ISCTE Business School
Instituto Universitário de Lisboa

TOWARDS THE EXISTENCE OF INTEGRATED REPORTING: AN INTERNATIONAL PERSPECTIVE

Ana Margarida Casaleiro Coelho

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Supervisor:

Professora Doutora Ana Isabel Lopes, Assistant Professor, ISCTE Business School, Departamento de Contabilidade

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Abstract

The main purposes of this dissertation are to characterize the companies that have adopted Integrated Reporting (<IR>) and to analyze the impact it has on the society (concretely on investors), which is going to be done after explain the process of development of that Integrated Reporting. The integrated reporting - the combination of a company's financial and non-financial performance in one document - it is a crucial step to creating a more sustainable society.

To achieve those purposes, through the IIRC database I extracted information to create a sample related to the companies that publish their <IR> according to the IIRC Guiding Principles. From these I identified the companies that are considered as <IR> recognized reports and so are integrated reports of reference according to IIRC, as well as the companies that are <IR> reporters but not considered as references.

Different methodology will be used in the various phases of this dissertation.

Initially, I characterized the overall sample and analyzed the impact that some specific factors had in the preparation of <IR>. Based on these specific factors I performed a characterization study in which the patterns of <IR> reporters were identified. Secondly, I determined if the value of the company, perceived by the market, is influenced by the fact that the reporter is considered by the IIRC as reference <IR> reporter when compared to a non-reference <IR> reporter. To achieve this result, a linear regression model was built. It was concluded that <IR> can beneficiate the organizations and the stakeholders, by the increase of the market value and by the way relevant information is disclosed.

Key words: Integrated reporting, reporters, stakeholders, market value

JEL classification system: G32, M41

Resumo

Os objetivos desta dissertação são caracterizar as empresas que publicam Relatórios Integrados (<IR>) e analisar o impacto que esta publicação tem na sociedade (concretamente nos investidores). Estes objetivos foram atingidos depois de explicado o processo de desenvolvimento do relatório integrado. O relatório integrado - a combinação de desempenho financeiro e não-financeiro de uma empresa num único documento - é um passo crucial para a criação de uma sociedade mais sustentável.

Para atingir os objetivos propostos, foi extraída informação da base de dados do IIRC para criar uma amostra das empresas que publicam os seus <IR> de acordo com os Princípios Orientadores do IIRC. Destas, foram identificadas as empresas que são consideradas como <IR> reconhecidos e por isso são relatórios de referência de acordo com o IIRC, bem como as empresas que reportam <IR>, mas não consideradas como referências.

Durante as diferentes fases desta dissertação foram utilizadas diferentes metodologias.

Inicialmente, a amostra total foi caracterizada e foi analisado o impacto que alguns fatores específicos têm na preparação do <IR>. Com base nestes fatores foi realizado um estudo de caracterização no qual foram identificados os padrões das empresas que publicam <IR>. Posteriormente, foi determinado se o valor de mercado destas empresas, é influenciado pelo facto do <IR> ser considerado pelo IIRC como referência, quando comparado com um <IR> que não seja considerado de referência. Para alcançar este resultado, foi construído um modelo de regressão linear. Deste modo, concluiu-se que o <IR> pode beneficiar tanto as organizações como os *stakeholders*, pelo aumento do valor de mercado e pela forma como informação relevante é divulgada.

Palavras chave: Relatório integrado, repórteres, *stakeholders*, valor de mercado

Classificação do JEL: G32, M41

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Index

I. Figures' Index VII

II. Graphs' Index VIII

III. Tables' Index IX

IV. Glossary X

Introduction 1

1. Literature review and hypothesis development 4

    1.1 What is integrated reporting? 4

    1.2 Reasons for doing integrated reporting 6

    1.3 Ideas and objectives undergoing 11

    1.4 Research, gaps and hypothesis 14

2. Research design 18

    2.1 Data and sample 18

    2.2 Research and model 19

3. Results 21

    3.1 Characterization study 21

    3.2 Results for OLS regression 35

Conclusion 43

References 46

I. Figures' Index

Figure 1 – Towards Integrating Reporting: Communicating Value 5

Figure 2 – Interaction of business with internal and external capitals 32

II. Graphs' Index

Graph 1 – Type of reporters	21
Graph 2 – Continent Dispersion	22
Graph 3 – Country Dispersion	23
Graph 4 – Reporters' Dimension	24
Graph 5 – Reference Reporters' Evolution	25
Graph 6 – Sector's Dispersion	26
Graph 7 – Reporters' Performance	27
Graph 8 – Average Leverage Ratio	27
Graph 9 - <IR> regular reporters' auditor	28
Graph 10 - <IR> reference reporters' auditor	28
Graph 11 - <IR> Guiding Principles	29
Graph 12 - <IR> Content Elements	33

III. Tables' Index

Table 1 – Type of reporters 21

Table 2 – Continent Dispersion 22

Table 3 - <IR> Fundamental Concepts 30

Table 4 – Sample constitution by Industry 35

Table 5 – Descriptive Statistics 36

Table 6 – Pearson Correlation Matrix 38

Table 7 – Model Summary 39

Table 8 – ANOVA Analysis 39

Table 9 – OLS Regression results 40

IV. Glossary

ACCA	Association of Chartered Certified Accountants
ANOVA	Analysis of Variance
BV	Book Value
CEO	Chief Executive Officer
CERES	Coalition for Environmentally Responsible Economies
CFO	Chief Financial Officer
CSR	Corporate Social Responsibility
CSSA	Chartered Secretaries Southern Africa
DYIR	Dummy variable for type of Integrated Reporting
EBITDA	Earnings Before Interests, Depreciations and Taxes
EPS	Earnings per share
ESG	Environmental Sustainability Governance
FASB	Financial Accounting Standards Board
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
GRI	Global Reporting Initiative
IASB	International Accounting Standards Board
ICB	Industry Classification Benchmark
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IOSCO	International Organization of Securities Commissions
<IR>	Integrated Reporting
JSE	Johannesburg Stock Exchange
KPI	Key Performance Indicators
LEV	Leverage Ratio
MV	Market Value
NGO	Non-governmental Organization
OI	Operating Income
OLS	Ordinary Least Squares
ROE	Return on Equity
UNEO	United Nations Environment Organization

UNEP	United Nations Environment Programme
WICI	Worlds Reporting Network

Introduction

This dissertation aims to characterize the companies that have adopted Integrated Reporting and to analyze the impact it has on the society (concretely on investors), which is going to be done after explain the process of development of that Integrated Reporting. From this point, Integrated Reporting is going to be referred by its known international terminology, <IR>, except when a more detailed expression is justified.

The choice of this theme relied on the fact that it is a relatively new concept that has not been yet deeply studied and prior literature on the theme is requesting for more research on integrated reporting. It also represents a way of progress regarding the companies' reporting status. For instance, mainly listed companies are required to publish the financial reporting based on annual financial statements reflecting their financial situation. Companies also produce reports on corporate governance as well as on corporate social responsibility, being mandatory for some type of companies and voluntary to others, according to size, listing on stock exchanges or jurisdictions. The voluntary or mandatory request for <IR> started recently and the debate is still ongoing.

In fact, and according to Morros (2016), companies must now report to a broader audience than shareholders, themselves often looking beyond numbers too, and speak to several categories of stakeholders, who expect more than accounts, financials and business indicators. People want to know why, where and how companies create and add value, and how they deal with responsibility and sustainability. Therefore, <IR> is the expected consequence of the growing of sustainability and corporate responsibility reporting concerns.

During the last decade, some companies have started to take into account this idea of convergence between financial and sustainability reporting and have integrated social and environmental information into their annual reports. Consequently, to improve the usefulness and efficiency of corporate reporting, the concept of <IR> has been proposed and discussed recently in academia and practice. <IR> is a recent new concept in the area of corporate reporting and it has the intention of redefining the way a company communicates to the stakeholders its value creation. Therefore, according to Morros (2016) based on an organizational vision and values, an <IR> combines diverse dimensions of organizational performance, to demonstrate how an organization's vision and values are internalized within and externalized outside the organization. This value creation must be provided through a concise communication about how a company's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium, and long term.

There are several organizations building a global coalition called International Integrated Report Council (IIRC). This Council was formerly announced in August 2010. The IIRC is concerned and working towards the creation of a conceptual framework to guide the disclosure of <IR>. So IIRC mission is to create a globally accepted <IR> framework which brings together financial, environmental, social and governance information in a clear, concise, consistent and comparable format. The IIRC former entities include regulators and standard setters, like IOSCO (International Organization of Securities Commissions), the IASB (International Accounting Standards Board) and the American Institute of Certified Public Accountants (AICPA). The coalition also includes the current CEOs of the Big 4 accounting firms and other global audit firm networks, the GRI (Global reporting initiative). In addition to all these groups and entities also other international bodies, accounting and auditing entities and investor groups will make part of this alliance.

According to ACCA 2013 report, which includes the expectations of the investors regarding non-financial reporting, the main reasons to implement <IR> are: the absence of a link between the current reporting and the business strategy and risk, and the lack of integrity between financial and non-financial information.

<IR> can be differentiated from the traditional reporting due to its temporal approach. Once the usual corporate reporting is only focused on the results of the current/past year activity, the <IR> besides reflecting the past activity and transactions also as a forward looking concern, considering the short, medium and long-term. This allows the company to anticipate its opportunities as well as be aware of its risks. In this way, it is understandable that <IR> plays a crucial role for the investors, as well as stakeholders in general, since they will have valuable information about the capability of the company to subsist in future.

In order to achieve the relevant outcomes this dissertation starts with a literature review and the hypothesis development. In this segment was done a review of the work performed until now, the main conclusions attained and the matters or gaps that are still available for further development. Moreover the research problem was settled. This project objective is to demonstrate, relying on data provided by the IIRC database and complemented with data retrieved from DataStream (Worlscope Database), who are the companies adopting <IR>, what are their characteristics and the association of integrated reporting on the perceived market value of those companies.

With the purpose of addressing the research problem the data collected and the sample defined were introduced. The sample is composed by companies all over the world that publish <IR> and are public available on the IIRC database. In line with this the research model was designed. such as: geographical, sectorial, dimensional, level of debt, net income, among others.

From the previous information disclosed, results were driven. It is possible two divide the results into two parts. The first one is the characterization study in which the reporters and the reports were characterized. It was also possible to find differences in the characteristics of the <IR> reference reporters when compared to the <IR> regular reporters. The overall sample is characterized and analyzed about the impact that some specific factors may have in the preparation of <IR>. By specific factors it is meant specific characteristics of the reporters The second one is the results for the OLS regression. There was a focus on the perceived value of the investors regarding the <IR>. Concretely it was investigated, for the companies disclosing <IR>, if the fact of being considered as <IR> reference reporters had an impact on the market value of the company. Indeed relevant outcomes were achieved and from there relevant benefits for companies and society were reached.

The remainder of the dissertation proceeds as follows. Next section discusses previous literature on <IR> and connected topics, and presents the hypotheses. Then, the research design is presented, describing the sample, the data and the methodology. This is then followed by the results, as well as a discussion on those results. Finally, the last section concludes.

1. Literature Review and hypothesis development

1.1 What is integrated reporting?

The International Integrated Reporting Council (IIRC) defines integrated reporting as “a process that results in communication by an organization, most visibly a periodic integrated report, about how an organization’s strategy, governance, performance, and prospects lead to the creation of value over the short, medium and long-term.”

Conceptually, integrated reporting add to the existing financial reporting model extra information about a company’s strategy, governance, and performance. It is aimed at providing a complete picture of a company, including how it demonstrates stewardship and how it creates and sustains value.

Integrated Reporting is a recent subject under debate as it started to be studied around 2009. Concretely and according to Eccles et al. (2014) in 2009, RobecoSAM, the organization that has prepared the Dow Jones Sustainability Indices (DJSI) since 1999, began to look for evidence of integrated reporting. Meanwhile it has been through several stages, although its origin has come from in an advanced phase of sustainability reporting (which started in the late 1950s).

It has been progressively adopted by companies, since the concern with environmental, social and governance aspects has been gaining importance (see figure 1). This importance was first introduced with the desire to publish a sustainability report. According to Global Reporting Initiative (GRI), a sustainability report is defined as a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities. A sustainability report also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy. However, <IR> intends to be more comprehensive.

