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The Legitimacy of the International Integrated Reporting Council

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Abstract: Our research is focused on the organizational legitimacy gained by the International Integrated Reporting Council (IIRC). We analyze all the answers received by IIRC in response to its Consultation Draft (CD) and match the responses with the legitimacy types, explaining the reasons of the users for participating in the standard-setting process. Also, for certain types of legitimacy, we analyze the information provided by the IIRC on its website. A qualitative approach is presented in this paper. We conclude that different groups of stakeholders grant different types of legitimacy. Our research contributes to the body of knowledge on integrated reporting in several ways. First, few studies discuss the legitimacy of a standard-setter, especially in the area of non-financial reporting. Second, our study considers the legitimacy granted by all the categories of stakeholders. Also, we identify the threats to the IIRC's legitimacy and provide guidance concerning sources of legitimacy that may be explored in the future.

Keywords: Integrated reporting, legitimacy theory, International Integrated Reporting Council, International <IR> Framework, stakeholders, comment letters

JEL Classification: M41, M52

1. Introduction

The process of companies' communication with their stakeholders changed during the last years. While in the 1960s the corporate reporting referred to the financial

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statements, in the 2020s it is expected that the corporate reporting will include integrated reporting (<IR>), management commentary, governance and remuneration report, sustainability reporting and financial statements. In this context, the academics consider that there is still a need for an accepted framework for the <IR> (Eccles & Saltzman, 2011).

Nowadays, the IFRSs are the most applied reporting standards worldwide. Yet, the IASB's Conceptual Framework was designed decades ago, the subsequent changes were not significant and thus it does not comprise all the items that a company needs to disclose nowadays in order to present a true and fair view of the reporting entity. At the same time, financial reporting is addressing mostly the needs of the shareholders. However, in the last decades the importance of a business model focused on the long term value creation for a variety of stakeholders is emphasized (Saghroun & Eglem, 2008). Also, financial reporting considers only historical information, while non-financial reporting "…involves extending the accountability of organizations (particularly companies) beyond the traditional role of providing a financial account to the owners of capital, in particular shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders" (Gray, Owen and Maunders, 1987). Thus, a company should present a complete picture. One way of achieving this objective is by adopting <IR>, an approach that promises to be "holistic, strategic, responsive, material and relevant across multiple time frames" (Adams & Simnett, 2011). The <IR> is promoted nowadays by the IIRC.

The IIRC's mission is "to enable integrated reporting to be embedded into mainstream business practice in the public and private sectors", "resulting in efficient and productive capital allocation, ... financial stability and sustainability" (IIRC, 2011). The process of adopting the <IR> is driven by the companies, not by the regulators, this making it an interesting phenomenon. The lack of evidence on how salient stakeholders perceive the <IR> determined us to explore this aspect.

Many bodies involved in the regulation of certain parts of <IR> exist nowadays (IIRC, Integrated Reporting Council, Sustainability Accounting Standards Board – SASB, Global Reporting Initiative – GRI etc.). As the IIRC seeks to "forge a global consensus on the direction in which reporting needs to evolve" (IIRC, 2011: 1), we wonder whether it gained legitimacy.

Research conducted on the reports issued by the companies which were not included in the IIRC's Pilot Programme shows that many of them declare different standards for non-financial reporting or do not declare them at all (Albu *et al.*, 2013).

In this context, our research question is whether the IIRC gained legitimacy from its stakeholders. The voluntary participation of the constituents in the standardization process is important to determine the legitimacy of the standard-setter (Tandy & Wilburn, 1992). This is the reason which determined us to choose the comment letters sent by the respondents to the CD to IIRC as a main source of data. The objective of our research is to identify and understand the types of legitimacy gained by the IIRC so far. Also, we aim to offer an insight into the directions in which the IIRC should go in order to improve its legitimacy.

One of the contributions of this paper is that we apply the legitimacy theory in the context of a standard-setter. There are few previous studies that analyzed the legitimacy granted by the users to the standard-setting process (Durocher *et al.*, 2007). Also, our study refers to a standard-setter involved in non-financial reporting. Another contribution is that we make a thorough analysis of the process used by the IIRC to develop the framework. In this way, we are able to identify ways in which the IIRC can improve its legitimacy. Also, we discuss all the stakeholder categories, as opposed to a single category (most of the previous studies are dealing with investors). Our analysis leads to additional insights to the IIRC beyond what they have already gathered through their own analysis of the comment letters to the IIRF. Our research should help the IIRC improve in the directions considered important by different categories of stakeholders.

The remainder of this paper is organized as follows: first, we review the literature on the standard-setters' legitimacy; next, we describe the research methodology employed. The following section presents the analysis of the legitimacy types on the example of the IIRC. The final part of the paper is dedicated to discussions and conclusions.

2. Standard setters' legitimacy

This research sets out to identify sources of organizational legitimacy for the IIRC, within the boundaries of the legitimacy theory described by Suchman (1995). Legitimacy theory has become one of the most cited theories within the social and environmental accounting arena (Tilling, 2004).

Suchman (1995) defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions." There are different strategies for legitimacy which depend on the type of organization, environmental characteristics, audience, and the nature of the conflicts. They are classified by Suchman (1995) into: pragmatic legitimacy, moral legitimacy, and cognitive legitimacy. Baylin *et al.* (1996) identify and describe substantive legitimacy.

Different types of legitimacy coexist in most real-life settings. Each of these types will be discussed in detail.

Legitimacy is important in the standard setting process. As Fogarty (1998) indicates: "[…] standard setting in the private sector involves the skillful and subtle negotiation of legitimacy in multiple arenas." The standard-setting agencies from Canada, US and UK adapted their organizational structures aiming to obtain external support (Gorelik, 1994). According to Tandy and Wilburn (1992), the financial community's participation in the process is a relevant criterion to assess the legitimacy of the standard setter.

Previous research has been published that uses the theoretical framework set by Suchman (1995) to examine the organizational legitimacy of an organization or a practice. The contributions relevant to our study are those addressing international self-regulatory bodies in the field of accounting and reporting.

Richardson and Eberlein (2011) examine transnational standard-setting and find that the legitimacy of a transnational regulatory body is initially built on its technical competence, but is maintained based on its political competence, depending on "how skillfully it can manage competing legitimacy claims". Their approach leads to a three-stage process of legitimation specific to a private self-regulatory body such as the IASB, by which inputs are collected from affected parties, these inputs are considered and aggregated or transformed through a decision-making process, and finally, standards are produced and issued.

Georgiou and Jack (2011) examine processes of legitimization and the links between organizations and practice. They argue that the legitimization of a practice reflects upon the organization advocating the practice. In the case of the IIRC, the outcome of their standard-setting process is the CD and ultimately the IIRF. If the IIRF is perceived as a legitimate reference in the field of corporate reporting, we may expect the IIRC to be perceived as a legitimate standard-setter. Since the IIRC cannot enforce compliance with the IIRF through regulatory structures, we consider the extent to which stakeholders use the IIRF as indicative of the extent to which they perceive it to be a legitimate standard. The changes made to the IIRF will be an important source of information regarding the IIRC's strategy to garner legitimacy from its stakeholders by incorporating their beliefs into its own.

