

Maria Serena Chiucchi - Paola Demartini (eds.)

**QUALITATIVE RESEARCH
IN INTANGIBLES,
INTELLECTUAL CAPITAL AND
INTEGRATED REPORTING
PRACTICES**

**OPPORTUNITIES, CRITICALITIES
AND FUTURE PERSPECTIVES**

4 CORPORATE GOVERNANCE
E SCENARI DI SETTORE DELLE IMPRESE



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Dipartimento di Economia Aziendale



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4

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INTELLECTUAL CAPITAL
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MARIA SERENA CHIUCCHI, PAOLA DEMARTINI (EDS.)



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PART I

Intellectual Capital and <IR> New Reporting Practices

*New frontiers for local government reporting:
learning by pioneers*

Francesca Manes Rossi, Rebecca Levy Orelli

Purpose – Under the New Public Management waves of reform, new reporting practices have flourished in public administrations to communicate to stakeholders the value created for the benefits of the community. The paper aims at investigating the evolution in the new reporting practices in local government, questioning the ability of integrated reporting to represent the best way for local government to enhance accountability and stakeholder engagements.

Design/methodology/approach – Adopting the Actor-Network Theory and using a case study method, the research questions the process of “translation” of Integrated Reporting principles and content in three local governments. The three experience are compared, and the role played by different actors and networks in producing a stronger engagement by citizens in the decision-making process is investigated.

Findings – The case studies show how and to what extent people, processes and relationships have been mobilized and activated to create value. Furthermore, common roots of principles and content prompted by the Integrated Reporting Framework are related to other reporting tools.

Originality/value – The research sheds light on the role played by different actors in enhancing stakeholders engagements. The three cases offer a lesson to learn for politicians and legislators in activating the adoption of innovative reporting tools as a means to improve accountability and involve citizens in local politics.

Keywords – Integrated Reporting - Stakeholders engagement - Accountability - Public Value creation - Popular Report.

1. *Introduction*

The New Public Management (NPM) waves of reforms (Hood, 1995; Lapsley, 2009) fostered the modernization and transformation of public sector organizations in the pursuit of efficiency and effectiveness. Over time, NPM reforms have been coupled with the flourishing of new reporting practices, to communicate to stakeholders/citizens the value created for the benefits of the community, as well as to improve stakeholders' engagement (Adam *et al.*, 2014; Bonson *et al.*, 2015; Clay, 2008; Cohen & Karatzimas, 2015).

The focus in providing information has shifted from processes, access to resources and equity to outputs and outcomes especially concerning accounting data, both for budgeting and for reporting (Parker & Gould, 1999). The annual financial report is supposed to inform stakeholders about the management and expenditure of public resources, and it shapes the reality of the public entity to the eyes of the stakeholders (Christensen & Skaerbaek, 2007). However, as already discussed at length by scholars, the usage of the information embedded in the financial reporting by stakeholders is rather limited (Steccolini, 2004; Coy *et al.*, 2001).

One of the reasons often adopted to explain the limited uses of accounting information, and the consequent inability of financial reporting to discharge accountability has been recognised in its language, which is highly specialised and it is difficult to understand for people without specific accounting knowledge (Paulsson, 2006). As a consequence, progressively several initiatives have been undertaken to create reports more readily understandable by the majority of users, especially in countries where NPM reforms call for a more participative role of citizens in the decision-making process of public entities.

Additional non-financial information may illuminate stakeholders about the future of the local government. An integrated report, able to retain some of the essential features of the financial reporting but providing also information on governance, environmental and sustainability issues in an integrated manner, may represent the best way to engage people in the political life of the local government. However, the success and the usefulness of this new tool depends on the process through which it is translated into the local government practices and by the involvement of different actors within the process.

To examine the adoption of alternative communication tools the present research makes use of the Actor-Network Theory (ANT) (Callon, 1984; Latour, 1996, 1999). ANT helps to investigate the process of 'translation'

(Justesen & Mouritsen, 2011; Lowe, 2001; Lukka & Vinnari, 2014; Vinnari & Dillard, 2016) of integrated reporting principles and content in local governments. A comparative case study method is followed to examine the experience in new reporting practices made by three city councils from three continents differing in cultural, legislative and organizational traditions. The comparison aims at identifying the role played by different actors in producing more effective accountability, suitable to improve citizens' engagement in the decision-making process. Our examination points out the extent to which accountability innovations have been translated into local reporting practices, and the emerging networks of the accountability frame have been constructed, accomplishing (or not) to the aim of introducing the new reporting framework. The results offer room for further reflexions in understanding how to undertake the process of preparing integrated reporting in local governments both by scholars and politicians.

The paper unfolds as follow. The next section presents a summary of the ANT and the concept of framework, as a theoretical lens through which investigate new reporting tools development. Section 3 defines the research design and the methodology. Section 4 offers a summary of the development of <IR> and the efforts done so far for its extension to the public sector. The discussion of the three case studies under investigation is presented in section 5 from a comparative perspective. Section 6 draws some reflections on the new reporting practices and if and to what extent new accountability principles have been translated into local governments. Section 7 discusses the limitations of the study as well as possible further developments of the research.

2. New reporting practices in local governments

A vast amount of research has discussed accountability in public administration in general (Ball *et al.*, 2014; Dowdle, 2017; Gray & Jenkins, 1993; Patton, 1992; Parker & Gould, 1999) and, more specifically, in local governments (Boyne & Law, 1991; Ferry *et al.*, 2015; Steccolini, 2004; Martin & Kloot, 2001), considering the different facets of accountability, as well as codes, content and tools. It has been also recognised that «the prevailing idea of public accountability changes over time as a consequence of changes in the social, cultural, political context» (Steccolini, 2004: 331).