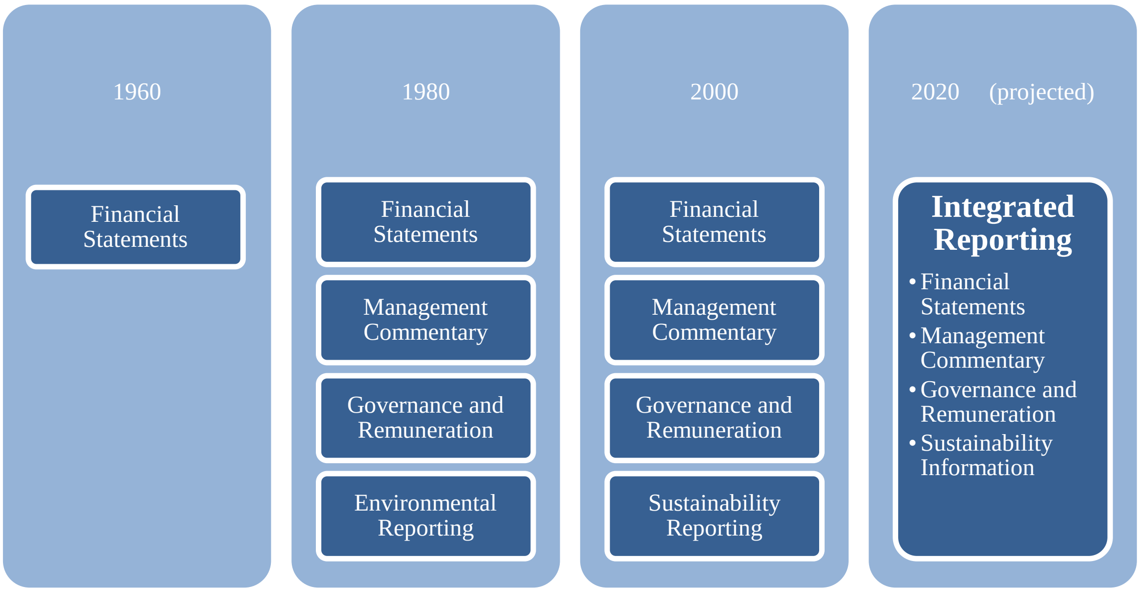


Figure 1 – "Towards Integrated Reporting: Communication Value", adapted from IIRC, September 2011

Although sustainability reporting has been done as an independent report, it means this report is published has a complement of the traditional annual reports. This separated reporting of financial and non-financial aspects would make sense if they occurred independently in the company. However, if sustainability reporting is actuall incorporated into the strategy, financial and non-financial aspects are interrelated (Jensen & Berg, 2012). Therefore, integrated reporting - the combination of a company's financial and non-financial performance in one document - it is a crucial step to creating a more sustainable society (Eccles & Saltzman, 2011). Consequently, as <IR> derives from sustainability reporting it is important to understand deeper it and its main characteristics.

The <IR> emerges in an advanced phase of sustainability reporting. It has been evolving over the past several years, although it is still in its initial phase. It seems destined to become a key part of the overall accounting reporting framework, joining external financial reporting, income tax reporting, regulatory reporting, and internal reporting.

<IR> requires integrated thinking, a recent way of company thinking, act and perform taking into consideration economic, social and environmental governance, to the organizational structure (Adams, 2014). For instance, it implies a shift of thinking of corporate actors to better align notions of profit maximization with the wellbeing of society and the environment. In addition, it includes thinking long term and

encouragement of broader thinking of what is value, the value creation process and the business model.

1.2 Reasons for doing the integrated report

The main reasons for companies start publishing these reports, either sustainability report or integrated report, derived from two sides (James, 2014). From one side, the organizations had a concern about their impact on the environment and on people. By other side there was an increasing expectation of stakeholders that companies formally and comprehensively reported on their sustainable efforts

In 2014, Tschopp & Huefner, developed a study whose goal was to compare the evolution of financial reporting with the evolution of corporate social responsibility reporting. To perform the study, they followed a framework of seven factors put forth by Carnegie and Napier: Period, Places, People, Practices, Propagation, Products, and Profession. Using this framework, they tried to find a pattern of similarities and differences as to how both types of reporting have developed. The conclusion was that even though the evolutionary model may not follow the same path as financial reporting, mainly because of the different stakeholders involved, there are enough similarities, in the seven factors, that make financial reporting a useful comparative tool to analyze the potential growth and development of sustainable reporting.

An important aspect to add is that sustainable reporting still lacks a general accepted common framework. If CSR reporting is to be used as a market-based mechanism then comparability and consistency are necessary qualities (Tschopp & Huefner, 2014). However, different stakeholders and organizations may have different goals and so any possible harmonization of CSR reporting standards may be a long and arduous process.

A rising awareness of the need to preserve resources for future generations and to assess companies' performance not only in terms of their bottom lines but also their comprehensive impact on the environment and community, has led to an increased commitment to sustainability programs and a rising demand for a formal reporting (James, 2014).

Therefore the main reason behind the rising of Integrated Reporting was that corporate report emphasized the need for a 'user' perspective rather than the 'shareholder' or financial ‘stewardship’ perspective that emerged as the traditional agency model for limited companies (Owen, 2013). Increasingly, businesses are expected to report not just on profit but also on their impact on the economy, society and the environment. Integrated reporting answers this demand by providing integrated information about organizations’ performance. As a consequence, Paul & Nieland (2013) argue that <IR> will enable more effective decision making at board level, improve the information available to investors and encourage more business practices and integrated thinking

Defenses of integrated reporting believe that by integrating sustainability projects in the organization’s strategy, involving professionals in it and reporting based on integrated information, it must produce benefits, since stakeholders will better understand the association between the company’s financial performance and the impact it has on the environment and society. Such change suggests the board of directors should take into account and answer to a wider range of principals than shareholders, who are usually the central focus. These principals include lenders, employees, customers, suppliers, the local community and even the general public.

The main idea defended is that not only the company has the responsibility to maximize shareholder wealth, but also company has no intrinsic rights over any resources. Consequently the company should operate in a sustainable way and be future-oriented. These objectives can be achieved by the adoption of a wider position on responsibility and accountability and moving away from the preparation of the traditional financial reports, mainly concerned and centered on the recognition and measurement of shareholder income, to integrated reporting.

Moreover <IR> presupposes a different process of creation of value which adds value to the traditional process. The increasing value is explained by a more concise communication of the organization’s strategy, governance and performance, in addition it demonstrates the links between its financial performance and its wider social, environmental and economic context and finally it shows how organizations create value over the short, medium and long term.

It is possible to divide the value originated in <IR> into two main areas: the value to the stakeholders and the value to the company (Eccles & Krzus, 2010). In the first case, the value to the stakeholders, the reporting matters since it communicates to the society the company’s current performance and the expectation for the future. Additionally it improves the value and completeness of the information provided about the company's performance which can lead to: the creation of an internal discipline necessary for embedding sustainability into a company's strategy and operations; better company understanding that governance, strategy and sustainability are inseparable; acknowledgment that a company is responsive to the risks and opportunities created by the need to ensure a sustainable society; and enhanced corporate disclosure and transparency. The one report should be seen as a vehicle to facilitate communication and understanding of the risks and opportunities created by environmental and social concerns. In the second case, regarding the value to the company, by adopting integrated report companies can expect several major operational benefits and at the same time reinforce the development and implementation of a successful business strategy. These expect added value includes: greater clarity about relationships and comments – the company develops a better understanding of the relationship between financial and non-financial performance through modeling and analysis; better decisions – by improving poor measurement methodologies and invent new ones for the metrics yet to come; deeper engagement with the stakeholders – stakeholders can gain a more holistic perspective of the company and its sustainability; and lower reputational risks – greater clarity about cause-effect relationships and better decisions improve the allocation of resources. By combining all this elements, the reputational risk is reduced and the likelihood that a company is sustainable over the long term is increased. To better understand the process of value creation, according to IIRC, there are some fundamental concepts to keep, namely, the various capitals the company uses affects, the company's business model and the creation of value over time.

The various capitals the company uses are a set that correspond to one important and new concept that is inherent to the company activity. According to IIRC there are six capitals that work as inputs and are essential for the business to create value. IIRC guiding principles state that through the activities and outputs of the company, these capitals are enhanced, consumed, modified, destroyed, or otherwise affected. These capitals are: the financial capital - the source of funds; the manufactured - the manufactured physical objects; the intellectual - it means the intangible assets; the human - the people's competencies, capabilities and experience; the social and relationship - relationships between stakeholders and other networks; and the natural - that is the environmental resources.

Another important concept it's the company's business model. The business model is the process through which the company generates its outputs and creates value. To able to attain this objective the company defines strategies to use its resources and maximize benefits that may come from them. Moreover it allows the company to, at the same time, manage the risks inherent to its activity.

Finally, the idea of value creation over time, which is also important. As referred before the value is generated through the business model of the company. According to IIRC the <IR> will recognize and state how the six capitals, or just some of them, are used by the business when generating outputs and whether or not they produced or destroyed value.

The idea of develop and promote an integrated report is supported on the stakeholder theory (García-Sánchez et al, 2013). The stakeholder theory defends that the company's survival relies on the good management of relationships with stakeholders.

In accordance, the companies should create wealth to its stakeholders and the society in general instead of the traditional idea of creating only financial value. This theory presupposes a kind of a contract between the company and the society, whereby the business is permitted to exploit natural, human and other resources and to generate waste, in a sustainable way, but at the same time it is required to create wealth for all stakeholders and interest groups.

Still concerning the stakeholders, it is important to remark that the investors are quite sensible to other stakeholders since their influence and weight on a company may be significant. Investors are expecting <IR> to enable themselves to obtain net benefits from it. In 2016, Ott, performed a study regarding the investors' perceptions on <IR>. The study hypothesized that investors respond positively to <IR> related events if <IR> creates coherence and improves the information quality and, thus, reduces information asymmetries between managers and investors. For the other side, investors will respond negatively to <IR> related events, if <IR> distracts attention from the core information to less important pieces of information or the costs of <IR> adoption outweigh any benefits. Moreover, the following conclusions were achieved: the rise of <IR> and the development of the <IR> framework represent an interesting setting to evaluate the investors' perceptions of non-financial information; investors expect to extract benefits from improved non-financial reporting; and the investors' perceptions of more specific reporting framework depend on the level of regulatory quality already achieved.

The main benefits associated with Integrated Reporting are a consequence of an opportunity for firms to communicate on and implement a sustainable strategy, which will create value for shareholders over the long term while contributing to a sustainable society. (Eccles & Saltzman, 2011). The authors argue that it is possible to identify three classes of benefits. The first is internal benefits, including better internal resource allocation decisions, greater engagement with shareholders and other stakeholders, and lower reputational risk. The second is external market benefits, including meeting the needs of mainstream investors who want ESG (Environmental Sustainability Governance) information, appearing on sustainability indices, and ensuring that data vendors report accurate nonfinancial information on the company. The third is managing regulatory risk, including being prepared for a likely wave of global regulation, responding to requests from stock exchanges, and having a seat at the table as frameworks and standards are developed.

Furthermore, in 2014, Hughen et al, performed a study called "The Sustainability Content of Integrated Reports – A survey of pioneers" where the companies disclosing Integrated Reporting revealed the main reasons to do it. The main conclusions where: companies do beneficiate from <IR> since, by adopting it, they are able to avoid the inefficiencies associated with distinct financial and sustainability reports and operational processes; companies want to provide investors and other stakeholders with a more complete picture of how they do create value over the long term; and, finally as sustainability was already a part of core business processes, combining financial and sustainability reporting was the logical and natural thing to do.

Due to the newness of Integrated Reporting, the norms or laws impact is still very low. Yet, there is not even a generally accepted framework. Thus, Jensen & Berg (2012) argue that the impact of coercive or legal power on Integrated Reporting is insignificant and defend that the same is true for imitative and normative pressures. Derivative processes imply that managers copy strategies of successful organizations (or competitors), which are regarded as best practice. Yet, Integrated Reporting is too new and the number of organizations having adopted it is too low to cause such a bandwagon effect. Normative pressure denotes the impact that educational or professional authorities exert by setting standards to legitimate organizational practices. As business schools have not yet adopted <IR> in their curricula, these pressures are also negligible.