Crawford *et al.* (2013: 7) consider the organizational legitimacy of The International Accounting Education Standards Board and see legitimacy as the result of the "interplay between strategic efforts between the focal organization and institutional pressures that penetrate and persist within the organizational environment". The strategic dimension to legitimacy as identified by Crawford *et al.* (2013) focuses on the actions taken by an organization in order to attain societal support or the perception of legitimacy from its environment. In this respect, we analyze the specific steps taken by the IIRC, from its establishment in 2010 to date, as well as the perceived effects of those actions: structure, Pilot Programme, consultative process, memorandums of understanding and other publications. This approach is in line with Suchman's (1995: 574) assessment that while legitimacy is resilient to particular events (such as the publication of the IIRC's CD or IIRF) it is also dependent on a history of events (e.g. the due process for the development of the IIRF).

The institutional approach described by Crawford *et al.* (2013) emphasizes the ways in which sector-wide structuration dynamics generate cultural pressures that transcend any single organization's purposive control. We are interested in determining the stakeholders' position towards the IIRC, their ability to influence the decisions of the IIRC and the IIRC's responsiveness to the comment letters received. The reasons for such an approach stem from Hybels' (1995) conclusion that legitimacy exists only as a symbolic representation of the collective evaluation of an institution, as evidenced to both observers and participants.

In considering information needs of users, prior research generally indicates that there is a range of different user groups or stakeholders that either use or wish to use corporate reporting information (for example, see Deegan & Rankin, 1997). Rowbottom and Lymer (2009) provide a list of relevant stakeholders groups that were considered in the literature (employees, private individuals/ISPs, consultants, educational institutions, customers/ suppliers/ competitors, other commercial organizations, accounting firms, infomediaries, professional investors/ creditors, government, non-profit organizations) and they assess the need for sustainability information. Hybels (1995, p. 244) identifies four critical organizational stakeholders: the media, the public – patronage (as customer), support (as community interest, labor, financial community) and the state, each of which control a number of resources and thus have a specific role in an organization's quest for legitimacy. Durocher *et al.* (2007) use Suchman's legitimacy theory to focus on users' participation in the accounting standard-setting process. The categories of users considered are the financial analysts and the institutional investors. The authors develop an explanatory theory that links the characteristics of the standard-setting process to the individual determinants of users' participation. For the purpose of this study, we take into account the following stakeholder groups: academics, auditors, consultants, investors, NGOs, report preparers, professional bodies, regulators, and others. These are the categories of stakeholders used by the IIRC for the analysis of the comment letters.

3. Research design

The main objective of our paper is to identify and understand the types of legitimacy gained by the IIRC so far.

Hybels (1995: 244, cited by Tilling & Tilt, 2010) advises researchers to focus on the specific legitimation of the organizations. In order to obtain images of the legitimation process, researchers should pay attention to the patterns and content of communications. We take this approach as we study one particular entity: the IIRC.

We consider the views of Hearit (1995) who states that rather than trying to subjectively measure a firm's legitimacy directly, it can be instead inferred from the fact that being legitimate "enables organizations to attract resources necessary for survival", and we look for indications about the IIRC's ability and potential to garner material resources, patronage and political approval. According to Hybels (1995: 243), good models in legitimacy must examine the relevant stakeholders and how "each influences the flow of resources crucial to the organizations' establishment, growth, and survival, either through direct control or communication of good will". "Rather than engage in the further development of entirely abstract constructions of the legitimation process… researchers should investigate the flow of resources from organizational constituencies as well as the pattern and content of communications" (Hybels, 1995: 244). We analyze comment letters in order to gain insight into stakeholders' position towards the IIRC. We also take into account the availability to the IIRC of financial resources, intellectual resources, political support and patronage from different stakeholder groups that are revealed throughout the study.

The experiences of other private non-state bodies such as the ISO, the GRI or the SASB are also considered. The due process for the development of the IIRF is viewed in the same manner. As suggested by Richardson and Eberlein (2011), all three stages (collection of answers, analysis and issuance of standards) of the legitimation process are taken into account as we examine the information available on the IIRC's website.

Based on these considerations, the most important sources of data for our analysis included the following:

- Comment letters received by the IIRC to the CD (primary source). The IIRC made available through its website all the comment letters received to the CD – a total of 359 documents. Of the total 359, we were not able to download three, and therefore our database included 356 comment letters;
- IIRC analysis of the comments received to the CD (secondary source);

- Content of the IIRC’s website: the structure of the Council, the persons employed by the Council, the news, documents such as the Discussion Paper (DP), the CD, the yearbooks etc. (secondary source).

We also considered the views expressed in the literature about the IIRC or <IR> in general. Reuter and Messner (2015) studied the lobbying behavior by means of comment letters issued toward the IIRC’s 2011 discussion paper and noticed a more active involvement of large multinational firms and preparers, as opposed to small and medium-sized entities and users; the DP’s emphasis on investors’ needs and shareholder value creation received criticism from sustainability services firms and professional bodies. In the comment letters issued toward the IIRC’s 2013 Consultation Draft, Oprişor (2015) found conclusive evidence of professional bodies, the policy makers, the regulators and the standard setters’ interest in contributing to the development of the International <IR> Framework. Humphrey *et al.* (2014) analyzed the ‘notable’ momentum generated by the IIRC within the framework of institutional theory and stated that the IIRC ‘has created an institutional space open to be filled by […] sets of reporting professionals’; in this context, ‘whether the IIRC can inspire, harness and control different interest groups’ is considered a challenging research question for academic accounting researchers. We contribute to this particular research direction by analyzing the current legitimacy of the IIRC (and future sources thereof) within the framework of legitimacy theory. To the information extracted from the comment letters, we add the IIRC perspective and our own observations regarding their communication strategy.

For the purposes of this study, we used a “meaning oriented” content analysis of the comment letters, and specifically of those comments that could be attributed to one or more types of legitimacy. Generally, content analysis rests on the belief that it is possible to go behind the text as presented and infer valid underlying meanings of interest to the investigator (Weber, 1990, cited by Smith, 2003). Each comment letter was analyzed to establish whether the author expressed its support for the IIRC. Certain paragraphs were marked as relevant in terms of legitimacy, then extracted from the comment letters and classified per different types of legitimacy, as defined by Suchman (1995). We made some general comments regarding tendencies that we noticed within a specific stakeholders group. Even though the letters could be analyzed from more points of view, in this paper we present the analysis regarding the types of legitimacy granted by the stakeholders to the IIRC.

The CD was open for public commentary from 16 April to 15 July 2013. The comment letters included responses to 24 questions plus a section dedicated to key points. We analyzed all the questions for the purpose of this study.

