DICHIARAZIONE DI ATTRIBUZIONE PARTI

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DICHIARA

che, benché il lavoro sia frutto di ricerca comune, sono attribuibili agli autori le seguenti parti.

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Firma

Integrated reporting: a new approach or a change of label?

S. Paternostro* and S. Quarchioni°

*University of Palermo, Department of Economics, Business and Finance, Parco d'Orleans, Palermo, Italy
°University of Siena, Department of Business and Law, P.zza San Francesco 8, Siena, Italy
Corresponding author: sergio.paternostro@unipa.it

Abstract: The aim of this paper is to provide insights into the early stage development of integrated reporting (IR). In particular, its purpose is to investigate whether it might represent a real new mode of corporate reporting or just a way to strengthen other financial and sustainability reports. The paper argues that connectivity of information is crucial to this distinction. Based on previous studies on corporate disclosure and on new research perspectives on IR, this paper shows the preliminary findings of a content analysis of the reports of a selected sample of companies. The first results that should be further researched highlight that more efforts need to be taken to shift IR from the traditional focus of annual financial reporting.

Keywords: integrated reporting, connectivity, content analysis

I. INTRODUCTION

In the last years, the debate on the new trends in corporate reporting has increased involving different fields of research. In particular, this debate has characterized the academic literature both on financial and sustainability reporting which converged towards the attempt to integrate financial and social and environmental issues.

In this context, a new approach has recently emerged with the publication of the Integrated Reporting (IR) Framework by the International Integrated Reporting Council (IIRC) in 2013 [1]. This framework is underpinned by a wider notion of long-term value encompassing financial and sustainability concerns, and it is intended to promote a more efficient approach to corporate reporting.

Despite IIRC claims that IR is not a summary of information included in other financial and/or sustainability reports, more attention should be paid to the ways in which organizations actually integrate all different sources of data. In particular, to avoid that IR could be just a new label for previous reports, the connectivity of information appears to be crucial.

Basing on these assumptions, the paper shows the preliminary findings of an empirical analysis aimed at exploring changes in corporate reporting after the introduction of IR practices.

In so doing, the paper contributes to the emerging literature on IR providing empirical information of early integrated reports. Despite the limits of the study due to its early stage and also to the recent field of research, the paper seeks to emphasize the crucial role of connectivity to avoid a rhetorical use of this new mode of corporate reporting.

In what follows, the background of the study, the research design and its preliminary findings are briefly outlined. The limitations of the study and its further refinement and developments are also discussed.

II. BACKGROUND OF THE STUDY

A growing body of literature in corporate reporting has increasingly recognized the need for organizations to improve their capacity to provide investors, and stakeholders in general, with a more complete picture of their activity. This call encompassed both financial and sustainability reporting.

Firstly, traditional financial reporting has been criticized for not being able to disclose the main drivers of value creation processes [2][3]. Several authors highlighted its limits in representing the influence of intangibles on performance [4], the relationship between organizational strategy and value [5], as well as the future outlook of the business [5].

In this context, a number of proposals have been made aiming to strengthen the informative capacity of the annual report. Specifically, the inclusion of non financial information has been called for improving the comprehension of long-term strategies [6] and drivers of value creation [7].

Secondly, sustainability reporting has been often criticized for being a mere depiction of organizational responsible behaviours and initiatives. Despite the clear focus on social and environmental issues of this kind of corporate reporting, several studies showed the need to integrate these issues with the financial dimension in order to fully exploit the potential of social and environmental management [8].

In particular, recent research called for a more strategic approach to sustainability reporting which should provide a common picture of social aspects, business model and organizational strategies [9][10]. This would be fundamental to the understanding of the value creation processes for both the organization, its stakeholders and the society more in general.

Thus, despite their different purposes, the academic debate on financial and sustainability reporting seems to converge towards the need for an integration between all the material information which could affect business prospects and value. However, often the attempts to integrate financial and social and environmental issues mainly result in a wide set of financial and non financial measures which does not actually change the basic nature and scope of the *original* (financial or sustainability) report.

A new perspective has been provided by the IR Framework [1]. In this framework, IR is defined as a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over time.

