

## Article

# Internal Change Mechanism of Integrated Reporting: A Field Study

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**Abstract:** Integrated reporting has a considerable impact on the decision-making of all stakeholders in firms. Moreover, the increasing importance of integrated reporting has brought about changes in the reporting process. The purpose of this study is to analyze the internal changes in the integrated reporting process in Turkish business entities. To achieve this purpose, a semi-structured interview with managers of these entities was conducted. The data obtained from the interviews were analyzed then the results were evaluated. We find that entities undergo a structural internal change that affects all components of firms in their reporting process, due to the impact of integrated reporting implementation and expectations.

**Keywords:** integrated reporting; change model; internal change mechanism; field study



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## 1. Introduction

Traditional financial statements may not be sufficient to reflect the true value of an entity as a result of a new economic system shaped by technological transformations [1]. One of the dissemination methods developed recently to overcome this drawback of traditional reporting is called integrated reporting. This relatively newer practice is considered a reporting type that increases the company's value generation capacity in the long term [2]. Integrated reporting become a significant dimension of corporate reporting at the global level, and it aims to present non-financial information to interest groups, beyond financial statements. Since economic, environmental and social factors directly affect the sustainability of the company, investors have started to attach great importance to non-financial information [3,4]. Thus, integrated reporting aims to present both financial and non-financial information in a single report.

The idea of integrated reporting can be described as explaining to interest groups how an organization generates and maintains value to stakeholders', beyond reporting that presents either just financial and non-financial information [2]. In this context, the increasing effect of nonfinancial performance disclosures, as well as financial information, on investor decisions have led to a change in the reporting process of companies. Firms prepare disclosures in accordance with the information needs of decision-makers to help the investor decision-making process, which is the ultimate purpose.

The extant literature on integrated reporting shows that, while there is a rich body of research focusing on conceptualization [5–10] and content analysis [11–14], quantitative [5,15–17] and qualitative [18–21] research is very limited when it comes to the real structural impact on firms' financial reporting. To fill this gap in the extant research, we examine whether there is a structural change in the reporting process if a firm adopts integrated reporting practices.

The introductory sections of the existing literature generally include a conceptual review of integrated reporting, its historical development and content analysis. There are also some quantitative studies that have implications for understanding the role of integrated reporting. Prior literature on internal change mechanisms initiated by integrated reporting is scarce. We investigated Turkish firms employing integrated reporting by studying the internal change mechanism of these entities based on semi-depth interviews conducted with managers, using the change model of Laughlin [22], in the field. Furthermore, our study explores challenges arising from the changes in the reporting process, and offers recommendations. Therefore, in our study, we analyze the topic by considering a sample of Turkish firms, which have not previously been analyzed in detail, that would shed light on emerging markets. Our paper contributes to the existing literature by examining the internal change effects of integrated reporting using a field study that provides deep understanding based on practical applications. Moreover, we also contribute to this limited literature by taking the opinions of the professionals in charge of preparing and disclosing integrated reporting from different firms in a variety of sectors.

The rest of this paper is organized as follows. Section 2 briefly reviews the extant literature. Section 3 presents the change model that we used, including preparation of interview questions and data collection. Section 4 documents the outcomes of our questionnaire, Section 5 presents findings and results and Section 6 provides concluding remarks and recommendations.

## 2. Literature Review

Studies examining the internal change mechanism of integrated reporting are quite limited as the subject is relatively new. The related studies of change mechanisms in integrated reporting are detailed as follows.

Stubbs and Higgins [23] investigate (i) how entities adopting integrated reporting manage their reporting processes, and (ii) whether integrated reporting encourages innovative delivery mechanisms for Australian companies. They conclude that integrated reporting does not encourage innovative presentation mechanisms although the reporting processes and the structure of entities that adopt integrated reporting have changed. They also report that there is no radical and transformative change in integrated reporting processes, but integrated reporting makes some contribution to the structure of sustainability reporting by increasing the quality of the presentation. Adams [6] finds that integrated reporting not only improves the investment decision process but also leads to changes in the business environment. Lodhia [24] states that integrated reporting brings innovative approaches and provides detailed information about the economic, social and environmental performance, by ensuring that it acts in accordance with the corporate ethical values and strategic goals of the business. These all provide significant information for market investors.

Mio et al. [25] study whether integrated reporting contributes to the development of the management control systems of an Italian insurance company has switched to integrated reporting, and report that integrated reporting is a successful reporting type related to improvement in the quality of information disclosed to interest groups and the management of the company in terms of better decision making. Sydry [26] studies how integrated reporting can act as a mechanism of internal change by analyzing integrated reporting practices of Dutch entities to identify the dynamics that detect or block this mechanism. The results of the study, contrary to the findings of that by Stubbs and Higgins [23], indicates that integrated reporting has the potential for promoting organizational and structural changes in the core values, norms or structures of these entities.

## 3. Research Methods

### 3.1. Laughlin's Model and Organizational Change

Laughlin [22] groups an organization under three different components, interpretative schemes, design archetypes and sub-systems, as shown in Table 1. Laughlin [22] considers the first two components as abstract and identifies these components as follows: (i) inter-

pretative schemes refer to the organization's thinking, values, norms and mission, and (ii) design archetypes refer to the structure, processes and systems of the organization. Laughlin [22] expresses concrete components as sub-systems referring to the infrastructure of the organization including intellectual capital, behaviors, and machinery.