Stakeholder groups

The stakeholder groups considered for the purposes of this study were defined so as to capture the specific interests and characteristics of respondents to the IIRC's CD and to allow correlations between our observations and those made by the IIRC in their analysis of responses. Therefore, we take into account the following stakeholder groups: academics, auditors, consultants, investors, NGOs, report preparers, professional bodies, regulators, and others. Part of our assessments is based on stakeholders' comments which are analyzed individually but are also linked to the context defined by their inclusion in a particular group. We take into account the observations made by Durocher *et al.* (2007) about the underlying motivations for user's participation in the standard-setting process.

First, we defined the stakeholder groups and clustered the letters based on the respondent's affiliation as stated in the introductory section of the documents. If this information was not available, we used other sources of data to establish an affiliation (mainly companies' and organizations' websites). After reading all the comments received by the IIRC, we were able to notice that there were entities which could be included in two or more groups. For instance, SAP identified itself as a consultant, but could also be included in the report preparers' group, as it is a member of the IIRC's Pilot Programme since it was established. On the other hand, some respondents identified themselves as part of one group, while the IIRC included them in another category when analyzing the comments. For instance, CSR Consulting identified itself as part of Other stakeholders' group, but the IIRC included it as Consultant. The content of the submissions is more relevant to our objective than the classification of respondents. The categorization of respondents to the IIRC's CD is presented in table 1.

Table 1. Stakeholders' classification

Stakeholder groups	IIRC classification	Classification used in the paper
Preparers	109	107
Professional bodies	62	63
Consultants	42	9
Investors	39	25
NGOs	26	29
Auditors	23	14
Academics	21	19
Regulators	19	17
Others	18	73
Total	359	356

Comment letters

Most respondents complied with a template provided by the IIRC, which required them to disclose name, contact information, industry, geographical region and affiliation (only if replying on behalf of an organization). The template consisted of

24 questions regarding the main interest areas for <IR> such as principle based requirements, interactions between integrated and other reports, the business model, capitals and value creation, qualitative characteristics and guiding principles for IR, content elements, governance, and so on. Many respondents, however, made comments that go outside the template suggested by the IIRC. This is the case for most of the comments relevant to our study. Thus, we analyzed the full content of the comment letters, because they provided some indication of the respondents' position towards the IIRC in terms of legitimacy. In the process, we searched for relevant items in terms of legitimacy. As the comments did not have to follow a pattern, they are heterogeneous.

The sentence was used as a coding unit. The sentences considered relevant were classified as positive, neutral or negative in terms of legitimacy. In the second phase of the collection of the date we noted the suggestions of the respondents regarding specific issues. These statements were generalized and aggregated into categories. The aim of this approach was to identify the actions of the IIRC for which the legitimacy was gained or, in the contrary, it was not gained. This approach is consistent with the one used by Reuter and Messner (2015).

IIRC analyses

The analysis of the comments to the questions presented by the IIRC on its website is an important source of information. It provides us with insight about the motivations behind certain decisions made by the IIRC concerning the final draft of the IIRF and whether stakeholders' comments were able to influence the standard-setting process.

It is our opinion that, if set against stakeholders' comments, IIRC's decisions concerning the core elements of the IIRF can provide a clearer picture of stakeholders' influence. Such an analysis can be associated with the IIRC's legitimation strategy and it can also reveal sources of legitimacy that have not yet been explored by the IIRC.

IIRC website

The IIRC's website was used extensively to gather information about the framework's development process, the structure of the Council, the Pilot Programme, the Business Network and the Investors Network, integrated reports and other IIRC documents.

Our conclusions are based on the nature and the frequency of particular ideas in the respondents' submissions. We did not attempt to make a comprehensive presentation of the responses. Instead, we attempted to find evidence of actual and potential legitimacy. The comments selected and quoted serve as examples of issues we have found representative for the purpose of this study. Our analysis does not extend beyond this purpose.

4. Results of the study

4.1. Pragmatic legitimacy

Pragmatic legitimacy rests on the self-interested calculations of an organization's most immediate audiences (Suchman, 1995). According to Durocher *et al.* (2007), interested parties are analyzing the behavior of an organization to assess the practical consequences, for them, of any of its activities. Pragmatic legitimacy is linked to the standards' usefulness and the standard setters' responsiveness to the needs, interests and values of its constituents, as demonstrated during the due process. Pragmatic legitimacy is further classified into exchange legitimacy, influence legitimacy and dispositional legitimacy.

Exchange legitimacy

Exchange legitimacy is manifested by the constituents who support an organizational policy based on that policy's expected value to a particular set of constituents (Suchman, 1995). Exchange legitimacy is granted to a standard-setter if the constituents expect it to issue useful standards. Usefulness can be inferred from the content of the proposed standard, as well as from the constituents' opinions about the standard. We compare the case of the IIRC with that of the IASB, which is an established standard-setter. In terms of financial reporting, the IASB states that the information that is likely to be most useful for the users of financial reports is that that possesses the qualitative characteristics explained in the Conceptual Framework. In this regard, "The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity" (IASB, Conceptual Framework, 2010, para. OB2). Meanwhile, the IIRF states its objective as follows: "to establish Guiding Principles and Content Elements that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them" (IIRC, 2013). The IIRF does not specifically require for the information presented in the integrated reports to be useful. None of the consultation questions addressed by IIRC refer to this matter. Therefore, further clarifications can be made to establish/explain the usefulness of <IR>. Yet, from the comment letters, we could identify testimonies regarding the exchange legitimacy of the IIRC. The IIRC's approach can be useful in several ways.

Early adopters will benefit from being a first mover ("the right focus will create a better foundation for future business operations"). <IR> contributes positively to the brand name of the company ("this becomes more and more important for the buyers of products and services") (The Netherlands Authority for the Financial Markets).

<IR> improves the quality of corporate reporting (ACCA; BDO International; Unilever; Microsoft Corporation; CNCC and CSOEC; Canadian Investor Relations Institute; Collège des Directeurs du Développement Durable; Australia and New Zealand Banking; Didas Research; French Committee for IR) by encouraging transparency (The 100 Group), rigor and comparability (Vertigo Ventures), accessibility of information for investors (US Chamber of Commerce), and can "facilitate influence of corporate reporting and the functioning of capital markets" (BT Pension Scheme). "We agree that <IR> responds to a demand from market participants for better information" (Deloitte; Cliff Investor Relations) or it "responds to investors' expectations" (Phillipe Cornet, French Committee for IR).

In terms of communication, some respondents mention the contribution of the IIRF to the connectivity of information (WBCSD Brazil; and WBCSD Members at Liaison Delegate Meeting). <IR> offers a "better understanding of the operations of an entity" (Keith Reilly) and is a "strong depiction of the value creation process" (Voisine Natalie, Jones Lang La Salle and Incite Sustainability).

