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Epameinondas Katsikas
Francesca Manes Rossi
Rebecca L. Orelli

Towards Integrated Reporting Accounting Change in the Public Sector



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Epameinondas Katsikas · Francesca Manes Rossi
Rebecca L. Orelli

Towards Integrated Reporting

Accounting Change in the Public Sector

Epameinondas Katsikas
Kent Business School
University of Kent
Kent
UK

Rebecca L. Orelli
Department of Management
University of Bologna
Bologna
Italy

Francesca Manes Rossi
Management and Innovation Systems
University of Salerno
Fisciano
Italy

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Foreword

Integrated Reporting and the Public Domain—Engagement with Practice

Accounting and management research is often conceived as applied research in that the focus of study is made up of technologies and technical practices used by practitioners in social and organisational settings. This stands in marked contrast to the physical sciences, where the focus of study is mainly physical matter. At the international level, research is generally a requirement for academic career progression and an important contributor to the development of knowledge and scholarship (Evans et al. 2011).

The impact of research on some disciplines is easy for the lay person to comprehend. For example, in medicine, advances in medical procedures and development of new drugs may result in clear benefits to society. For accounting, this impact is not so easy to discern. For instance, in the field of accounting, there have been claims that research has become too far removed from the interests of the professionals and practitioners. Researchers in turn point to the shortcomings of current professional practices. Indeed, some in the accounting research community go so far as to consider that many practical issues of concern to professional accountants do not warrant the attention of researchers (Evans et al. 2010).

I am pleased to highlight that the authors of this book have successfully bridged the gap between academic work and practice. This book is a prime illustration of how academic work can inform emerging practices—in this case, integrated reporting (IR).

IR is emerging as a strategic communication tool to integrate different perspectives on value creation, offering new insights on organisations' approaches to sustainability, corporate governance, natural capital, intellectual capital, human capital and social capital. To date, there have been many studies into models to be adopted and theoretical perspectives that examine the motivation behind the introduction of IR with regard to private entities (Bernardi et al. 2016). However, there is a lack of research about the suitability of IR to satisfy the needs of the public domain.

What has emerged in practice, and has been highlighted by scholars, is that IR makes sense only if it is the result of “integrated thinking” developed inside the organisation—without integrated thinking the process of IR may be little more than a marketing activity. The authors point out in this present book that the adoption of IR should result in a management accounting change within the organisation, and the related disclosures should be considered as the final step that flourishes from an institutionalisation process of integrated thinking inside the organisation.

The authors raise the question: Is IR suitable for public sector entities or is it too ambitious to concentrate all financial and non-financial information related to a public entity in one report?

This book provides insights into why and how a public organisation should deal with IR. The path for the institutionalisation of IR in the public sector is complex and cannot be taken for granted. The book aims to shed light on the process, unravelling themes both theoretically, adopting the lens of accounting change, and empirically, by discussing an in-depth case of a state-owned enterprise’s adoption of integrated thinking.

The book has four chapters to guide the reader to an understanding of the process underpinning the adoption of integrated thinking and IR. In Chap. 1, the authors explore the relationship between context and public sector organisations, highlighting the pivotal role of these kinds of entities in addressing sustainability. The creation of “public value” for the benefit of both present and future generations requires an integrated approach to the management of all the capitals, while ensuring sustainable development. There is in-depth discussion as to why IR and integrated thinking may represent a new frontier for public sector organisations.

In Chap. 2, the authors offer a theoretical lens to explore different approaches to strategic thinking. For this reason, various institutional theory strands complementary with management theories highlight the role of routines, and the possible changes necessary to internalise integrated thinking are discussed.

Chapter 3 provides various steps to the development of an IR framework. For this reason, other communication tools usually adopted by both private and public organisations are discussed—namely, the annual report, corporate governance report, corporate social responsibility report and intellectual capital report. Furthermore, both the South African Integrated Reporting Framework and International <IR> Framework are illustrated, providing several reflections on challenges offered by the adoption of IR.

Chapter 4 offers an understanding of the processes characterising the adoption of integrated thinking. To this end, the Hera Group case study provides useful “lessons to learn.” The case study analysis not only considers external change, integrated thinking and IR disclosures prepared by this public sector entity, but also examines changes over time, as well as internal changes, which can be viewed as the progressive internalisation of integrated thinking.