Since the '90 a growing attention on local government engagements in sustainability practices and reporting emerges (Ball & Grubic, 2007;

Bellringer *et al.*, 2011; Dumay *et al.*, 2010). As noted by Ball and Grubic (2007) local governments play a key role in sustainable developments, having a capacity to relate directly to society, more than corporations.

The advent of the Internet has facilitated the access to this vast variety of information by different users, and nowadays almost all public administrations provide a plethora of data, information and reports on their websites (Brusca *et al.*, 2016; Babeiya & Masabo, 2017). However, the growing pressure for more transparency and accountability by local governments in the last decades may also result in an overloading of reports and information that may turn in a lower engagement by stakeholders, confused rather than illuminated by this overflow (Curtin & Meijer, 2006).

Consequently, the emergency for a holistic form of disclosure able to incorporate both financial and non-financial information, but also concise and easy to understand, has animated the academic debate, but had also an impact on standard setters and consultancy companies, generating a large number of different reports with different labels.

Meanwhile, the need for a holistic form of disclosure has also been developed for corporation leading, in 2009, at the creation of the International Integrated Reporting Council (IIRC) in 2009. The council was formed by actors with strong regulatory powers regarding accounting, all involved in regulating accounting practices about financial reporting and sustainability reporting¹ (Dumay *et al.*, 2017). After a pilot programme started in 2011, the IIRC released the Integrated Reporting framework (<IRF>) in 2013.

The <IRF> propose a set of guiding principles and content elements to be included in the report, as summarized in Figure 1.

Each entity may adjust the report to its business model, in the aim of representing how value has been created. In particular, the report should inform the reader about the vision and mission, how the inputs (related to the six capitals: financial, manufactured, intellectual, human, social and relationship, natural) have been transformed into outputs and have produced specific outcomes. Indicators may be included for a concise representation.

Although the focus is on capital providers, the IIRC also states that the framework «can also be applied, adapted as necessary, by the public

¹ The initial member of the IIRC were the Association of Chartered Certified Accountants, the Chartered Institute of Management Accountants, and the International Federation of Accountants, with the support of the Big Four companies and sustainability reporting-focused organisations, such as the Global Reporting Initiative, the Climate Disclosure Standards Board, and the Sustainability Accounting Standards Board.

sector and not-for-profit organizations» (IR Framework: 4). However, the adoption of the Integrated Reporting by public sector organisations is challenging and not without difficulties. To better support public organisations, the IIRC has created a Public Sector Pioneer Network and a joint document with the Chartered Institute of Public Finance and Accountancy in the UK has been published. Notwithstanding, at the moment no specific guidelines have been released, and the development of any specific project related to public sector entities seems to be at a standstill.

Fig. 1 – *The Guiding Principles and Content Elements*



Source: IIRC 2016

Several hurdles and opportunity may be considered. First, the preparation of the integrated reporting requires a different approach to setting strategy, overcoming the separation between different unit inside the entity and embracing integrated thinking. However, public organisations often refuse changes, and the adoption of this kind of ‘thinking’ requires managers and politicians to share a common view of strategies and values (Guthrie, 2017).

Second, local governments sometime prepare, besides the annual financial report, also the sustainability report and other specific documents to meet different information needs. In this respect, the Integrated Report is suitable at including different information in one document, offering a paramount picture of the entity to the reader. Nonetheless, the <IRF> does not provide a set of indicators. For this reason, the Global Reporting Initiative (GRI) guidelines can still be used to assist local government in preparing the report. (Manes-Rossi, 2018).

Stronger *stakeholder engagement* is a further benefit that may be prompted by the integrated reporting: as revealed by KPMG report (2012) for public sector entities, including financial and non-financial

information in one document allows organisations to explain how they deal with different – and sometimes contrasting – stakeholders' interestment. Local governments may reinforce trust and legitimacy by citizens engaging with their people.

One of the risk to be consider while adopting an integrated report, common to any kind of accounting change, is that the organisation prepare the document just making a collage of information available, but does not adopt any change in the way in which strategies are prepared (Liguori & Steccolini, 2014; Katsikas *et al.*, 2017).

In the following section we make a first attempt, to the best of our knowledge, to examine the experience done in three cities in preparing an innovative reporting, to identify the main actors involved in the development of the document and to detect if the <IRF> plays a role, as an ally or as a framework.

3. The translation of new reporting practices: the Actor Network Theory

Reforms in public sector accounting can best be interpreted as a complex mixture of environmental pressure, polity features and historical institutional context (Christensen & Laegreid, 2017).

To understand how innovative accounting tools have been adopted in public sector entities, the role played by different actors may help to interpret why a specific innovation has been successful or turn out to achieve different aims from those initially planned. To this end, we frame our discussion within.

ANT has been adopted in accounting studies dealing with accounting innovations. Latour (1996, 1999) and Callon (1984) discuss on a macro-sociological level that organisations and discourse are involved with organising interaction. The work of Latour has inspired a large number of studies, defining four notions that are at the basis of ANT (Lukka & Vinnari, 2014). The key notions relate to actors, translation, alliance, and trial of strength. An actor can be a human or non-human thing that can produce an effect on another thing. Quoting Latour (2005: 71) an actor is «anything that does modify a state of affairs by making a difference».

The concept of translation is an elusive one. According to Callon (1984), it is a process in which one group of actors, adopting a variety of tactics, is able to gain the power to speak on behalf of the others. Latour (2005) offers a different perspective identifying translation when a new association between human and non-humans elements occurs. In order to have a successful translation, an actor needs to create alliance: the more an

actor is able to be connected with alliances, the more powerful the translation will be. In this approach, social order, power, truth and other phenomena that are generally viewed as a starting point, become the results of different trials of strength among different actors.

