> seeks integrated thinking directed solely at how the "six capitals" are inputs and outcomes of a company's business model because it primarily seeks to create economic value (Dumay *et al.*, 2017). Creating economic value in this study is linked to *stock market capitalism*, which is the ideology that managers should be intent solely on creating and maximising shareholder value to maximise economic efficiency and global welfare (Dore, 2000). We use the term *sustainability reporting* as an umbrella term for the many different types of reporting, including, but not limited to, corporate social responsibility (CSR); environmental, social and governance (ESG); corporate citizenship and sustainability reports.

The implementation of the EU Directive and the claims by the <IRF> as a framework to comply with it presents an opportunity to research reporting integration. For this purpose, we connect the business reporting literature with research on the politics of standard setting and business regulation. Moreover, we expand the field of inquiry in two directions: the first is looking at the recognition of private standards such as the <IRF> by public authorities such as the European Commission, and the second is investigating the issue of corporate compliance with legal requirements such as the EU Directive.

We make two contributions. First, our research contributes to the understanding of the formation and diffusion of private standards and frameworks and how they might become *de facto* binding rules in a national jurisdiction, e.g. the <IRF> has in South Africa as a means of complying with the King IV Corporate Governance Guidelines (Institute of Directors in Southern Africa (IoDSA), 2016). Second, we show how the *de facto* standard-setter needs a powerful coalition of actors who can influence the policymakers to allow the adoption and diffusion of the *de facto* standard at a national level such as the role the IoDSA

played in the adoption of the <IRF>. Without regulatory support, it is difficult for a private and voluntary reporting standard or framework to be adopted and diffused.

While the two contributions we make are valid in a normal context whereby policymakers and private standard setters vie for compliance in international jurisdictions, the world as we know it has changed irreversibly after the COVID-19 crisis. Thus, we are in unprecedented territory that will require even more the collaboration of all members and institutions in society to overcome the pandemic and the economic, social and environmental implications. Thus, reporting on how we all participate in overcoming the crisis are overriding goals that should alter the previous intentions of the IIRC to promote stock market capitalism through the <IRF> (La Torre *et al.*, 2020) and the European Commission to develop trust in business through the EU Directive (European Union, 2014).

The remainder of the paper is structured as follows. Section 2 presents a literature review to conceptualise setting the standards for reporting integration and highlights the gap in the literature that raises our research question. Section 3 describes the context by introducing the EU Directive and the <IRF>. Section 4 illustrates the methodology we followed to address the research question. Section 5 contains a discussion of our findings by critically exploring the link between the two initiatives. Finally, Section 6 provides the conclusion by outlining our contributions to the recognition of private standards and for legal compliance, and the implications for future research.

2. Setting the standards for reporting integration

This section presents a critical overview of the literature related to the topic of reporting integration both regarding the recognition of private standards by public authorities and corporate compliance with legal requirements.

In this review, we focus on corporate reporting standard-setting rather than specific standards. Standard-setting is:

> [. . .] a process of constructing and implementing agreed-upon rules, usually backed by some external body, with the aim of creating uniformities across time and space between different localised activities. Standard-setting [. . .] can also encompass attempts to formulate guidelines, codes of conduct, or to work out best practices as intermediary steps in the process of formulating and implementing standards (Djelic and Quack, 2012, p. 5).

Thus, standard-setting for reporting outlines a specific way to report but not necessarily the reporting framework to use.

Furthermore, we advocate that it is time for scholars to overcome the divide between mandatory and voluntary guidelines that characterises the current research on sustainability reporting. In practice, sustainability reporting tends to fall between these poles (Bartels *et al.*, 2016). For example, in 2007, Sweden introduced a legal obligation for all state-owned companies to produce a sustainability report, and these reports had to follow the GRI (Ministry of Enterprise Energy and Communications (Sweden), 2007). Similarly, the EU Directive requires certain large companies to report on a range of non-financial matters. However, the EU Directive provides certain flexibility by allowing those enterprises to use any existing framework to fulfil the new requirement (European Union, 2014). Over the last decade, there has been a considerable expansion of mandatory sustainability reporting, which is eclipsed by parallel increases in voluntary sustainability reporting initiatives (Bartels *et al.*, 2016). Therefore, rather than considering the two in isolation, we must consider legislative and market mechanisms as two endpoints of a reporting continuum (Graz, 2006, p. 123).

To bridge the business reporting literature with studies on the politics of standard-setting and business regulation, we expand the current debate on reporting integration in two directions: the recognition of private standards such as the <IRF> by public authorities and investigating corporate compliance according to legal requirements. The literature review of these directions helps develop our research question.

2.1 The recognition of private standards and frameworks

The literature on standard-setting processes helps to understand how voluntary standards and frameworks such as the <IRF> might become *de facto* binding rules. Djelic and Quack (2012) outline how different alliances between actors shape the transnational standard-setting processes, and Botzem (2012) identifies the phases of standards formation and diffusion. For example, *de facto* standards such as the Global Reporting Initiative (GRI) [1] and Sustainability Accounting Standards (SASB) [2] are the result of different actors joining forces to create and diffuse the standards. Self-interested coalitions of actors emerge to develop voluntary *de facto* standards to promote their sustainability agendas.

While *de facto* standards are in principle voluntary, there is evidence that public authorities can play a fundamental role in the breakthrough phase between standard formation and diffusion. For example, in South Africa, listed companies must produce a corporate governance report to comply with the King IV South African Corporate Governance Code, which endorses <IRF> as a good practice (*Institute of Directors in Southern Africa* (Institute of Directors in Southern Africa (IoDSA), 2016)). However, the "legal status of King IV along with its predecessors is that of a set of voluntary principles and leading practices" (IoSDA, 2016, p. 28). Thus, the link between King IV and <IRF> emanated from the using the <IRF> as a potential avenue for compliance with the King IV code.

A common link between the <IRF> and King IV is Prof Mervyn King who led the development of the King corporate governance codes and is a founding member and former Chairman of the IIRC. The endorsement and King's reputation is sufficient to create the misconception that the <IRF> is mandatory in South Africa (Solomon and Maroun, 2012; Dumay *et al.*, 2017). Nevertheless, the endorsement has encouraged the use of the <IRF> as a *de facto* standard to comply with the King IV guidelines in South Africa, although not internationally (Dumay *et al.*, 2017).

Despite there being little transnational regulation and the apparent limitations of national laws mandating a standard beyond jurisdictional boundaries, various standards have internationally emerged. On a transnational level, there are standards of ethical management developed by the United Nations (UN) such as the United Nations Global Compact (UNGC) (2009) and the UN Sustainable Development Goals (United Nations Development Programme (UNDP), 2015) that are encouraging corporate transparency through social and environmental reporting. However, the UN has no power to mandate their use by companies, which is the case for the International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board (IASB). Although the IASB has no legal power to force any jurisdiction or company to comply (Botzem, 2012), the IFRS is being adopted and mandated in many national jurisdictions by local policymakers and governments.

At a national level, standards recognition combined with regulation allows for the acceptance of several standards and frameworks that compete or co-exist with each other. For example, in Europe, a large listed company must comply with many regulatory reporting requirements with two of the most prominent being IFRS and the EU Directive. However, in complying with both requirements, the company can produce a single report and incorporate elements of the GRI, <IRF> and a litany of other reporting frameworks or create separate reports (European Union, 2017). While the law for producing financial information requires listed companies adhere to the

IFRS standards, there are no standards for legally complying with the EU Directive (European Union, 2014). Thus, reporting non-financial information is flexible. The company must only show that it complies with the EU Directive, or explain why not, regardless of the reporting framework it uses to comply with the law.