It is defended by some authors (e.g. Thomson, 2014) that integrated report is no more than just another proposal to reform financial reporting like many others. Therefore, it is important to clarify and demonstrate how does <IR> really reduces the unsustainable consequences of organizations' actions. Moreover some people believe that, Integrated Reporting reduces sustainability into six sources of corporate value, but sources of value that need to be better managed in order to increase the wealth of individual investors and not society's prosperity.

1.3 Ideas and objectives undergoing

Once companies are increasingly integrating sustainability disclosures into their annual reporting process, also emerges the need for a conceptual framework for this integration. Therefore, in September 2009, the Prince of Wales sponsored an accounting for sustainability Forum, which conveyed a high level meeting for investors, standard setters, companies, accountancy bodies and United Nations representatives. These organizations collaborated with the GRI, founded in 1997, and were supported by the United Nations Environment Program (UNEO) to promote economic sustainability. This collaboration resulted in the creation of a completely new body, known as International Integrated Reporting Committee (IIRC), which was formally announced in August 2010 (Owen 2013). The organizational structure of the IIRC consists of: a Board that takes responsibility for approving the <IR> framework; a Council that provides guidance, strategic insights and credibility to the work of the IIRC; a working group that develops the <IR> framework and promotes its adoption; and, a permanent secretariat staff. The council members include chief executives of the AICPA, CIMA, EY, PWC, Grant Thornton, IASB, BDO, KPMG, Institute of Internal Auditors, Deloitte and IFAC.

The IIRC is seeking to build on past advances in corporate reporting, and on developments currently in transition, both financial and non-financial, and to consolidate divergent reporting strands under one unifying, global framework: that of Integrated Reporting (Needles, 2013). It intends to improve the reporting process, but not to provide a full reporting standard. If it had the ambition to provide a complete guideline, it would need to be used alongside with the financial reporting standards and sustainability reporting guidelines. So the main objective is to create a framework to help users formulate content for integrated reports. Reporting standards, such as IASB's International Financial Reporting Standards (IFRS) or country-specific Generally Accepted Accounting Principles (GAAP), help IIRC by providing it with high quality guidance for financial reporting. By other side organizations like GRI provide support for the disclosure of non-financial information.

The Global Reporting Initiative (GRI), created in 1997 by the Coalition for Environmentally Responsible Economies (CERES) in partnership with the United Nations Environment Program (UNEP), aimed to improve the level of sustainable development methods to be on the same level of financial reporting and to ensure the comparability and credibility of the information disclosed.

GRI has started this task with the participation of companies, environmental and social NGOs, accounting firms, trade unions, investors and other stakeholders from various countries. Guideline G4, the fourth generation of Sustainability Reporting Guidelines, is now in progress. The next generation of GRI Guidelines addresses requirements for sustainability data, and enables reporters to provide relevant information to various stakeholder groups. It also improves on content in the current Guidelines—G3 and G3.1—with strengthened technical definitions and improved clarity, helping reporters, information users, and assurance providers (Needles, 2013).

Taking it all into consideration, it is notable that IIRC made significant progress in developing a framework for Integrated Reporting. In particular, in September 2011, the IIRC released a discussion paper, "Towards Integrated Reporting – Communicating Value in the 21st Century" to receive feedback on their <IR> concept. This discussion paper was open for public comment for 3 months from September 2011. After due consideration of submissions from stakeholders on the 2011 discussion paper, the IIRC released their Consultation Draft of the International <IR> Framework Integrated Reporting (CD) in April 2013 (Cheng et al., 2014).

<IR> gives companies an opportunity to communicate on and implement a sustainable strategy, which creates value for shareholders while contributes to a sustainable society. Although accomplishing this at a global scale means that Integrated Reporting needs to be a mandatory, not voluntary, exercise and a set of standards needs to be done. Just like financial reporting, we wouldn't have the capital markets we have today if companies didn't have to do it (Eccles & Slatzman, 2011).

Moreover regarding the education, mainly the accounting curricula, modifications should be done. Assuming that the main <IR> principles become extensively adopted, key developments may need to take place in professional and university accounting curricula.

It is probable that accounting curricula will need more of a strategic instead of operational or transactional focus. Moreover it should be more considered the long term, it is put more emphasis in a prospective rather than retrospective analysis. In addition it should report on wider business performance metrics rather than on narrower external financial reporting data or audit compliance (Owen, 2013).

Such developments and improvements will require the education and training of accountants to reflect the new principles and be ready for a more challenging role in the future. These developments can improve the relevance of information disclosed for decision-making for all stakeholders, thus allowing greater efficiency in the allocation of financial and other resources, and in adding public value.

Furthermore, indicators will help to better understand Integrated Reporting. The type of reporting, just like corporate social responsibility, is a fertile area for the use of indicators since companies have obligations to the society as well as under international law, particularly for violations of human rights, labor rights, and environmental protection.

In 2013 it was performed an empirical study of the Global Reporting Initiative. The author analyzed the prevalence of quantitative indicators as a developing regulatory tool in domestic and global governance, identified the potential costs of using these tools to perform decision making, and offer recommendations on how to limit their costs and enhance their benefits. In addition he demonstrated that indicators do not just serve as instruments to regulate behavior; they themselves have normative authority and may be tense with problems (Sarfaty, 2013).

Indicators are playing an important role in governance given their ability to simplify and translate social phenomena into a numerical representation. Once "What you cannot measure, you cannot manage. What you cannot manage, you cannot change" it is crucial to apply indicators to Integrated Reporting in order to quantify it and turn it to comparable information. This makes information easier to understand and comparable across sectors, therefore it adds value and it is interesting to apply them to <IR>. If used effectively, indicators can offer several benefits: they can measure accountability to standards and norms; assess compliance with policies and specific targets; and, evaluate performance with respect to stated objectives. They can also facilitate an efficient processing of information and reduce the costs and resources devoted to decision making (Sarfaty, 2013).

The demand of indicators is related to their ability to translate occurrences into a numerical representation that is easier and simpler to understand and compare across sectors. Moreover, their simplicity enables more effective communication with those who are governed as well as the general public, thereby promoting ideals of transparency and accountability. Regarding the regulatory bodies, they should not treat indicators as ends, but rather as a means towards assessing performance and ultimately improving behavior.

According to Sarfaty (2013) his primary aim is to propose ways in which government agencies and private actors can more effectively use indicators as tools in regulation to meaningfully compare units of analysis and evaluate performance. Indicators can serve as effective tools as long as they measure what is pertinent to stakeholders and are supported by trustworthy data.

1.4 Research, gaps, and hypothesis

As discussed before, studies point at an increasing concern with Integrated Reporting as well as the impact it has on the company's business model, on the society in general and on its stakeholders more specifically. For instance, a study published by Harvard Business School in July 2014 found that companies that embraced a long-term corporate culture of sustainability outperform their peers in terms of reputation, net income, and stock price (Eccles et al, 2014). Besides it has also been analyzed that the cultural, business and social factors possibly influence the disclosure of <IR>.

Concretely results obtained suggested that companies operating in countries with similar cultural systems adopt homogeneous patterns of behavior regarding Integrated Reporting (García-Sánchez et al, 2013). This effect is explained both by the match of the management standards, norms and practices as well as the ambition to fulfil similar needs and expectations of the stakeholders, due to their shared culture. Moreover García-Sánchez et al. (2013) demonstrated that companies located in collectivist countries,

(countries were citizens tend to think more about their actions as a members of a group than about their individual behavior), show a greater interest in disclosing integrated information that facilitates decision-taking by diverse stakeholders, based on the greater comparability and usefulness of the information provided. This is mainly explained by these type of societies be characterized by individuals with aim to improve the quality of life in their society, in contrast to the pursuit of individual benefit. Therefore companies also should adapt their business model and objectives to respond to these demands, increasing then the commitment to sustainability and good governance initiatives. The authors also concluded that companies with a higher potential for business growth are less likely to disclose integrated reports in order to diminish problems of information asymmetry. Although initiatives, just like IIRC, are being taken to improve the number of companies preparing integrated reports. Furthermore, at the firm level, aspects such as the firm size, the industry and the profitability are associated with the extent of holistic disclosure adopted.

Investors and other stakeholders are increasingly relying on non-financial data to make investment, credit, and other decisions. Furthermore, they are placing more pressure on management to promote CSR, rather than focus solely on maximizing short-term profits. Eccles & Saltzman (2011) explored the strengths and challenges of integrated reporting and concluded that there is an increasing number of companies are voluntarily starting to produce integrated reports. Although the original intention of nonfinancial reporting was to provide information of interest to stakeholders, shareholders were paying increasing attention. Three years later Hughen et al. (2014) note that many organizations find that financial reporting alone no longer satisfies the needs of shareholders, customers, communities, and other stakeholders for information about overall organizational performance.

In 2013, Owen analysed the recent <IR> initiatives and the implications in the accounting education if <IR> gets widely adopted. In this work it was defended that it is public interest to improve the relevance of information for decision-making for all stakeholders, thereby allowing greater efficiency in the allocation of financial and other resources and in adding public value.

Moreover in 2013, García-Sanchez, based on stakeholder theory, examined the influence of the national cultural system on <IR>. The results obtained showed that companies located in countries most oriented towards the common good are more likely to develop integrated reporting as a means of facilitating decision-taking by different stakeholders (García-Sanchez, 2013).

Additionally, Cheng (2014) released a paper introducing the concept of <IR> as described by the IIRC ant the process of releasing of the <IR> framework by the IIRC. Cheng concluded that the <IR> movement is in a critical phase of its development. The providers of financial capital (and executives) remain too focused on short-term financial performance this may hamper an organization's ability to implement the fundamental business model changes that are needed to provide the impetus toward accounting for value creation which is fundamental to <IR>.

In 2012, Boerner, published a paper commenting the perception of <IR> for both issuers and investors. Indeed, Boerner perceived that both issuers and investors get positive benefit by adopting <IR>. Moreover most investors want the idea of <IR> to be implemented.

Even though relevant achievements have already been attained there are still a lot of questions open for further development, namely: whether <IR> changed the way companies are doing business (Cheng et al., 2014); if there is a role for the assurers in <IR> (Cheng et al., 2014); the impact of firm-level characteristics to publish <IR> (Jensen & Berg, 2012); the extent to which <IR> meets stakeholders' demands (García-Sanchez et al., 2013); analyse the impact made by corporate culture values on the elaboration of integrated information (García-Sanchez et al., 2013); the <IR> and the capital market, that is if it affects the cost of capital, if it attracts longer term investors (Cheng et al., 2014).

As expressed, there is still no evidence that integrated reporting published by firms are perceived to be value creating or value relevant to investors, who seek for useful information to their decision takings. Prior research however provides evidence that financial analysts use corporate sustainability disclosures to make forecasts for future financial performance (Dhaliwal et al. 2012) and this information is being increasingly used by investors to analyse management quality and its implication on the potential to grow the value of the business (Eccles et al. 2011).

Based on these arguments, and considered that companies with reputation for sustainability leadership are higher valued by the market (Lourenço et al. 2013), I will present a characterization study about companies that are publishing <IR> and empirically examine the following main hypothesis:

H_1: The market valuation of book value and net income will be higher for firms publishing integrated reports that are considered of high quality when compared with firms publishing integrated reports without such mention.

2. Research Design

2.1 Data and Sample

Data was collected from several sources. The most important, which was the starting point for this dissertation, was the IIRC database which comprises examples of integrated reports of companies that publish it according to the IIRC guiding principles, and so are considered by the IIRC as <IR> Reporters. Through this database I extracted information to create the sample, specifically, information about companies that publish their <IR> according to the IIRC Guiding Principles. This set of companies was divided into two partitions: 1) one group to include those companies that are considered as <IR> Recognized Reports, and so are integrated reports of reference according to IIRC; 2) another group with all the companies publishing an <IR> but that are not considered as reference reporters. Moreover I hand collected extra information directly from the integrated reports presented by the companies and available for download on the IIRC website.

To be more precise, all the unique companies included in the IIRC database, who publish their <IR> according to the IIRC Guiding Principles, were selected totalizing 224 companies. From these 224 companies, the IIRC distinguishes 79 companies that are considered as <IR> Recognized Reports and so are reference <IR> according to IIRC, what constitutes the first group of the analysis. The other companies are included in the second group. The criteria, according IIRC, to define those reporters as reference is have been recognized as a leading practice by reputable awards process or through benchmarking.

To aim our objective other information was also collected, namely, detailed information about the exact year in which the 79 reporters were considered as reference, the specific guiding principles and content elements disclosed that enabled them to be outstanding, the country of the company and the sector.