«Such trials constantly emerge when actors resist externally imposed definitions of their interests and objectives and refuse to enrol in a particular network. It then follows that disorder is the norm, whereas the stability of a system is a laboriously achieved state that might collapse at any time» (Lukka & Vinnari, 2014: 1316).

Thus, to keep a network of alliances, it is necessary to maintain actors actively engaged around common interest and objectives.

According to Lowe (2001), accounting systems may be perceived as allies, in their ability to support humans to achieve their organisational objectives. Accounting tools are suitable to provide solutions to organisational problems (Miller & O'Leary, 1994).

Callon (1988) highlight how emerging actor-networks affect a wide variety of human and non-humans. Callon's study focuses on the consequences of engaging humans and non-humans, identifying four moments of the translation process: problematization, interestment, enrolment and mobilization.

The moment of problematization refers to the efforts done by focal actors to convince other actors (alliances) about the urgency of a specific problem, which is demanding a standard solution. In his study, Callon identifies the first unit of actors that define the problem, a possible agenda, and other actors to be involved in order to succeed. After this, an *Obligatory Passage Point* (OPP) need to occur, and it can be identified at the moment in which all actors can satisfy the role attributed to them by the focal actor in the pursuit of a solution. The OPP is identified by the focal actor and renders her/him/it indispensable. The moment of interestment is the one in which the focal actor (in Callon's study the three researchers) try to impose and stabilise the identity of the other actors it defines in the problematization moment. Callon also warns about the risk that despite arguments are convincing and the urgency of the problem, alliances with other actors may not be taken for granted. When other actors accept or get aligned to the interest defined for them by the focal actor, the enrolment occurs. The mobilization requires that all actors keep their involvement in the action and then the spokesmen representative need to be identified. As stated by Lowe (2001), accounting systems – both in their implementation as well as when they are operative – 'mobilize' organisational members either because they are constrained

to use the number that the new reports disclose or because their actions and activities created data to be included in the reports. Thus, innovative accounting tools may also be used to obtain mobilization.

Along the whole process, «the notion of translation emphasizes the continuity of the displacements and transformations which occur» (Callon, 1984: 214) in the pursuit of the solution to the initial problem.

Adopting micro-sociological level of observation, Goffman (1974) studies what organises human interaction and introduces the notion of frameworks, as the stock of tacit knowledge on which actors are drawn from their everyday interaction. Callon (1984), elaborating on the concept of Goffman (1974), state that «the frame establishes a boundary within which interactions [...] take place more or less independently of their surrounding context» (Callon, 1998: 249). However, overflows may occur in the framing attempts. The concept of overflows comprises both positive and negative externalities and, rather being accidental, are a normal and unavoidable phenomenon that occur simultaneously with the framing process. Summarising, framing creates order, while overflows create disorder (Callon, 1998). Changes follow a non-linear process and «success and failure is a fragile construction that turns on the strength of diverse ties tying together many heterogeneous elements» (Briers & Chua, 2001: 267).

To operationalise the use of ANT in the present study on local governments' new reporting practices, we question *if* and *to what extent* the main principles included in the <IRF> have been translated into reporting practices questioning the ability of integrated reporting to represent the best way for local government to enhance accountability and stakeholder engagements.

4. *Research design and methodology*

The study adopts a comparative case study method motivated by the contemporary and complex nature of the translation of accounting principles and tools into practice and their impact on actors, rules, regulation, and the network in which a municipality insists, and the need to keep in mind characteristics and the type of research questions to be addressed (Yin, 2018).

Drawing on prior research, on reasonable assumptions and existing correlative evidence, we derived some propositions. The conceptual framework and the researchable propositions guided data collection and analysis and were used as a template with which to compare the empirical results of the case studies (Yin, 2018).

Data on case studies of three local governments were collected over a long time frame (the maximum possible). Our selection of case studies was guided by the variables of the conceptual framework, using a most-similar-most-different case design. We chose municipalities differing in cultural, legislative and organizational traditions, but with a similar level of economic development, and publishing an integrated reporting kind of disclosure, even if published under other labels (see [table 1](#)). The three municipalities are listed as Alpha cities by the Globalization and World Cities Research Network (GWCRN) for their similar level of economic development (there are four main clusters of economic development, Alpha, Beta, Gamma and High sufficient). Alpha defines the group of 40 cities that link major economic regions into the world economy.

Data collection relied on multiple sources of evidence. We collected relevant municipal official documents (integrated reporting, sustainability reporting, strategic plans and performance reports, budget and financial reports, other administrative documents), mass-media articles, and official statistics on financial and non-financial performance to yield more data.

In the first stage of data analysis, each case was examined as an interpretable whole, constructing an explanation of accounting implementation decisions confronting respondents, while in the second stage a cross-case analysis was performed.

Table 1 – *Features of the municipalities*

	Johannesburg	Melbourne	Warsaw
Continent	Africa	Australia and Oceania	Europe
Country	South Africa	Australia	Poland
Capital status	Yes (one out of three)	No (it is the second city after Sydney)	Yes
Globalization and world cities research network rating	Alpha city n. 20	Alpha city n. 30	Alpa city n. 19
Name of the report	Integrated report	Annual report	Integrated report

Consistently with the case study method, the municipalities of Johannesburg, Melbourne, and Warsaw are compared, and the role played by different actors and networks is investigated in order to understand patterns of translation of accounting principle and tools was made possible. The results are generalizable to theoretical propositions, providing a convincing rationale

for establishing the importance of critical factors that determine the translation of accounting principles and tools into practice by local leaders and their impact on actors, rules and regulation, and the network of each city.