2.2 Reframing legal compliance

This section of the literature review draws on current socio-legal research that investigates business compliance with the law (Edelman *et al.*, 2001; Parker and Nielsen, 2011; Edelman, 2016). As noted by Edelman *et al.* (2001, p. 1591) "managerial rhetorics [. . .] may have the potential to transform how managers think about law and ultimately how law is implemented in organisational settings". In effect, the law often offers only broad and general ideas about what managers ought to do. It is this ambiguity of the law that, according to Edelman's (2016) idea of the "managerialization of law," leaves business-wide latitude to reframe legal ideas and construct the meaning of the law and the forms of compliance.

The reframing approach is echoed by the work of McBarnet and Whelan (1999) and McBarnet (2007) on legal compliance by business, particularly in the area of accounting and CSR. Notably, she coined the term "creative compliance," defined as "the practice of using the letter of the law to defeat its spirit" (McBarnet, 2006, p. 1091). According to McBarnet, laws are not just passively received by business but can be actively worked on to alter their consequences regardless of the intentions of those making and enforcing it. McBarnet (1984, 1991) demonstrates that reframing is a common practice in business, notably when it comes to so-called "creative accounting". Therefore, she maintains that it is essential "not only to secure a commitment in business to socially responsible policies *beyond* the law but to secure business' responsible compliance with the law" (McBarnet, 2007, p. 13). Thus, despite laws forcing companies to comply with reporting requirements, they may choose to put on a façade of compliance (Cho *et al.*, 2015).

2.3 Research question

There is a gap in the literature exploring the effectiveness of companies integrating different *de facto* reporting standards and frameworks when complying with laws such as the EU Directive. As identified in this literature review, companies must comply with legal reporting obligations but are free to integrate different reporting frameworks when complying. Thus, our research question is: When companies comply with corporate reporting laws such as the EU Directive using a *de facto* standard or framework like the <IRF>, are they putting on the façade of compliance?

3. The EU Directive and the Integrated Reporting Framework

After the 2008 global financial crisis, the European public policy debate moved from "whether" to "how" sustainability reporting should be regulated (Monciardini, 2016). Before the EU Directive, several EU member states introduced mandatory sustainability reporting laws such as the Devoir de Vigilance in France, the Dutch Child Labour Due Diligence in The Netherlands and the UK Modern Slavery Act in the UK. However, because of the EU Directive coming into force, by the end of 2017, all EU member states have transposed the EU Directive into local laws. Furthermore, it is important to note that no member state has prescribed any company to use any specific *de facto* sustainability reporting standard or framework to comply with the new laws (CSR Europe and Global Reporting Initiative (GRI), 2017; Farneti *et al.*, 2018).

Mandatory reporting is at a turning point, leading to a lively debate on the requirement to integrate disconnected strands of corporate sustainability and financial reporting into a

more coherent legislative framework (Dumay, 2020). For example, the EU High-Level Expert Group on Sustainable Finance (HLEGSF) (2018, p. 56) outlines that:

> The ultimate ambition has to be convergence or integration of financial and non-financial or sustainability information, which should be subject to the same assurance rigour as audit requirements for financial information.

How to achieve reporting integration remains unclear and contested (Adams, 2015; Flower, 2015; Thomson, 2015). Arguably, the EU Directive and the <IRF> are two of the most prominent initiatives driving the international trend towards reporting integration. The IIRC has taken the lead in reporting integration among the private sector by convening The Corporate Reporting Dialogue, an initiative designed to respond to market calls for greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements (Dumay, 2020). However, the EU Directive and the <IRF> have distinctly different histories. Thus, this section provides a contextual background for our study by presenting an overview of both initiatives.

3.1 The European Union Directive

The EU Directive is a product of ongoing responses to concerns by the European Commission for CSR and sustainability. The impetus for the EU Directive gained momentum in 2011 as part of the Single Market Act designed to boost the European economy (European Commission, 2011a). Consequently, the European Commission introduced the original foundations of the then-future Directive and other measures to encourage companies to meet their social responsibility (Voss, 2019). Thus, the EU Directive has its origins in developing corporate accountability and rebuilding public trust (European Union, 2014; Voss, 2019).

The EU Directive connects to the European Green Deal, a European Commission (2019, p. 2) policy that:

> [. . .] is a new growth strategy that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use.

The EU Directive is an amendment of Directive 2013/34/EU regarding the divulging of non-financial and diversity information by certain large undertakings and groups.

The current version of the EU Directive received a tepid reception by the accounting profession when first proposed. For example, as Nigel Sleigh-Johnson, head of financial reporting at the Institute of Chartered Accountants in England and Wales (ICAEW), warns: "If the information is not bespoke and of relevance to investors, it will just lead to clutter and 'boilerplate'" disclosures (Fleming, 2013). Similarly, BusinessEurope, a confederation of large EU enterprises, contested the EU Directive by arguing that it would create an additional administrative burden making European companies less competitive in a crisis (Kinderman, 2016). However, NGOs representing the responsible investor community and some large investors have broadly welcomed the EU Directive as a significant step forward, but noting that The EU Directive is not prescriptive enough and does not adequately respond to the needs of sustainability reporting users (Fleming, 2013). Similarly, BusinessEurope, a confederation of large EU enterprises, contested The EU Directive by arguing that it would create an additional administrative burden making European companies less competitive in a crisis (Kinderman, 2016). Thus, The EU Directive as a mandatory reporting requirement was a point of debate by the accounting profession, investors and report preparers from the onset.

The EU Directive (European Union, 2014) requires all large public-interest companies, known as undertakings in The EU Directive, being European listed companies, banks and insurers with more than 500 employees, to disclose a statement related to, as a minimum: environmental, social and employee matters; respect for human rights; anti-corruption and bribery matters and diversity on company boards. The disclosure requires:

- a brief description of the undertaking's business model;
- a description of the policy pursued by the undertaking in relation to those matters, including any due diligence processes implemented, and the outcome of those policies;
- the principal risks relating to matters linked to the undertaking's operations, including its business relationships and products or services that are likely to cause adverse impacts in those areas and how the undertaking is managing those risks; and
- the non-financial key performance indicators relevant to the business.

Where the company does not pursue policies concerning one or more of those matters, the non-financial statement shall provide a clear and reasoned explanation for not doing so.

Following its adoption by the European Parliament and the Council in 2014, and its transposition into law, various organisations are setting out examples and guides on how companies can comply with the laws (Frank Bold, 2017; GRI and Global Sustainability Standards Board, 2017). In June 2017, the European Commission issued non-binding guidelines on the methodology for reporting non-financial information (European Union, 2017).

A further change to the EU Directive is possible because the latest communication from the European Commission (2019, p. 17) on the New Green Deal outlines that the current strategy "will strengthen the foundations for sustainable investment". As a result:

> Sustainability should be further embedded in the corporate governance framework, as many companies still focus too much on short-term financial performance compared to their long-term development and sustainability aspects. At the same time, companies and financial institutions will need to increase their disclosure on climate and environmental data so that investors are fully informed about the sustainability of their investments. To this end, the Commission will review the Non-Financial Reporting Directive. (2019, p. 17)

In line with that commitment, on 20 February 2020, the Commission launched a public consultation to review the EU Directive with submissions due by 14 May 2020 (European Commission, 2020). Thus, mandatory sustainability reporting under the guise of the EU Directive and influenced by the European Green Deal will remain in effect and continue to evolve in the future.

