Critical analysis of the contribution of Integrated Reporting (IR) to sustainability

Abstract

Integrated Reporting (IR) aims to be a concise communication of an organisation's value creation story. IR's promoters see it as a force for financial stability and sustainable development, yet there are mixed opinions and research evidence on IR's real contribution to the broader sustainability agenda. There are many positive examples of companies engaging with IR and claiming to realise multiple external and internal benefits. Yet there are also tales of box-ticking and criticisms of IR's focus on investor interests rather than on environmental and social sustainability. This chapter gives some background on IR, critically examines how IR has contributed to the sustainability agenda to date and considers its potential to contribute in the future. It shows that although IR has the potential to contribute to lasting change, notably through Integrated Thinking, its continued and increasing focus on a narrow financial definition of sustainability and value creation restricts this potential.

Keywords: Integrated Reporting, Integrated Thinking, Sustainability Agenda

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Introduction

In this chapter, we explore the contribution of Integrated Reporting to the broader sustainability agenda. IR is the latest in a long line of corporate reporting developments that have aimed to make organisations more accountable for their performance, not just to shareholders but to a much broader stakeholder base. IR's enthusiasts consider it to have considerable potential as a way of simplifying current reporting formats and focusing management on delivering a sustainability agenda. Its critics consider it just the latest in a long line of corporate reporting fads, too focused on shareholder interests to make much difference in progressing real environmental and societal change.

IR contributes to furthering the sustainability agenda in several ways. IR combines financial and non-financial information in a single report, bringing welcome simplification in an increasingly complex corporate reporting landscape. IR's focus on the future addresses some of the shortcomings of existing (financial and non-financial) reports and takes into account the importance of silent stakeholders such as future generations (Adams, 2015, De Villiers *et al*., 2014). In addition, IR's focus on external reporting combined with internal decision-making through Integrated Thinking has the potential to deliver more streamlined decision-making and engage employees with a sustainability agenda.

Yet IR has also failed to deliver on several of its original goals. IR's definition of 'sustainability' increasingly seems aligned with a narrow financial view of sustainability in contrast to the broader notion of sustainability it initially set out to promote (Deegan, 2020, Flower, 2015). The merger of the International Integrated Reporting Council (IIRC) and the investor-focused SASB is likely to reinforce this alignment. The potential for Integrated Thinking to drive organisational change towards embedding a sustainability agenda remains poorly understood and communicated, relatively unexplored and potentially under-utilised.

Background on Integrated Reporting

IR aims to explain how an organisation creates, maintains or destroys value over time, with reference to six 'capitals' (financial, natural, intellectual, social, human and manufactured). IR differs from annual reports and standalone sustainability or CSR reports in its focus on having a more strategic, longer-term forward-looking approach (De Villiers *et al*., 2014). IR is unique in its dual aim of producing a single coordinated external report and simultaneously developing an interconnected internal decision-making process, termed 'Integrated Thinking'. The main promoter of IR, the IIRC, intends an organisation's external IR to reflect its internal Integrated Thinking (Adams, 2015, Busco *et al*., 2019). As such, IR could be a disruptive innovation in corporate reporting (Simnett and Huggins, 2015), with the potential to change the way that organisations make decisions and determine their success (Adams, 2015, Eccles, 2014, Eccles *et al*., 2014).

Global interest in IR has been gaining momentum for a number of reasons. Firstly, there is increasing dissatisfaction with the usefulness of traditional profit-focused annual corporate reports (Dumay *et al*., 2019, Rowbottom and Locke, 2016), which are often excessively complex and remain predominantly focussed on historic rather than future-looking information. These reports also fail to adequately recognise the considerable and increasing importance of intangible assets in creating long-term value for organisations (Adams, 2015, Adams and Simnett, 2011, IIRC, 2011). Alongside this recognition of the weakness of existing reports, there has been a growing demand for more transparency in corporate disclosures from an increasingly broad stakeholder base (Deegan, 2020, De Villiers *et al*., 2014, Malafronte *et al*., 2020). Investors have been shown to be willing to pay for additional non-financial disclosure through reduced earnings (De Villiers *et al*., 2021). This has led to more organisations reporting on non-financial matters and external stakeholders, including investment professionals, relying on this additional information for decision making, with the provision of such information associated with higher firm values (Cahan *et al*., 2016). The potential for IR to combine financial and non-financial reporting to meet these multiple needs has made it increasingly appealing.