5. *Setting the context of new reporting practices*

The present section compares the three selected cases using a common approach to analysis. For each city, it will be briefly described the basic features, and then it will be analyzed the new reporting practice core elements, paying particular attention to the focus of the report, the materiality process, the conciseness of the document and the kind of stakeholder engagement as it is disclosed in the documents.

CITY OF JOHANNESBURG

Johannesburg is the largest and most populous city in South Africa with a population of 4.9 million inhabitants. The new reporting practice represented by the integrated report is linked with the Integrated Development Plan 2011/2016, which is a part of Growth and Development Strategy 2040 of the city, both available on the city's website. The basic issues for the city are poverty, unemployment, and inequality because of the many migrants moving to the city in search of opportunities. Consequently, the efforts of the city are towards building up liveable communities closer to essential services and jobs.

The integrated report has its *focus* on ten strategic priorities and their related operative programmes. The strategic priorities are integrated with both the strategy of development and the value creation model that explains the six capitals use of resources in each operative programme and the results regarding outputs and outcomes. While the outputs are organized into the four areas of sustainable services, economic growth, human and social development, and good governance, the outcomes follow a more traditional classification economic, social, and environmental sustainability with the addition of the administrative sustainability element.

Regarding *materiality*, even if the absence of a materiality matrix structured along the stakeholder's needs, the integrated reporting identifies the materiality aspects in accordance with the growth and development strategy and it frames contents about the four areas of interest for the city.

The report consists of 333 pages so that it presents a less degree of *conciseness*. Nonetheless, it has to be noticed that it represents consolidated integrated report, disclosing information about the city as well as the

enterprises or entities under the city's control. A large part of the document (about 2/3 of it) is devoted to financial statements and indicators inspired by the GRI G4 standard, with a limited number of pictures and graphs.

Johannesburg *engages* its community with regional ward clusters (no. 24 for the period 2015-2016) enabling community members, non-governmental organisations (NGOs), councillors, and various committees to participate in the preparation of the city's plans.

CITY OF MELBOURNE

The city of Melbourne (State of Victoria, Australia) is at heart of Melbourne and covers the central city and 14 inners suburbs. In 2016 the city had a residential population of 135,959, that increases to 891,000 in weekdays. The Annual Report is prepared in accordance with the Local Government Act 1989, and it also draws on GRI G4 guidelines Sustainability reporting framework. The report describes performance for the 2014-2015 financial year against the objectives of the 2014-2015 Annual Plan and Budget and the four-year priorities of the Council Plan 2013-2017. The report is available on the city's website.

The city of Melbourne' report *focus* is on its performance against eight fundamental goals, closed to sustainability issues, presented in the four-year council plan and keeping with the vision. There is a clear description of the path followed to turn priorities into actions, even if the business model and the capitals involved in the value creation process are entirely lacking. The organization of the city, as well as the governance model, are quite articulated.

Concerning the *materiality* issue, the report is consistent with the requirements of the Local Government Act. Nonetheless, there is neither the description of the process followed for the identification of the material issues, of the kind of engagement done with stakeholders, nor the presentation of the output of the process, the materiality matrix. It is worth mentioning the compliance of the report with the GRI G4 requirements is based on a material assessment of sustainability issues.

As a principle, *conciseness* is not evoked in the document, even if the document would like to present an understandable view of the city performance. This results in 198 pages of information presenting a significant number of financial information, against the achievement of each of the mentioned Melbourne's goals, sustainability and performance indicators along the entire Annual Report.

The *stakeholder engagement* activity takes a critical part of the decision-making process of the city. There is a section (*Involving the community in*

our decisions) devoted to the process undertaken to that aim as well as a section of the official web page of the city called *Participate Melbourne* that presents all projects open for consultation (with different manners of participation, i.e., questionnaires, documents, focus groups). In the annual report, a section of comparison between activities planned in the previous year and level of achievement is also presented in order to engage citizens with the life and the development of the community. Lastly, an activity of citizen engagement called «Implement the community engagement process agreed for the 10-Year Financial Plan» links the multiyear strategy of the city with citizens priority in managing the public finances.

CITY OF WARSAW

Warsaw is the capital and largest city of Poland, with a population officially estimated at 1,765 million residents, that makes Warsaw the 8th most-populous capital city in the European Union. Warsaw is a global city, a major international tourist destination and a significant cultural, political and economic hub. In July 2017, the mayor presented the ‘Third integrated report’ showing data for 2014-2015, available in English. Since its inception, the report follows the GRI G4 guidelines as well as the ISO37120 standards for sustainable urban development, in order to assure comparability. There is no explanation of the methodology followed in the preparation of the report.

City of Warsaw *focus* is on the broad economic, social, and environmental sustainability, coherently with to the framework chosen as reference. As a consequence, the capitals involved in the value creation process are not mentioned, while there is room for general governance information (board and code of governance). The time orientation of the information disclosed is the past, with a consequence in terms of limited disclosure on risks and future agenda.

Concerning the *materiality*, the report is framed around aspects defined in accordance with stakeholders’ engagement activities that took place through public consultations made thanks to the city’s website and social networks. The materiality is reported concerning the main focus of the report, economic, social and environmental issues.

Regarding *conciseness*, the third integrated report is made up of 62 pages plus 6 pages of detailed indicators. Despite the report conciseness, all the performance indicators are disclosed over two years to allow comparability over time. About communication, the report makes use of infographics and pictures to facilitate stakeholders’ engagement.

In terms of *stakeholder engagement*, the city identifies its core stakeholders and present them in the report also describing the open channels of communications (phone, website, apps, email, and chat). Notably, it is outlined the map of main stakeholders engaged in processes with public consultations and their involvement with a participatory budget effort.

A detailed table of the main key feature of the new reporting practices of the three local governments against the core features of <IRF> is provided in table 2.

