Extended Abstract

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1. Introduction

The purpose of this conceptual paper is to develop a theoretical framework to conceptualize how integrated thinking could be perceived and observed in practice. The theoretical framework is grounded on the stakeholder theory and links integrated thinking to the multi-capitals (manufactured, intellectual, human, natural, social and relationship as well as financial capital) (The International Integrated Reporting Council, 2013b) in the organizational value creation over short, medium and long term.

The present theoretical framework draws upon and synthesizes the academic literature in integrated reporting, integrated thinking and stakeholder theory literature. With theoretical roots in stakeholder theory, this paper contributes to an underexplored area of organizational value creation through integrated thinking adopting a multi-stakeholder approach in managing the multi-capitals. Thus, the present study offers a platform to address one of the future directions raised by (Dumay, Bernardi, Guthrie, & Demartini, 2016) to develop understanding about the impact of new reporting mechanisms on practice and the transformations within and between the six capitals and the linkages between these to achieve the intended strategies and value creation in organisations.

The full paper of this extended abstract consists with the following sections. The background literature on the integrated thinking concept and literature on stakeholder theory that connects integrated thinking to the multi-capitals and to the multi-stakeholder approach is provided in section two. Theoretical contribution with the proposed theoretical framework, which explores the stakeholder approach to multi-capital management, is presented in the third section. Section four of the full paper provides the practical illustrations of the proposed theoretical model in different organizations which adopt integrated reporting and embrace integrated thinking in achieving their organizational sustainable objectives and in their strategic decision making. The final section of the full paper provides the implications of the study, along with future research directions.

The literature for the link between integrated thinking, value creation, capitals and stakeholders have addressed in depth in the full paper. With this extended abstract, the emphasis is given to the next section, which is the proposed theoretical framework.

2. Theoretical Framework

The present study brings a controversial argument to the above, claiming that IIRC (2013b) recognises six types of capitals, namely financial capital, manufacturing capital, human capital, intellectual capital, social and relationship capital and natural capital possessed and contributed by different stakeholders as stores of values that provide the key ingredients for organizational value creation. From a theoretical underpinning, this argument shed the light on stakeholder theory approach to successful capital management subsistence. The following diagram provides an overall understanding of the relationship between integrated thinking, value creation, multi-stakeholders and multi-capitals. See Figure 1 of the theoretical model of 'Conceptualizing integrated thinking in practice: A stakeholder approach to multi-capital management'.

Figure 1: Conceptualizing integrated thinking in practice: A stakeholder approach to multi-capital management.

This study would further brings the empirical evidence from an IR initiator in an South Asian region in order to give ground for an efficient and productive management of capitals through four major activities; capital acquisition activities, capital trade-off activities, capital building activities and capital retaining activities (Annual report, Dimo[1], 2018, p.61).

3. Capital management activities

3.1 Capital trade-off activities

This concept would address some of the critical aspects claimed by IR researchers. According to Flower (2015), the fundamental point was that IIRC accepts that the integrated report should cover the impact of the capitals on the firm, but ignores the firm's impact on these capitals, except to the extent that this impact rebounds on the firm. He further claimed that IIRC requires a firm to report on the effect on its activities on stakeholders, on society and on the environment only to the extent that there is a material impact on its own operations. Despite the above, Adams (2015) brings a counter argument that integrated reporting is focused on organizational value creation through multiple capital model rather than on measuring impacts, and furthermore, Adams (2015) shares Flower (2015)'s disappointment with the limited disclosure requirements concerning movements of the capitals in the IR framework. In order to overcome this issue from the point of view of integrated thinking, the stakeholder perspective can be used to address the increase, decrease and transformation of each capital through organizational key capital management activities and outputs of capital management activities along with the stakeholder impact through outcomes and trade-offs of

[1] Diesel and Motor Engineering Plc, Sri Lanka, a pioneer and a participator in the IIRC pilot study

capital management activities. By extending the capital management activities and outputs to ‘capital management outcomes’, the organisation does consider its impact on these capitals as internal and external consequences (IIRC, 2013b) for the capitals.