Although IR has only been mandatory (on an apply or explain basis) for listed companies in South Africa since 2011, according to the IIRC approximately 2,000 listed companies in over seventy countries are voluntarily using an IR approach for their reporting (IIRC, 2020). There is growing adoption of IR in Japan, Sri Lanka and Mexico (Gibassier *et al*., 2019), and 78% of listed companies globally now integrate financial and non-financial information in their reporting, even if they do not formally call this approach IR (KPMG, 2017). Regulators, governments and stock exchanges across the globe are supportive of IR as a reporting initiative (IIRC, 2017b). Movements towards mandating non-financial disclosures are on the increase, and IR is a flexible framework that can be used to meet these mandates. IR has been mooted as a potential solution for meeting the requirements of the EU Directive on non-financial reporting, for example (Monciardini *et al*., 2016). IR's holistic approach to corporate communication also aligns well with organisational interest in and commitment to voluntary reporting on the UN SDGs (Adams *et al*., 2020, Camilleri, 2018, Di Vaio *et al*., 2020, Unerman and Chapman, 2014).

Within organisations, there is also growing recognition of the importance of combining financial and non-financial information for optimal decision-making (Esch, Schulze & Wald, 2019). Versions of Kaplan and Norton's (1996) Balanced Scorecard (BSC) are widely used by organisations for this purpose and increasingly incorporate sustainability issues (Ferreira and Otley, 2009, Hansen and Schaltegger, 2016). Experimental studies have shown that participants provided with linked financial and non-financial information make decisions leading to higher sustainable value creation (Esch, Schnellbächer & Wald, 2019). It is increasingly important, therefore, to understand how organisations manage and measure non-financial information and use it in their internal decision making processes (Adams and Larrinaga-González, 2007). IR's dual focus on external reporting combined with internal decision-making aligns well with these trends in management accounting.

In 2020, the IIRC and the SASB merged to form the Value Reporting Foundation (Deloitte, 2020), which places the future of IR at an important juncture. The merger of these two bodies could theoretically allow for a holistic view of an organisation to be obtained through IR, combined with the detail necessary for peer group comparison through sustainability accounting standards (IIRC, 2021a). IR could therefore help to stimulate much needed discussion around trade-offs between financial and other capitals (van Bommel, 2014). But whether this delicate balance can be achieved, and conflicting stakeholder needs met, remains to be seen. The merger could instead serve to reinforce IR's drift away from addressing broader sustainability issues towards focusing on investor needs, as we discuss in the following section.

The sustainability agenda

Any discussion on IR's contribution to the sustainability agenda requires a definition of what 'sustainability' is. A broad interpretation of sustainability considers the impact that firms have on the environment and society. A sustainable organisation should therefore consider the needs of a broad range of stakeholders (including the needs of future generations) and embed these into its operations, taking responsibility for its decisions. Sustainability therefore necessitates intertemporal trade-offs, with the notion of 'time' distinguishing sustainability from general responsibility or purely environmental concerns (Bansal and DesJardine, 2014). However, a narrower interpretation of 'sustainability' exists in a reporting context which is based on a rational investor's perspective and the need to maximise shareholder value (De Villiers and Maroun, 2018). This perspective is more focused on how firms address environmental and societal concerns to reduce risk and thus ensure that firms themselves remain sustainable. The difference between these two perspectives is noted by Eccles (2021): “For those on the left, “sustainability” is solving economic and social problems at scale, regardless of the impact on financial returns. For those on the right, “sustainability” connotes trading off financial returns to produce some kind of public good.” While these two extremes are likely to be more nuanced in reality, these two different interpretations of sustainability are important in the context of a discussion around IR. Theoretically, IR could be used as a reporting tool to bridge the gap between perspectives, providing information relevant to both sets of stakeholders and as a result encouraging necessary and difficult conversations around the trade-offs necessary to sustain both enterprise and the natural environment. Yet if these different perspectives are not understood, and value creation for society is confused with economic value creation, then IR can easily be used by corporations as a PR tool, or as greenwashing to screen an underlying capitalist agenda (Deegan and Blomquist, 2006, Flower, 2020, Gray, 2010,).