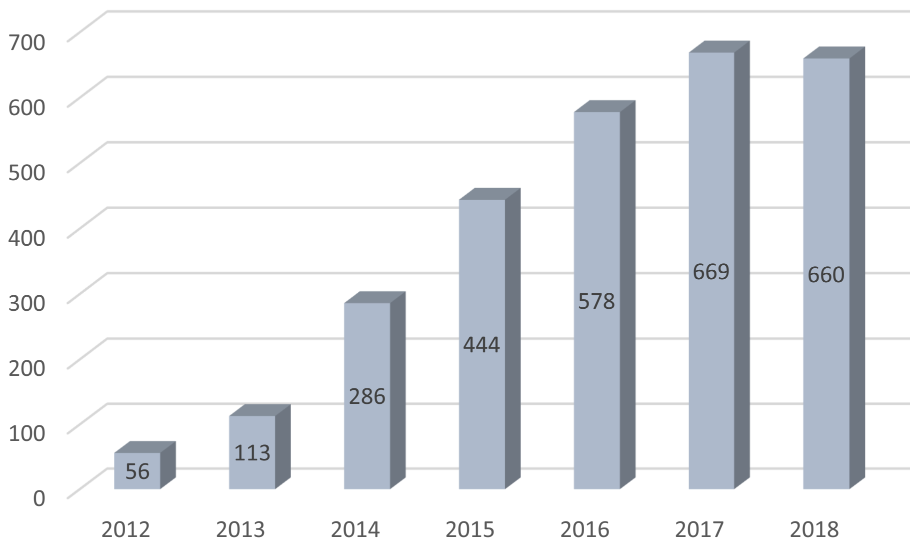
3.2 The Integrated Reporting Framework

The <IRF> was first published in December 2013 by the IIRC following consultation and testing by businesses and investors in all regions, including 140 business groups and investors from 26 countries that participated in the IIRC Pilot Programme. The <IRF>'*s* purpose is to establish guiding principles according to a set of content elements for inclusion in an integrated report and to explain the fundamental concepts that underpin them. One of the IIRC's (2013, p. 2) aims is for the <IRF> to become widely adopted as the global "corporate reporting norm". According to the IIRC, the framework applies principles and concepts that are focussed on bringing greater cohesion to the reporting process. These principles and concepts use *integrated thinking* as a way of breaking down internal silos and

reducing duplication (Guthrie *et al.*, 2017). Note that the <IRF> explicitly considers the decades of development done by the IIRC in financial, intangible and sustainability reporting as a point of departure and as a foundation for the future.

Yet after almost seven years, the point of arrival seems not to be materialising. While the IIRC generically talks about thousands of companies adopting the <IRF>, it is difficult to state a precise number, and the IIRC does not provide a complete registry listing where users can find all the reports despite having an example database on its website. Realistically, it appears that the number of companies that have adopted the <IRF> is more in the order of hundreds with data from corporateregister.com showing that the number of integrated reports issued peaked in 2017 with 669 reports and saw a slight decline to 660 in 2018 (Figure 1). Studies report that many companies are only applying selected aspects of the <IRF> in their reporting practice, thus questioning both the substance and form of published integrated reports (Dumay *et al.*, 2017).

The substance and form of integrated reports are important because the <IRF> foresees a materiality determination process that involves evaluating the magnitude of the matter's effect and, if uncertain, its likelihood of occurrence (International Integrated Reporting Council (IIRC), 2013). Key to the materiality determination process is the concept of the reporting boundary (Girella, 2018). Determining the boundary for an integrated report has two aspects that have a significant effect on the ability of the financial reporting entity to create value. First is what the financial reporting entity is using as the boundary for financial reporting purposes because it affects whether the risks, opportunities and outcomes reported are those attributable to just the financial reporting entity itself or those associated with other entities/stakeholders beyond it. The second aspect involves explaining of how an entity creates value through increasing, decreasing and transforming its capital because the heart of the <IRF> requires disclosure of information about the entity's strategy and business model (International Integrated Reporting Council (IIRC), 2013).



Source: Corporateregister.com data as at 15 April 2020, (accessed 16 April 2020)

Figure 1.
Integrated reports issued 2012 to 2018

Arguably, all this information is required by the providers of financial capital and other stakeholders to make better decisions.

From the IIRC's perspective, integrated reports are generally well-received by many large companies, the accounting profession, standard setters, policy-makers and the providers of financial capital. However, the <IRF> has met with sharp criticism by certain academics who point out that, from a sustainability reporting perspective, the <IRF> is a failure (Milne and Gray, 2013; Flower, 2015; Thomson, 2015) and that there are several barriers to its implementation (Dumay *et al.*, 2017). Thus, while the IIRC reports positive news and rhetoric about is adoption (La Torre *et al.*, 2020), in the face of sharp critique and criticism from the accounting profession and academics, its claims to be the next corporate reporting norm does not appear to be promising.

The critique and criticism seem to be forcing the IIRC's hand to amend the <IRF> by the end of 2020 with a call for feedback from stakeholders (International Integrated Reporting Council (IIRC), 2020) but whether any significant change will eventuate is still a mystery. The IIRC issued a wider call for feedback in 2017 and made no changes to the <IRF> despite more than 400 submissions from stakeholders (Dumay *et al.*, 2017; International Integrated Reporting Council (IIRC), 2017b, 2017c). In the 2020 call for feedback, only three issues are under review: business model considerations, responsibility for an integrated report and charting a path forward. Although further feedback on controversial issues such as integrated thinking is not open to stakeholder feedback and review, the IIRC promises that "the revision will respond to an evolving market context and further embed integrated reporting and thinking into mainstream business practice" (International Integrated Reporting Council (IIRC), 2020). Thus, similar to the EU Directive, change to the <IRF> is underway, but the only topics open to discussion are those aligned to the IIRC's agenda and not the broader stakeholder community.

4. Methodology

In line with current regulatory studies that aim to investigate business compliance with the laws and private-sector standards, we adopt an interpretivist approach to our research (Parker *et al.*, 2011) to answer our research question:

> When companies comply with corporate reporting laws such as the EU Directive using a *de facto* standard or framework like the <IRF>, are they putting on the façade of compliance??

For this study, the <IRF> represents the *de facto* framework, and the EU Directive represents the legal requirement for NFR in Europe.

An interpretivist approach is a valid methodology because we use abductive reasoning to present our findings and conclusions (Lukka and Modell, 2010). We seek to go beyond a mere formal content analysis based on literature relating to the <IRF> and the EU Directive to discover a more substantial understanding of the links between them. In particular, our study aims to shed light on how businesses and other actors construct the meaning of <IRF> as a means to comply with the EU Directive. Thus, we understand laws such as the EU Directive as not just passively received by business but actively reframed. We are therefore not unlike detectives piecing together the evidence we find along the way to solve a puzzle.

The interpretivist approach allows us to provide rich descriptions based on academic and practitioner data, including data from the IIRC as the *de facto* standard-setter (La Torre *et al.*, 2020). Moreover, we base these rich descriptions on the extensive experience we have as researchers investigating the <IRF> and the EU Directive because our tacit knowledge is integral to developing the interpretation of what we see in the data (Parker and Northcott, 2016). These rich descriptions help develop naturalistic generalisations whereby

"experiences of the actors, the researchers and the readers are combined through narratives, contextual case descriptions, and interpretations by researchers and readers" (Parker and Northcott, 2016, p. 1112). Thus, we are not advocating the reliability or validity of our findings based on a positivist paradigm and instead take the stance that we are sharing the insights of our critique of the how a business might use the <IRF> to comply with the EU Directive, both now and in the future, with the reader.