3.2 Capital building and capital retaining activities

Value creation results in increase, decrease or transformation of the capitals and net increase or decrease to the overall stock of capital would result a value accretion or a value reduction (IIRC, 2013b). This net effect depends on the organization’s stakeholder relationships. By identifying the stakeholders’ legitimate needs, and materializing how and when the organization would respond and achieve those needs is vital in value creation through stakeholder relationships. Prioritizing the diverse stakeholder needs and issues are equally important in capital management activities. This may lead to the increase, decrease and transformation of capitals to be complex and involve a broader mix of capitals or of components within a capital (IIRC, 2013b). This stakeholder approach in this journey of integrated thinking is essential to; obtain insights about material issues (financial and non-financial), including risks and opportunities, implement and evaluate organizational strategies to address these material matters, be responsive to stakeholders’ legitimate needs, interests and be accountable to stakeholders’ material matters. IIRC (2016) highlights the importance of the cyclical relationship between integrated thinking and integrated reporting, as an integrated report enhances transparency and accountability while building trust and resilience with organizational stakeholders on the value creation via multi-capital approach. This provides the basis for capital building activities and capital retaining activities as well. Substantially, a well-managed key stakeholder relationship is considers as a key determinant in securing the capitals for an organization. Dimo (annual report, 2018) has provided empirical evidence to ensure that these relationships come to no harm through the continuous engagement with stakeholders, delivering of stakeholder expectations, impact management process, system process development, professional consultancy and training and development as capital building activities and Dimo’s risk management process, delivering of stakeholder expectations, internal controls, compliance and ethical business conduct and grievance handling as capital retaining activities.

In capital building and capital retaining activities, the methods the organization use to identify issues of each material stakeholder and the frequency of those engagements are essential in assessing the quality of the stakeholder relationship, which leads to establish a long term stakeholder focus on managing multiple capitals. Such assessment is also in need to identify the strength of relationship that the organization maintains with its stakeholders; as a strong and mutually beneficial relationship, mutually beneficial relationship which needs more improvement through more engagement, mere establishment of relationship which needs more value generating connection through stakeholder interactions and non-existence of a relationship. This strength of the stakeholder relationships would also contribute to manage the multiple capitals efficiently and productively in way that it drive continuous delivery of stakeholder value.

3.3 Capital acquisition activities

‘Investment by outsiders’ carries a significant meaning in Abeysinghe (2018) and it pursued the present study further to explore the relationship between stakeholders and ownership of capitals. When the capitals are owned by the organization, a stewardship responsibility is imposed on the Board and management via legal responsibilities to the organization and when the capitals are owned by others or not owned at all, a stewardship responsibility may be imposed by law or regulation (for example, through labour laws, environment protection regulations, contract with owners) (IIRC, 2013b, p. 18). In spite of no legal stewardship responsibility, the organization may have an ethical responsibility to accept, or choose to accept stewardship responsibilities guided by diverse stakeholder expectations (IIRC, 2013b, p. 18).

Adopting a similar approach, the six different capitals can be further classified under two major notions; investment by shareholders, owners and investors, to address the financial focus of value creation through financial capital and manufactured capital and investment by outsiders, to address the non-financial focus of the organizational value creation through human, intellectual, social and relationship and natural capitals. Following this understanding, ownership or flows of ownership of each capital and how each capital can be managed through the four steps identified in capital management activities (see Figure 1) is briefly explained in the following section with respect to stakeholder perspective.

The ownership of the financial and manufactured capitals reside with the shareholders, investors, owners and financial institutions as they provide the pool of funds and manufactured assets in an organization. Human capital is owned by the employees in an organization by contributing their competencies, capabilities, experience, innovation, collaboration and alignment with organizational values, goals, objectives and strategies. The ownership of intellectual capital flows from different sources such as: Investors by providing investment on systems, procedures, Employees by contributing to organizational knowledge based assets and patents, copyrights and licences, Business partners by sharing globally recognized brand portfolios through business partner relationships and Local and foreign suppliers by providing the base for quality, availability, timeliness and competitiveness for the organization’s operations. Similarly, social and relationship capital also has different sources of ownership. Customers, upon whom the organization rely on for their revenue, business partners, local and foreign suppliers as critical links in the supply chain and society at large which includes the organization’s local communities, social in and government which provides the regularity requirements to fulfil by an organization. From a stakeholder perspective, ‘customers in social and relationship capital’ can be managed through the four capital management activities. The ownership of the natural capital resides with different stakeholders; the society at large, the planet, and the government (through regulations).

With the proposed theoretical framework, the present study suggests organisations to embrace a stakeholder approach on capital management activities in their journey towards integrated thinking, which in turn would inculcate a culture where ever stakeholder is contributing for and benefitting from the organizational value creation process.