The book will be of benefit to academics, practitioners, consultants and policy makers as well as students interested in the adoption of IR. Additionally, it provides insights into the reasons for public organisations entering into integrated thinking while developing a stakeholder engagement approach in formulating their

long-term strategies. The book is well grounded in theory and therefore useful in masters' courses discussing accountability in public organisations, sustainability issues and stakeholder engagement in public entities.

James Guthrie
Distinguished Professor of Accounting
Department of Accounting
and Corporate Governance
Macquarie University, Australia

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Chapter 1

Setting the Context for Integrated Reporting in the Public Sector

Abstract The central aim of this chapter is to discuss why Integrated Reporting can represent a new frontier for public sector accounting studies. From this perspective, the chapter introduces the reader to the relationships between environmental and sustainability issues and public sector organizations. These points of view have been considered pivotal for an in depth understanding of the value creation process in the public domain. However, to properly understand how public value is created, the role of intangibles must also be considered. The above mentioned reasons pave the way for the adoption of integrated reporting not only as a communication tools but, above all, as a strategic tool which can open the opportunity to experiment with management change. The chapter ends by identifying the contents to be discussed in the following chapters.

Keywords Integrated reporting · Public sector · Intangibles · Social responsibility · Value creation · Management accounting change

1.1 The Scenario: Integrated Reporting and the Public Sector

Public administration has been involved over the last decades in a profound process of change in management, organization and information systems, in order to provide both more efficient allocation of public resources and accomplish a claim for better public performances. This movement, well-known as New Public Management (Aucoin 1990; Hood 1991; Thomas 2012) has given rise to a further process of change, labelled as New Public Governance, basically intended to make public administration more sensitive to citizens needs and to ensure greater trans-

This chapter was written by Francesca Manes Rossi.

parency and flexibility, supporting citizen engagement in political life (Bovaird 2005; Pollitt and Bouckaert 2011; Osborne et al. 2014). Thus, a growing interest in how public sector organizations are managed, how they perform and how an impact takes place on the external environment has spread out worldwide.

Beyond traditional accounting tools suitable to provide an overview of the financial situation of the entity, a high attention has been progressively devoted to consider to what extent a public sector entity operates coherently with its own mission. To this end, new accounting technologies related to performance measurement and management have been widely adopted in the aim of keeping under control outputs, efficiency, cost saving and productivity (Broadbent and Guthrie 1992; Guthrie et al. 1999; Hoque and Moll 2001). The attention paid to budgeting, spending, and managing public money has increased enormously, and new public financial management (NPFM) systems have been considered essential for effective and sustainable economic management and public service delivery (Olson et al. 1998; Guthrie et al. 1999, 2005).

At the same time, a large number of initiatives have emerged in the last decades promoting voluntary sustainability reporting in the public sector (e.g. CIPFA 2005; GRI 2005; United Nations 2008; World Bank 2008). The European Commission has also strongly encouraged central and local government to adopt sustainability reporting.

Scholars are paying growing attention to the flourishing different kinds of sustainability and environmental reporting, claiming the leading role of public sector organizations in a more sustainable future and the related relevance of sustainability accounting and accountability (Ball et al. 2014; Dumay et al. 2010; Guthrie and Farneti 2008; Olson et al. 1998; Mussari and Monfardini 2010). Other scholars have highlighted the possible role of these types of reports as a means to gain legitimacy (Deegan et al. 2002).

Despite the informative power of all these new forms of reporting, information on sustainability issues are not able to completely satisfy the accountability needs for different types of stakeholders. Beside financial and sustainability reports, citizens would be possibly interested in discovering more about present and future services delivered by public entities, being the citizen not just users but also *co-producers* of the service (Osborne et al. 2013). More information that should be addressed using accounting tools are those relating to future strategies and plans, alliances and partnerships, networking activities, governance mechanisms in place, all combined with forms of citizens' engagement. Accounting, in fact, is not limited to calculation and metrics—even if this information is fundamental throughout social practice—but also brings about ideas which produce a mediating attitude to link actors with a common narrative (Miller and Power 2013).

However, the risk of information overload should be considered. As scholars have already noticed, too much information can turn in a flood of misinformation (Grimmelikhuisen et al. 2013), reducing, rather than increasing the interest of citizens in reporting provided by public entities. To avoid this risk, information