Table 2 – *Key features of the accounting report against the core features of <IRF>*

Key feature	Description of the key feature	J	M	W
<i>Strategic focus and future orientation</i>	Explain how the entities plan to use 'the capitals' and the impact of business activities on the capitals	X		
	Explain the time frames (short-, medium-, and long-term) associated with strategic objectives	X	X	X
	Explain the strategic importance of material risks and opportunities in the discussion of business strategy	X	X	
<i>Materiality</i>	Explain material risks and opportunities in detail, especially regarding known or potential effects on financial, environmental, social, or governance performance	X		
	Identify the time frames (short-, medium-, and long-term) associated with material risk and opportunities			
	Prioritise material risks and opportunities based on their magnitude/importance			
	Prioritise the perspectives of stakeholders consulted			X
<i>Conciseness</i>	Information includes sufficient context to understand the organization's strategy, governance, performance, and prospects without being burdened with less relevant information	X	X	X
	There is a balance between conciseness and the other guiding principles, particularly completeness and comparability		X	X
<i>Stakeholder engagement</i>	Have the stakeholders been involved in the definition of the material issues?	X	X	X
	Have the needs and expectations of the stakeholders been considered in the definition of the external environment?	X	X	X
	Have the stakeholders been identified in the definition of the business model?			X
	Does the organisation activate stakeholder engagement activities?	X	X	X
	If the answer to the previous question is yes, are the inputs used in the definition of the strategy?	X	X	X

Notes. J: Johannesburg; M: Melbourne; W: Warsaw.

6. □ *Are new reporting practices translating new accountability principles in local governments? Some reflexions*

In order to understand the framing of new accountability practices such as the Integrated reporting, it is necessary to be aware of the context of its introduction. The present section provides the essential context of new reporting introduction in each of the three cases analysed and frames the network that developed in relation to such introduction, in light of the ANT.

THE CITY OF JOHANNESBURG

The features of the institutional and political context of South Africa play a role in understanding the integrated reporting role nowadays in Johannesburg. Africa faces a number of challenges that have limited the scope, speed and quality of services. The challenges include corruption multiple accountability, poor resource utilisation and institutional capa-city. African governments, therefore, needed to increase their efforts to address these challenges through effective public sector reforms since mid 80ies (Carpenter, 1999). The Constitution of 1996 gave local authorities more power by making them autonomous and South Africa became a 'national' government instead of a 'central' government. The Government was restructured from a linear and hierarchical model into spheres – national, provincial and local. The Constitution requires coo-peration and respect between the three spheres, as municipalities have the executive and legislative power to take the initiative in the management of local affairs (Carpenter, 1999). The legislative (Parliament) and the provincial governments are not allowed to interfere with the power and functions of the local authorities. At the same time, national and provin-cial governments must ensure that municipalities perform their functions effectively and are obligated to assist them if they need help.

The municipalities in South Africa are the key actors of local deve-lopment, also in terms of accounting disclosure and engagement. The functions performed by municipalities are derived from the Constitution of South Africa in 1996. The structural and institutional arrangements are different for the different types of municipalities, metropolitan, district and local municipalities. The common feature is that they have to be accountable to the community they serve providing a democratic and accountable government for local communities ensuring the provision of sustainable services. The Constitution sets the two so-called *development duties* for municipalities that are related to the obligation of structure and

manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community, as well as to participate in national and provincial development programmes. It emerges that local governments provide the foundation for democracy and its service delivery the basis for economic and social cohesion in the context of a development state. Due to this and the fact that municipalities use taxpayer funds, levy surcharges on services (e.g., electricity, water, sanitation, refuse removal) good corporate governance is paramount for the success of the municipality itself and those who are impacted by it. Good corporate governance assists by putting in place leadership and other structures as well as processes and frameworks for the municipality to be responsive to the needs of the community, including residents and businesses.

NPM reforms in South Africa were mainly related to Performance Management (EAC, 2004) in order to face some of the accountability problems. In pursuit of the goal of performance improvement, performance management advocates for the 'empowerment' of managers and citizens.

The network that developed around the OPP (Obligatory Passage Point) has to take into account citizens, the first addressee of the integrated reporting. In the context of public sector reform, efforts to make public service agencies more accountable to the public have included the adoption of Citizens Charters. Launched in 1997, the principles of the African Public Service Charter that was adopted at the third Pan African Conference of Ministers responsible for the Civil Service, in 2001. The Citizen Charter Batho Pele-People First initiative in South Africa is based on a set of national principles for public service (Therkildsen, 2001) and, following the Charter, citizens should be consulted about the level and quality of public services and, whenever possible.

The basic Principles defined in the Charter are Equality of Treatment, Principle of Neutrality, Principle of Legality, Principle of Continuity (Charter for the Public Service in Africa, Third Pan-African Conference of the Ministers of Civil Service, 2001).