**Table 1.** Components of Organization.

<b>Interpretative Schemes</b>	Organization's thinking, values, norms, mission and vision
<b>Design Archetypes</b>	Organization's structure, processes and systems
<b>Sub-systems</b>	Organization's infrastructure including buildings, intellectual capital and machinery.

Source: Laughlin [22].

After presenting the aforementioned components, as can be seen from Table 2, Laughlin [22] analyzes the changes that may occur in the organization in two steps. The first-order change, which is influenced by the external environment, affects the design archetypes and sub-systems and causes small changes in the operating system and process of the enterprise, while the second-order change (or structural change) affects all three components.

**Table 2.** Laughlin's Change Model.

<b>Inertia</b>		
<b>The Change Model of Laughlin</b>	First Order Change	Rebuttal—Small or Temporary Changes
		Reorientation—Small changes accepted by the whole organization
	Second Order Change	Colonization—Structural Changes led by a small group
		Evolution—Structural Changes supported by the whole organization

Source: Laughlin [22].

Prior to these changes, Laughlin [22] considers the dimension of inactivity, or Inertia, and defines it as a dimension in which the organization does not think of making even the slightest change in response to the changes occurring in the external environment and ignores existing transformations. Therefore, Laughlin [22] excludes inertia from the change model. He groups first-order and second-order changes under two subgroups. First-order change has the following two subgroups: (i) rebuttal, which refers to the organization making very small or temporary changes in design archetypes as a response to existing changes in the external environment, and (ii) reorientation, which is the changes that occur in both the design archetypes and subsystems of the organization, preferring more changes as a response to the changes existing outside the organization. Similarly, second-order change has the following two subgroups: (i) colonization, which refers to a small group within the organization preferring existing structural change and applying it to all components of the organization, and (ii) evolution, which is the organization preferring structural change against changes occurring in the external environment and applying it to all components of the organization, as a change supported by the whole organization.

Integrated reporting offers significant opportunities for fundamental changes in the organization, potentially tied to interpretative schemes of relationships between stakeholder groups and financial capital [25]. In this context, our study aims to reveal whether integrated reporting causes a structural change in entities and whether it leads to the changes made, by considering the Change Model of Laughlin [22] given above. We applied the Laughlin model to understand the impact of integrated reporting on structural changes in firms. We explain the approach that explains our methodology below.

### 3.2. Preparation of Interview Questions

The examination of the internal change mechanism of entities applying integrated reporting is carried out by employing qualitative research methods. Semi-structured inter-

view questions used by Stubbs and Higgins [23] are examined, then interview questions are developed, and in-depth interviews are performed with eight participants from six entities that issue integrated reports in Turkey. Participants are either responsible for the integrated reporting preparation process or are members of the integrated reporting working group, i.e., they are the decision makers. Written and oral answers are received from each participant, and these answers are analyzed by considering the interpretive paradigm, following the existing literature.

The interview guide presented in Appendix A consists of three parts. The first part includes an acknowledgement speech to the participant along with the signature form, and indicates the purpose of the research, the estimated duration, and participant rights. The second part consists of questions about the demographics and information of the participant, integrated reporting and internal change mechanisms. The last part presents the results and evaluation of the interview.

Prior to the interview, a cover letter explaining the purpose and scope of the study and a consent form stating that the participant participated in the study at his/her own request, without any pressure or suggestion, are given to each participant. In addition, participants are guaranteed that their personal information will be kept confidential.

### 3.3. Data Collection and Interview Process

In 2019, there were only six entities issuing integrated reports in Turkey. Therefore, our sample consists of eight participants from six Turkish entities which publish integrated reports. In this context, a semi-depth interview was conducted with the following six entities: Çimsa, Garanti, Nuh Çimento, TSKB, Borsa Istanbul, and Aslan Çimento (on behalf of the OYAK Group). In this study, the Change Model of Laughlin was applied to all of these entities' reporting processes. In addition, the main reason for choosing these Turkish entities is to provide evidence from the emerging economy, because there is no previous study in emerging countries about this topic, and all samples are covered. This provides a unique opportunity to understand why these companies are implementing integrated reporting when the majority of companies do not. We will be able to observe structural changes in companies from a variety of industries such as banking, construction, mining, the stock exchange and manufacturing.

Only one participant responded to the interview questions in written form while the others were interviewed at their workplaces (face-to-face). Before the interview, both written and oral presentations were made about the purpose of the research and the consent form was signed regarding the voluntary participation in the interview by each participant. All interviews, except for the written answer, were transferred to the tape recorder with the permission of the participants, and transcripts of voice recordings were made to analyze the interviews in case important points during the process were missed. We present our finding after analyzing all of our interviews by documenting common or agreed facts. Of course these are perspectives and we try to summarize our conversations briefly. As we stated above, our research methodology follows qualitative methods.

## 4. Findings

In this study, in-depth interviews were conducted using a qualitative research method. The analysis of the data is presented under the following three headings: (i) Explanation of the participation status and demographic characteristics of the participants; (ii) Integrated Reporting, (iii) Internal Change Mechanism.