Part one of our interpretation compares the emergence of the <IRF> and the EU Directive based on reviewing official documents and texts issued by the EU Commission and by the IIRC. By examining these documents in parallel, we can better understand the complex link between the two reporting frameworks and their evolution over time. In part two, we construct what we call the politics of reporting integration. Our interpretation includes a review of the mobilization processes that led to the emergence of both frameworks. The review of the politics of integration use publicly available secondary data sources, including the IIRC's newsletters, press releases and website, reports from key players within the accounting profession, such as Deloitte, KPMG and Institute of Chartered Accountants of England and Wales (ICAEW) and public consultations by the EU Commission.

We also use data from corporatergister.com based on a research subscription to back up our arguments and to triangulate results. corporateregister.com is an independent global online directory and database of corporate responsibility reports. The database is continually updated as companies issue their reports and currently has records of more than 110,000 reports from more than 19,000 companies. A research subscription allows us to query the database to determine specific reports by country, industry, organisation and reporting framework. The data we use in this paper from corporateregister.com were current as at 15 April 2020 [3].

The review helped us to make sense of the different coalitions of actors shaping the EU Directive and the <IRF>. Instead of providing a list here, all data sources are appropriately cited and appear in the references.

5. Exploring the link between the Integrated Reporting Framework and the EU Directive

The IIRC and the accounting profession actively promote the link between the <IRF> and the EU Directive. For example, the IIRC has often referred to the EU Directive as a step towards <IR>, stressing the continuity between the two initiatives. In April 2013, the then IIRC Chief Executive Officer (CEO) Paul Druckman hailed the EU Directive as "an intelligent and logical milestone on the continuing journey towards Integrated Reporting as part of the evolution in corporate reporting globally" (KPMG, 2013). Moreover, the then IIRC CEO Richard Howitt claimed that "Many of the requirements of the EU Directive reflect the principles of integrated reporting [. . .] the principles of integrated reporting and the principles of the EU Directive are closely intertwined" (International Integrated Reporting Council (IIRC), 2017a). The IIRC claims that "Companies who adopt integrated reporting fully comply with the requirements of the EU Non-Financial Reporting Directive" (IIRC, 2018). The accounting profession supports this position, arguing that "Many of the [Directive] requirements are within the spirit of the International Integrated Reporting Council's <IR> Framework" (Deloitte, 2017). Thus, claims arguing that the <IRF> is equivalent to complying with the EU Directive are abundant.

We challenge the argument that the <IRF> and the EU Directive are equivalent and highlight a more complex link between the two initiatives. Despite emerging literature that separately addresses the development of the <IRF> (Dumay *et al.*, 2016; Rowbottom and Locke, 2016) and the EU Directive (Ahern, 2016; Monciardini, 2016), most of the extant

literature looks at the two initiatives in isolation' however, there is now emerging literature linking the <IRF> and the EU Directive (Dumay *et al.*, 2019).

Consistent with the aim of getting business to divulge more information, The EU Directive builds on existing frameworks for sustainability reporting. For example, the ten universal principles of the UN Global Compact are a reference point for determining what companies should report on human rights (1-2), labour (3-6), the environment (7-9) and anti-corruption (10). The UN Guiding Principles on Business and Human Rights (UNGPs) have been another significant source of inspiration. The UN Human Rights Council unanimously endorsed the UNGPs in June 2011 during the formation of the EU Directive. In particular, EU lawmakers adopted two central concepts of the UNGP Framework: due diligence and adverse impact. Specifically, the EU Directive requires that companies:

> [. . .] include information on the due diligence process implemented by the undertaking, also regarding, where relevant and proportionate, its supply and subcontracting chains, to identify, prevent and mitigate existing and potential adverse impacts (European Union, 2014, p. 2).

The emphasis on impact draws on the approach to materiality taken by the GRI – by far the most widely adopted standard for sustainability reporting. According to the GRI guidelines, materiality concerns the magnitude of the direct or indirect economic, social and environmental impact connected to an issue and its relevance for the company's stakeholders. To confirm the relevance of these concepts, the non-binding guidelines recently prepared by the European Union (2017) on how companies could apply the EU Directive contains 48 references to impact and 22 to due diligence. The most cited framework in the Guidelines is the UNGP, together with the OECD Guidelines for Multinational Enterprises and ISO26000, both of which were amended to align with the UNGP Framework (European Union, 2017). The <IRF> is never cited in the legal text of the EU Directive and only once in the European Union (2017) implementation guidelines. Thus, there is no evidence of overt links between the <IRF> and the EU Directive.

5.1 Stock market capitalism over sustainability

To present further evidence highlighting the lack of overt links between the <IRF> and the EU Directive, we draw on Tweedie and Martinov-Bennie (2015) to outline the discontinuity between the sustainability reporting tradition embraced by the EU Directive and the stock market capitalism espoused by the <IRF> (La Torre *et al.*, 2020). Demonstrating that the <IRF> supports stock market capitalism over social and environmental sustainability provide evidence of a compliance façade. For this purpose, we explore three issues: how the <IRF> privileges organisational sustainability over social and environmental sustainability; how it emphasises value creation over holding organisations accountable for their impact on society and the environment and how it privileges the entitlements of providers of financial capital over other stakeholders. We discuss each next.

5.1.1 The Integrated Reporting Framework privileges organisational sustainability over social and environmental sustainability. The EU Directive promotes social and environmental reporting by large organisations to pursue the overarching policy objective of sustainable development (European Union, 2014). The European Union (2017, p. 2) implementation guidelines reinforce the issue of promoting sustainable development by outlining how reports complying with the EU Directive should be in keeping with achieving the UN Sustainable Development Goals and the Paris Climate Change agreement. Moreover, the implementation guideline directly references the work of the Financial Stability Board and their development climate-related financial disclosures (Task Force on Climate-related

Financial Disclosures (TCFD), 2016). Therefore, there is a clear link between social and environmental concerns and the EU Directive.

The IIRC's agenda is precisely the opposite because it incorporates sustainability reporting into the <IRF> only insofar because it creates value for organisations. We find the first clue in the opening paragraph of the <IRF>, where the IIRC (International Integrated Reporting Council (IIRC), 2013, p. 2) declares its primary goal is to "act as a force for financial stability and sustainability", not social or environmental sustainability. A further clue is a declaration that report preparers should be concerned with "the legal, commercial, social, environmental and political context that affect the organization's ability to create value in the short, medium or long-term" (International Integrated Reporting Council (IIRC), 2013, p. 24). The academic literature reinforces the concern for organisational sustainability. As Flower (2015, p. 1) argues the <IRF> is about:

> [. . .] "value for investors" and not "value for society"; and that the IIRC places no obligation on firms to report harm inflicted on entities outside the firm (such as the environment) where there is no subsequent impact on the firm.

Thus, unlike the EU Directive's overt concerns about social and environmental sustainability, the <IRF> concerns only go as far as the bottom line.