IR, with its focus on future sustainable value creation and the consideration of six capitals, seems at first glance to have many parallels with a broader notion of sustainability (Le Roux and Pretorius, 2016), and when the IIRC was formed this seemed to be its focus. Certainly the IIRC and now the VRF’s frequent references to ‘sustainable value creation’ suggests a broad focus, although our earlier discussion has outlined how ‘sustainable value creation’ could be interpreted very differently by different parties. Yet since its inception IR has become increasingly focused on economic value creation rather than sustainability (Bouten and Hoozée, 2015, Deegan, 2020, Flower, 2020), driven by market logic rather than stakeholder logic (Dumay *et al.*, 2016, Flower, 2015, Thomson, 2015). Some consider the IIRC to have been too heavily influenced by business and ‘captured’ by the accounting profession. In an interesting development, some practitioners critical of the IIRC’s recent direction for IR have started to form their own interpretations of IR which are more in line with its original broader sustainability agenda (Gibassier *et al*., 2018). This suggests that it is not IR itself but rather its promotion by the IIRC that has led to its narrower focus. For this chapter, we consider IR's contribution to the broader, rather than the narrower, definition of sustainability.

IR's current and future contribution to the sustainability agenda

The current contribution of IR to the sustainability agenda

IR's current contribution to furthering the sustainability agenda include its simplification of reporting, its focus on the future rather than the past and its potential to engage employees in the sustainability agenda through Integrated Thinking. Yet IR's interpretation of 'sustainable value creation' remains unclear, which is leading to growing scepticism around IR's ultimate purpose. Practitioners are frustrated at the lack of guidance on IR implementation, specifically on how to achieve organisational change through Integrated Thinking.

Simplification of corporate reporting

Over the past two decades, particularly since the GFC of 2007/8 brought the shortcomings of current corporate reporting practice into the spotlight, there has been a significant increase in the external information produced by organisations (Dumay *et al*., 2019, Rowbottom and Locke, 2016,). This has come about not only as a response to criticisms of traditional annual reports but also as an attempt to respond to increasing demands by stakeholders for more transparency (Malafronte *et al*., 2020). Organisations now produce multiple standalone reports aimed at different stakeholder groups, including traditional annual reports, sustainability reports, CSR reports and many others (Deegan, 2020). Not only have the numbers of reports increased, delivery formats have also changed, with social media releases now considered a key part of corporate communication (Lodhia and Sharma, 2019, Rivera-Arrubla and Zorio-Grima, 2016).

Although organisations are providing more information to stakeholders than they did in the past, the proliferation of reporting formats and lack of cohesion makes the overall usefulness of the information provided questionable. Sustainability reporting in particular has been accused of confusing output with impact, with the multiple metrics reported on not leading to significant organisational change (Pucker, 2021). Sustainability reports use multiple frameworks and standards, with GRI the most popular (KPMG, 2017) yet the information contained within these reports is often highly quantitative and rarely linked to other organisational data. The 'checklist' approach of GRI makes it hard for stakeholders to use the sustainability information provided to determine the overall impact of the organisation on society and the environment (KPMG, 2017).

In this context, IR's main contribution is its aim for a multi-capital, multi-stakeholder approach to understanding and communicating an organisation's value creation story. IR's principles-based approach allows for multiple interpretations and suits the needs of a variety of organisations. IR focuses on how six capitals interact to create, preserve and erode value and acknowledges that trade-offs are necessary between capitals. IR's single framework encompassing the interconnectedness between all of these capitals should therefore help all stakeholders to be able to use an Integrated Report as their primary way of understanding an organisation's purpose and impact. There is evidence that IR can help organisations to focus on matters that are more relevant to their own stakeholders (Farneti *et al.*, 2019). Although it is unlikely that Integrated Reports could fully replace other reports, as investors will still need detailed historic financial data for example (De Villiers and Sharma, 2018), IR nonetheless provides a single consistent point of reference for the potential for all stakeholders to use which was previously lacking.

Improved information for shareholders

Results from several studies show that IR's goal of simplifying and improving information provision has largely been successful from a shareholder perspective. The adoption of IR is associated with improved firm value (Barth *et al*., 2017, Caglio *et al*., 2020, Lee and Yeo, 2016, Zhou *et al*., 2017), a reduced cost of equity capital (Vitolla *et al*., 2019), higher quality of management (Churet and Eccles, 2014) and the ability to attract longer-term investors (Knauer and Serafeim, 2014). This is not to suggest that a deep understanding of stakeholders, capitals, materiality and trade-offs has been achieved in practice though. Many practitioners continue to find this difficult and struggle to balance financial and non-financial metrics appropriately (Coulson *et al*., 2015).