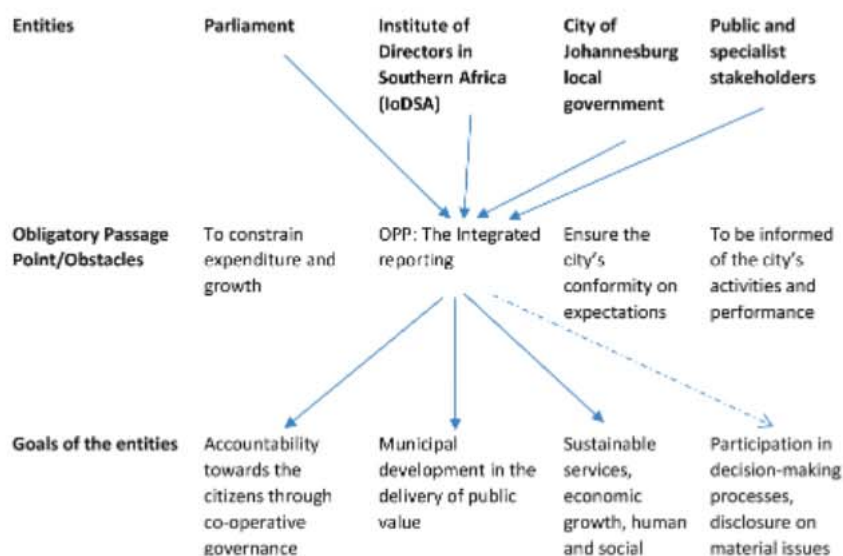
At present South Africa municipalities operate within a system of co-operative governance in terms of the Constitution. The Integrated annual report represents the main disclosure of the results of Johannesburg. Today, many public sector organisations in South Africa issue an Annual integrated report. The process of embracing the integrated report involves not only municipalities but also companies listed on the Johannesburg Securities Exchange (JSE) in South Africa. They were required to adopt Integrated Reporting from years commencing on or after 1 March 2010,

becoming a JSE listing requirement. King III recommends that organisations should adopt Integrated Reporting on an ‘apply or explain’ basis. Some of the large State-owned entities have been preparing integrated reports since 2010 on the King III Code’s recommendation to prepare an integrated report. In 1994 the first King Report on Corporate Governance (King I) was issued, and the King Committee assigned ownership of this and future reports to the IoDSA who become the leading actor regarding integrated reporting provision in Africa.

Public sector organisations follow the King Code voluntarily in the interests of good governance, rather than by any regulation under the Public Finance Management Act 1999. The King IV Code, released in November 2016 by the Institute of Directors in Southern Africa (IoDSA), has Sector Supplements, aimed explicitly at State-owned entities and Municipalities. According to the King IV, the Report highlights the importance of integrated thinking, integrated reporting and value creation and uses the definitions contained in the International <IR> Framework. There has been a generally positive and pro-active response from some State-Owned Entities in South Africa which have embraced Integrated Reporting as part of their King III application programs (KPMG, 2012).

The network that emerges in the Johannesburg experience is as shown in Figure 2.

Figure 2 – *The City of Johannesburg Integrated reporting network*



The Parliament with the Constitution defines municipality development against the increase of expenditure and unemployment concerns, and towards accountability as the primary value. Also, the Parliament has the power to control and eventually revoke municipality powers in case of failure in matching its objectives. The municipality of Johannesburg has to find its way of development in light of the rules imposed by the parliament, on disclosure. The IoDSA strongly encourages the use of the King Code for municipalities' disclosure as a way to connect local development goals to citizens.

Both the IoDSA and the Citizens Charter combined gave to the City of Johannesburg an impetus that was powerful in developing the network. The IoDSA readily enrolled the city of Johannesburg in the network as it offered the interestment of savings in expenditure programmes and sustainability. The enrolment is an effect of the coalition formed between the central government (Parliament) and the IoDSA.

Thus the actor-network was established with an Obligatory Passage Point through the Integrated Reporting project. It was problematized that an Integrated report would present data useful in demonstrating accountability toward citizens as well as sustainability in services, also attesting central government accomplishment. However, the coalition limited enrolled the public and specialist stakeholders, as, in practice, the integrated report did not engage stakeholders with the process of reporting as it should be given the features of the integrated reporting. For this network members, the interestment was given by the information content of the reports.

Nonetheless, due to the feature of the report, it does not help public and specialized stakeholders, as citizens and other stakeholders, to participate in the decision-making process, as there are not specific activities of stakeholder engagement and participation activated by the integrated reporting.

THE CITY OF MELBOURNE

Local governments are the third tier of government in Australia administered by the states and territories, which in turn are beneath the federal tier. Local governments are mentioned in the Constitution of Australia. Every state government recognises the local government in their respective constitutions. The city of Melbourne is a local government belonging to the state of Victoria, which expresses its own Parliament. Key elements of NPM have been implemented in Australian local governments. The Local Government Act 1989 (Victoria) states that the role of a council includes «providing leadership by establishing key strategic objectives and monitoring their achievement» (s. 3D, 2B). It is important to note that

this incorporation of NPM principles has been incremental in the state of Victoria. The latter stipulation was introduced in 2003 with the passing of the Local Government (Democratic Reform) Act 2003. The Local Government Act 1989 (State of Victoria, 1989), defines the purpose of a local government (s.3A) that is to provide a system under which Councils perform the functions and exercise the powers conferred by or under the Act and any other Act for the peace, order and good government of their municipal districts. The primary objective of a Council is «to endeavour to achieve the best outcomes for the local community having regard to the long-term and cumulative effects of decisions» (s.3 C 1).

The state of Victoria embraced a series of reforms concerning accountability from the 1980s, implementing a series of NPM-inspired legislation that culminated in the Local Government Amendment (Performance Reporting and Accountability) Act 2014. This way, the broad tenants of NPM as discussed by Diefenbach (2009) have been gradually introduced to enforce roles and behaviour across the Victorian local government sector. Krapp *et al.* (2013) examined NPM in the context of local government, arguing that NPM reforms pose a fundamental question of focus on strategic objectives and better performance from local government administrations.