### 4.1. Interview Participation

The detailed reporting of the collected data and the explanation of how the research results have been reached verify the validity and reliability of qualitative research methods. In this context, the place, date and duration of in-depth interviews with eight persons are presented in Table 3 along with the coding method.

**Table 3.** Participant Interview Process and Duration.

Participant	Interview Place	Date	Duration
E-1	Office	18.09.2019	00:56:00
E-2	Office	13.09.2019	01:05:17
E-3	Office	12.09.2019	01:04:47
E-4	Office	02.09.2019	01:12:36
E-5	Office	02.09.2019	01:12:36
E-6	Office	13.09.2019	00:56:15
E-7	Office	13.09.2019	00:56:15
E-8	-	10.10.2019	-

Interview Process.

### Demographics of Participants

There are five female and three male participants and they have long experience in their industry. Among all participants, four people are environmental and sustainability managers, three people are investor relations managers, and one person is a directly integrated reporting manager (see Table 4).

**Table 4.** Demographic Characteristics of Participants.

Participant	Gender	Participant's Title (Manager)	Sectoral Experience (Year)	Years of Service at the Current Institution
E-1	Male	Environmental OHS and Integrated Management System	10	10
E-2	Female	Strategic Planning and Investor Relations	7	7
E-3	Female	Integrated Thought and Integrated Reporting	26	14
E-4	Male	Environment and Sustainability Manager	14	14
E-5	Male	Environment and Waste Management Engineer	8	6
E-6	Female	Financial Institutions and Investor Relations	15	15
E-7	Female	Financial Institutions and Investor Relations	24	15
E-8	Female	Environment and Sustainability	4	4

## 4.2. Integrated Reporting

### 4.2.1. Participants' Perceptions of Integrated Reporting

In this section, participants' perceptions of integrated reporting are presented. First, before preparing the integrated reporting, it is determined whether the participants have sufficient knowledge and qualification to do so. Then, the problems they experienced in the process of preparing the integrated reports, and suggestions and recommendations for the entities that might switch to integrated reporting are questioned.

### 4.2.2. Integrated Reporting—Awareness of Participants and Problems Experienced in the Reporting Process

All the participants state that they had sufficient knowledge and qualification before the phase of preparing integrated reporting. In addition, some participants state that ERTA (Integrated Reporting Turkey Network) has pioneered the generation of knowledge, awareness and acceptance of integrated reporting by Turkish entities.

Considering the problems experienced by the participants in the integrated reporting process, they explain that it is difficult to collect necessary data from different departments, enhance communication between departments and serve a common goal. They mention all these difficulties as follows:

“... Actually, this is an interdepartmental process. There are a lot of departments in the company, it has accounting, sales, purchases, production, maintenance,

and environment. The related Information will be collected from all departments and the departments will need to be in contact with each other, to serve a common goal . . . Integrated reporting is also an important issue and requires frequently working together and allocating time, so we really struggled in this sense..." (Participant #1)

Another participant compares the preparation processes of annual reports and integrated reports. In his comparison, he states that (i) unlike the case of the annual report preparation, integrated reporting lacks a specific template which generates difficulties, and (ii) the exclusion of relevant information from the integrated report to comply with the principle of being concise and brief is not welcomed by departmental employees who provide feedback as follows:

" . . . The annual report preparation process has its own problems because you are actually summarizing a large organization. But there is a routine in annual reports: You begin with saying that 'let's update last year's report', there is a template, and its data is updated... Integrated reporting takes responsibility . . . You know, it does not connect with your strategy and does not look at environmental factors, it just tells what it does as a department. The annual report was a whole of these lined up side by side. There were financials somewhere, non-financial issues at some. Integrated reporting presents such a challenge which springs from the lack of a specific template. It tells you to blend it with your strategy, tell me what you want to do, the value you create, do not put any unnecessary information as a material information that would mislead the users. It is actually a lot of fun to be short and to the point, especially if the team preparing the report is fully authorized, saying comfortably let's not put it, we do not ask it . . . " (Participant #2)

One participant states that the company did not experience serious problems when transitioning from sustainability reporting to integrated reporting; however, another participant expresses the difficulties that arose due to the tight regulations in the sector during the transition to integrated reporting:

" . . . We switched from sustainability report to integrated reporting in 2016. I think we did not have a hard time making that transition because we had already advanced on solid foundations, there was a certain accumulated knowledge and experience . . . We have progressed every year by putting new things on it; but in the last year, when combining the integrated report and the annual report, there were naturally some difficulties. You will say why; it is because (our) industry is a highly regulated sector. There are too many legislation and regulations. I am not only talking about the Commercial Law, there is the CMB (Capital Markets of Board of Turkey) and the BRSA (Banking Regulation and Supervision Agency) . . . The idea of what the authorities would say was a question mark at first. The second question mark was that while we were making this switch and indexing this context, we wondered whether the BRSA would say something or how the CMB would comment on this, we experienced these concerns; however, when you make a nice fiction and make it in accordance with the legislative regulations within this legislative framework, you don't face any problem anyway . . . " (Participant #6)

Emphasizing that the perspective of business management is important, another participant explains the influence of top management on publishing the integrated report as follows:

" . . . When you publish the sustainability report, you are delivering it to the places where you want to submit the sustainability report; but those with an interest get their hands on it. However, when you switch the integrated reporting, from shareholders, to the entities that take your profits in the stock market, the boss, and to the board of directors, you bring the integrated reporting, together

with the sustainability information, into the report that everybody gets in detail every year. What does it mean? Actually, whether they are interested or not, you are raising the sustainability issues to the upper bar . . . But it also brings a big risk of imposing (to management) . . . Whether I have to give such transparent information at this level, or do I have to do something different, it actually poses a risk . . . We made the same information and the same presentation for four consecutive years (we did not publish), but with our new general manager, we crossed this bar and entered this process. Therefore, the perspective of management and senior management is very important . . . ” (Participant #4)

A participant who emphasizes the strong culture and structure of the enterprise she is managing states that this institutional infrastructure has minimized the problems encountered in the transition to integrated reporting and the company did not encounter many problems during the transition process. In this context, it can be said that entities with strong corporate infrastructure and that have prepared sustainability reports before can easily switch to integrated reporting.

#### 4.2.3. Suggestions and Recommendations for Entities Transitioning to Integrated Reporting

When asked for advice and suggestions for entities that will switch to integrated reporting, the participants state that they should first absorb what integrated reporting is, what it aims at, the framework published by the IIRC, the integrated thinking structure, the business model and information about creating value before changing the reporting processes.

One participant, who states that the sustainability idea, or the value created by the enterprise for society, should be understood fully before entities start to present integrated reports, makes the following recommendations:

“ . . . Well, if the company switches to integrated reporting, it should have a serious infrastructure, training, consultancy and should understand sustainability in the first place, else it can be also made through putting a few photographs, advertisements, setting 7–8 targets and can be expressed as we switched to integrated reporting; however, what is sustainability? What are the 17 goals that the United Nations set for people to survive? Where are we in these development goals? With this production we made, activity and our existence, which sustainability goals do we serve or undermine? All these should be known; the company should know its identity. Last, as I said, it should set its sustainability goals together with predictions about where it should be . . . ” (Participant #4)

Participants also state that in order to present the business model of the enterprise and the value it has created for itself and society to interest groups, the company should attach importance to communication and coordination between departments, and the team that prepares the integrated reporting should be well qualified.

Some participants highlight the differences between the sustainability reporting process and the integrated reporting process, and emphasize that enterprises should do implement integrated reporting processes themselves, rather than using a consulting company:

“ . . . What I observe is that entities consult to an agency expert on sustainability and making sustainability studies, and asks the agency expert to prepare a report . . . (Therefore) the sustainability reporting process is not very painful . . . Consulting entities do the majority of the reporting. But the role of the consulting company in integrated reporting is much less because the consulting company does not know your company like you. You set your strategy and you know what it means. More than being just a written document, how it is created is actually important . . . ” (Participant #2)

“ . . . These are very normal; the consultant (company) cannot do it either . . . Big Four, which provides consultancy on this issue all over the world, is very active, they cannot do (integrated reporting) either. They cannot because you know the

value creation, it is different for an outside person to say, but it is very different for you to do it . . . ” (Participant #3)

One of the participants, who considers that sustainability is misunderstood, states that entities that aim to apply integrated reports should know that an integrated thinking structure is an indispensable element for the report:

“ . . . In fact, it makes no sense that sustainability seems to have anything to do with only non-financial value creation. Most importantly, what does this structure do? What are the megatrends in the world for the future? What are the risks and opportunities my company may face in the future? How do both risk and opportunities need to be shaped for my business model to capture them? How should I set my strategy by considering all my stakeholders, what should be my priorities? What is important to me and to all stakeholders, these are already under materiality analysis. After that, this is trying to build a business model that goes with it actually, that is why integrated thinking is so important. (Integrated) thinking matters. After that, (integrated) reports can be issued if that structure and business model is formed within a company. The report cannot come out without it (integrated thinking structure) . . . ” (Participant #3)

#### 4.3. Participants' Perceptions of the Internal Change Mechanism

In this part of our study, the perceptions of the participants are measured in order to examine the internal change mechanism of entities that apply integrated reporting, which is one of the main objectives of the study. This part aims to reveal how entities change according to the Laughlin model. In this context, the existing change is presented under six headings.

##### 4.3.1. Stakeholder Impact and Strategies for Change

Many stakeholders have an impact on the change in reporting processes of entities that apply integrated reporting. Entities have started to change the contents of their reports in line with the demands and requests of stakeholders in several economies and, especially in recent years, non-financial information has been included in the report to attract investors' attention. In this context, participants assessing the impact of stakeholders on this change state the effect of foreign investors in Turkey as follows:

“ . . . We consider our international stakeholders are World Bank and European Investment Bank. There are many institutions that we count on in Europe, also in Asia, the development financing institutions that we receive the fund. From their perspective, this type of reporting provides more confidence . . . ” (Participant #5)

One participant states that the enterprise has realized this change and transformation as a result not only of the demands of institutional investors but also of the problems and experiences of the enterprises in capital markets as follows:

“ . . . Of course, it is very easy to say (that the cause for the transition to the integrated reporting) for foreign institutional investors. This (change) does not depend solely on institutional investors, but also on your experience, that is, your experience with international institutions. It also changes with your experience in accessing financing, for example . . . ” (Participant #3)

An important outcome derived from the interviews are those factors effective in changing reporting processes of firms, namely expectations and interest groups, and it has been determined that the most important stakeholders in this transformation are institutional foreign investors.