The process of integrated thinking embedded in the IIRF, "one of the main drivers for <IR>" (WBCSD Members at Liaison Delegate Meeting), is considered an important benefit and garnered explicit support (The Parthenon Group; Vancity etc.). It leads to "a holistic understanding of the material inputs a business uses and related outcomes on several time horizons" (Threadneedle Investments). London Leading for Health Partnership introduced the concept of integrated thinking "to colleagues and stakeholders", who have used it "in developing business plans and annual operational plans". <IR> has the capacity to drive behavioral change (Japanese IR Network), to develop "an appreciation within organizations of the important contribution of societal issues (human, social and natural capital) on organizational value" (Incite Sustainability) or to serve as "a catalyst for discussion and driving internal change – in particular, around the business model" (Black Sun Plc.). In conclusion, integrated thinking "is a powerful concept and should not be lost" (Jones Lang La Salle).

Another benefit identified by the respondents to the CD is that the <IR> offers a longer time perspective of the company than the traditional reporting (ACCA; Standard Life Investments, Marks and Spencer Plc, Ethical Markets Media, The 100 Group). This "brings sustainability closer to our financials and strategic planning colleagues in a way/ language they are more likely to understand/ accept/ embrace" (Vale SA; JFLB). The IIRF "helps companies to prepare balanced and consistent forward looking reports which more effectively communicates their value creation process; helps policy makers and regulators to achieve consistency of reporting frameworks and importantly allows investors to better understand and value investee companies" (National Association of Pension Funds – UK).

There are stakeholders who support their comments with their own research in the field. For instance, the Monash University states that its own "research suggest that <IR> would streamline the reporting process, rather than increase the reporting burden." ACCA's research "has shown that many stakeholders would welcome the introduction of <IR>, seeing in it a number of benefits such as a focus on the long term, better understanding of risk, including long-term risks to the business model, and wider insights into how corporate value is created."

After analyzing the comment letters, we could also identify negative opinions regarding exchange legitimacy. For instance, the Australian Auditing and Assurance Standards Board – AUASB states that "the IIRF is quite general and non-specific around what is required to be reported in relation to the six capitals and therefore could lead to more information rather than quality information being reported." The Financial Reporting Council considers the objectives and purpose of the integrated report presented in the CD unclear. Some respondents claim the lack of clear indications of <IR>'s "usefulness for reporting organizations and report users" (Sustainserv), the lack of applicability of the IIRF to philanthropic activities, SMEs and other organizations in jurisdictions less familiar with open and transparent reporting (James Rohan; SRA; and Future Value, respectively), the insufficient guidance even for an experienced sustainability reporter (Royal Phillips NV), the lack of clarity of "the message throughout the draft" (NKSJ Holdings and Teck Resources Ltd.), the material expectation gap between <IR> in the minds of many businesses and the reality presented in the IIRF (WBCSD and Local BCSD India).

Negative comments from the auditors group can be interpreted as an indication that auditors feel threatened because they are not yet geared to audit integrated reports.

Influence legitimacy

Influence legitimacy appears when the constituents consider that the organization is responsive to their larger interests (Suchman, 1995). For instance, a standard-setter demonstrates it has influence legitimacy when it incorporates representatives of its users into its policy-making structures or by taking the necessary steps to consult the constituents during the standard-setting process. The authority to issue standards, the resources and strategies employed and the process of standard development also speak of the influence legitimacy (Durocher *et al.*, 2007). In order to assess influence legitimacy, we take into consideration the information provided by the IIRC about its governance and the standardization process, as well as the opinions expressed by the stakeholders in this respect.

The need for IIRC to have "well-established governance structure and be accountable and transparent on its activities and funding" is recognized by the CD respondents (The Netherlands Authority for the Financial Markets). There are a few bodies which are well represented on the non-financial reporting scene. We consider that the top ten list prepared by the IIRC in response to Question 3 ("If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?") is suggestive.

Table 2. Top 10 recommended sources

Source	% of recommendations
GRI	13
IFRS/IASB	10
CDP	6
Greenhouse Gas Protocol	5
IFAC	4
IPSASB	3
The Institutional Investors Group on Climate Change	3
XBRL	3
UNEP-Finance Initiative	3
Climate Disclosure Standard Board	3

Source: Question-3, http://integratedreporting.org/wp-content/uploads/2013/10/QUESTION-3.pdf

We are expecting that these entities are the best represented in the IIRC decision-making structures. The IIRC has two decision-making structures: the Board and the Council.

The Board has eight members in total which represent the following institutions[2]: GRI, WBCSD, CIPFA, Australian Financial Services Group and Singapore Exchange Limited, Prince's Accounting for Sustainability Project, German Government Commission for the Corporate Governance Code, Deutsche Asset & Wealth Management, Frankfurt, 'The Germany Funds', New York and TUI AG, Hanover IFC Global Governance Knowledge Group, ICGN. Therefore, only one of the top ten sources mentioned by the respondents to the CD (GRI) is represented in the Board.

The Council is made up of fifty members. Five of them come from five institutions included in the top ten sources mentioned in table 2: GRI, IFRS/IASB, CDP, IFAC and Climate Disclosure Standard Board. According to Flower (2014) the Council is dominated by the accountancy profession, preparers and regulators, instead of representatives of organizations that promoted social and environmental

[2] As at January 22, 2015

accounting; this is perceived as an indication that the most well represented groups of stakeholders control the new reporting initiative, which threatened their established position. Under this interpretation, the influence legitimacy is negatively affected by dominance of representatives from the accountancy profession and big business, in contrast with the lack of representation on the part of organizations such as Greenpeace, Triple Bottom Line, or radical academic bodies such as the Centre for Social and Environmental Accounting Research.

Some of the stakeholders that submitted comment letters to the CD are asking for the IIRC to be responsive to their interests. According to their comments, one way to do that is for IIRC to include reference to the guidance developed by themselves in the IIRF or in an online database of authoritative sources of indicators or measurement methods (e.g. IFAC; Institute of HR Maturity; MASB; CPA Canada; Global Reporting Initiative; SASB). Another way is collaborative work with a particular respondent that expressed availability (London School of Business and Finance; German Council for Sustainable Development; DBS Bank).

A way in which the IIRC can be respondent to the auditors' interests is to include in the IIRF a request regarding the external assurance. There were 259 (73%) organizations and individuals who responded to Question 13 ("How should the reliability of an integrated report be demonstrated?") and 167 (65%) of them perceived independent, external assurance as the strong mechanism for enhancing reliability (IIRC, Question 13 Analysis, 2013). Only two auditors did not comment on the external assurance.

Also, some expressed concern about the way the IIRC will interact "with existing or future bodies that provide such guidance and standards now and in the future" (PricewaterhouseCoopers). PwC suggests that other groups endorsing guidance or "accredited" implementation advisors should be the best professionals. Overall, respondents expressed the need for the IIRC to align/ reference/ work with other international and national standard-setting or regulatory bodies (e. g. Fraport AG, Swedish Enterprise Accounting Group, Flughaven Munchen GmbH, Solvay SA, Tech resources Ltd., Incite Sustainability, Voisine Natalie, EFFAS and DVFA, Keith Reilly, Phillipe Cornet, CSR Info, Larsen and Toubro Ltd.).