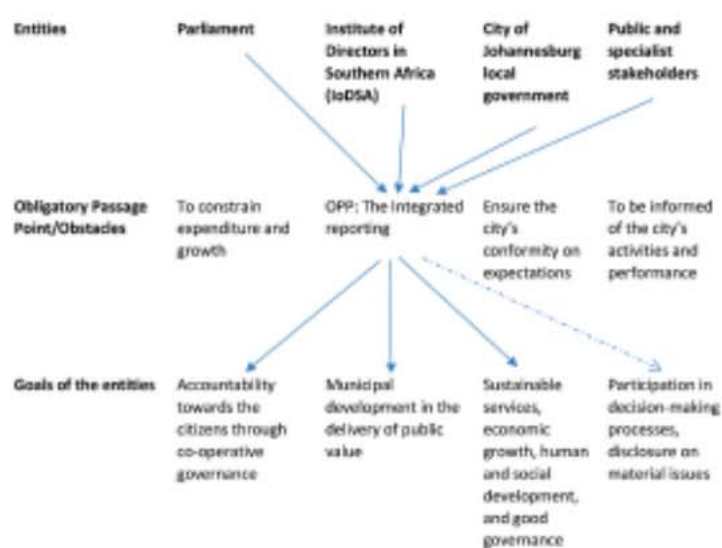
The purpose of the Local Government Act 2014 is to amend the Local Government Act 1989 and to require Councils to report against prescribed performance indicators in the report of operations and performance statement in the Council' annual report; to include in the annual report the results of the Council's assessment against the prescribed governance and management checklist; to include financial statements in its Strategic Resource Plan, budget, revised budget and annual report, ensuring consistency between its Strategic Resource Plan and the resourcing of plans to provide services or take initiatives in the period covered by the Strategic Resource Plan; and to publish the Council Plan, Strategic Resource Plan, budget, revised budget and annual report on its Internet website (Victoria, 2014).

The network that emerges in the Melbourne's experience is as follows [Figure 3](#). While the Parliament identifies the need to achieve best outcomes for the local community concerning the long-term and cumulative effects of decisions in order to produce peace, order, and good government of the Commonwealth, the State Parliament of Victoria defines the general priorities of the state development towards performance reporting and accountability. The city of Melbourne introducing the Annual report identifies an OPP able to push the local government towards internal performance and good governance that is its primary goal. The Annual Report mobilize all the issues and show an extensive involvement of stakeholder with many

channels and active engagement of citizens.

The City of Melbourne decided to prepare an Annual Report to connect local development goals, activities and assessment to citizens, with particular reference to sustainability. The city easily enrolled the general government (parliament) and the state government of Victoria in the network as it offered the interestment of more control on strategic objective and performance achieved at the local level. The latter is an effect of the coalition formed between the central government (Parliament) and state government and the City of Melbourne. The actor-network was established with an Obligatory Passage Point through the Annual Report Project. It was problematized that an Integrated Report (the Annual Report) would present data useful in demonstrating internal performance and good governance, two key elements of the annual report scheme used by the municipality.

Figure 3 – *The City of Melbourne Annual Report Network*



The Annual Report received the attention of public and specialised stakeholders involved in the city's activities and assessment, also showing state government accomplishment. The coalition enrolled the public and specialist stakeholders as for this network members the interestment was given by both the information content of the reports, and a variety of communication channels related to the integrated reporting engagement and participation (as previously described).

THE CITY OF WARSAW

Today Poland is divided into 16 provinces, 380 districts and 2,478 municipalities <<http://administracja.mswia.gov.pl/>> (last access 19.01.2019). The public administration reform in 1999 resulted, among others, in the transfer of about 63% of the state sector units (out of about 12,000) to the municipal sector, subordinated to the newly established units of local government (Kobylińska, 2015: 5). The function of government administration was changed, and in its new shape LG had to *focus* attention on the priority actions such as the formulation of policy or creation of a development strategy. The municipal sector was to provide public service, in line with the agreed standard. After the administrative reform of 1998, the process of adaptation of modern management methods and tools of public tasks management started.

In mid-June 2000 Civil Service Office started a program of *Friendly Administration* to provide comprehensive information officers and friendly public administration officers. The tools and techniques of quality management were used in the implementation of the program. By the first national experiences and exploration of optimal solutions concerning the functioning of administration, the so-called concept of Institutional Development Programme (PRI) was worked out. Its primary objective was to define the principles of institutional development of public administration units, including an analysis of the level of institutional development.

The implementation of a quality-based concept created tremendous potential for fostering NPM reform. This possibility was created by the European Social Fund, which financed the activities implemented under the Priority V Good Governance, Human Capital - Measure 5.2. The projects implemented in its framework were mainly aimed at strengthening the capacity of the Polish administration to carry out their functions in a modern and partner way. A large number of these projects related to the implementation of specific management tools in the institutions of government, including implementation of quality management systems according to ISO 9001, and customer satisfaction monitoring systems (Kobylińska, 2015: 6). Started in the late 90s administration informatization process aimed at improving the operation of Polish administration through the use of information and communication tools in dealing with citizens significance was also significant.

In 1997, the new Constitution strengthened local government. Among the fundamental rules of the State and its political system, the Constitution mentions both decentralisation (article 15) and the delegation of local and regional communities (represented by self-governing

institutions) to perform «a substantial part of public tasks on their behalf and under their own responsibility» (article 16). Furthermore, the preamble of the Constitution introduces the principle of subsidiarity, which is one of the doctrinal foundations of local and regional self-government.

The Constitution allows local government units to adopt their own rules and regulations, to a limited extent. Rules passed by municipalities, counties and voivodeships (a kind of provinces) are territorially limited to the area of the particular unit. Also, the basis for these legislative acts and their limits must be specified by central government legislation. Constitutional arrangements are detailed in ordinary, separate legislation for each tier of self-government, the Municipal Government Act and the County Government Act.