It has been observed that two different strategies are used in the change to integrated reporting under the influence of stakeholders. The push strategy is when a small group in the business management forces a change in the reporting process without any stakeholder or legal pressure. The support strategy referred to as the “pull strategy” is when the change in the organization is accepted and supported by the whole organization. In Laughlin's

model of change, the push strategy is included in the rebuttal and colonization model, while the support strategy is included in the reorientation and evolution phase [25].

In this context, to determine which approach is preferred in the internal change mechanism and how this change is in accord with the Laughlin model, it is questioned whether employees of the company find the change appropriate in the transition to an integrated reporting presentation and whether top managers lead the change. It is determined that, in three of the six entities, the senior management leads this change in the reporting process with a push strategy, while middle-level managers direct the senior management in one of the entities. If a small group (top management) within the business prefers change and applies it to all components, it means that entities are in the colonization phase of secondary change and that this is a structural change. In only two entities, it was determined that the support strategy is used and the second-order change is at the evolution stage, since corporate governance understanding has already been developed and all employees contribute to this change.

Furthermore, it is determined whether the employees of companies which switched to integrated reporting in line with the demands of the senior management resisted this change. The majority of participants state that there was no resistance from departments providing information for integrated reporting, and some of state that they faced little resistance from the stakeholder.

A participant states that the resistance to the existing change did not come from the units providing information, but it was the senior management who prevented the transition to the integrated report as follows:

“ . . . We encountered serious resistance in the senior management, as I said at the beginning. For many years we have been preparing this report, making a presentation; however, as we received such feedback like there is no need for this report, we were not able to implement this report. Our general manager changed two years ago; it has been nearly 3 years now. After this change, our new general manager supports us to publish this report . . . Afterwards, as I said earlier, with the change of the top management, this negative attitude toward integrated reporting has changed and the report was put into practice . . . ” (Participant #4)

#### 4.3.2. Goal Unity and Communication between Departments

After the participating entities decided to change the reporting presentation due to the impact of stakeholders, stakeholder analysis was conducted to determine issues to be included in the reports' content. Based on the stakeholder analysis, the report content and ranking were presented to interest groups. All participants stated that there was a unity of goals among integrated reporting working groups during the report preparation process and the unit members determined the report content in a coordinated manner.

After determining the report content, all departments within the organization are expected to provide information for integrated reporting. In this respect, communication between departments is very important. Poor communication has negative effects on the preparation of integrated reports. Even little or no information sharing can make integrated reporting complicated and makes the process challenging. When the participants are asked whether all departments of the company contributed or if there was resistance to information sharing between departments, all participants state that every single department contributed to the integrated report content. One participant also states that there was no resistance at the point of sharing information between departments, especially from the Accounting-Finance department, and even that the integrated reporting information sharing increased the communication between the departments as a side benefit, i.e., by providing a communication channel between departments.

Lastly, all participants state that they organized different training and orientation programs to increase and facilitate communication between departments and to provide faster communication in the process of preparing the integrated report. In this context, it is observed that these entities organize training and orientation programs which are

related to integrated reporting, increase communication between departments and form goal unity; hence, all enterprises have undergone a second-order change according to the Laughlin model. In addition, we found out that this change is in an evolution phase thanks to the support of the department employees and that there is a fundamental and structural change in the context of communication and coordination in the participating entities.

#### 4.3.3. The Effect of the Accounting-Finance Department on Change

The bias of the Accounting-Finance department against non-financial information included in the integrated report affects both the reporting change and the information in the report content [25]. In this context, it is investigated (i) whether Accounting-Finance departments of participating entities, which are biased against non-financial information, show resistance to the preparation of the integrated report, (ii) whether the unit that prepares the integrated report is reluctant to reach out to these department managers, and (iii) whether entities focus more on non-financial information in the integrated report content. Participants state that there is no serious resistance in the Accounting-Finance department, and even report that in some entities the unit that prepares the integrated report is affiliated to the financial affairs directorate or the finance department. One participant points out that there is no resistance, but the Accounting-Finance managers do not fully adopt the integrated report:

“ ... (Was there resistance?) We belong to that department. Therefore, we are a unit affiliated with CFO. Accounting is also affiliated with CFO. There was no resistance; there can be no resistance to the board. We are actually a small institution, we don't have many intermediate levels, but I cannot say they believed much in the change ... ” (Participant #2)

One participant emphasizes that financial data are changing today, and some performance indicators expressed as non-financial information are actually financial:

“ ... Financial (information) was not the only thing that we told about during all these years. Think about it like this, is there a possibility that customer satisfaction is not financial, but it is said it is not financial, it is called non-financial. You know, it is called KPI (Key Performance Indicators), but of course, it is not likely to be financial. I mean, we have never told it like that. We have always tried to quantify this. So, nobody was isolated from each other. In other words, digitalization has been present for many years in our investor presentations. KPIs have always been in it. Again, on the total effect, that is constantly evolving and what we should tell is that where it passes through NPS (Net Promoter Score). These are all employee satisfaction. These were included ... ” (Participant #3)

By stating that they do not encounter any serious resistance from the Accounting-Finance department, the participants also state that the leading department managers do not have any reluctance in reaching out to the Accounting-Finance managers. One participant explains that they do not request information from the accounting department on busy dates, and they request information with correct planning instead.