One of the most important concerns expressed by the report preparers group refers to the reporting burden. Benelux and Cenovus Energy Inc. believe that an integrated report "might add to the reporting burden" or that "an additional report" will be "increasing the cost burden on preparers and contributing to the existing concern of disclosure overload." Their concerns are shared by those of WBCSD Japan, who perceives this as a shift from previous commitments made by the IIRC ("Therefore what happened to the commitment made by the IIRC CEO that <IR> is better reporting not more reporting?"), and by Report preparer WBCSD USA.

Furthermore, the Federation of European Accountants Combined states that “In our view, it is important that <IR> contributes to reducing the overall reporting burden for organizations”.

As a consequence of these statements, the final draft of the IIRF further developed the paragraphs concerning the interactions between <IR> and other communications to clarify that it “may be prepared in response to existing compliance requirements”. It has been made clear that the <IR> does not necessarily add to the reporting processes already in place, but instead it changes them and “makes explicit the connectivity of information” about value creation.

A way in which to respond to regulators’ and professional bodies’ interests is for IIRC to ask for the report preparers to disclose in the integrated reports the names of the standards, frameworks and techniques used. As a consequence, a new section entitled “4H – Basis of preparation and presentation” was added to the IIRF, asking for “a summary of the significant frameworks and methods used to quantify or evaluate material matters” (IIRC, Summary of significant issues, 2013).

Most comments attributed to influence legitimacy indications were made either to confirm respondents’ support of the IIRC and their acknowledgement of influence during the due process, or constructively, to indicate to the IIRC what steps could be taken in the future to engage their support. Our findings show that the lobbying activities of certain stakeholder groups influenced the decisions made by the IIRC. This had a positive impact on the influence legitimacy of the IIRC.

Dispositional legitimacy

Dispositional legitimacy occurs when the constituents consider that the organizations “have our best interests at heart,” “share our values,” or are “honest”, “trustworthy”, “decent” and “wise” (Suchman, 1995). In the case of a standard-setter, it is attained if the needs of the constituents were considered in the standard-setting process, and affected the content of the IIRF. It is also necessary that the constituents are made aware of their role (Durocher *et al.*, 2007). We cross-referenced the comment letters with the IIRC analyses and basis for conclusions.

The respondents to the CD characterize the IIRC’s effort as “continued” (The Japanese Institute of Certified Public Accountants – JICPA), “enormous” and the contribution to non-financial reporting “interesting” (NZ External Reporting). The initiative of the IIRC is appreciated by many respondents, as well as its leadership in the matter. Sustainability Context Group speaks of “the explicit and aggressive stance on this issue.”

They expect <IR> to provide a “more honest and potentially accurate assessment of an organization’s contribution to these important issues [sustainability]” (Monash University). For others, <IR> is a “remarkable concept leading towards sustainable and high quality integrating reporting and improving the way (management) accounting is done in future" (The International Controller Association). The <IR> "should not be considered as an additional reporting standard, but as a voluntary frame of thinking for companies that should be part of a comprehensive dynamics to improve innovation and differentiation, key factors of competitiveness and performance" (Voisine Natalie), since it "can have a very important role to play in helping to better safeguard these stakeholder interests" (Sean Lyons). Integrated thinking has "ancillary benefits" (KPMG).

In conclusion, the respondents are generally supportive for the IIRC. As a statistics, 70% of the respondents answered Question 22 ("Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the IIRF overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term."), 73% of them agreeing or agreeing with qualification the IIRF is appropriate for use (IIRC, Analysis Question 22, 2013).

4.2 Moral legitimacy

Moral legitimacy relies on a positive evaluation of the organization and its activities, based on the audience's socially constructed value system (Suchman, 1995). It occurs when the constituents believe that the activity is "the right thing to do". Moral legitimacy implies a prosocial logic. According to Suchman (1995) moral legitimacy takes four forms: consequential legitimacy, procedural legitimacy, structural (categorical) legitimacy, and personal legitimacy. Durocher *et al.* (2007) also discuss legal legitimacy.

Consequential legitimacy

In order to assess its consequential legitimacy, the IIRF should be considered to be issued for the public interest. In this respect, Thomson (2015) considers that it is difficult to argue against the IIRF. The fact that the IIRC garnered the support of the professional accounting bodies (Adams, 2015), which prepare integrated reports, changed their professional syllabi and are publicly endorsing the IIRC constitutes an indication of consequential legitimacy.

The users' primacy principle (Gaa, 1986) suggests that standard setters should give priority to users' needs. In fact, the IIRC in its CD identified providers of financial capital as the primary audience whose needs are to be served by the information included in the integrated reports.

Some of the respondents commented negatively on the consequential legitimacy of the IIRC. The IAAER states that it is not clear how <IR> supports "broader societal interests by encouraging the allocation of financial capital to reward and support long term, as well as the short and medium term, value creation within planetary limits and societal expectations". BDO International considers that different types of companies "are likely to have very different forms of capital, business models, and indeed primary users, who may not be providers of financial capital. In that regard, the IIRF should eventually reflect the needs of the broad range of stakeholders in various types of organizations." John Flower says that "the primary user group should be the body of stakeholders and society at large". Other respondents question the mere progress of <IR> (Net Balance), its success (Cenovus Energy Inc.), and the grand design for the future of corporate reporting (Allianz SE) because of the focus on the providers of financial capital.

The Report preparers group provided extensive comments concerning the primary intended users. While some of the respondents in the preparers group support the focus on providers of financial capital as the main report users and the implications of such an approach on the issue of materiality (Natura Cosmeticos Combined; Enel; ARM; Marks and Spencer; Unilever), most respondents express concern over the fact that this would be a step backward from their current sustainability reporting practices, which address all stakeholders in an inclusive manner (SustainServ; MV Oplossingen). The concerns expressed by most report preparers about the primary intended users are met by similar concerns from other stakeholder groups. Over one third of respondents share the same views (Basis for Conclusions, p. 5, para. 3.2). There were report preparers who recognized the benefits of such an approach (e.g. Natura Cosmeticos): "As an emerging economy, the companies' great needs (public or private) is access to capital. Linking access to capital to the evolution toward <IR> is able to leverage its practice intensively"). This type of pragmatic approach to a controversial issue embeds a risk and an opportunity: the risk that IIRC would assume a threat to its legitimacy among experienced report preparers in the developed countries, and an opportunity to attract the support of companies activating in emerging economies, where sustainability reporting is still at its infancy. These comments (both positive and negative) fall mainly under the umbrella of pragmatic legitimacy, as both categories are motivated by the respondents' own interests in terms of image and ability to attract financial capital. This is supported by previous research on preparers' participation in the standard-setting process, showing that a manager's position on a proposed standard or his participation in the standard-setting process is thought to be driven by the proposal's influence on its expected utility (economic consequences) (Durocher *et al.*, 2007).

