A critical reflection on the future of financial, intellectual capital, sustainability and integrated reporting

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ABSTRACT

This paper examines the future of IC reporting by offering critical reflection on different forms of reporting, with a particular focus on Integrated Reporting (<IR>). While, the Global Reporting Initiative (GRI) framework for corporate social responsibility disclosures, the International Integrated Reporting Council (IIRC), and the various financial reporting regulators appear to be in a contest for supremacy, what does this mean for IC? We examine how IC is reported under each of these frameworks and conclude that <IR> is unlikely to subsume traditional financial statement reporting, nor will it be able to provide all the information currently reported in GRI-type reports. The interplay of these reporting frameworks and their future development bodes well for IC, because different kinds of IC information will be reported under each of <IR>, GRI-type reports and in financial statements; that is IC does not compete with these forms of reporting forms, but forms an essential part of each.

1. Introduction

It has long been recognized that in today's economy, value often resides in non-tangible assets, and that therefore the most relevant form of reporting is non-financial in nature (Bontis, 1998; Dumay, 2016; Mouritsen, Larsen, & Bukh, 2001; Petty & Guthrie, 2000). While the term value is most often associated with the interest of investors, there are many other stakeholder groups who are not particularly interested in value creation as it is understood by investors. For example, employees may be more interested in the enjoyment derived from being meaningfully employed and treated with respect (Abeysekera & Guthrie, 2005; Dumay & Garanina, 2013; Roslender & Stevenson, 2009). Therefore, the information needs of investors and other stakeholders differ, both in terms of their focus on different aspects of an organization's activities and on different types of information.

To meet a more diverse range of information needs than provided by traditional financial reporting, several different reporting forms and frameworks have developed over time. These include the intellectual capital movement, as well as a social and environmental accounting movement, also known as corporate social responsibility (CSR) or sustainability reporting (Dumay, 2015a, 2015b). Dumay (2016) points out that early adoption of intellectual capital (IC) reporting has been overtaken by adoption of CSR and sustainability reporting and these became the common voluntary reporting regimes,
internationally predicated on the Global Reporting Initiative (GRI) framework. After the renewed critique of existing accounting and reporting models that followed the Global Financial Crisis, the International Integrated Reporting Council (IIRC) was formed with the aim that integrated reporting <IR> should become the new corporate reporting norm (De Villiers, Venter, & Hsiao, 2017).

How do these forms of reporting differ and how do they incorporate IC? In particular, given its purported role as the new reporting norm, what does <IR> mean for the future of IC reporting? This paper aims to answer this question by offering a critical reflection on the future of IC, in particular in relation to <IR>.

The paper uses the critical framework of Alvesson and Deetz (2000, pp. 16–20) that encompasses insight, critique and transformative redefinition. ‘Insight’ denotes the process of examining varied ways in which the knowledge and objective character of objects and events are formed and sustained. ‘Critique’ is intended to counteract the dominance of taken-for-granted goals, ideas and discourses that put their imprints on management and organization phenomena (Alvesson & Deetz, 2000). ‘Transformative redefinition’ develops critical, relevant knowledge and practical understanding that enables change and provides skills for new ways of operating.

We conclude that <IR> is unlikely to replace the traditional financial statement and is unlikely to provide all the information currently reported in GRI-type reports. The interplay of these reporting frameworks and their future development is likely to augur well for IC, because different kinds of IC information will be reported under each of <IR>, GRI reports, and in financial statements, because IC is not in competition with these other reporting forms, but forms an essential part of each of them.

The paper is organized as follows. Section 2 provides the critical framework for the study. Section 3 outlines the characteristics of various reports, while Section 4 offers insights on IC, <IR> and GRI. Section 5 offers a critique of IC and IR and is followed by Section 6 on transformative redefinition. Section 7 discusses the narrative while section 8 concludes the paper.

2. Critical perspective

We use the critical framework of Alvesson and Deetz (2000) that encompasses insight, critique and transformative redefinition. This framework has been used in the accounting literature to critically reflect: on an interventionist research project (Dumay, 2010), and on interviews as a research method (Qu & Dumay, 2011). In this critical framework, ‘insight’ can be defined as the interpretive goals of local understanding closely connected to real situations (Alvesson & Deetz, 2000; Dumay, 2010). ‘Insight’ denotes the process of examining varied ways in which the knowledge and the objective character of objects and events are formed and sustained. The first task is to investigate local forms of phenomena. ‘Insight’ is applied to produce a meaning of interest in the ‘data’ and understand the condition for seeing or pointing to such a meaning. It is closely related to an outcome of interpretation – that is, the aim to read something into what is ambiguous. According to Alvesson and Deetz (2000, p. 141), “Interpretation draws attention to the open nature of a phenomenon- a text, an act, a statement, physical material.

‘Critique’ aims to counteract the dominance of taken-for-granted goals, ideas and discourses that put their imprints on management and organization phenomena (Alvesson & Deetz, 2000). ‘Critique’ is directed at the conventions and structures of social orders and the forms of knowledge and privileged understanding complicit in reproducing and transforming structures of power and domination. It relates to the conditions of power, constraint, social asymmetries, ideological domination and cultural inertia that privilege certain ways of understanding and ordering the world (Alvesson & Deetz, 2000; p. 104). Expression of ideas, thoughts and beliefs, and indications of economic, structural and technical arrangements are monitored in terms of critical themes, such as, for example, male domination, communicative distortion, asymmetrical relations of power and conflict of interests.

‘Transformative redefinition’ demonstrates commitment to the pragmatic aspects of critical thought and recognizes that ‘insight’ and ‘critique’ without action are detached (Alvesson & Deetz, 2000). ‘Transformative redefinition’ develops critical, relevant knowledge and practical understanding that enable change and provide skills for new ways of operating. Instead of critically investigating the contradictions and forms of domination coming from, for example, profit and efficiency goals, an effort is made to integrate these with more democratic and non-repressive forms (Alvesson & Deetz, 2000). A ‘transformative re-definition’ means the opening up of new ways of engaging the social world – ways marked by critical insight and inspiration for new forms of practice in which bias and other constraints are considered and acted upon, and social criteria for responsibility are taken into account (Alvesson & Deetz, 2000). Through ‘transformative re-definition’ weak, hidden, obscured and peripheral voices and discourses are reinforced through the research text (Alvesson & Deetz, 2000; p. 152). The critical analysis triggering ‘transformative re-definition’ encourages the development of competing discourses, embracing constructive conflict and participating in agenda setting. In doing so it offers alternative ways of accounting for what exists, which is central to ‘transformative re-design’.

In our application of this framework, we discuss each of the reporting frameworks in turn, while forming new insights and providing critique. When we discuss the implications of the frameworks in the way they interact, we use transformative redefinition to examine the implications for IC of the relationships between the frameworks (Chatzkel, 2004; Marr & Chatzkel, 2004).
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