“ ... That is to say, the accounting department becomes very busy from time to time, especially at monthly closings, if you do not touch them during these periods, there is no problem. As monthly closings are very busy and financial data require serious attention and do not tolerate any mistake, this department has a higher responsibility. If you do the planning well and get that synergy, requiring data will not be a problem. We have created a specific plan and working concept, in accordance with that calendar, except for month-ends, we receive information from the accounting department. (There was no resistance) ... ” (Participant #1)

Furthermore, the majority of the participants state that integrated reporting does not focus more on non-financial information, emphasizing an equal weight to sharing financial and non-financial information in the report content. However, one participant states that the

report focuses more on non-financial issues, and even that the content of the report consists mostly of non-financial information.

Considering the effect of the Accounting-Finance department on change, training and orientation programs such as information meetings and workshops are organized for the managers of this department during the reporting process to reduce or eliminate resistance to change in the reporting presentation. In this context, the Accounting-Finance department contributes to the change by showing no resistance to the change, although certain resistance would normally be expected from this department. At the same time, financial and non-financial information was presented in the report with an equal approach. Therefore, it is shown that the second-order change in the internal change mechanism of the enterprises is in the evolution stage. In this respect, it has been determined that participating entities have undergone a structural and radical change in reporting, and employees have adapted to this change.

#### 4.3.4. Sustainability Committee and Integrated Working Group

Integrated reporting, unlike sustainability reporting, is a reporting type that also provides financial information. While entities are going through a change in their reporting process, different to the sustainability working group, it is expected that a working group including financial data providing members should be formed. Participants are first asked which department leads the integrated report preparation process, and second whether there is a different committee than the sustainability committee responsible for the preparation of the integrated report.

While preparing integrated reporting, it is stated that the sustainability committee (unit) led the preparation of the report in four of the six entities. In the remaining two, the budget planning, investor relations department and the strategy department are the responsible units. In this respect, it is found that the sustainability department is mainly responsible for preparing integrated sustainability reporting.

When examining integrated reporting working groups, all the participants add Accounting-Finance and related department managers to the working group. It is emphasized that the working group includes the sustainability working group and has a wider structure, but generally it is stated that the sustainability committee (unit) leads the change. When the integrated reporting working groups of the enterprises are examined, it is determined that a different working group is formed from the sustainability working group, and all departments provide information to this group and adopt the change. When the internal change mechanism is examined, all the entities in the study group have undergone a second-order change and they are in the evolution phase of Laughlin's model of change.

#### 4.3.5. Materiality

The concept of materiality is a subjective concept. It is affected by the country where the business takes place, the industry, the economy and many different variables. Entities make a prioritization in reporting content in accordance with the principle of "materiality" in line with the goals, strategies and plans of the organization. In this context, participants are asked whether they identify any criteria regarding materiality during the integrated report preparation phase. Participants state that they generally take the criteria set by international organizations such as GRI, IIRC and the United Nations, as well as the legal regulations determined by regulatory institutions such as CMB and BRSA, into account. In addition, participants state that while determining the content of the report, they arrange various meetings with unit managers, and they determine the subjects that should be presented in the report as a result of these meetings.

A participant who emphasizes that the principle of "materiality" is very important for investors, explains that unnecessary information contained in the report may adversely affect investors as follows:

"... If you explain a trivial thing, investors will also get confused. Information intensity is not a good thing either, so making a KAP (Public Disclosure Platform

of Turkey for publicly traded companies) statement for everything is not a very nice thing, and I think it is also a topic to be discussed . . . ” (Participant #8)

All the participants state that they prepare the integrated reporting presentation contents by performing materiality analysis, and all enterprises determine criteria for the information to be presented in the report. In this respect, it is determined that they take a second-order approach according to the Laughlin model and make an essential change.

#### 4.3.6. Using International Guidance While Preparing Integrated Reporting

While preparing the integrated reporting presentation, participants state that they mostly follow the International Integrated Reporting Framework released by the IIRC as a guide, and they consider the GRI reporting principles, which have made important contributions to the development of integrated reporting. In addition, participants note that they examine successful international examples of integrated reporting.

Participants state that the framework prepared by the IIRC is very effective. One participant notes that this guide is established/formed with the support of many different institutions, organizations, and leading entities. A participant explains that, although the guide used in preparing the report is effective, it causes some difficulties and sets hard-to-reach goals as follows:

“ . . . When you say what are the challenges you face there (using the guide) the integrated reporting framework gives rise to a challenge like this . . . We always seek clear edges. However, this framework is very flexible . . . I think entities that will switch to integrated reporting may also have concerns. What I really infer from this is the concern on whether the report created is really an integrated report and whether I comply with it. I think it should start slowly, improve it every year and the ultimate goal is to reach that ideal framework, but it’s hard to get to it . . . ” (Participant #6)

Participants state that they use the framework prepared by the IIRC in the reporting presentation and take the principles and standards set by GRI into account. In this context, it is observed that while a change is made in the reporting presentation, there is also a change in the framework used as a guide, the IIRC framework is adopted, and entities undergo a second-order change according to the Laughlin model.