All this information was completed with information extracted from the Datastream Worlscope Database. The data taken out from the tool covered several variables, namely, the parent auditor, the market value per share, the book value per share, the operating income, the earnings per share, the total assets, the return on equity and the leverage. The sample period comprised 10 years, from 2006 to 2015. Therefore, 2240 observations were treated, being 790 from those considered as reference <IR> reporters.

Some companies were not considered in the regression model analysis due to lack of data or for being outliers. Consequently after using the Data Stream to extract information, the sample for the regression analysis was re-shaped and the final number of reporters was 2.048, specifically 747 observations corresponded to <IR> reference reporters (first group) and the remaining 1.301 to <IR> regular reporters (second group).

2.2 Research model

Recalling that the main purposes of this dissertation are to characterize the companies that have adopted Integrated Reporting and to analyze the impact it has on the society (concretely on investors), the research was split in two different phases.

In the first phase, and in order to deeper understand who are the <IR> reporters, a descriptive analysis was performed to achieve a characterization study to identify the patterns and characteristics of the reporters. The outputs of this phase came mainly from hand collected information from the website of IIRC, and from the reports published by the companies, after a contend analysis of those reports. Tables and graphs are presented to illustrate the findings.

In the second phase, an empirical research was performed to analyze the association of <IR> with share prices, a proxy for investor perceptions.

To analyze whether the value of the company, perceived by the market, is influenced by the fact that the reporter is considered by the IIRC as reference <IR> reporter when compared to a non-reference <IR> reporter, a linear regression model was built. The basic model relates the market value of the companies with the book value and the operating income, and it is well supported in literature (Ohlson, 1995) who created the model that started to be commonly used in accounting literature (e.g. Abbody et al, 2004; Niu & Xiu, 2009; Callahan et al, 2013), specifically:

$$MV = \alpha_0 + \alpha_1 BV + \alpha_2 OI + \varepsilon \qquad (1)$$

In the model presented above, Equation 1, the MV corresponds to the market value at the fiscal year end, the BV represents book value at the fiscal year end and the OI stands for operating income at the same moment of time.

Based on the main hypothesis, whether the market valuation of net income and book value is higher for firms considered as regular reporters of <IR>, when compared to firms considered <IR> reference reporters, Equation 1 was extended and modified to Equation 2. This Equation 2 permits the coefficients of the variables BV and OI to vary according to whether the firm is considered has reference reporter or not and is given by:

$$MV = \alpha_0 + \alpha_1 BV + \alpha_2 OI + \alpha 3\ DYIR + \alpha_4\ DYIR \times BV + \alpha_5\ DYIR \times OI + LEV + SIZE + ROE + EPS + \varepsilon \qquad (2)$$

where DYIR is a dummy variable which assumes the value 1 if the company is considered a reference reporter and 0 if the company is considered a regular reporter. The Equation 2 is assessed with industry and year fixed effects. As usual in empirical researches that analyses the relationship of financial and non-financial information with the market value of the companies, some variables are used and added to the Equation to control firm's leverage, size, return on equity and profitability, which gives rise to four additional variables, namely, LEV (end-of-year total debt divided by end-of year total assets), SIZE (natural logarithm of total assets as of the end of the year), ROE (return on equity) and EPS (earnings per share).

The expectations on the Equation 2 are the following: if the market values the summary of accounting measures differently for <IR> reference reporters when compared to regular <IR> reporters, then the estimates for the coefficients of the interaction of <IR> (DYIR) with BV and with OI, namely, coefficients α_4 and α_5, should be statistically significant. If the market valuation of book value (operating income) is higher for firms considered as reference reporters, when related to firms without it, then it is likely that $\alpha_4>0$ ($\alpha_5>0$).

To avoid scale bias, all the continuous variables are deflated by the number of shares outstanding, turning Equation 2 to a per share basis.

3. Results

3.1 Characterization Study

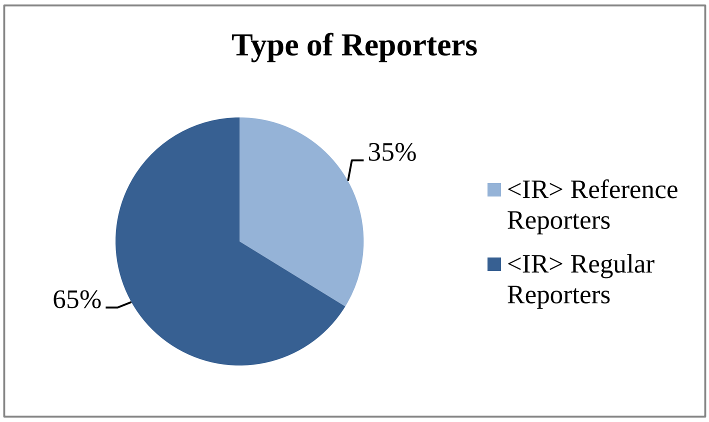
In order to deeper understand who are the <IR> reporters, a characterization study was performed. There were analysed the patterns and characteristics of the reporters. Moreover, all the aspects were reasoned with literature or appropriate studies.

The first important distinction to make is the regular reporters and the ones considered by GRI as outstanding reporters. Therefore, in a universe of 224 companies, 79 of them are considered as reference <IR> reporters while the remaining 145 are considered regular <IR> reporters (see Table 1 – Types of Reporters), which represents 35% and 65% respectively (see Graph 1 – Type of Reporters). It should keep in mind that, according to IIRC database, reference reports are the ones that have been recognized as a leading practice by reputable awards process or through benchmarking (IIRC, 2016). The awards and recognitions considered were: Australasian Reporting Awards, EY Excellence in Integrated Reporting Awards, PwC's Building Public Trust' Excellence in Reporting Awards, CSSA Integrated Reporting Awards, WICI (Japan) Awards for Integrated Reporting, Nkonki Top 100 JSE Listed Companies Integrated Reporting Awards and Sijthoff Prize. In addition, it is performed also by IIRC benchmarking between reports. It was already predictable that the majority of the sample was regular reporters and a smaller sample would represent the standard reporters. This prediction was solely based on the early stage in which <IR> is and so, not deeply adopted.

	Number
<IR> Reference Reporters	79
<IR> Regular Reporters	145
Total	224

Table 1 - Type of Reporters

Total sample absolute distribution in terms of <IR> reference and <IR> regular reporters. The criteria of reference or non-reference reporters was attributed according to IIRC standards.



Graph 1 - Type of Reporters

Total sample relative distribution in terms of <IR> reference and <IR> regular reporters. The criteria of reference or non-reference reporters was attributed according IIRC standards.

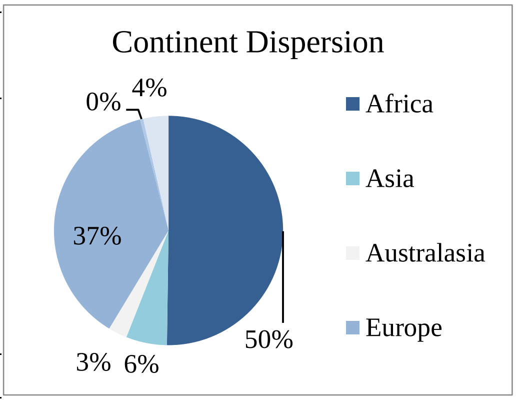
Analysing the geographical dispersion, two distributions were examined, one in terms of continent dispersion and another in terms of country dispersion. Table 2 and Graph 2 present the continent dispersion. For the universe of 224 reporters, the majority of the companies are settled in Africa. The African companies represent 113 out of 224 companies, what is traduced, in relative terms, in 50% of the companies. The following continent is Europe with an absolute frequency of 83 companies, which represents 37% of the sample.

The remaining continents stand with smaller values, Asia with 13 reporters (6%), South America with 8 reporters (4%), Australasia with 6 reporters (3%) and North America with 1 reporter (0%).

	Absolute Frequency	Relative Frequency
Africa	113	50%
Asia	13	6%
Europe	83	37%
South America	8	4%
Australasia	6	3%
North America	1	0%
Total	224	100%

Table 2 - Continent Dispersion

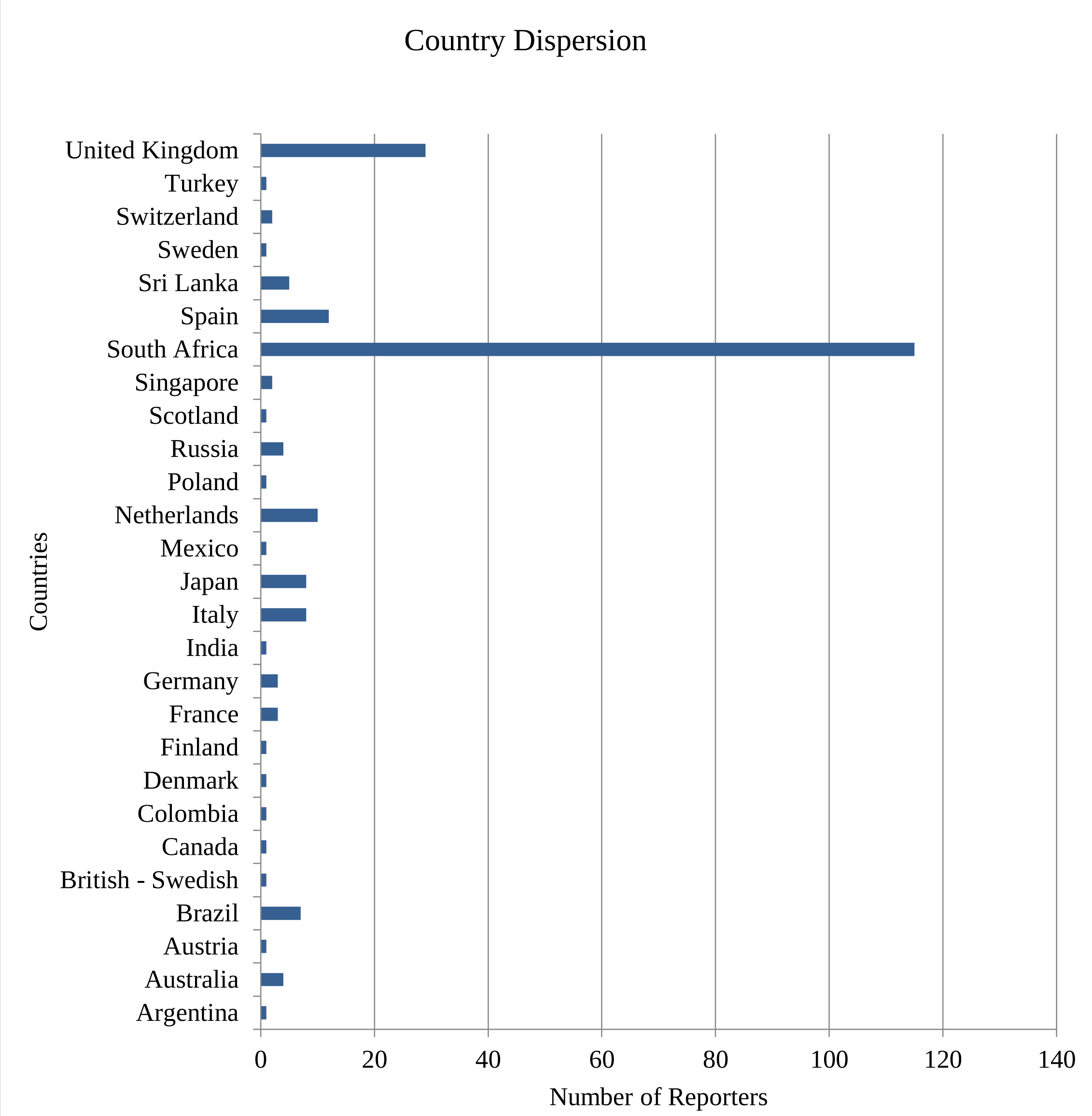
Total sample absolute and relative distribution per continent.



Graph 2 – Continent Dispersion

Total sample relative distribution per continent.

Graph 3 details country dispersion. It is notable that 113 reporters are from South Africa with represents 50% of total reporters. United Kingdom is the second country with more reporters, concretely, 30 companies corresponding to 13%. The remaining countries have smaller influence over the total distribution since the number of reporters is below 15.