5.1.2 The Integrated Reporting Framework emphasises value creation over holding organisations accountable for their impact on society and the environment. The introduction of the EU Directive was motivated by questions of corporate accountability, namely, by "evidence that companies have not been able to provide an appropriate response to users' and societal demand for non-financial transparency" (European Commission, 2013, p. 11). The 2011 EU public consultations that preceded the EU Directive highlighted the need for greater accountability (European Commission, 2011b). These consultations evidenced specific issues regarding both the quantity and quality of information available to stakeholders. Consistent with this diagnosis, the EU Directive's objective is to increase the consistency and the comparability of the information disclosed to provide investors, consumers and other stakeholders with easy access to information on the impact of businesses on society (European Union, 2014).

The IIRC takes a quite different tack, stressing the importance of communication rather than a duty to provide an account to stakeholders (Cooper and Owen, 2007). The IIRC's (2013, p. 1) view is that "communication about value creation should be the next step in the evolution of corporate reporting". As noted in the results of a KPMG (2011, p. 7) survey the <IRF> is particularly interesting to corporate executives so that they can "convincingly [tell] their organization "story" to the markets so they can obtain capital at a reasonable cost". However, as Tweedie and Martinov-Bennie (2015, p. 56) point out, the emphasis on communication comes at the expense of accountability that "subtly privileges the interests of managers" not just against stakeholders but also "over owners of financial capital". As Dumay *et al.* (2019) outline, "managers control the information, and they decide what to disclose based on self-interested economic rationality". Thus, any account offered to stakeholders privileges managerial interests first, shareholder interests second and other stakeholders last.

5.1.3 The Integrated Reporting Framework privileges the entitlements of providers of financial capital over other stakeholders. In line with the sustainability reporting tradition, the approach taken by the EU Directive is stakeholder-oriented. The European Union (2017, p. 5) guidelines affirm: "The non-financial statement is expected to reflect a company's fair view of the information needed by relevant stakeholders". Moreover, a "company should focus on providing the breadth and depth of information that will help stakeholders

understand its development, performance, position and the impact of its activities". Thus, the EU Directive privileges stakeholders over investors.

The <IRF> fundamentally departs from the stakeholder approach. Initially, the IIRC (International Integrated Reporting Council (IIRC), 2011) claimed that the focus of the <IRF> would be on investors with a long-term focus. After that, the IIRC commissioned a series of background papers to provide clarification on the embryonic <IRF> elements. After these papers, the <IRF> showed "a definitive shift in the focus of integrated reporting towards providers of financial capital", prioritising a more distinct logic in the "enlightened shareholder" (Humphrey *et al.*, 2017, p. 45). The final version of the <IRF> contains some references to the need to provide insights into an organisation's relationship with its key stakeholders. However, it clarifies that the primary purpose of <IRF>-based reports is "to explain to providers of financial capital how an organisation creates value" (International Integrated Reporting Council (IIRC), 2013, p. 2). Other stakeholders are absent from the <IRF>'*s* primary purpose.

5.2 The Integrated Reporting Framework as an evolution in financial not sustainability reporting

Further evidence of a compliance façade is that while the EU Directive shares the same underlying paradigm as sustainability reporting, the <IRF> represents an evolution in financial reporting rather than in sustainability reporting (Milne and Gray, 2013; Flower, 2015). The central concept of value in the <IRF> is peripheral to the approach taken by EU lawmakers. The IIRC value-creation ethos fundamentally departs from the approach taken by EU lawmakers because it does not explicitly address human rights violations or anti-bribery policies and does not pay attention to due diligence processes. As noted by Milne and Gray (2013, p. 20), the draft <IRF> "has virtually nothing – and certainly nothing substantive – to say about either accountability or sustainability". Moreover, we argue that the IIRC deployed rhetorical strategies to construct legitimacy for stock market capitalism, unlike competing ideological pressures to promote social and environmental sustainability (La Torre *et al.*, 2020).

The approaches taken by the IIRC and EU lawmakers are incommensurable because they have competing underlying paradigms. They represent the viewpoints of two communities that perceive the same situation very differently and yet use the same vocabulary. As a result, they attach quite different meanings to the same words – words such as non-financial information, sustainability and materiality. At the heart of each initiative is an entirely different understanding of the problems and possible solutions relative to reporting integration. The "Impact Assessment" of the EU Directive concluded that the reason for the "failure" of existing voluntary frameworks for non-financial reporting "is to be found in the insufficient and uneven incentives provided by the market" (European Commission, 2011b, p. 11). Therefore, the EU initiative was justified because of the need "to provide a clear legal obligation" to overcome considerable difficulties in comparing or benchmarking companies, particularly for analysts and investors (European Commission, 2013, p. 12). However, the <IRF> project re-affirms that market-driven solutions based on a business case for corporate sustainability are superior to a prescriptive set of rules that would – in Druckman's words – "straightjacket the journey to <IR>"(KPMG, 2013). The focus is not on sustainability and accountability but instead on telling a strategic and financial value creation story and fostering experimentation with business reporting.

While the <IRF> does not currently contain strong links to sustainability reporting, there are some changes on the horizon signalling how the IIRC is changing tactics as attempts to appeal to more stakeholders by creating ties to sustainability reporting, especially the UNSDGs. A prominent example is Adams (2017) position paper written for the IIRC linking the UN SDGs to integrated thinking and the <IRF>. Another is the IIRC's (International Integrated Reporting Council (IIRC), 2020) call for feedback that is responding

to how organisations are "adapting and responding to global megatrends, such as the Sustainable Development Goals and climate change, a growing focus on stewardship and corporate governance, and inclusive capitalism". Yet, while there are some changes in the wind, the IIRC (International Integrated Reporting Council (IIRC), 2020) has made it clear there will be only "minor modifications and clarifications" to the <IRF>. In the end, the IIRC seems to be reinforcing the compliance façade rather than enhancing the <IRF> to deal with social and environmental sustainability genuinely.

5.3 The politics of reporting integration: Parallel convergence between the International Integrated Reporting Committee and European Union lawmakers

Our investigation so far leads us to argue that the <IRF> is actively promoting a compliance façade to increase the adoption of the <IRF> to comply with the EU Directive. Promoting a compliance façade is why the IIRC and its supporting institutions underline continuity between the two. For example, in a position paper, the Federation of European Accountants states that "the implementation of The EU Directive should follow the underlying approach of the <IR> Framework" (Federation of European Accountants, 2016, p. 7). This position has been taken by some influential NGOs, such as Frank Bold, which played a pivotal role in advocating for the adoption of the EU Directive in 2014 (Frank Bold, 2017). Notably, the EU HLEGSF (2018) initially recommended that the EU formally entrust the IIRC to work on the integration of sustainability factors in accounting standards. At the moment, there seems to be no public debate on the implications of maintaining the EU Directive's approach in favour of the <IRF> compliance façade approach to reporting integration. This section offers some evidence to add weight to our argument, including insights from our analysis that provide a more critical approach to the processes of standardisation and business compliance.

The two initiatives are incommensurable because they have competing underlying paradigms. However, there are good reasons to believe that we can expect a politics of regulatory convergence between them. Interestingly, this does not necessarily mean that the IIRC has to modify the <IRF> significantly to reduce the distance between the two initiatives. What we see instead is that as the EU Directive and the <IRF> evolve, self-interested actors argue that they are compatible to build the compliance façade. Using an oxymoron, we refer to this process as *parallel convergence*.