## 5. Results

Participants’ perceptions of integrated reporting are presented under two headings. First, it is observed that all participants have a high level of Integrated Reporting awareness. The problems experienced by participants in the integrated report preparation process are listed below:

- Employees’ inability to fully understand the purpose of integrated reporting.
- Communication and coordination problems between departments which are caused by the need to provide information to the working group from all departments.
- Difficulty in establishing a common goal and determining strategies and plans to achieve this goal.
- Lack of understanding of a reporting standard
- Unrest in department managers as to whether some information should be published or not.
- The negative impact of strict legal regulations and regulatory organizations in the sector on the integrated report.
- Prejudices of senior management and subordinate management on integrated report presentation and resistance to change.

In their suggestions for solutions to the problems experienced in the reporting process, participants state that the working group preparing integrated reports should first understand what integrated reporting is all about, the Integrated Reporting Framework, sustainability and integrated thinking. It is emphasized that entities should pay attention

to inter-departmental communication while adopting this integrated thinking approach, and the integrated reporting working group and the department responsible, who provide information to this group, should have sufficient knowledge and qualifications. It is also stated that entities should prepare and present the environmental, social and economic value produced directly by themselves, instead of paying consulting entities to prepare their integrated reports.

Examination of the internal change mechanism of entities is carried out under six headings. First, stakeholders affecting the change and strategies used in changes in reporting process are determined. Foreign institutional investors are considered as the most important stakeholder who contribute the most to the change in the reporting process in Turkey and lead the change. In the strategies used in the change process, it is found that most entities use a push strategy, while two entities prefer a pull strategy. According to the Change Model of Laughlin [22], all of them undergo a second-order change, most of them are in the colonization phase, and two are in the evolution phase.

Second, all participants state that all departments ensure target unity in the reporting process, that they work in coordination with unit members and the integrated reporting officer in the relevant department, and that there is no resistance to sharing information. Moreover, participants organize training and orientation programs to increase communication between departments and better manage the integrated reporting process. In this respect, (i) increased communication and coordination with integrated reporting group managers forming goal unity between departments in the report preparation process, and (ii) organizing training for a better-integrated reporting process, show that entities are in the evolution phase of second-order change according to the Change Model of Laughlin [22].

When the impact of the Accounting-Finance Department on the change is examined, contrary to the findings of Stubbs and Higgins [23], participants note that there is no resistance from the Accounting-Finance Department, and in some entities this department significantly contributes. Despite the lack of resistance, some participants add that this department has not fully embraced integrated reporting. In addition, most participants state that financial and non-financial information is presented equally, while some participants emphasize that non-financial information has more weight in the whole integrated report. In this context, the presentation of financial and non-financial information with an equal approach or with greater emphasis on non-financial information, and especially the contribution of accounting and finance departments to the change, have shown that the entities have undergone a second-order change according to the Change Model of Laughlin [22].

Participants state that the sustainability department usually leads the integrated reporting process and the integrated reporting group contains employees from accounting-finance and other related departments. In this context, the working group is found to be different from the sustainability committee (working group) and that all departments provide information. As far as the working group is concerned, it is determined that all entities undergo a second-order change according to the Change Model of Laughlin [22]. In addition, all working groups preparing integrated reporting conduct a materiality analysis set some criteria for the information that should be presented in the report.

## 6. Conclusions

Using the change model of Laughlin [22], we aim to reveal the change in the reporting process of entities which have switched to integrated reporting in Turkey. For this purpose, eight persons from six business entities that prepare integrated reports were interviewed and the findings are discussed under two headings. The first is participants' perceptions of integrated reporting. The second is the internal change mechanism of entities, which is the main goal of the study.

Participants express their acceptance of the reporting framework prepared by the IIRC for the reporting presentation. Although all participants state that this guide is effective, one participant states that the guide causes some difficulties. In this study, when the internal

exchange mechanism of entities is examined, it is found that entities undergo a second-order change in all reporting processes according to the Change Model of Laughlin [22]: a structural change affects all components of enterprises, contrary to the study of Stubbs and Higgins [23] on Australian entities. From this point of view, our findings show that there is no First-Order change and Turkish entities undergo a radical and structural change. Our outcomes are in line with Sydry [26], documenting evidence for Dutch entities that further support the findings with actual field research, for further investigations in the sustainability reporting area.

As sustainability concerns arise, non-financial reporting has become an important element of corporate reporting. There is a lack in financing of direct managers in the developing world towards acting in a more agile manner in considering Environmental, Social and Governance issues in their reporting. Integrated reporting has become widespread especially in developed countries and an important element of corporate reporting. Thus, they are more willing to adopt changes in the reporting process more quickly, but due to a lack of international data considering corporate governance, and institutionalization level and integrated reporting practices, comparing companies' internal change mechanisms, in line with their corporate governance structure and corporate culture, at an international scale, is our suggestion for future research in this field. In fact, companies in the developing world can be more agile compared to those in the developed world. Thus, they can adopt changes in the reporting process more quickly, but this is something that should be further investigated. Due to the fact that we are not able to compare this internationally, according to corporate governance, institutionalization and integrated reporting practices, it should be a future research project that companies' internal change mechanisms are compared on an international scale and according to corporate governance and culture. In addition, it has emerged that this type of reporting should not be an optional alternative; thus, Turkish entities should be aware of the changes that exist in reporting and take this path as soon as possible. There are certain limitations of this study. First, the number of entities releasing integrated reports in Turkey is limited to only six as of June 2019, which encompasses all the firms that adopt integrated reporting. This limitation reduces the generalizability of our findings but sheds important light on the early adopters from a variety of industries such as banking, manufacturing, mining and the stock exchange. Second, in interviews, business managers or members of the integrated reporting committees do not share a lot of information on the grounds of corporate secrets, which is understandable since the majority of the companies are pioneers in their industries. Understanding the perspectives of decision makers would be interesting to further develop theory and empirical modelling.