Future focus

Not only does IR consolidate current reports into an overarching framework, IR's focus on the future distinguishes it from most other existing standalone reports (such as annual financial reports and sustainability reports). This future focus responds more closely to broader stakeholder demands for more organisational accountability than current standalone sustainability reports do. Considering future impacts in decision-making corresponds more closely to a broad definition of sustainability (Bansal and DesJardine, 2014). Stakeholder engagement is a key feature of IR and helps to determine the capitals and their relative materiality (De Villiers and Maroun, 2018). IR's approach to materiality is different to the traditional financial accounting approach (Knauer and Serafeim, 2014) and the sustainability approach (Mio *et al*., 2020), potentially helping IR to communicate its sustainable value creation story more clearly (Stubbs and Higgins, 2014).

Employee engagement and change through Integrated Thinking

The IIRC states that IR has the unique aim of not only changing external reporting, but also changing organisational behaviour. By contrast, sustainability reporting does not provide any guidance as to the operational and strategic changes necessary to achieve sustainable outcomes in practice (Bebbington, 2009). This is also the case with CSR and other non-financial reports. Even though organisational change is presumably the ultimate goal of most non-financial reporting, reporting is unlikely to impact on true sustainability if adopted for legitimacy reasons (Gray, 2010, Lodhia, 2015, Stubbs and Higgins, 2014). IR's stated aim of changing organisational behaviour through Integrated Thinking is therefore admirable, and if successful could be the lasting legacy of IR.

Integrated Thinking refers to "the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects" (IIRC, 2021b, p3). The IIRC sees "reporting and thinking as two sides of the same coin – both necessary to enhance connectivity in the organisation and enhance communication on value creation" (IIRC, 2017a, p3). Integrated Thinking enthusiasts claim many organisational benefits such as greater internal and external collaboration and trust, better resource allocation and cost reductions (Black Sun, 2014, Cavicchi *et al*., 2019, IIRC, 2017a). Despite these bold claims, evidence to support them claims is mixed, and Integrated Thinking is not well understood (Feng *et al*., 2017, La Torre *et al*., 2018).

Some evidence certainly shows that IR can result in internal improvements through Integrated Thinking, such as improved decision making and an increased organisational awareness of non-financial drivers of value. This increasing awareness of a broader set of stakeholders could help to promote sustainability issues within organisations. Some case study evidence supports the notion of external reporting benefiting internal processes in this way

(Feng *et al*., 2017, Oliver *et al*., 2016). Similar studies into sustainability reporting have also found that reporting information externally can lead to an increased organisational focus on sustainability issues (Contrafatto and Burns, 2013, Kerr *et al*., 2015, Norris and O'Dwyer, 2004). The very act of preparing an Integrated Report for external use can bring organisational benefits through the coordination of data and resources (Adams and Simnett, 2011, Feng *et al*., 2017, McNally and Maroun, 2018, Oliver *et al*., 2016). Integrated Thinking has been shown to help in overcoming a silo mentality (Dimes and De Villiers, 2020) and improve managerial confidence in an organisation's stakeholder engagement strategy (Knauer and Serafeim, 2014). Evidence also shows that it may also be helpful in focusing organisations on their goals during a crisis situation (Al-Htaybat and Von Alberti-Alhtaybat, 2018, Dimes and De Villiers, 2021). Companies familiar with using GRI for sustainability reporting find IR useful and value-adding due to its conciseness, its approach to determining material future-focussed issues and its promotion of Integrated Thinking (Macias and Farfan-Lievano, 2017). Involving different stakeholders in the accountability process has also been shown to be beneficial (Cavicchi *et al*., 2019). This evidence suggests that IR can be seen as a way of enhancing existing sustainability reporting and sustainability practices rather than necessarily representing a radical innovation (Hsiao *et al*., 2021, Montecalvo *et al*., 2018).

Disconnection between reporting and internal change

Another body of evidence indicates that although external reporting might change, this does not necessarily catalyse internal change (Higgins *et al*., 2019, Stubbs and Higgins, 2014). IR can clash with the pre-existing organisational culture, which can take a long time to change (Dumay and Dai, 2017). Some IR adopters in South Africa found that they did not experience many of the supposed benefits of Integrated Thinking when they adopted IR (Steyn, 2014). Integrated Thinking can also develop for reasons other than IR adoption. In a survey of early adopters in South Africa, although the majority of respondents felt that IR was a catalyst to enhancing Integrated Thinking, there were other potential drivers. These included including changing business circumstances, changing strategy, increasing stakeholder demands, a change of leadership and performance incentives and a focus on risk management (SAICA, 2015). Integrated Thinking may also develop from sustainability reporting rather than IR (Rossi and Luque-Vílchez, 2020). This again suggests that IR may be a development of sustainability reporting and an organisational focus on sustainability issues rather than something completely new.