Strong evidence to support *parallel convergence* can be found in the September 2016 decision to appoint a former member of the European Parliament (MEP) Richard Howitt as CEO of the IIRC. The appointment was strategic on the part of the IIRC because "for five years, Mr Howitt has acted as a voluntary IIRC Ambassador, promoting integrated reporting within the policy and business communities" (International Integrated Reporting Council (IIRC), 2016b). The appointment confirms the strategic importance of the European arena and the EU Directive for the diffusion of the <IRF>. Currently, the EU Directive is leading the global trend towards mandating sustainability reporting – a crucial battlefield for the <IRF>*'s* success. However, the IIRC needs to establish the compliance façade because it has no formal political authority to enforce companies to use the <IRF> to comply with the EU Directive (La Torre *et al.*, 2020).

Howitt's appointment is consistent with the strategy outlined by the IIRC (International Integrated Reporting Council (IIRC), 2014, p. 4) in the "Breakthrough Phase 2014-17" report, which includes "building strong and positive relationships with policymakers and regulators to increase the visibility of <IR> as a solution to today's corporate reporting challenges" and "seeking support from governments and other regulatory authorities globally to accelerate the adoption of <IR> in ways that meet the needs, laws and customs

of each market". Howitt had the connections to achieve the "Breakthrough Phase 2014-17" strategy because before joining the IIRC he was a member of the European Parliament for 22 years, with most of his political career spent in Brussels working on CSR policies. Crucially, he was one of the principal architects of the EU Directive and took pride in having proposed "to change EU accounting directives in a European Parliament report as long ago as 1999" (Howitt, 2014). Howitt was more political than his predecessor, Paul Druckman, a former software entrepreneur and past president of the ICAEW. In accepting his new role, Howitt said: "Europe has been my platform for influencing major international initiatives and processes for >20 years, thus bringing me into contact with businesses, investors, policymakers and other stakeholders internationally (International Integrated Reporting Council (IIRC), 2016b). Therefore, as a CSR Rapporteur in three successive European Parliament terms, Howitt knows EU law and policymaking processes like few others and has all the connections and influence to push the European Commission to explicitly recognize the <IRF> as a tool for complying with the EU Directive.

Our analysis finds two mechanisms that can lead to a parallel convergence between the <IRF> and the EU Directive, even if the distance between them remains intact. First, we maintain that the IIRC exploits the legal ambiguities that characterise the text of the EU Directive and the current policy debates on corporate sustainability and reporting integration. More specifically, the <IRF> often uses the same terms used by the EU Directive but with fundamentally different meanings. Second, we argue that political opportunism might lead to a convergence towards the <IRF> project. Unlike the EU Directive, the <IRF> does not fundamentally challenge the professional and organisational power dynamics that characterise the fields of accounting and sustainability reporting. Therefore, it represents a more politically viable solution for EU policymakers to address the problem of reporting integration.

5.3.1 The International Integrated Reporting Committeeand European Union lawmakers are using the same terms with different meanings.

As Edelman (2016, p. 41) points out:

> Law often creates a dilemma that requires compliance professionals to negotiate between contradictory legal and organisational logics. Legal ambiguity offers a solution by facilitating the creation of symbolic structures that demonstrate attention to law while leaving room to manoeuvre in ways that often elevate business logic over legal ideals.

The EU Directive exemplifies how legal ambiguity allows managers and professionals to rhetorically reframe legal ideals concerning, e.g. human rights violations or anti-bribery policies through their managerial and business ideals. Edelman (2016, p. 34) calls the reframing the "managerialization of law", whereby the law "becomes infused with managerial values and interests". For example, Howitt (International Integrated Reporting Council (IIRC), 2017a) claims that:

> The requirements of the Directive reflect the principles of integrated reporting: that information provided is forward-looking; that there is identification of risk; description of business model; the potential to make this an integrated part of the management report. That sustainability is crucial, but that there is connectivity between companies' impacts on the economy, environment, on people, on society – what in integrated reporting we call the six capitals. Although the EU has traditionally used the term non-financial reporting to ascribe value to what are sometimes called intangibles, sometimes externalities, the conception of integrated reporting is that these can be intensely financial – but sometimes only in the longer term. This demonstrates that the principles of integrated reporting and the principles of the EU Directive are closely intertwined.

The equivalences that Howitt outlines between the EU Directive and <IRF> are dubious. If Howitt is correct, then these business values and ideals would transform the original meaning of the EU Directive. The same terms, through the business rhetoric deployed by the IIRC, are reshaped and overturned because non-financial information is no longer about social and environmental impact, it is about explaining the role of the six capitals in how the company is producing value.

Crucially, Howitt omits to mention that the parameters used by the <IRF> and the EU Directive to define materiality are very different: principal risks of severe social and environmental impacts for the EU Directive versus value creation for the IIRC. For example, materiality plays a central role in the <IRF> because the IIRC uses it to achieve connectivity and conciseness. It follows that the two initiatives use the same terms – e.g. forward-looking, identification of risk, business model, reporting integration, sustainability – with fundamentally different meanings.

Similarly, the EU Directive implementation guide exemplifies that a company should use key performance indicators (KPIs) as "appropriate disclosures on metrics and targets used to assess and manage relevant environmental and climate-related matters" (European Union, 2017, p. 14). Unsurprisingly, the <IRF> outlines an entirely different understanding that:

> [. . .] quantitative indicators, such as KPIs and monetized metrics, and the context in which they are provided can be very helpful in explaining how an organization creates value and how it uses and affects various capitals (International Integrated Reporting Council (IIRC), 2013, p. 8).

Hence, while EU lawmakers aim to improve the condition of society and the environment as a whole, the <IRF> strategic focus and future orientation ultimately "reflects the continuing primacy of financial capital" (Barker and Kasim, 2016). Therefore, Howitt's (2017) claim that "the requirements of the EU Directive reflect the principles of integrated reporting" is arguably false. However, echoing McBarnet's (2006, p. 1091) definition of creative compliance, we argue that the IIRC is using the letter of the law to defeat its spirit.

This process of managerialization of the EU Directive has been possible because of the ambiguity of the law. EU policymakers allowed and even encouraged managers and professionals to reframe legal ideas. For example, a representative of the EU Commission repeatedly explained that the EU Directive is not prescriptive and "we don't tell companies how to manage themselves" (Lewis, 2016). On another occasion, Lewis argues that "non-financial reporting does not exist as such [. . .] We need to remind ourselves that companies are the real protagonists" (International Integrated Reporting Council (IIRC), 2017a, p. 4). The result is that the EU Directive leaves leeway and flexibility when it comes to preparing the statement on non-financial information that the IIRC and other organisations can use to either erode or improve the original vision of EU lawmakers.

5.3.2 Political opportunism: the enlisting coalition supporting the Integrated Reporting Framework. Power dynamics and regulatory coalitions help us understand the parallel convergence between the <IRF> and the EU Directive. We argue that a critical analysis of the link between the <IRF> and the EU Directive cannot ignore that the two initiatives are promoted and supported by very different social constituencies.

Our review shows that sustainability report users were key promoters of the EU Directive, primarily because they were dissatisfied with the poor quality of voluntary corporate sustainability reporting. There is extensive evidence that between 2009 and 2014 users of sustainability reports, such as responsible investors, NGOs and unions lobbied European regulators to change the status quo and supported the EU Directive (Eurosif and ACCA, 2013). The lobbying has been confirmed by both interested actors and by EU officers (Monciardini, 2016). The users exploited a window of opportunity created by the financial crisis to push EU

policymakers to introduce mandatory non-financial reporting despite opposition by businesses and report preparers (Fleming, 2013; Monciardini and Conaldi, 2019).