**Author Contributions:** A.A., A.C., S.D. and O.K. extend the literature on structural change in organizations, Sydry [26] and the role of integrated reporting, Stubbs and Higgins [23] in the process by implementing field study, Laughlin [22] and using an integrated reporting situation. We also use an emerging market setting where integrated reporting may not be a target, but we document that it plays a significant role in firms' strategic decision making process. As an emerging economy and developing market, Turkey is an interesting market place and natural experimental setting, where the researcher may learn more about the practical applications and perspectives of corporate decision makers. Turkey is in a geographical location that bridges Europe, Asia, the Middle East and North Africa. There are many international companies which operate in Turkey. These international companies may understand more about their local partners and competitors through integrated reporting. All authors have read and agreed to the published version of the manuscript.

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**Institutional Review Board Statement:** The study was conducted according to the guidelines of the Declaration of Helsinki, and approved by the Social and Human Sciences Ethics Committee of R.T. Erdogan University assessment report 2019/15 and dated 1 July 2019 ([www.erdogan.edu.tr](http://www.erdogan.edu.tr)).

**Informed Consent Statement:** Informed consent was obtained from all subjects involved in the study.

**Data Availability Statement:** The data presented in this study are available on request from the corresponding author. The data are not publicly available due to privacy and ethics.

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## Appendix A

Interview document.

### 1. Introduction

- (a) Thank you speech to the participant
- (b) Presentation of the following information about the interview before the interview
  - Explaining the goals of the research,
  - Informing the participant about what information should be received and how to use this information obtained, (Talk on the Laughlin model)
  - Specifying the estimated duration of the interview,
  - Informing participant about his/her rights (free will of participant to answer any question, security and confidentiality of information)
  - Signing the signature form

### 2. Start of Interview

- (a) Resume
  - Can you give me some information about yourself?
  - How many years have you been working in this company (organization)?
  - Can you provide information about your previous work experience and current job position? What responsibilities do you have at the company?
- (b) Integrated Reporting
  - Did you previously have knowledge of Integrated Reporting?
  - Can you briefly describe the problems you experienced during the preparation of the Integrated Reporting presentation?
  - What are your suggestions and recommendations for entities that will implement integrated reporting?
  - Do you think Integrated Reporting will have more impact than classic financial statements?
  - Can you evaluate this effect when comparing it with sustainability reporting?
  - Because integrated reporting has less and concise knowledge than sustainability reporting, we can say that it will prevent the sharing of some important information related to sustainability. Do you think that after integrated reporting becomes widespread, it will negatively affect sustainability?
- (c) Internal Change Mechanism
  - Do you think that stakeholders (i.e., partners, investors or the state) have an impact on the transition to integrated reporting presentation?
  - In the transition to integrated reporting, did all the employees believe that this change was right or was the change to integrated reporting made in accordance with the demands of senior managers? Was there a resistance from employees to this change?
  - Was a goal unity established between the members of the Integrated Reporting working group at the stage of preparing integrated reporting?
  - We can say that inter-departmental communication is very important in preparing integrated reporting. Can you say that all departments of the company contribute to the integrated reporting process?
  - As you know, poor communication between departments can have negative effects on integrated report preparation. Even little or no information sharing can complicate integrated reporting. Did you encounter any resistance at the point of sharing information between departments at the stage of preparing an integrated report?

- Was there any resistance to this change, especially from the finance-accounting department, where there is a lot of prejudice against non-financial information?
- When preparing integrated reporting, has any training or orientation program been organized to increase, facilitate communication between departments and ensure faster communication?
- When preparing the Integrated Reporting working group, was a different committee established than the sustainability committee, or was it a continuation of the sustainability committee?
- Did it have any members from the accounting-finance department, for example?
- Which department led in the preparation of the report?
- Do you think that leading department managers are reluctant to reach out to employees in the accounting and finance department? (Because there is resistance)
- Has any resistance been shown in the accounting and Finance Department regarding the preparation of the report?
- Do you think that integrated reporting focuses more on non-financial issues?
- The concept of materiality is a subjective concept. So, at the stage of preparing integrated reporting, did you set any criteria for materiality?
- For example, reduced water consumption in sustainability reporting may not be presented in Integrated Reporting because its amount is low.
- Have you used any guide (GRI4, IIRC reporting framework) when preparing integrated reporting?
- If it was used, do you think the guide was effective?

### 3. Conclusions and Evaluation

- Is there a person who has been at the stage of preparing integrated reporting that you think will contribute to this research work that we are doing? Can you direct this person to us?
- Do you have any other comments, opinions or suggestions on the subject of the interview?
- What do you want to say in the conclusion and evaluation section?

The ethic certificate of the research: 2019/15.

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