Organizations are called to produce a new integrated report which should not merely be a summary of information in other reports (e.g., financial statements or sustainability reports). This is also due to the more complete picture of value that in IR is intended to derive from a number of interactions, activities, and relationships affecting various kinds of capitals (i.e. financial, manufactured, intellectual, human, social and relationship, and natural) on which organizational activity depends. Moreover, the organization's value-creation process is explained by a mix of interdependent content elements (i.e. organizational overview and external environment; governance; risks and opportunities; strategy and resource allocation; business model; performance; future outlook) which should be included in the integrated report.

In this context, the potential of IR is that, "resulting in efficient and productive capital allocation, it will act as a force for financial stability and sustainability" [1:2]. However, in order to fully exploit this potential and avoid that IR could be only a new tool for *impression management* [11], this paper argues the need to effectively adopt the principle of the connectivity of information (i.e., the ability to show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time).

In particular, as stated by the IR Framework, the connectivity should be between both the content elements and the capitals. In the first case, connection between the content elements allows to provide a picture that reflects the dynamic interactions of the organization's activities as a whole. Specifically, information is given about how organization's strategy is aligned with the business model to achieve a sustainable performance. In the second case, connectivity between the capitals aids to provide information about their interdependencies and trade-offs which affect the creation of value.

Thus, according to this perspective an actual integration (and not a simple *aggregation* of) between financial and other information really allows to disclose the material issues which could affect business prospects and value. In this context, IR could represent a real *new* mode of corporate reporting rather than a simple change of label for *strengthened* financial and/or sustainability reports.

III. RESEARCH DESIGN

In the attempt to investigate the potential of IR in representing an effective *new* mode of corporate reporting, this paper provides initial empirical analysis of earlier integrated reports.

In particular, a sample of companies has been selected from those included in the IIRC Pilot Programme database as at 14 January 2014. The database contains 104 companies belonging to about 30 economic sectors and to 23 countries. Among these, we selected only those companies with publicly available reports published in English and clearly labeled as "Integrated Report". In this preliminary empirical analysis, this criterion has been chosen to reduce possible bias. Indeed, due to the early stage of development of this practice among companies, reports with different labels could claim to be *integrated reports* as well. At the date we took our sample, there were 11 companies that met this criterion belonging to 5 countries and 8 economic sectors (Table 1).

TABLE 1: THE SAMPLE

Company	Country	Sector
AngloGold Ashanti Limited	South Africa	Mining
Basf	Germany	Chemicals
Eskom	South Africa	Electricity
Gold Fields	South Africa	Mining
Sap	Germany	Software and computer services
Sasol	South Africa	Chemicals
Strate	South Africa	Financial services
Clorox	Usa	Chemicals
Crown Estate	Uk	Real Estate
Transnet	South Africa	Transportation services
Votorantim	Brazil	Industrials

The research has been conducted through a basic content analysis [12] which was used to explore and compare the disclosure in the corporate reports of the 11 companies. Indeed, this method is useful to analyze both financial and non financial corporate reporting and information [13] [14] [15]. Specifically, the first integrated reports adopted by each company and the subsequent available integrated reports have been analyzed. Also, these reports have been compared to the annual and/or sustainability reports published the year before the first publication of the integrated report. The aim was to look for changes both in the content, scope and level of connectivity of information between the integrated reports and other corporate reports.

To conduct the analysis, we used a top-down approach in which the categories analyzed are selected before the analysis of the documents [16]. Specifically, we realized a thematic and meaning-oriented content analysis aimed at seeking some themes and topics and not a specific set of items [15]. Thus, our examination looked at the following main elements:

- the reporting system before and after the introduction of IR (i.e., is the integrated report a new document or a *substitute* of other documents such as annual and/or sustainability reports?);
- the general content and structure of each report (e.g., number, title and themes of the different sections);
- the multidimensionality of each report (i.e., its ability to provide information about the so-called six capitals focusing on the description of organizational strategy, business model and performance);
- the connectivity between capitals and between the contents elements in terms of information about strategy, business model and performance.