Other respondents consider that the success of the IIRC's project is in the interest of the business society (Timotius Kasim) or of the public (AUASB). The Swedish Enterprises Accounting Group expresses its support for the initiative, motivating that "this is in line with the current global debate, i.e. to focus on sustainability, care of the society and environment". The participants to the WBCSD Members at

Liaison Delegate Meeting "liked the prospect of IIRC mandating a process that serves the public interest."

In conclusion, after the analysis of the comments received, this section was revised and a new section appeared, "1C Purpose and users of an integrated report", where the primary purpose of an integrated report is described as "to explain to providers of financial capital how an organization creates value over time" (IIRC, IIRF, 2013). Booth and Cocks (1990) argue that the accounting profession has the prerogative to construct the public interest by developing its conceptual framework. Most of the respondents said that they agree with the IIRF. However, most of them said that this is just a beginning, a first step.

Procedural legitimacy

The procedural legitimacy appears in the case of the organizations which embrace the socially accepted techniques and procedures. In the case of a standard-setter, this type of legitimacy appears if the standards are going through an open public debate and the decisions are adequately justified. Due process can be viewed as a ritual that supports the perception that one's input can have some degree of influence on the final content of standards (Fogarty, 1994).

The IIRF's release process took more than two years. In order to assess this type of legitimacy for the IIRC, we compare it with two other organizations in the field of sustainability reporting, namely SASB and GRI.

Table 3. Phases precluding the issuance of a standard/framework

Standard/framework (organization)	Steps
International <IR> Framework (IIRC) (www.theiirc.org)	1. Discussion Paper: Towards Integrated Reporting – Communicating Value in the 21st Century 2. Draft Outline of the Integrated Reporting Framework 3. Prototype of the International <IR> Framework 4. Consultation Draft of the International <IR> Framework 5. International <IR> Framework
SASB's Conceptual Framework (SASB, 2013)	1. Exposure Draft of the Conceptual Framework 2. 45-day comment period 3. Review the comments on the exposure draft along with SASB's responses.
G4 (GRI)	Three public comment periods

Two of the phases which the IIRF underwent were subject to public debate: the DP and the CD. Generally, the IIRC observed the announced timeframes for each step that was taken.

The IIRC published on its website all the comments received for the DP and the CD. Also, the IIRC published the analysis of the comments. Regarding these files, we noticed that the comments were not homogeneously analyzed. For instance, the respondents were not classified in the same categories for all the questions. Unlike the GRI, the IIRC do not disclose on its website the methodology used. In December 2013, along with the IIRF, IIRC published the Basis for Conclusions and the Summary of significant issues, where it further explained the process of the preparation of the IIRF. The IIRC made changes to the CD considering the number of received comments supporting a certain idea, which was “consistent with the objectives of <IR> and with the principles-based approach, the exercise of judgment and continued innovation, practical to implement, focused on the preparation of the integrated reports, improved the clarity of, and enhanced the connection between, Framework concepts, resulted in a more logical Framework structure and minimized duplication, improved accessibility” (IIRC, 2013, Summary of significant issues). The discussions within the meeting of the IIRC Council on December 5, 2013 are published on the website as well.

In order to help the stakeholders and especially the report preparers, the IIRC published five background papers in collaboration with acknowledged professional bodies, referring to: materiality, business model, capitals, connectivity, value creation, corresponding to the parts of the IIRF on which the stakeholders were asking for further guidance. All the materials are available on the IIRC’s website and are free of charge (unlike, for instance, the industry briefings prepared by the SASB).

Regarding procedural legitimacy, many of the respondents are satisfied with the process. For instance, ICAEW considers that “Clearly, a great deal of work has been done since publication of the 2011’ DP on <IR> in a relatively short space of time, and many of the questions that we and other commentators raised on the earlier document have now been addressed. This is a considerable achievement.” Many respondents recognize that their comments on the DP were taken into account (Institute of Internal Auditors; Chartered Secretaries Australia; RSM International; Natixis Asset Manager), thus granting procedural legitimacy to the due process. EFFAS and DVFA appreciate “that investor views are taken into account in the development of the IIRF”. Eiris states that “Since our response to the IIRC discussion paper in 2011 we note the effort and progress that has been made to develop <IR>”. Additionally, Enagas acknowledges that “IIRC has listened to companies” and recommends “the IIRC to be more proactive and guide the companies in this evolution towards an integrated report”. Other respondents (such as DBS Bank) commend the IIRC “for having come far in terms of building support amongst many different stakeholders that will influence the success of <IR> and IIRC” and express availability to continue working with the IIRC. Novo Nordisk commends “the robustness of the process through which the CD has materialized and the rigor with which the consultation is carried out. We commend the CD for setting a clear direction, being well written and well structured." Federation of European Accountants Combined "fully endorses the way in which <IR> is currently being developed, by largely drawing on stakeholders' involvement and gaining practical experience."

Negative comments related to procedural legitimacy suggest that respondents' previous recommendations have not been influential in shaping the content of the CD. International Trade Union Confederation expressed disbelief "that the process for setting this IIRF involves all of the right parties. Consultations are taking place after too many decisions have already been made". Net Balance emphasizes that, despite their "multiple industry and membership body submissions to the consultation process as well as IIRC workshops" and the fact that the "IIRC presentations and workshops have reinforced the notion that the IIRF can also be used by government agencies, private companies and the not for profit sector when preparing reports", still, the investor focus taken by the final draft shows that the statements made in launching the IIRC's IIRF "are weak or lack emphasis in the IIRF itself".

There is not too much evidence regarding the future strategies of the IIRC. WBCSD and Local BCSD India, and WBSCD Japan note "the longer term plans of the IIRC are not known. Participants did not know if the Council would continue to exist and if it had funding to exist", which can be seen as a threat to procedural legitimacy. A few directions are suggested by the respondents.

Table 4. Future actions for the IIRC

Respondent	Direction
ACCA, Professional Body, 184 World Intellectual Capital Initiative, Others, 031	The developing framework to be credibly grounded in the experience of the pilot programme and feedback from the investor network.
ACCA, Professional Body, 184	The development of the IIRF in a key number of official languages.
Ernst & Young, Auditors, 252; Report preparers 153 - Confederation of Indian Industry, 217 - WBCSD USA, 228 - WBCSD and Local BCSD India	IIRC should continue to make the business case for <IR>. Proof that investors are either asking for it, or shall consider IR for their decision making.
Ernst & Young, Auditors, 252 Report preparers 028 - EcoSense Forum for Sustainable Development of German Business, 188 - Marks and Spencer, 322 - WBCSD Portugal, 123 - Robert Axelrod	Work closely/ directly reference/ align with established standard setters and their respective frameworks, and in particular, those that are internationally recognized and accepted.
Swedish Enterprises Accounting Group, Report preparer, 062	Information of how the IIRC, can ensure the continuity of the Framework, including setting a standard for due process and how necessary resources to finance the work will be raised

Respondent	Direction
	over the long run.
Incite Sustainability, Report preparer, 293	Effective communication and awareness raising campaign, including effective engagement with the business media and the financial sector. Much clearer communication than has happened thus far regarding the nature of the relationship between <IR> and sustainability reporting.
NZ Post Group, Report preparer, 308	Community of best practice which ‘ranks’ reports and standards of good practice.
Sustainability Context Group, Others, 050; BCSD Argentina, Report preparer, 076	Facilitate the developing countries’ participation.