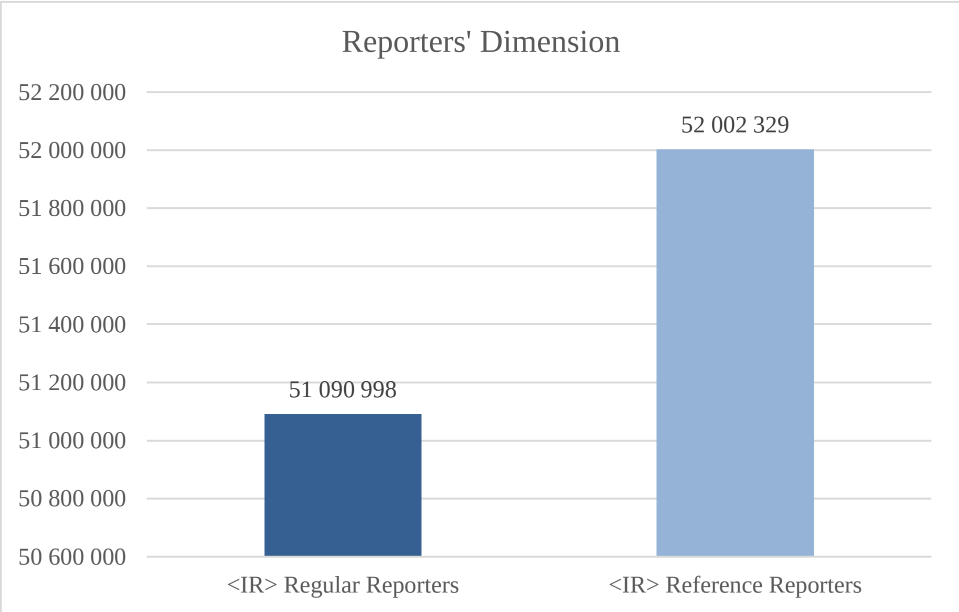


Graph 3 - Country Dispersion

Total sample absolute distribution per country in absolute terms.

The conclusions drawn from the geographical analysis meet the literature review performed. In fact South Africa should be the most present country in Integrated Reporting since it is mandatory for all listed companies. Actually, companies listed on the Johannesburg Securities Exchange (JSE) were required to adopt Integrated Reporting from years commencing on or after 1 March 2010 (Hoffman, 2015). Still according to Hoffman, here has been a generally positive and pro-active response from JSE-listed companies and a number of State-Owned Entities in South Africa which have embraced Integrated Reporting.

After South Africa, the most notable country is United Kingdom with 30 companies. Indeed, The Financial Reporting Council (FRC) in the UK has published Guidance on the Strategic Report - a first step in their "programme of work to promote clear and concise reporting from which investors can, with justifiable confidence, draw conclusions about a company's performance, position and prospects" (IIRC, 2016). The Strategic Report, together with the FRC's guidance, is consistent with <IR> and is one of the leading initiatives across the world in allowing businesses to communicate concise, relevant and focused information.

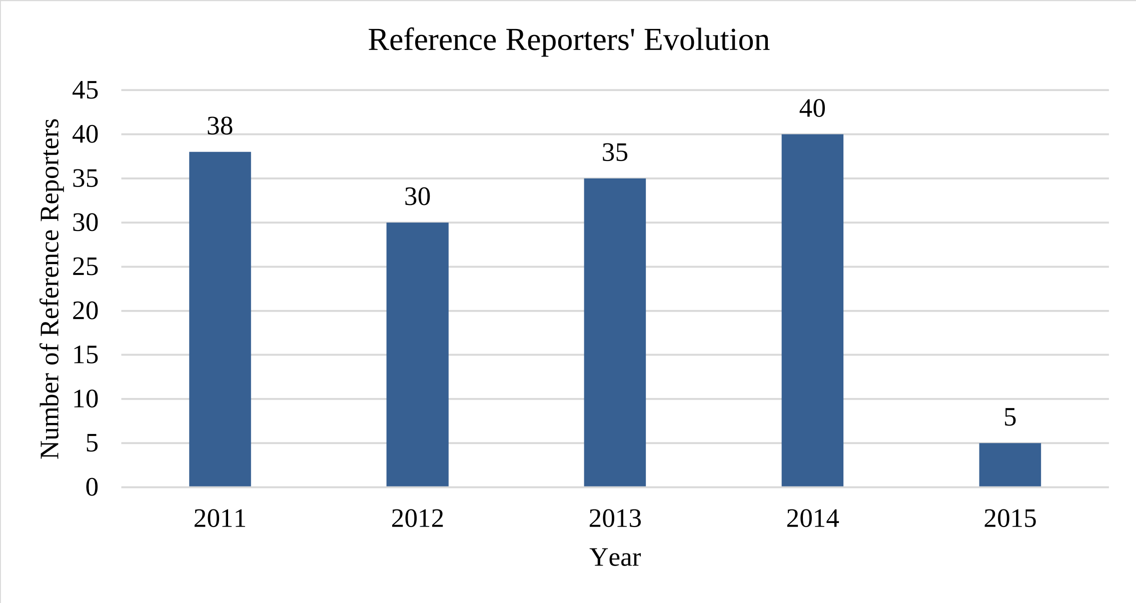


Graph 4 - Reporters' Dimension

Average total assets for the total sample split by <IR> reference reporters and <IR> regular reporters. The criteria of reference or non-reference reporters was attributed according IIRC standards.

In order to access the reporters' dimension, the total assets average was used. Analysing Graph 4, it is possible to conclude that the <IR> reference reporters' dimension is considerable higher than the <IR> regular reporters' dimension.

On average the <IR> reference reporters have 52.002.329 EUR of average total assets, while the <IR> regular reporters have on average 51.090.998 EUR of average total assets.

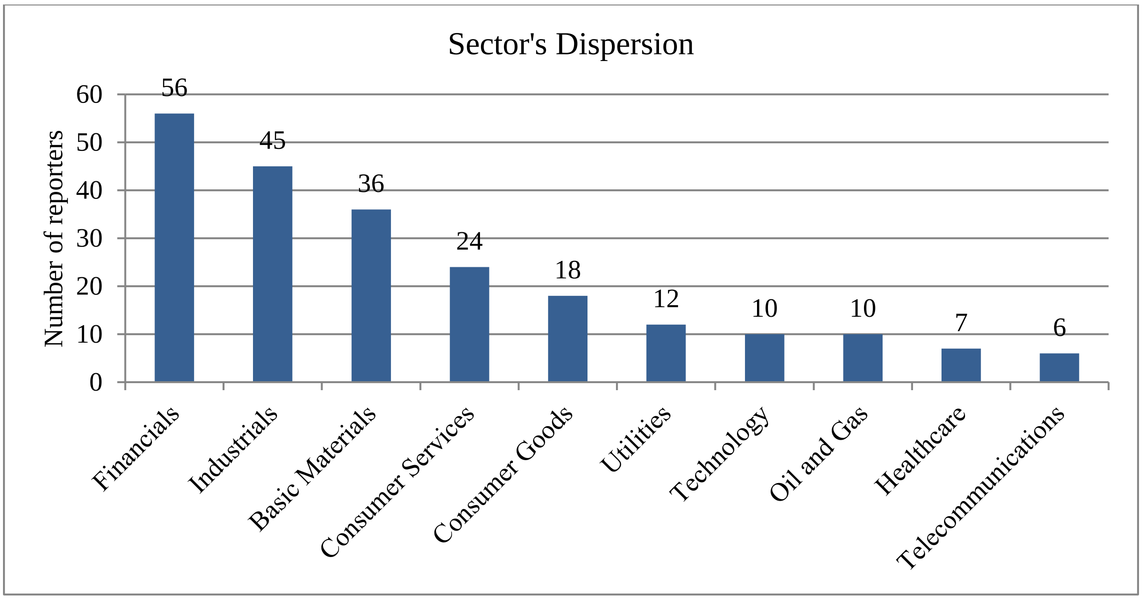


Graph 5 - Reference Reporters' Evolution

Distribution of the 148 reports of the 79 <IR> reference reporters per year of reference. The criteria of reference or non-reference reporters was attributed according IIRC standards. If a report was considered as reference in two years, then it was also counted in the two years.

Moving forward in the analysis, it is notable that the reference reporters are growing (see Graph 5 – Reference Reporters' Evolution). The fact that a company is considered a reference reporter in one year does not mean that it is going to be of reference in later years. Thus, the graph 5 intends to show the number of reference reports that are available per year. If a company reporter was defined as reference reporter in 2012 and 2014, then the company is included in both years. Concerning 2015, the reason for not having many reference reporters is that companies just publish the reports in the beginning of 2016. Therefore, it takes time either to IIRC decide whether they are reference reporters or not, as well as for the different awards and recognitions to be attributed.

Taking the previous explanations into consideration, it was expected that the number of reference reports grow, which seems to be the tendency. This statement is aligned with the policies and plans of IIRC in order to spread more and more <IR>. IIRC is actually conducting an implementation review of the International <IR> Framework, designed to guide and inform the ongoing development of guidance to support implementation of <IR>. Moreover, the examples database website, used as basis for this dissertation, provide key insights for organizations that are developing, or planning to develop, an integrated report. Therefore, IIRC actively continues to promote, provide training, implement innovation and work on greater coherence, consistency and comparability between corporate reporting frameworks and standards.

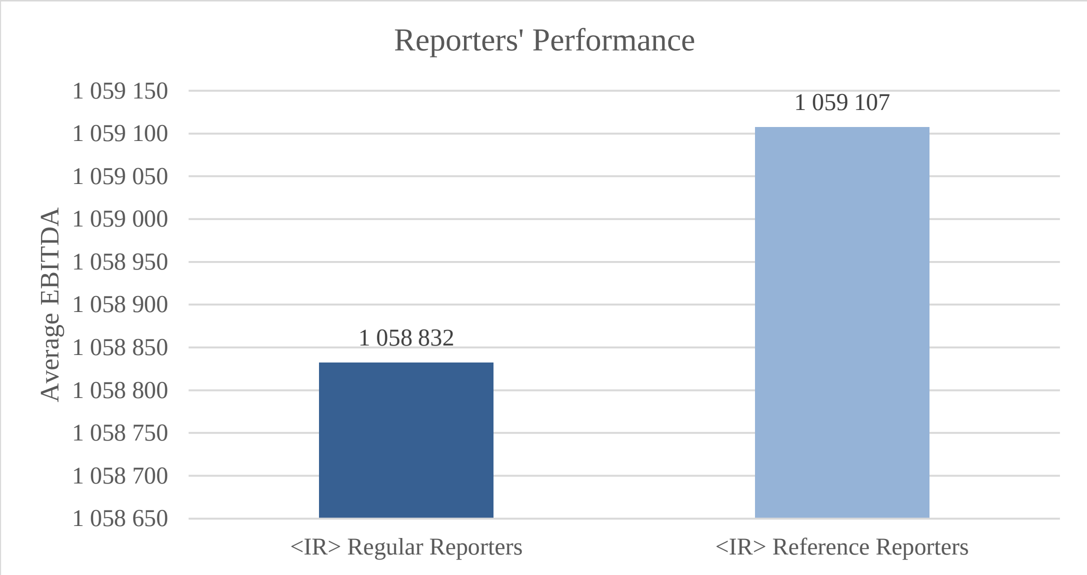


Graph 6 - Sector's Dispersion

Total sample, 224 reporters, relative distribution per activity sector. The association of the companies to the activity sector was done according to the ICB Industry classification.

Regarding the business areas of the reporters, in the universe of 224 companies that are <IR> reporters, the most representative sector is the financial services, with 56 reporters (see Graph 6 – Industry's Dispersion). This sector includes banks, investment funds, insurance companies and real estate. It is followed by the industrials sector with 45 reporters. The industrial sector includes companies that produce goods used in construction, manufacturing, agriculture and transportation. Moreover, it also includes aerospace, industrial machinery, tools, construction, cement and metal fabrication. After, the basic materials, the consumer services and the consumer goods are the following business areas more represented, with 36, 24 and 18 reporters respectively.