IV. PRELIMINARY FINDINGS

From the examination of the main elements described in the previous section, some preliminary findings have been observed.

First, the analysis reveals that for most of the companies the integrated report is actually introduced in substitution of the annual report (Table 2).

TABLE 2: THE REPORTING SYSTEM

Company	Before IR	After IR
AngloGold Ashanti Limited	AR and SR	IR and SR
Basf	AR and SR	IR
Eskom	AR	IR
Gold Fields	AR and SR	IR and SR
Sap	AR and SR	IR and AR
Sasol	AR and SR	IR, AR and SR
Strate	AR	IR
Clorox	AR	IR
Crown Estate	AR	IR
Transnet	AR	IR and SR
Votorantim	AR and SR	IR

Specifically, before the introduction of the integrated report (IR), only 6 companies realized both an Annual Report (AR) and a Sustainability Report (SR). After the introduction of the IR, only 3 of them decided to maintain the SR (2 companies simply substituting the AR with the IR). The 5 companies that did not publish a SR before the introduction of the IR substituted their AR with the new IR. Only in one case, after the adoption of the IR, the company produced also a SR.

Thus, summarizing, in our sample, the IR seems to substitute the AR in 6/7 cases; in 1 case it seems to substitute the SR; in 2 cases it *absorbs* both the AR and the SR; finally, only for one company the IR is proposed as a new document that enriches its existing reporting system. Accordingly, the analysis suggests that IR is mostly perceived as an evolution of the traditional way to disclose financial information rather than a *new* corporate report with different aims.

Second, focusing on the content and structure of the reports, the preliminary results highlight that in most cases the structures of the IRs and of the previous ARs are quite similar. Interestingly, this similarity exists also in the case of Sasol (at least in the first version of the IR), that is the only organization still proposing three separated documents.

Third, despite similarities in the structure, in most cases IRs differ from previous reports in their level of multidimensionality. Specifically, this has been assessed focusing on the information about strategy, business model and performance with reference to the different capitals that affect the value creation process. From the data, it emerged that the most of the companies improved the multidimensionality of their disclosure in at least one of the three aspects. In addition, these improvements are stronger in the further editions of the IR, above all with reference to the information about business model.

Fourth, the connectivity between capitals and between the content elements has been studied. The former has been observed analyzing whether in the disclosure about strategy, business model and performance companies emphasize the interdependencies between capitals. The preliminary findings suggest an increase in the connectivity of the integrated reports (in at least two of the three aspects analysed) for 7 companies. However, the level of connectivity in general is still not very high except for only two of them, especially with reference to information about performance. Less improvements seem to characterize the level of connectivity between the content elements. Specifically, this has been analysed focusing on the connectivity between: (a) strategy and business model; (b) strategy and performance; (c) business model and performance. In general, the level of connectivity between the content elements is quite low in most of the companies with the exception of the relations between strategy and performance.

Summarizing, our analysis seems to confirm that companies are in the earlier stage of development of the integrated reporting approach. The preliminary findings show that IR is not still fully understood as a *holistic* report able to represent the value creation process in its wider conception. Instead, the IR is mainly considered as an evolution of the AR which is strengthened by a set of non financial information.

Nevertheless, improvements in the content of the IR both in terms of multidimensionality and connectivity are visible. In particular, these improvements are evident in the following editions of the IR, showing a step-by-step process of development of this reporting practice within organizations. However, the level of connectivity is still not enough to ensure an effective integration between different information as claimed by the IR Framework.

V. Conclusions and Further Developments

The implication of our preliminary findings is due to the potential role of IR in enhancing a new mode of corporate reporting.

However, the research is still in its earlier stage. Future developments will be addressed to delve more in-depth into the theoretical perspective for making sense of the empirical data. For instance, notions of value and connectivity in the *making process* of corporate reports need more theoretical investigation.

Moreover, the empirical analysis will be further revised also according to the refinement of the research questions. In particular, further steps of the empirical analysis could be addressed to enlarge the sample size looking for other selection criteria, as well as to better interpret the results of the content analysis of the reports.

Finally, future developments may be addressed to investigate more in-depth the results of the content analysis through the conduction of a single case study.

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