Lack of clarity around 'sustainability' and 'value creation'

Although IR outlines the six capitals that organisations need to report on, it does not really explain why this reporting is necessary, missing an opportunity to clarify the boundaries of organisational accountability (Deegan, 2020) and to make clearer links to the sustainability agenda. There are few mentions of sustainability in the IR framework, and while it can be argued that this is because sustainability is the very purpose of IR (Kraten, 2017), this is certainly not communicated clearly. A clear definition of 'sustainability' and therefore the 'sustainable value creation' that is a hallmark of IR is lacking and adds confusion to the purpose of adopting IR.

Lack of practical guidance

Despite the aim of the IIRC for Integrated Reporting and Integrated Thinking to occur simultaneously, evidence also shows that there can be a timing difference between the two. Most organisations adopt the reporting before the thinking (Dumay and Dai, 2017, McNally *et al*., 2017) but others adopt the thinking in advance of the reporting (Al-Htaybat and Von Alberti-Alhtaybat, 2018, Dimes and De Villiers, 2020, Lodhia, 2015). Integrated Reporting can be adopted without Integrated Thinking (Dumay and Dai, 2017, McNally *et al*., 2017, Raemaekers *et al*., 2016, Stubbs and Higgins, 2014), yet Integrated Thinking can also exist without Integrated Reporting (Al-Htaybat and Von Alberti-Alhtaybat, 2018, Lodhia, 2015). Some evidence even suggests that economic benefits could be realised by Integrated Thinking independently of IR (Al-Htaybat and Von Alberti-Alhtaybat, 2018, Caruana and Grech, 2019). Calls from practitioners for more guidance on what Integrated Thinking actually is and how to implement it effectively are understandable in this context (IIRC, 2017a). Whilst the IIRC has recognised the importance of more guidance in this area, producing additional guidance on Integrated Thinking and its links to strategy in 2020 (IIRC, 2020), a clear definition and conceptualisation remains elusive.

Many practitioners consider existing guidance around IR insufficient (Doni *et al*., 2019). The valuation and recognition of the six capitals and the interdependence between them seem vague and difficult to achieve in practice. Integrated Thinking is poorly understood, with most organisations unclear as to how to realise its supposed benefits (Feng *et al*., 2017). Some are also frustrated by the additional costs of preparing yet another corporate report, particularly as IR's broad focus makes it unlikely to completely replace other existing reporting formats (De Villiers and Sharma, 2018, La Torre *et al*., 2018). Others see developments in mainstream reporting, such as the production of management commentaries within the IFRS framework, as serving a similar overall purpose to IR, rendering IR potentially unnecessary (Barker and Teixeira, 2020). It is unsurprising then that many practitioners are sceptical about the overall credibility and longevity of IR and the trustworthiness of the IIRC as an organisation (Chaidali and Jones, 2017). Some consider IR unlikely to be truly successful and widely adopted unless it is mandated (Flower, 2015, Kiron, 2012, Milne and Gray, 2013).

The potential future contribution of IR to the sustainability agenda

IR has had mixed success in contributing to the sustainability agenda to date. In this section, we explore its potential future contribution, and factors restricting this potential.

Focus on organisational change through Integrated Thinking

Integrated Thinking has been described as the "attribute or capacity for senior management to constructively face the tensions between corporate efficiency and a model that considers broader societal health and well-being" (Oliver *et al*., 2016, p229). Early adopters of IR have referred to Integrated Thinking as 'painful', as it requires organisations move out of their comfort zones and to discuss and report on things they may not wish to (Burke and Clark, 2016). IR seems a much more complex notion in practice than that envisaged by the IIRC (Gibassier *et al*., 2018). IR represents a significant change to how many managers conceptualise corporate sustainability (Hahn *et al*., 2014, Adams, 2017), and managers are likely to be overwhelmed with the types of new information and thought processes required (Higgins *et al*., 2014, Macias and Farfan-Lievano, 2017, Parrot and Tierney, 2012). Yet if the goal of non-financial reporting is to effect long-lasting organisational change towards a more sustainable future, then changing organisational thinking and decision-making, no matter how difficult this might be, is critical.