Djelic and Quack's (2012) offer a categorisation of the dimensions that are likely to influence the development of transnational standards. Their typologies can help to explain the coalitions supporting the two initiatives according to the nature of their goals and the relative power of their members. Drawing on their work, we argue that the EU Directive emerged as a project in which less resourceful actors targeted the development of an alternative standard that challenged the status quo.

The IIRC emerged in response to the global financial crisis to challenge the reporting status quo, which "was the catalyst that made it [reporting integration] a mainstream issue" (Mio, 2016, p. 7). However, the nature of the goals fostering the <IRF>'*s* creation and the relative power of the actors supporting the <IRF> are fundamentally different from the EU Directive. In keeping with Djelic and Quack (2012, p. 7), we argue that the IIRC began as an enlistment project originating "from a small base of powerful actors to enlist others in following their proposed (and existing) standards." While support for the EU Directive came from dissatisfied users of sustainability reporting, the <IRF> was created by those who were already controlling financial accounting and sustainability reporting, backed by self-interested report preparers to foster stock market capitalism (La Torre *et al.*, 2020). As Flower (2015, p. 2) points out:

> The IIRC's most remarkable feature at its incorporation was the extraordinarily high-powered character of its governing body, its Council. [. . .] The Council was dominated by the accountancy profession, preparers and regulators, who made up more than half its members. They outnumbered by far the few representatives of organizations that promoted social and environmental accounting.

Among the initial members of the IIRC, one finds the heads of the IASB, FASB, IFAC and IOSCO, along with the CEOs of the Big Four accounting firms – Deloitte, Ernst and Young, KPMG and PwC – and the heads of the major British professional accountancy bodies. The interests of major voluntary frameworks for sustainability reporting were present with representatives from the GRI and Accounting for Sustainability (A4S). The CFOs of major multinationals, such as Nestlé, Tata and HSBC, spoke for the preparers of financial and sustainability reports.

In practical terms, the IIRC uses the dominant position of its constituencies to legitimise its project as the "new norm" (International Integrated Reporting Council (IIRC), 2016b) and to show momentum for the <IRF> project. This legitimisation occurs through a self-referencing exercise by which members of the IIRC recommend that regulators and lawmakers adopt the <IRF> as a solution to solving the problem of reporting integration. The IIRC newsletter offers many examples of this strategy. For example, its May 2016 newsletter underlined that the Federation of European Accountants, the Association of Chartered Certified Accountants and PwC are "just a few of the range of organizations that referred to the International <IRF>"in their response to the European Commission on the EU Directive. Moreover, it informs how a Senior Partner at KPMG and two representatives of large companies have responded to the German government consultation on the implementation of the EU Directive arguing that <IRF> "is necessary" for companies and investors to understand value creation. Similarly, the newsletter reports that Deloitte responded to a similar consultation by the UK government saying that "the concept of holistic or "integrated" reporting is extremely important" for companies and investors (International Integrated Reporting Council (IIRC), 2016a).

An advantage the <IRF> project offers policymakers is a solution to the puzzle of reporting integration because it does not require a fundamental shift in existing reporting practices and power relations. Moreover, it has the potential to encourage convergence around the <IRF> based on pure political opportunism. The

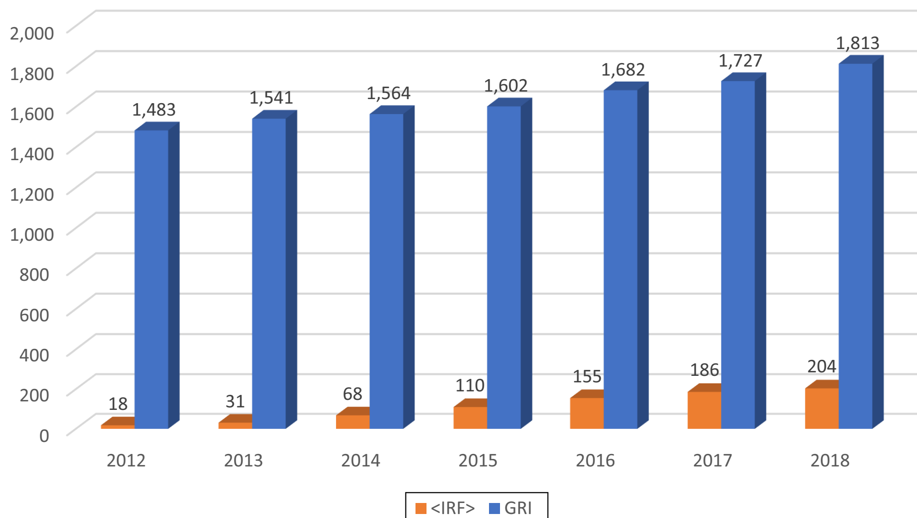
convergence also emerges in the academic debate on the <IRF>. Even authors who are cautious or critical towards the approach taken by the IIRC acknowledge its potential to "shift corporate thinking" (Adams, 2015, p. 25) or "shift financial capital" (Tweedie and Martinov-Bennie, 2015, p. 49). The academic conclusions do not reference the revolutionary content and principles of the <IRF> but are persuaded instead by the exceptional leverage of the IIRC and its proponents. In many respects, the survival of the <IRF> hinges on these influential accounting proponents successfully promoting it. However, if its proponents tire of the continued failure of companies to adopt the <IRF>, then they may turn to the next best reporting initiative, or again (re)create something new or return to older and established frameworks such as the GRI.

Signs that the IIRC is losing momentum in its ambition to be the framework of choice for complying with the EU Directive continue to manifest. In June 2019, Richard Howitt and the IIRC parted ways. IIRC Chairman Barry Melancon disclosed:

> [. . .] it is the right time professionally and personally for him to enable the IIRC to seek fresh leadership, as we seek to intensify our efforts to bring clarity to the reform of the corporate reporting landscape (IIRC, 2019).

However, as of April 2020, news of a permanent replacement for Howitt has not been released.

Nor has the <IRF> seem to have made an impact on compliance with the EU Directive. For example, using Corporateregister.com data, Figure 2 shows that only 204 organisations issued integrated reports in Europe in 2018 [4]. Even assuming that all 204 reports comply with the EU Directive, that number pales into significance when you consider that between 6,000 and 8,000 organisations must comply (European Commission, 2018). Instead, there appears to be resistance to the <IRF>: the same data show that more than 1800 organisations issued GRI reports [5]. Thus, it would appear that to date the IIRC has failed in



Source: Corporateregister.com data as at 15 April 2020, (accessed 16 April 2020)

Figure 2.
Use of <IRF> versus GRI in Europe 2012-2018

its quest to have the <IRF> become the framework of choice for complying with the EU Directive.

We argue that one reason that the <IRF> has not become the framework of choice is that it has failed to gain the endorsement of the European Commission. According to the current version of the European Commission (2020) website, only the UN Global Compact, OECD guidelines for multinational enterprises, and ISO 26000 are listed as frameworks that companies can rely on for EU Directive compliance. Thus, despite the potential political influence the IIRC had, especially while Howitt was CEO, the <IRF> failed to gain critical endorsements as a viable solution for complying with the EU Directive. Consequently, there are relatively few <IRF>-based reports produced by European companies.

6. Conclusion

6.1 Implications for the recognition of private standards and frameworks

Our research contributes to the understanding of the formation and diffusion of private standards and frameworks and how they might become *de facto* binding rules. In the case of the <IRF>, it is arguably already a *de facto* binding rule in South Africa because of the endorsement of the King IV guidelines to produce integrated reports (Institute of Directors in Southern Africa (IoDSA), 2016, p. 28). However, it is still considered a voluntary framework. Similarly, the IFRS are binding rules because, in many jurisdictions, they are mandated as a condition of listing on stock exchanges or as part of national corporate laws. However, in the case of the <IRF>, it has arguably failed to become adopted as the *de facto* framework for complying with the EU Directive considering the relatively few integrated reports issued compared to GRI reports in Europe in 2018.