The idea emerges that IIRC could benefit from further “alignment” with the existing guidance in sustainability reporting, since it declares that “sustainability reporting is not to be replaced by <IR>” (Net Balance). “Ensuring alignment of IR and GRI will lead to more companies using the IIRF” (Teck Resources Ltd.). This idea is shared by the majority of preparers and indicates that the initial strategy of the IIRC to work with previously established standard-setters was sound and can continue to garner support from the business environment. This falls under the category of moral legitimacy, specifically procedural legitimacy and structural legitimacy: the IIRC can garner moral legitimacy by embracing socially accepted techniques and procedures (Suchman, 1995) developed by other sustainability reporting organizations.

A negative comment implies that the IIRC did not appropriately explain the principles of <IR> to enough individuals/organizations (ACCA).

Some respondents claimed it was too early to release the IIRF. Others claimed the IIRC did not solve all the issues they suggested in the comments to the DP.

We found no comments regarding the timeframe available for answering the CD. Comparing with SASB and GRI due processes, we believe that time was not an issue. Although there is no evidence that the IIRC officially asked certain entities to comment on the CD, this might be seen as a lack of procedural legitimacy by some respondents.

Structural (categorical) legitimacy

Structural (or categorical) legitimacy refers to the moral evaluation of an organization based on its structural characteristics: the IIRC’s members and its decisional and non-decisional structures. In the case of a standard-setter, the constituents might grant structural legitimacy to it if they are represented in non-decisional committees.

The IIRC has two non-decisional structures, namely the Working Group and the Technical Task Force. In addition, it has the Secretariat, ambassadors and the Governance Committee.

The Working Group has forty-four members, each of them representing one organization. Out of the top ten sources mentioned above, the following five are represented in the Working Group: CDP, GRI, IASB, IFAC and UNEP.

The Technical Task Force has 24 members. Only two entities included in the top 10 sources are represented in the Technical Task Force: GRI and IASB.

Respondent 263 (JFLB) states that "The IIRC would need to work on its governance (or make it more clear to external stakeholders) […] to disclose how (criteria, processes) the members of all its governing bodies are appointed. This is relevant because the governing bodies will be responsible for the maintenance of the IIRF, the relationship with all its stakeholders, its business model (financial viability)."

Personal legitimacy

Personal legitimacy refers to the evaluations of the individual leaders. For a standard-setter, for instance, it may be represented by the expertise and independence of the members of the standard-setting committees (Johnson & Solomons, 1984).

All the members of the IIRC structures are presented on the IIRC website. For each of them the organizations they are representing, their positions and a brief presentation are disclosed. Most of them represent important organizations in the field. Therefore, their expertise cannot be questioned.

Durocher *et al.* (2007) comment on the positive influence the perception of an independent standard setter or expert and unbiased committee members might have on users' participation in the standard-setting process. These would motivate users to participate and provide them with the confidence that their preferences would be considered in the final standard. There is no available information on the subject of independence on the IIRC website, that is, information is presented in a neutral way and it cannot be presumed to have inspired beliefs of any kind among stakeholders.

Legal legitimacy

A standard-setter achieves legal legitimacy if its standards are mandatory, which demonstrates governmental support. This is not the case with the IIRC, as the <IR> is made on a voluntary basis, except for the companies listed at the Johannesburg Stock Exchange, which use the IIRF issued by the IIRC.

In the answers analyzed we found negative evidence regarding this type of legitimacy. FEI Canada states that “there are some legal and practical realities in the Canadian environment that preclude us from supporting this initiative on a mandatory basis in Canada at some point in the future, in the absence of changes to the overall reporting framework.” Business Council of Australia, representing the views of over 100 companies, states that “BCA does not support any proposals to introduce mandatory <IR>”, same as Australia and New Zealand Banking.

Another idea that stems from the report preparers’ comment letters is the support of the voluntary nature of <IR>. However, there are some report preparers (Australia and New Zealand Banking and Kirloskar Brothers Ltd.) who take a more drastic approach and link their support of the IIRC to a firm position against the implementation of mandatory <IR>. This is the case for most Australian and New Zealand respondents.

Meanwhile, report preparers in other jurisdictions (WBCSD and Local BCSD India and WBCSD Japan) are concerned that in the absence of mandatory disclosure of integrated reports, companies might not use it. WBCSD and local BCSD in India state that “This needs to be mandatory” and WBCSD Japan states that <IR> “Will only become mainstream if mandated by Law”. Gam Bond Ltd predicts that “unless adoption of <IR> is government mandated, or if by reporting <IR> more investors will buy shares, it is not likely to convince firms to adopt [what] some might argue [is] an onerous task.” This contradiction stems from the rules-based versus principle-based approach in reporting, since respondents expressing support for a mandatory IIRF mostly originate from rules-based jurisdictions.

Other respondents take a less firm position, but the idea remains that the legal perspective should be clarified: “we believe that the legal perspective should be more fully developed in the IIRF, as the document is vague regarding the relevant legal implications of disclosures in an integrated report” (ABB Ltd.).

The IIRC is supported by IRC South Africa (which endorsed the IIRF), Singapore Stock Exchange, Brazilian Stock Exchange, Indian Stock Exchange, European Commission, Japan, Great Britain (the strategic report converging with the <IR>), Malaysian Prime Minister, World Bank, G20 (IIRC, 2014).

4.3 Cognitive legitimacy

According to Suchman (1995), cognitive legitimacy involves the simple acceptance of an organization based on taken-for-granted cultural accounts. In the case of a standard-setter, the constituents may support the organization or take for granted that it is the job of that particular entity to issue standards. Standard setting is taken for granted as an activity of the accounting profession (Gaa, 1988), which are qualified to issue standards that fit the public interest. The <IR> was perceived as "a well-intentioned initiative that reflects a pragmatic desire to do something" (Thomson, 2015).

ICAEW, ACCA, Cliff Investor Relations etc. support the IIRC and offer reasons for their opinion. For instance, "at a time when the social media can judge the reputation of a brand so quickly, it is reasonable to raise the debate on the way companies establish their communication and identify the right level of disclosure, without further weighing on the already numerous reporting constraints" (Cliff Investor Relations).