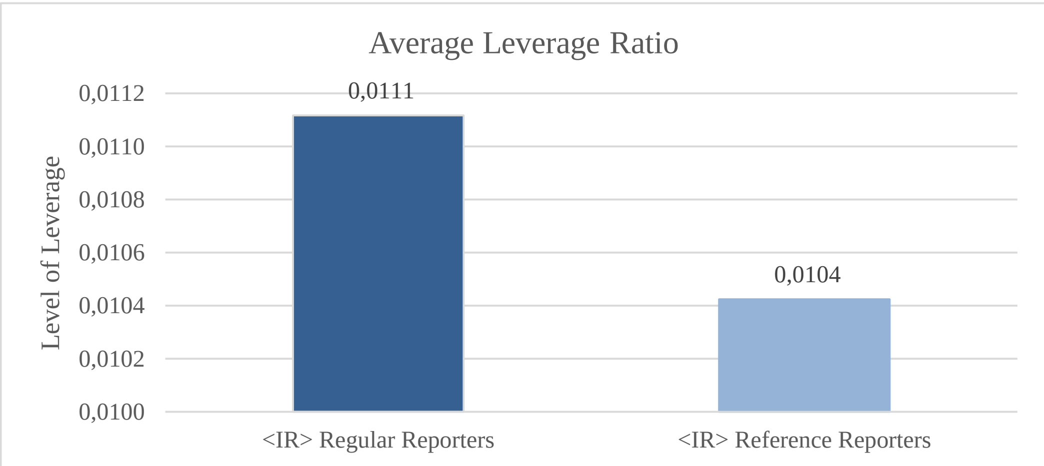
Indeed, these conclusions are in line with Climent & Hollander (2014), which states that globally, the financial sector self-declares more integrated reports than any other sector, followed by the utilities, energy and mining sectors.



Graph 7 - Reporters' Performance

Average EBITDA for the total sample, 224 reporters, being considered in this dissertation. Although the total 224 are split by <IR> reference reporters and <IR> regular reporters. The criteria of reference or non-reference reporters was attributed according IIRC standards.

To analyze the performance of the different reporters, the metric used was the EBITDA. Through the analysis of Graph 7 it was allowed to conclude that the operating income of the <IR> reference reporters is considerable higher than the <IR> regular reporters. Going into detail, considering the sample under analysis the 79 reference reporters stand for 1.059.107 EUR of EBITDA while the remaining 145 (<IR> regular reporters) have 1.058.832 EUR.

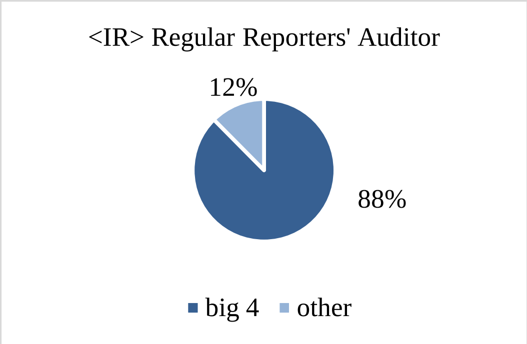


Graph 8 – Average Leverage Ratio

Level of leverage for the total sample, 224 reporters, being considered in this dissertation. Although the total 224 are split by <IR> reference reporters and <IR> regular reporters. The criteria of reference or non-reference reporters was attributed according IIRC standards.

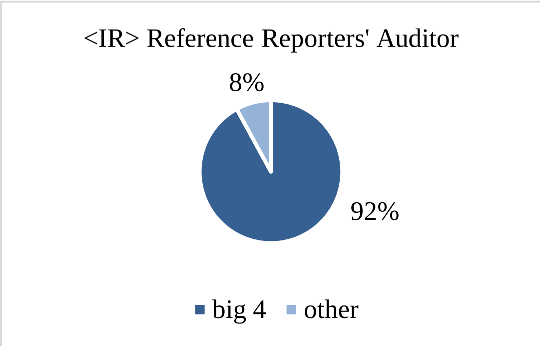
Regarding the analysis of the level of leverage of the different reporters, the average leverage ratio was considered. It was calculated as the average of the ratio between the total debt over the total equity. Considering this formula, and observing Graph 8, all of the reporters have their debt level inferior to their total equity. Although the <IR> reference reporters have a lower debt level since for each 1 EUR of equity they have on average 0,010 EUR of debt. On the other hand, the other <IR> regular reporters have a slightly higher leverage level since for each 1 EUR of equity have on average 0,011 EUR.

Therefore, investors would value more the <IR> reference reporters because creditors like this ratio to be low. The lower the ratio, the higher the level of firm's financing that is being provided by the shareholders.



Graph 9 - <IR> Regular Reporters' Auditor

Relative distribution of <IR> regular reporters' auditor. Only <IR> non reference reporters are being considered, namely the 145 reporters. The criteria of reference or non-reference reporters was attributed according IIRC standards.

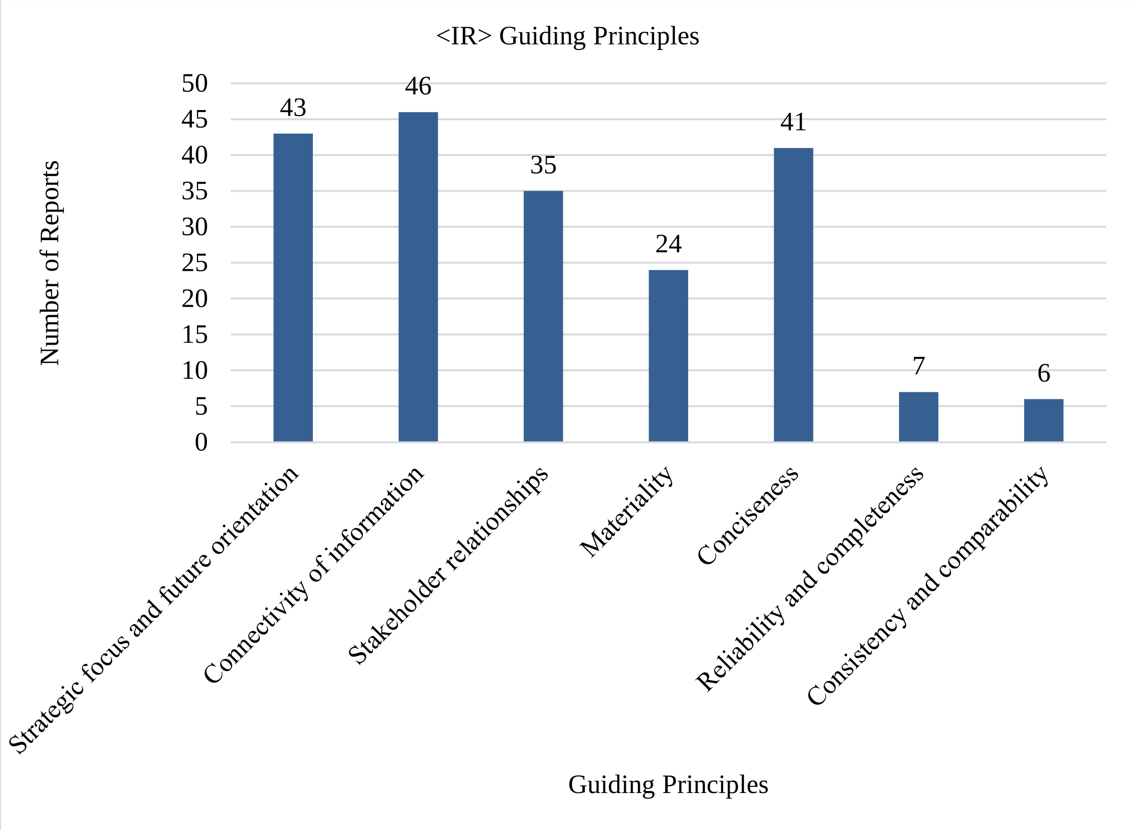


Graph 10 - <IR> Reference Reporters' Auditor

Relative distribution of <IR> reference reporters' auditor. Only <IR> reference reporters are being considered, namely the 79 reporters. The criteria of reference or non-reference reporters was attributed according IIRC standards.

One important aspect on the reporting process is the assurance services. According to Climent & Hollander (2014) it is important to control all the reporting and communication of risk management information. By controlling these variables, the value creation may be maximized. Moreover this enables the company to better understand these risks of its business and therefore implement controls to mitigate those risks. Externally, it's vital that third parties understand the key characteristics of the risk management model and how the organization responds to the most material risks.

Therefore assurance has a fundamental role in <IR> mainly transmitting confidence and increasing the reliability of the reports. This concern seems to be accessed by both groups of reporters under analysis. Observing Graph 9 and Graph 10 it is concluded that both the <IR> reference reporters and the <IR> regular reporters appeal more to the Big Four Assurance Companies than to other auditors. In relative terms, 92% of the <IR> reference reporters' companies and 87% of the <IR> regular reporters access services from the Big Four to do the audit to financial accounting.



Graph 11 – <IR> Guiding Principles

<IR> reference reporters sample, 79 reporters, relative distribution per <IR> Guiding Principles. The association of the reports to the principles was done according to the IIRC criteria.

Continuing the analysis, according to IIRC an integrated report is 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 in the short medium and long term. Therefore, to define a reporter as a reference there are 7 guiding principles to which reports must obey (See Graph 11 – <IR> Guiding Principles). It is important to refer that since IIRC only perform the principles study to the <IR> reference reporters, then the data considered in Graph 11 includes simply the <IR> reference reporters. Although according to IIRC it is not mandatory to have all the principles, the reports may either present the 7 principles, as well as just one.

The most frequent principle is the Connectivity of Information, with 46 reports out of 79, presenting it. IIRC states that according to this principle, an <IR> should provide a holistic picture of the combination, interrelatedness and dependencies between facts that affect the organisation's ability to create value over time.

The second principle more recurrent is the Strategic Focus and Future Orientation. In the sample of 79 companies, 43 of them disclose it. It presupposes that a report should provide insight into the organisation's strategy and how it relates to the organisation's ability to create value in short, medium and long term and to its use of and effects on the capitals.

The conciseness is another representative principle, since 41 reports out of 79 disclose it. It states that to be integrated, a report should be concise.

The stakeholder relationships are the next principle with 45% (35/79) companies applying it in their reports. According to this principle, the reports should provide insight into the nature and quality of the organization's relationships with the key stakeholders including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.

Another principle is the Materiality. This principle is applied by 24 companies from the reference reporters sample analysed. According to IIRC, an <IR> should disclose information about maters that substantively affect the organization's ability to create value over the short, medium and long term.

The last two principles are the less disclosed in the reports. One concerns the Reliability and Completeness. It presupposes that the reports should have material matters, both positive and negative, in a balanced way and without material error. The second regards the Consistency and Comparability of the reports. Therefore, the information in an <IR> should be presented on a basis that is consistent over time and in a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time. These two principles are only disclosed by 7 and 6 companies, out of 79, respectively.

Value Creation	The capitals
76	27

Table 3 - <IR> Fundamental Concepts

<IR> reference reporters sample, 79 reporters, relative distribution per <IR> Fundamental Concepts. The association of the reports to the concepts was done according to the IIRC criteria.

According to IIRC there are two fundamental concepts: value creation and the six capitals.

To understand both concepts it is crucial to comprehend the importance of the organizations' business model. The business model is the concept that defines and executes the organizations' strategy. It also leads the process through which a company creates sustainable value over time.

According to the IIRC Framework, the business model is based on the theory of multiple capitals. There are six capitals: natural, social and relationship, human, intellectual, manufactured, and financial capital. As stated by Climent & Hollander (2014) the capitals store value that is needed by organizations to create sustainable profit and prosperity for society. Moreover, these values can be transformed, increased or decreased through the activities and outputs of the organization. For reporting purposes, an organization should only identify the individual capitals that materially contribute to or affect the value creation process and the long-term viability of its business model.

Regarding the value creation process, actually an organization creates value not only for its shareholders but also for the society as a whole by means of a sustainable strategy. This notion calls for companies to factor decisions, trade-offs and choices into their business model. For example, for an organization to reduce its dependence on natural capital, it may have to detriment financial capital to invest in the human capital capable of achieving this goal. Moreover, and still according to Climent & Hollander (2014), within the business model, value creation encompasses the products and services produced by the organization as well as the external factors which increase or decrease the value of the capitals used and affected by it. Value creation or destruction occurs through an increase or decrease in the value of the organisations tangible and intangible assets and in the creation of positive or negative impacts for the community (externalities) that can, in turn, feedback the organization's value (see figure 2).