So why has the <IRF> failed? In our view, it is because the <IRF> was trying to get companies to prioritise the <IRF> against an already well-established reporting framework in the GRI, which arguably can be used to comply with the EU Directive (GRI and Global Sustainability Standards Board, 2017). For most companies, complying with the EU Directive using the GRI is a business as usual approach to reporting rather than implementing a significant change to established reporting practices (Dumay and Hossain, 2019). Thus, companies do not need to take on board the IIRC's façade of compliance because they already have a tool in the form of the original GRI guidelines or the current GRI Standards that they can use to comply with the EU Directive, regardless of whether they comply in substance or just form.

It is interesting to note that both the EU Directive and the <IRF> will undergo changes in 2020 and beyond. For the EU Directive, these changes are in keeping with the need to build a socially, environmentally and economically sustainable economy for Europe. For the <IRF>, despite IIRC claims that it wants to have further links with the UN SDGs, the changes proposed are limited to three relatively minor issues. Stock market capitalism still appears to be the driving force behind the IIRC and reporting integration (La Torre *et al.*, 2020). The IIRC needs to understand that if the <IRF> is to become a *de facto* private standard in a specific national jurisdiction, it needs the support of corporate regulators to mandate it (Flower, 2015).

6.2 Implications for legal compliance

Another lesson learned is that a standard framework needs a powerful coalition of actors who can influence corporate regulators to allow the adoption and diffusion of a *de facto* standard at a national level. For example, in South Africa, the <IRF> has the backing of Prof Mervyn King, and it was through his corporate governance codes that

integrated reporting as we know it today first saw the light of day (Institute of Directors in Southern Africa (IoDSA), 2009; Gleeson-White, 2014). Considering that the King III Code of Corporate Governance was issued more than four years before the <IRF>, it appears that the <IRF> emanates from Prof Mervyn King's political power in South Africa as he was the person charged with delivering on corporate governance reforms (Gleeson-White, 2014).

It appears that Richard Howitt did not share the same power base in the European Parliament as King enjoys in South Africa, and by becoming the CEO of the IIRC, eroded any power and influence he held as a former MEP. It is arguable that it might have been better for him to remain as an MEP if he believed that the <IRF> should become the *de facto* standard for complying with the EU Directive because he may have had more influence there than as IIRC CEO. However, with Brexit looming, that seems not to have been a feasible option. Moreover, it was under Howitt's watch in 2017 that the IIRC chose not to modify the <IRF> after their first feedback review) (International Integrated Reporting Council (IIRC), 2017b, 2017c). Regardless of the reasons for his decision, the strategy he adopted to pave the way for adopting the <IRF> in Europe failed, leading to IIRC and Howitt parting ways in 2019. (Howitt's departure has left a leadership void as at the time of writing this paper as no new CEO has been announced.

Our research contributes to both policymakers and practitioners understanding how to comply with the EU Directive. The main problem we see is that <IRF> fundamentally diverges from the objectives and requirements adopted by the EU Directive as ratified by the parliaments of its member states. The <IRF> diverges from the recent wave of European legislation that focuses on corporate social disclosure and due diligence (e.g. Devoir de Vigilance in France, the Dutch Child Labour Due Diligence in The Netherlands, and the UK Modern Slavery Act in the UK). Unless a framework or standard can be easily applied to comply with the EU Directive, then its usefulness for reporting is significantly diminished. As we can see from the guidance issued by the GRI and Global Sustainability Standards Board (2017), following the GRI is arguably an easier way to comply with the EU Directive than the <IRF> who offers no such guidance. Is it any wonder then that the corporateregister.com data clearly show that the GRI use dominates the <IRF> in Europe?

Another reason for the failure of the <IRF> to be a solution for complying with the EU Directive is that the <IRF> is a market-driven framework and not a policy-driven one. As Adams (2015, p. 25) argues, she would prefer businesses to embrace the notion of value for society, but this will not happen unless the value is aligned to value for investors (International Integrated Reporting Council (IIRC), 2013). The <IRF> assumes that the only solution to reporting integration is market-driven and steeped in a voluntary business case for corporate sustainability. By its nature, this assumption denies space for public policy to address market failures. However, even public policy is not enough because sustainability is a much bigger problem than any individual company or jurisdiction can resolve on its own and requires the participation of policy-makers, governments, NGOs and private enterprise to engender change (Dumay and Guthrie, 2019).

6.3 Future research opportunities

Unfortunately, there is a lack of evidence about the effectiveness of the <IRF> or the EU Directive for reporting integration. Academics, in collaboration with stakeholders, can play

a crucial role in research to understand what changes in society are the result of changes in reporting, particularly in the context of the upcoming review of <IRF> and the EU Directive. We lack reliable and publicly available data on the adoption of the <IRF> and evidence on the effectiveness of the EU Directive. The existing evidence in the implementation of the <IRF> has been disappointing, consistently showing that it has failed to improve the substance of reporting practices (Melloni, 2015). It is too early to consider what impact the EU Directive is having. This strand of empirical research outlines the requirement for a non-ideological and evidence-based practice, and regulatory debate, not just on the merits of the <IRF> or the EU Directive but, more broadly, on the suitability of market-driven approaches to reporting integration and on the role left to public authorities.

We also need to consider the current context the world finds itself in today. At the time we are writing the conclusion to this paper, we are in the midst of the COVID-19 crisis. Dumay *et al.* (2020) recently stated "that to make a significant contribution to society our research community will need to do more to address the challenges of tomorrow", of which we know little about during the crisis and beyond. We are in unprecedented territory, and we will require even more the collaboration of all members and institutions of society to overcome the pandemic and the economic, social and environmental implications. Thus, reporting on how we all participate in overcoming the crisis is a more pressing goal that supersedes the intentions behind the IIRC and the <IRF>, and the European Union and the EU Directive, along with other legal and *de facto* corporate reporting frameworks. It will be about finding global, not local solutions to the crisis. As Dumay *et al.* (2020) state:

> To our minds, the crisis highlights the importance of advancing knowledge that has the potential to contribute to our collective welfare. Despite knowing the risk of global pandemics, and despite the availability of physical, monetary, natural, human, relational, and structural assets to act and contain the COVID-19 outbreak, we are ill-prepared. It seems the lessons learned from past financial crises and past pandemics are being ignored, replaced by a belief that markets can act as an appropriate proxy for the common good. Now, with the realities of this global pandemic just beginning to materialise, it seems that the people that constitute the foundations of all accounts [that] are at risk more than ever.

Hence, even the planned changes to the <IRF> and the EU Directive need rethinking as we head into unchartered waters. We cannot afford any reporting façades.

Notes

1. See: www.globalreporting.org/Information/about-gri/Pages/default.aspx (accessed 11 April 2020).
2. See: www.sasb.org/governance/foundation-board/ (accessed 11 April 2020).
3. Please note that corporateregister.com updates data on a regular basis so these numbers are likely to change as more reports are added as corporateregister.com becomes aware of them.
4. See: www.corporateregister.com/stats/content/iirc-byRegionLast.php (accessed 13 April 2020).
5. See: www.corporateregister.com/stats/content/byGriRegionLast.php (accessed 13 April 2020).

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