The Capital City of Warsaw is the object of specific regulation, and according to the law governing the structure of the city (Niziołek, 2008), Warsaw currently enjoys the status of a city with county rights. From 1994 to 2002, Warsaw was divided into several independent municipalities, but the model proved ineffective, so the formula of the single municipality divided into several auxiliary units' districts was adopted. The division of tasks between Warsaw and the districts is not specifically defined on a statutory level, so the Warsaw City Council decides on which tasks will be assigned to the districts. The Capital City of Warsaw Act, however, stipulates that the districts should participate in performing the following tasks: maintenance and operation of the municipal property; maintenance of facilities for education, culture, social welfare, recreation, sports and tourism; tasks related to health care; and maintenance of green areas and local roads. The Warsaw City Council adopts a budget that allows districts to perform these tasks. Districts are managed by district councils, which are elected at the same time as the municipal council. The executive body is appointed by the district council of each district (Kulesza & Sześciło, 2012).

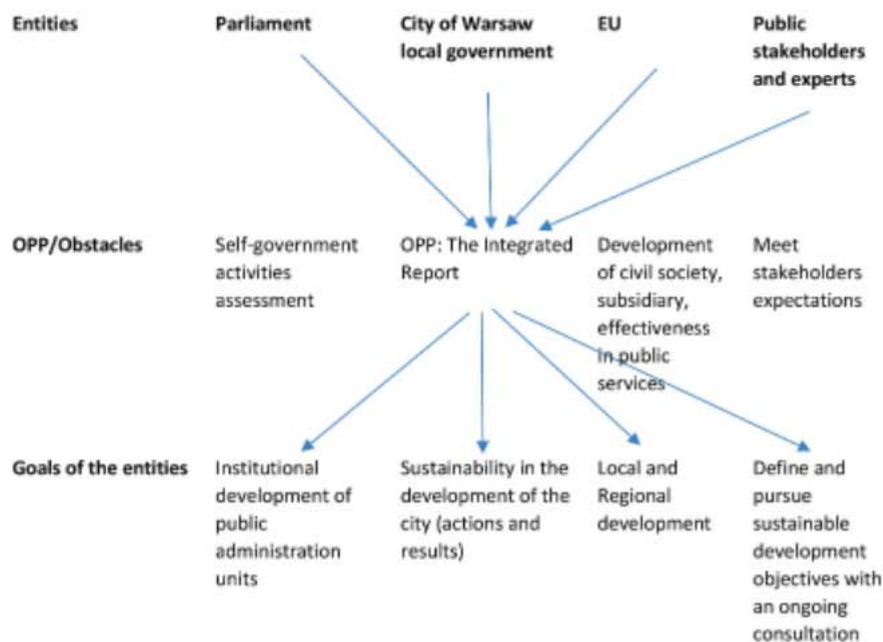
As a part of the network, the EU helps to facilitate the reporting adoption. In recent years, European Union funds have played a key role in the Polish government's investment policy, which has made money available to many municipalities. The primary source of funding is derived from the Regional Operational Programmes, and funds are distributed according to public tender procedures, which are open to municipalities and counties. From the viewpoint of local communities, Poland's membership to the European Union has a much more important dimension, which is the access to the structural funds that are an essential source of financing for local and regional development projects. This is accomplished by monitoring committees established within the framework of operational programs. Members of these committees represent various stakeholder

groups and include representatives of local government.

The City of Warsaw decided to prepare an Integrated report to demonstrate the sustainable development of the city regarding actions and results. The city enrolled the government (parliament) and the European Union (EU) in the network as it offered the interestment of sustainable development and good use of resources (actions and results). The actor-network was established with an Obligatory Passage Point through the Integrated report, and it was problematized that an Integrated report would present data useful in demonstrating sustainability and development of the civil society and effectiveness in public service provision as the EU required for funding Polish projects.

The Annual Report received the interestment of public stakeholders and experts involved in both define and pursue sustainable development objectives with ongoing consultation, showing EU accomplishment. The interestment was given by both the information content of the reports, the materiality issues in particular, and a variety of communication channels related to the integrated reporting engagement and participation (as previously described).

Figure 4 – *The City of Warsaw Integrated Report Network*



7. Conclusions

Under the pressures of New Public Management and New Public Governance, public sector entities are preparing innovative accounting tools to provide a comprehensive disclosure to their stakeholders. The research examines some reports provided by local governments in different contexts, examining the role played by different actors in introducing accounting tools which offer a broad perspective on the value creation process, questioning if and to what extent principles and content of Integrated reporting have been considered. To this end, the discussion is framed within ANT.

As it emerged from the three cases analysed, even to a different extent, an accounting innovation mobilized people, processes and relationships towards value creation. However, the reports analysed only partially meet the requirements provided by the <IRF> and information are developed mainly in accordance with the kind of pressure considered more significant by the main actors. As consequences, local government located in different contexts respond to different pressures providing reports that differ not only in their name but also in principles and focus adopted. Moreover, the level of stakeholders' engagement differs in relation to tradition in involving citizens and other stakeholders in the decision-making process.

The research presents some limitations due to the use of the case study method of research and to the peculiarity of the cases analysed. On the first side, the paper is based on a comparison of the cases of Johannesburg, Melbourne and Warsaw that are very different in many aspects. The case studies allow a broad investigation of the reality. Nonetheless, any generalisation beyond the investigated context must be considered with caution. The processes of adoption of accounting innovation, in the case of the integrated reporting, is quite recent in the public administration, and the integrated report as a mean of disclose value creation has a recent history so that few municipalities have started the path towards them. Further research will be able to explain the patterns of integrated reporting after its inception better and/or overtime and compare different countries than the two considered in the present study.

Even with the highlighted limitations, the experiences of Johannesburg, Melbourne and Warsaw advance the understanding of accounting innovations patterns in the public sector and the mobilization that an accounting innovation may produce. They offer room to academics interested in understanding the patterns of participation via the use of the integrated reporting; to politicians and technicians in local government in introducing

new tools of engagement and participation avoiding possible misuse of the new tools; and to citizens in increasing trust in shared decision-making processes like the integrated reporting.

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