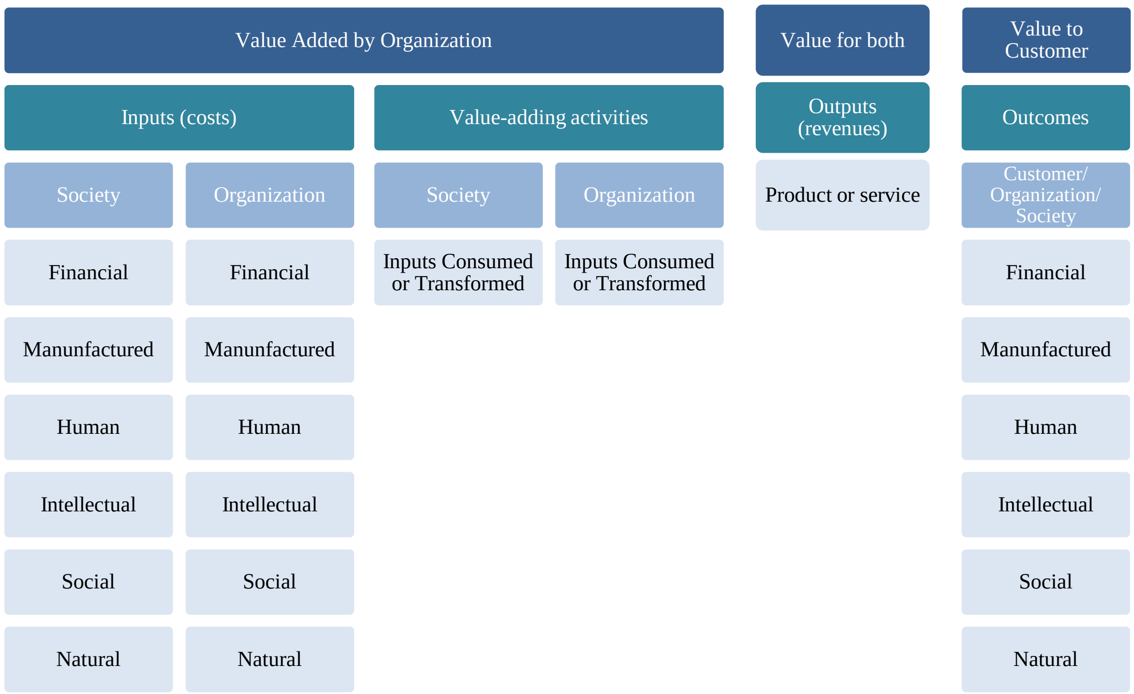
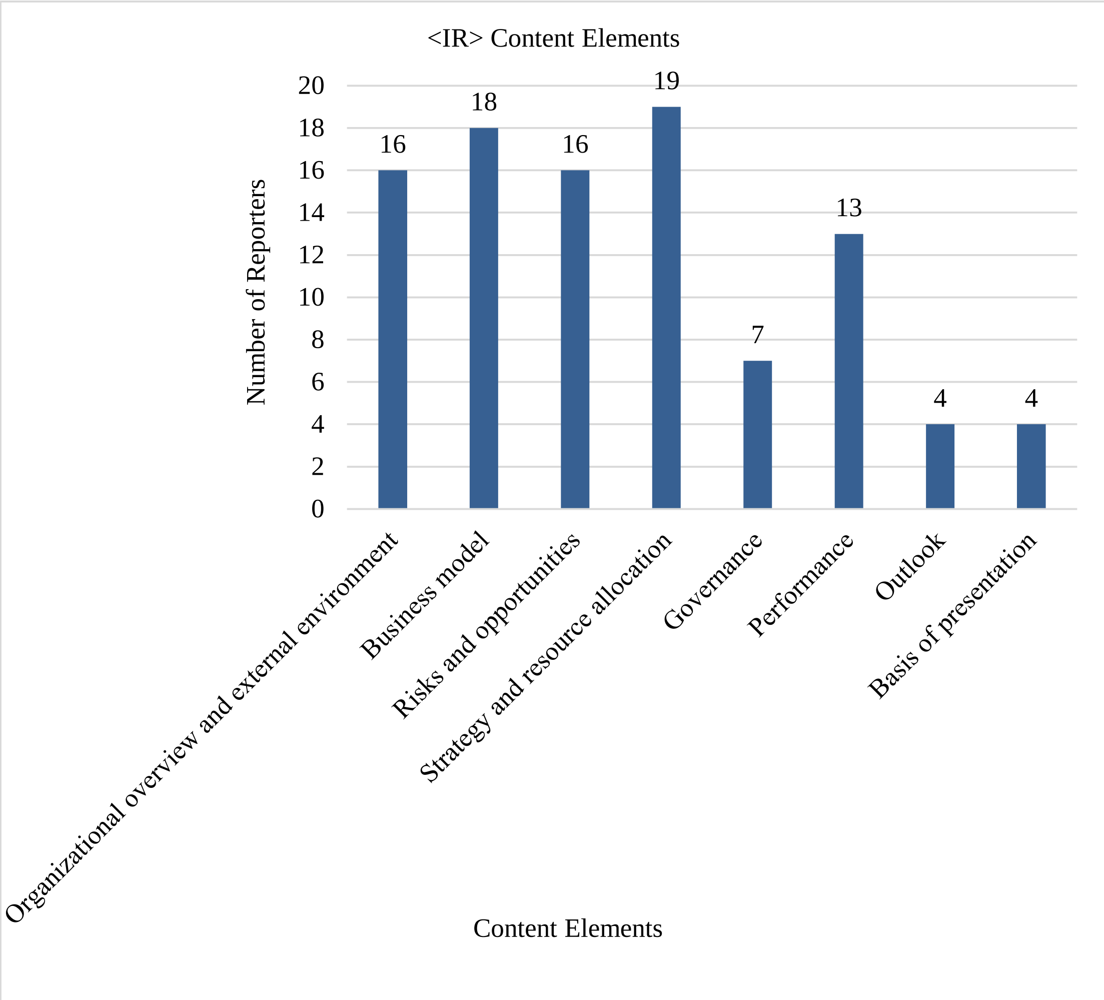


Figure 2 – "Interaction of Business with internal and external capitals", adapted from IIRC, March 2013

Considering Table 3 it is possible to conclude that <IR> reference reporters (34% of the sample under analysis) are completely aware of the importance of the value creation process since 100% describe this aspect on their <IR> reports. Although the way through which they create value is not always based on the six capitals since only 27 disclose it. The others may explain how they create value through the business model and not necessarily the capitals.



Graph 12 – <IR> Content Elements

<IR> reference reporters sample, 79 reporters, relative distribution per <IR> Content Elements. The association of the reports to the elements was done according to the IIRC criteria.

Besides the Guiding Principles and the Fundamental Concepts, also the Content Elements are an important aspect for the IIRC, mainly to differentiate <IR> regular reporters and the outstanding ones.

Recall that <IR> is a reporting tool for communicate, understand and measure the value creation process. So the objective is to disclose and provide better information than the traditional reports. Therefore and according to IIRC an <IR> should disclose the elements presented on Graph 12.

As a result of the reference reporters' sample analysis, the most revealed element is the Strategy and Resource Allocation, with nineteen out of seventy-seven reporters applying it. This element presupposes that an organization presents the objective pursued by the company and the approach and strategy to achieve it.

The following element is the Business Model with eighteen out of seventy-seven companies disclosing it. This assumes that the reporter explains its business model and that in fact it is a resilient business model.

Both with sixteen companies out of the total reference sample are the following elements: Organizational Overview and Operating Context and Risks and Opportunities. The first element addresses the question of what does the company want to do and describes the circumstances under which the organization operates.

The Performance is an element represented by twelve companies. It assumes that the companies explain how they performed against their strategy and in concrete terms what key outcomes are produced in terms of capitals.

Finally, the less disclosed elements are the Governance, the Outlook and the Basis of Presentation, represented by seven, four and four companies respectively. The Governance presupposes that the organisation explains its governance structure and in which way it supports the organization's ability to create value in the short, medium and long term. However, because companies usually are required to prepare a governance report, especially if they are listed, the information can be presented in a report other than the integrated one. Regarding the Outlook, it is supposed that the company identifies the challenges and uncertainties that it may encounter while pursuing its strategy, as well as other potential implications for its business model and its future performance and outcomes. Lastly the Basis of Presentation implies the explanation of the determination of material matters on their characteristics, like KPIs.

3.2 Results for the OLS regression

Regarding the Equation 2 and the database described before, empirical analysis was executed. All the details and conclusions that will be presented were achieved with the sustenance of IBM SPSS Statistics Program.

	Oil & Gas	Basic Materials	Industrials	Consumer Goods	Health Care	Consumer Service	Telecommunications	Utilities	Financials	Technology
<IR> Reporters (n=2.048)										
	77	342	442	174	59	244	54	110	476	70
<IR> Reference Reporters (n=747)										
	57	146	100	70	20	87	26	50	161	30
<IR> Regular Reporters (n=1.301)										
	20	196	342	104	39	157	28	60	315	40

Table 4 - Sample constitution by industry

The firms considered as <IR> Reference Reporters are the ones considered by IIRC as outstanding reporters at least one year in the period being considered, that is from 2005 to 2015. The firms considered as <IR> Regular Reporters are the ones considered by IIRC as <IR> regular reporters at least one year in the period being considered, that is from 2005 to 2015. The firms considered as <IR> Reporters correspond to the sum of all the <IR> Reference Reporters and <IR> Regular Reporters for the period being considered, that is from 2005 to 2015. Concerning the industry classification, it was attributed according the Industry Classification Benchmark (ICB).

The total sample consists in 2.048 firm-year observations for all the <IR> reporters, being 747 of this considered as <IR> Reference reporters and the remaining 1.301 reporters being considered as <IR> regular reporters. In Table 4 is represented the distribution of the sample according to the type of <IR> reporter and the industry of each reporter. By industry it is meant the business sector in which the reporter's company performs its business activity. The industry classification was attributed to the reporters according to the Industry Classification Benchmark (ICB).

When analysing the <IR> regular reporters itself the Industrials industry it's the leading category with 342 reporters out of 1.301. It is followed by the Financials industry with 315 reporters out of the total 1.301. The Oil & Gas and Telecommunications industry are the lowers presented.

The patterns of <IR> reference reporters are relatively similar, where the leading categories are the Financials (n=161), the Basic Materials (n=146) and the Industrials (n=100) Sectors.

When considering both groups of <IR> Reporters pooled, the Financials industry is the most represented business sector what it's in line with Climent & Hollander (2014), which stated that globally, the financial sector self-declares more integrated reports than any other sector, followed by the utilities, energy and mining sectors.

	MV	**OI**	**BV**	**SIZE**	**ROE**	**LEV**	**EPS**
<IR> Reporters (n=2.048)							
Mean	13,08	1,17	5,95	6,52	0,28	1,72	0,75
Median	5,73	0,50	2,64	6,50	0,15	0,49	0,28
Std. Deviation	23,48	2,08	9,58	1,06	2,80	13,45	1,42
Minimum	0,00	-10,57	-1,70	1,83	-5,57	-30,05	0,00
Maximum	377,48	22,32	95,11	9,36	104,00	400,69	22,45
<IR> Reference Reporters (n=747)							
Mean	19,57	1,85	7,44	7,13	0,44	1,19	1,16
Median	10,00	1,05	4,56	7,09	0,15	0,61	0,69
Std. Deviation	31,42	2,65	9,99	0,94	4,53	3,07	1,72
Minimum	0,00	-3,18	-1,70	4,43	-5,57	-30,05	0,00
Maximum	377,48	22,32	88,25	9,36	104,00	33,67	17,42
<IR> Regular Reporters (n=1.301)							
Mean	9,35	0,78	5,01	6,17	0,19	2,21	0,62
Median	3,48	0,32	1,58	6,14	0,15	0,47	0,228
Std. Deviation	16,24	1,53	9,23	0,96	0,78	17,43	1,10
Minimum	0,00	-10,57	0,00	1,83	-2,00	0,00	0,00
Maximum	216,85	10,79	95,11	9,02	20,82	400,69	22,45

Table 5 - Descriptive Statistics

The firms considered as <IR> Reference Reporters are the ones considered by IIRC as outstanding reporters at least one year in the period being considered, that is from 2005 to 2015. The firms considered as <IR> Reporters are the ones considered by IIRC as <IR> regular reporters at least one year in the period being considered, that is from 2005 to 2015. The firms considered as <IR> Total Reporters correspond to the sum of all the <IR> Reference Reporters and <IR> Reporters for the period being considered, that is from 2005 to 2015. Regarding the variables, the MV is the market value per share at the fiscal year-end, BV corresponds to the book value of equity per share at the end of the year, OI is the operating income per share of the year, SIZE is the natural logarithm of total assets at the end of the year, ROE corresponds to the return on equity, LEV is the leverage calculated as the end-of-year total debt divided by end-of-year total assets and finally the EPS corresponds to the earnings per share.