Focus on data and management control systems

For Integrated Thinking to effect change, a broad and comprehensive set of Management Control Systems (MCS) will be necessary to embed it into core business decision-making (Gond *et al*., 2012). Many companies adopt IR without considering how to collect, analyse and report the necessary integrated information (McNally *et al*., 2017, PWC, 2017, SAICA, 2015). In particular, many organisations struggle to identify the future-orientated information necessary for IR (Badia *et al*., 2019), and financial information is still often perceived to be more reliable than non-financial information (Black Sun, 2014, Esch, Schulze & Wald, 2019). If the data, systems and processes do not exist to support Integrated Thinking, internal change is unlikely (Higgins *et al*., 2019, Stubbs and Higgins, 2014, IIRC, 2020). Few existing information management systems provide the multi-dimensional and future-focused information necessary (Rodríguez-Gutiérrez *et al*., 2019, Stroehle and Rama Murthy, 2019). Yet such systems, with a full suite of integrated indicators, remain the holy grail of IR (Gibassier *et al*., 2018).

Internal accountability

While many organisations consider their knowledge of Integrated Thinking to have been improved through the process of IR adoption, they remain unclear as to who should have overall responsibility for IR and Integrated Thinking (Caruana and Grech, 2019). Effective Integrated Thinking needs to be diffused across the entire organisation, starting with the board and senior management (Knauer and Serafeim, 2014). A sense of collective responsibility is important for IR, helping to engage employees in the overall purpose of the organisation (Guthrie *et al*., 2017). Breaking down silos and encouraging cross-functional teams can help to develop this sense of collective purpose (Guthrie *et al*., 2017, Rodríguez-Gutiérrez *et al*., Dimes and De Villiers, 2020, Giovannoni and Maraghini, 2013). Without this sense of internal collaboration, there is a danger that Integrated Thinking can get 'stuck' at a senior management level (Dumay and Dai, 2017).

Although embedding Integrated Thinking is the key next stage of the IR journey, it faces many challenges. Organisations find Integrated Thinking confusing and difficult, and existing MCS and PMS are often not suitable for the dynamic, multi-capital and future-focused approach required by IR. To avoid organisations abandoning IR in frustration, understanding whether there are benefits of Integrated Thinking, and if so how they can be realised, is a key next step (Bridges *et al*., 2020).

Conclusion

Although it is a relatively recent development in corporate reporting, IR has played a significant role in the evolution of corporate accountability reporting. Global trends indicate that the majority of companies are now integrating financial and non-financial information for their external reporting, whether or not they officially refer to this approach as IR. The underlying drivers of this trend – increasing stakeholder demands for transparency, coupled with the weaknesses of existing reporting formats - are unlikely to disappear. Regulators, stock exchanges, governments and multiple other stakeholders have broadly welcomed IR as a reporting initiative.

One of IR's key contributions to date has been in providing a single over-arching framework that has the potential to be suitable for multiple stakeholders. Given the growing stakeholder demands on organisations for information, and the proliferation of reporting formats, IR's relative simplicity helps to move the corporate reporting agenda away from simply providing reams of additional information to providing guidance for a broad range of stakeholders as to the relevance of non-financial information. The focus on organisational impact (both positive and negative) and future value creation are key contributions from IR. Yet this impact needs to be put into perspective. Promoters of IR such as the IIRC and now the VRF continue to focus on IR's contribution to sustainable economic value creation, which will not help organisations to move away from a focus on shareholder value creation towards a broader notion of organisational accountability.

The IIRC's aim for Integrated Reporting to drive internal Integrated Thinking also represents a significant potential contribution to the sustainability agenda. No other type of external reporting framework states such an intention explicitly, even though it is presumably implied. Yet even though Integrated Thinking has the potential to generate significant organisational change by aligning organisations on their sustainability priorities, it remains poorly understood. A key challenge for the future of IR is to help organisations to understand and embed the kind of organisational thinking (whether termed Integrated Thinking or not) necessary to effect long-term change. Major changes to MCS and data quality will be necessary to do this. Failure to do so is likely to result in the proposed internal benefits of IR adoption such as organisational alignment and improved resource allocation decisions not being realised and to the contribution of IR to the sustainability agenda being severely compromised.

The future of IR hangs in the balance. IR could theoretically help to embed a sustainability agenda within organisations if it remains focused on the original six capitals and how communication and trade-offs could help to address broad contemporary societal and environmental problems. Yet since its inception, IR has increasingly been pulled towards a financial definition of sustainability and value creation. Practical guidance as to how to implement IR and a deeper understanding of Integrated Thinking, its potential benefits (if any) and how to realise them is essential to realise IR's potential.

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