There is also evidence that the role of the IIRC is taken for granted. For instance, JICPA believes that since the "IIRC is the voluntary and market-led initiative with participation of stakeholders … it is the most appropriate for IIRC to develop an innovative framework of <IR>, by reflecting and incorporating what stakeholders really need."

ACCA states, on its own experience, that the IIRF is a good base for developing an integrated report. Also, "Overall, the AUASB believes that the content of the draft <IR> Framework is an appropriate context in which an entity can frame its value creation proposition in the short, medium and long term" (AUASB). Novaratis states their support of the "IIRC's work and commitment in bringing these guiding principles and <IR> to the forefront of the reporting community", and the International Council Of Mining Metals "acknowledge the demonstrable leadership of the IIRC in articulating a principles-based approach to <IR> and to stimulating a cross-sectorial debate on the future of <IR>".

Negative comments associated with cognitive legitimacy are made by the International Trade Union Confederation "Integrated reports will likely diminish the demand for more complete non-financial reporting… In this respect this model of <IR> may be a step back. This practice will make the IIRC the arbitrator of reporting practices and guidelines. The IIRC is not legitimately constituted to do this."

4.4 Substantive legitimacy

The substantive legitimacy of the standard-setting institution implies legitimacy of the content of the standards. An indicator of the substantive legitimacy is the growing number of reporting entities. The IIRC's Pilot Programme is analyzed to assess substantive legitimacy.

In the case of the IIRF, the Business Network (BN) and the Investor Network (IN) served as an appropriate "innovation hub" which allowed the IIRC to test the IIRF. There is some evidence of substantive legitimacy arising from the growing number of entities included in the Pilot Programme. The 2012 Yearbook (IIRC, 2013) reports 74 companies included in the BN, while the 2013 Yearbook reports 99 companies. On the IIRC website there is information that currently the BN is made up of over 104 companies. In respect to the IN, the number of companies has increased, from 25 companies in the 2012 Yearbook to 36 companies at the present. All of these represent the number of companies that are part of the BN and the IN and have agreed to have their name published.

The importance of Pilot Programme members in terms of legitimacy is associated in our opinion with the resources these stakeholders provide. As Hearit (1995) states, legitimacy cannot be measured, but can be inferred from an organization's ability to attract resources essential for its survival. We believe that the main resources that the Report preparers group is able to provide are financial and intellectual resources. The financial contribution made to the IIRC by the members of the BN is mostly attributed to the Preparers group. Furthermore, the intellectual resources are made available in two different forms: integrated reports and/or constructive comments expressed during the Consultation Period. In terms of participation, over 100 companies submitted their comments to the IIRC, either individually or as part of a combined response. This represents almost one third of the total number of received responses, which speaks about the potential influence of preparers over the IIRF.

An interesting fact that adds to the substantive legitimacy is that not all of these responses come from companies included in the Business Network, which is an indication that the IIRC was able to mobilize additional intellectual resources from the Report Preparers group. Approximately 40% of preparers expressed explicit support for the IIRC/IR, while only 1 respondent labelled the CD as "insufficient guidance". The majority of preparers offered constructive criticism of the CD.

Some respondents suggest that the IIRC should take into consideration the possibility to develop sector-specific guidance and to adapt the existing IIRF to the necessities of other types of entities, such as SMEs, NGOs, public sector organizations, not-for-profit entities, and family-owned businesses (this is especially the case for Indian respondents, since the majority of businesses are family-owned). These are some of the suggestions presented in the submissions that could in time expand the scope of <IR> and build substantive legitimacy. Among the respondents that make suggestions on this particular issue are: WBCSD and local BCSD India, MASISA, Larsen and Toubro Ltd., Keith Reilly, SRA, Federation of European Accountants Combined – FEE. There are some negative comments on the issue of expanding the scope of the IIRF: "I have serious doubts about the ability of many organizations such as SMEs to be able to deliver this in its current conceptual state" (Lodestar).

5. Conclusions

As most qualitative analyses, this was a subjective endeavor, particularly in two respects. We needed to make a subjective selection and an equally subjective association between the selected comments and the types of legitimacy that already have thin boundaries. Therefore, we expect that other researchers may find that some examples would be better used differently. Overall, it is our assessment that most of the respondents were in agreement with the IIRF. However, most of them specified that in their opinion this is just a beginning, a first draft or a good starting point.

We notice that out of the nine categories of stakeholders identified by the IIRC only one has particular interests in the environmental and social disclosures: the NGOs. Another finding is that report preparers got involved in the process of issuing the IIRF more than the users of the framework.

Analyzing the pattern emerging from the submissions of a specific group, some observations can be made. We believe the Report preparers group to be of utmost importance to the assessment of the IIRC’s legitimacy, especially in terms of substantive legitimacy. Some of the most debated aspects of the CD within the Report preparers’ group were: the focus on providers of financial capital as the main report users; the contradiction between the inclusive approach to capitals and the narrow focus on investors; the alignment with other sustainability reporting standards/standard-setters; the voluntary versus the mandatory reporting; the reporting burden; the scope of IR. There were requests for further guidance and examples of integrated reports. Many recommendations were made for the improvement of the IIRF, all based on the report preparers’ own experience with sustainability reporting and/or <IR>. Some of the report preparers specified their involvement in the popularization of the IIRF among their clients and other types of associates. Therefore, the Report preparers’ group comments had an important impact on our assessments of exchange, consequential, procedural, and influence legitimacy.

Some observations can be made about the other stakeholder groups. The Auditors group is asking for compulsory assurance on the integrated reports, as this represents a new activity for them. Comments within the Other stakeholders debate the scope of the IIRF, the future of the IIRC/IIRF, the integration of <IR> and other sustainability reporting frameworks, capitals, value creation, as well as the social and political factors affecting reporting practices.

One of the difficulties of our work is the heterogeneous information, and that the information on the IIRC’s website is difficult to find. The news is not properly evidenced. For instance, the Memorandum of Understanding with the IASB is lost in the news, we learned about an agreement with the SASB from the latter's website. In our opinion, such information is better presented on or directly linked through the homepage. At the same time, all the materials are free for download (which is a good thing). However, the IIRC does not directly keep the stakeholders informed by asking users to provide their contact information (the way the SASB does).

Our study revealed that there are often similar interests or opinions within the same stakeholder group. However, we found that other classification criteria could prove relevant and potentially lead to interesting results. When analyzing the voluntary versus the mandatory nature of integrated reports, most Australian and New Zealand respondents took a firm position against the implementation of mandatory reporting. Meanwhile, respondents from other jurisdictions (India, Japan) were concerned that in the absence of mandatory IR, companies might not use it. This gives us reason to believe that further development of our study is possible in the future, using other criteria for grouping the data: geographically, by industry, or even by the capacity in which the response was formulated (personal/institutional).

Legitimacy theory can be combined with other theories in order to analyze the users' participation in the framework setting process. Another development of our study can be the assessment of the changes in legitimacy over time.

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