Table 5 presents the descriptive statistics for the entire sample as well as for the two types of reporters' samples.

Through the comparison of <IR> reference reporters' values and <IR> regular reporters' values it is possible do conclude that both the mean and the median are higher for the variables of the reporters disclosing reference reporters. This is suitable for all the variables except for the leverage level, for which the mean and medium of <IR> regular reporters are higher. This is a good indicator since it suggests that companies making an effort to embrace the idea of <IR> and work hard on the preparation of these reports can beneficiate from it. Going into detail the market value per share of <IR> reference reporters is 19,57 while the <IR> regular reporters disclose a MV of 9,35. This information allows the indication that the market is willing to pay more for companies making a greater effort to disclose good <IR>. Another two important indicators are the ROE and the EPS. The ROE mean is 0,44 for <IR> reference reporters while for <IR> regular reporters it's 0,19. Regarding the EPS the <IR> reference reporters' mean is 1,16 while for the <IR> regular reporters it is 0,62. The level of leverage reference reporters (1,19) is approximately half of the level of the <IR> regular reporters (2,21).

Indeed, these results are in line with the conclusions found achieved by Ott (2016), which stated that long term oriented investors are more likely to invest in firms which provide integrated reports. This implies an increase in price that investors are willing to pay for companies disclosing <IR>, therefore an increase in the market value. In addition, the same study declared that investors expect to extract benefits from improved.

These findings are also consistent with those of Eccles et al. (2014) in which they found that companies that embraced a long term corporate culture of sustainability outperform their peers in terms of reputation, net income, and stock price. Additionally Eccles & Saltzman (2011) also identified three classes of benefits for companies preparing <IR>, those are: some better resource allocation decisions, increased external market benefits and better management of regulatory risk. Analysing the results of table 3 indeed the financial situation of <IR> reference reporters, that is the <IR> reporters putting on more effort in the report, is better than <IR> regular reporters.

Additionally, it is expected that the major international companies (vast SIZE) have an extra incentive to produce this reports since, according to Morros (2016), the IIRC most remarkable feature at its incorporation was the extraordinarily high-powered character of its governing body, its Council. Among its 40 members were the heads of the IASB, FASB, IFAC and IOSCO, the CEOs of the Big Four, the heads of major British professional accountancy bodies, and the CFOs of major multi-internationals, such as, Nestlé, Tata and HSBC. Given the fact that big companies are embracing this change, then other big companies will feel forced or threatened and so enforced to embrace it too.

	MV	BV	OI	EPS	SIZE	ROE	LEV
MV	1	-	-	-	-	-	-
BV	,766	1	-	-	-	-	-
OI	,779	,587	1	-	-	-	-
EPS	,818	,768	,686	1	-	-	-
SIZE	,297	,388	,338	,312	1	-	-
ROE	,062	-,029	,068	,047	-,005	1	-
LEV	-,024	-,029	-,026	-,023	,031	,194	1

Table 6 – Pearson Correlation Matrix

The firms considered were <IR> Total Reporters which correspond to the sum of all the <IR> Reference Reporters and <IR> Reporters for the period being considered, that is from 2005 to 2015. Regarding the variables, the MV is the market value per share at the fiscal year-end, BV corresponds to the book value of equity per share at the end of the year, OI is the operating income per share of the year, SIZE is the natural logarithm of total assets at the end of the year, ROE corresponds to the return on equity and LEV is the leverage calculated as the end-of-year total debt divided by end-of-year total assets.

Table 6 bring out the Pearson correlation analysis for the continuous variables, included in the regression Equation 2. The market value is positively and statistically related with the BV, the OI, the EPS and the SIZE. This implies that when MV increases by 1, then the BV will increase by 0,766, the OI will rise by 0,799, the EPS will increase by 0,818 and the SIZE will grow in 0,297. On the other hand the LEV and ROE have a weak statistical relation with the MV. Specifically, every time that MV increases by 1, the impact on ROE is an increase of 0,062. Regarding the LEV it has a negative relation with MV which means that when MV increases by 1, the leverage level will decrease 0,024. This relation is in accordance with the expectations since the lower the level of debt, usually, the better the economic situation of the company.

The correlations achieved are supported by the expected benefits that Morros (2016) identified in its study, which stated that <IR> transforms decision-making process in a way which aligns benefits to the business, society and the environment, as well as, <IR> allows a better risk identification and mitigation. By applying these benefits to the business companies are able to better organize and extract benefits from its activities, processes and outcomes.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,884[a]	,781	,781	11,01

Table 7- Model Summary

An ANOVA analysis was performed. The firms considered were <IR> Total Reporters which correspond to the sum of all the <IR> Reference Reporters and <IR> Reporters for the period being considered, that is from 2005 to 2015. Concerning the dependent variables, the MV is the market value per share at the fiscal year-end, BV corresponds to the book value of equity per share at the end of the year, OI is the operating income per share of the year, SIZE is the natural logarithm of total assets at the end of the year, DYIR (an indicator variable that equals 1 if the firm is considered as <IR> reference reporter at least one year in the sample period and 0 otherwise, that is if the firm is only considered as <IR> regular reporter in the sample period), ROE corresponds to the return on equity and LEV is the leverage calculated as the end-of-year total debt divided by end-of-year total assets.

Table 7 comes to light the summary of the regression analysis of Equation 2. Due to the interpretation of the values present in table 4, it is possible to conclude that 78,1% of the total variation on MV (dependent variable) is explained by the variation of the explanatory variables (BV, OI, SIZE, LEV, ROE, DYIR, DYIR x OI, DYIR x ROE) of the sample being considered.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	881.549,006	8	110.193,626	908,376	,000[b]
	Residual	246.498,712	2.032	121,308		

Table 8 - ANOVA Analysis

Summary of the model. The firms considered were <IR> Total Reporters which correspond to the sum of all the <IR> Reference Reporters and <IR> Regular Reporters for the period being considered, that is from 2005 to 2015. Concerning the dependent variables, the MV is the market value per share at the fiscal year-end, BV corresponds to the book value of equity per share at the end of the year, OI is the operating income per share of the year, SIZE is the natural logarithm of total assets at the end of the year, DYIR (an indicator variable that equals 1 if the firm is considered as <IR> reference reporter at least one year in the sample period and 0 otherwise, that is if the firm is only considered as <IR> regular reporter in the sample period), ROE corresponds to the return on equity and LEV is the leverage calculated as the end-of-year total debt divided by end-of-year total assets.

The ANOVA analysis is shown up in Table 8. Once the significance level (Sig.) is minor than 0,05, it means that in Equation 2 there is at least one coefficient (β) different from 0. This fact implies that since one or more coefficients are different from 0, then from all the dependent variables (BV, OI, SIZE, LEV, ROE, DYIR, DYIR x OI, DYIR x ROE) being considered there is at least one that can explain the market value.

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	7,71	1,64		4,69	0,00
BV	1,13	0,03	0,46	32,61	0,00
OI	4,60	0,17	0,41	26,61	0,00
SIZE	-1,19	0,27	-0,05	-4,46	0,00
ROE	0,00	0,00	0,04	3,47	0,00
LEV	0,00	0,00	0,00	-0,30	0,77
DYIR	-1,53	0,83	-0,02	-1,85	0,07
DYIR x BV	0,20	0,10	0,05	2,02	0,04
DYIR x OI	2,72	0,40	0,16	6,79	0,00

Table 9 -- OLS Regression results

The firms considered were <IR> Total Reporters which correspond to the sum of all the <IR> Reference Reporters and <IR> Regular Reporters for the period being considered, that is from 2005 to 2015. Concerning the dependent variables, the MV is the market value per share at the fiscal year-end, BV corresponds to the book value of equity per share at the end of the year, OI is the operating income per share of the year, SIZE is the natural logarithm of total assets at the end of the year, DYIR (an indicator variable that equals 1 if the firm is considered as <IR> reference reporter at least one year in the sample period and 0 otherwise, that is if the firm is only considered as <IR> regular reporter in the sample period), ROE corresponds to the return on equity and LEV is the leverage calculated as the end-of-year total debt divided by end-of-year total assets.

In table 9 is presented the coefficients obtained from the regression analysis of Equation 2. To achieve results, that is to estimate the parameters (β) the Ordinary Least Square method was applied (OLS).

Regarding the dependent variables, it is important to refer that in addition to the ones considered before it was introduced the dummy variable DYIR. DYIR assumes the value 1 if the firm is considered as <IR> reference reporter at least one year in the sample period and 0 otherwise, that is if the firm is only considered as <IR> regular reporter in the sample period.

The first conclusion is that the LEV is the only dependent variable that does not explain the MV since its significance level is higher than 0,05. Consequently, all the remaining dependent variables are important to explain the MV.

The following conclusions were attained by the interpretation of the unstandardized coefficients. Regarding the BV, it is expected that when BV varies by 1 unit than the MV increases by 1,13 units. Similarly, when OI grows 1 unit than MV is expected to increase by 4,60 units. Hence either the increment of BV or OI impacts positively the MV.

When introducing the factor of the <IR> being considered as reference reporter or not, that is the DYIR variable than interesting deductions are obtained. The outcomes of table 4 show that the MV suffers different variations depending on the net income of firms considered as <IR> reference reporters when compared to firms considered <IR> regular reporters. This means that if the coefficients of BV (coefficient: 0,20; *p* value =0,04) and OI (coefficient: 2.72; *p* value =0,00) rely on the type of <IR> reporter in terms of the quality of the <IR>, the effects indicate that the coefficient estimate for the interaction term of DYIR with OI (coefficient: 2.72; *p* value =0,00) is positive and statistically significant, which means that on average the OI (coefficient: 2.72; *p* value =0,00) of firms with <IR> reference reporters has a higher value perceived by the market. In other terms for each unit of change of OI (coefficient: 2.72; *p* value =0,00), the expected variation on MV is 2.72 units higher when associated with an equivalent disparity on reporters with <IR> regular reports' operating income.

In terms of BV (coefficient: 0,20; *p* value =0,04), the parallel conclusions may be attained since the coefficient estimate for the interaction term of DYIR with BV (coefficient: 0,20; *p* value =0,04) is positive and statistically significant, which means that on average the BV (coefficient: 0,20; *p* value =0,04) of firms with <IR> reference reporters is highly valued by the investors. In other terms for each unit of change of BV (coefficient: 0,20; *p* value =0,04), the expected variation on MV is 0,2 higher when associated with a similar variation on reporters with <IR> regular reports' BV (coefficient: 0,20; *p* value =0,04).

Even though, either BV (coefficient: 0,20; *p* value =0,04) and OI (coefficient: 2.72; *p* value =0,00) have a positive impact on the market price, since the coefficient of the OI (coefficient: 2.72; *p* value =0,00) is higher than the impact on the MV is also stronger when compared to the BV (coefficient: 0,20; *p* value =0,04). This statement is made since the units of the BV (coefficient: 0,20; *p* value =0,04) and OI (coefficient: 2.72; *p* value =0,00) are the same otherwise it could not be true. Additionally, one could analyze the standardized coefficients in order to support the previous statement. The standardized coefficients expurgate the unit effect by adjusting the estimate coefficient to permit the variables to be comparable. Since the standardized coefficient of OI and BV are 0,16 and 0,05 respectively the statement is reinforced.

Based on prior results, our Hypothesis is supported. The findings indicate that the market valuation of BV and OI is higher for firms publishing integrated reports that are considered of high quality when compared with firms publishing integrated reports without such mention. Moreover, either the BV and the OI have a positive and statistically significant impact on the market value. It was also realized that <IR> reference reporters disclose a better financial situation when compared to <IR> regular reporters, as on average the MV, the OI, the BV, the SIZE, the ROE and the EPS are higher for the reference reporters. Additionally, the leverage level is higher for <IR> regular reporters than for <IR> reference reporters.

Conclusion

Reporting is a crucial part of every business activity. It is a strong tool of communication between the company and the stakeholders, particularly the investors. Reporting is also the channel that companies use to disclose useful information to the society. Taking this into account it is crucial to select adequate information to release and present it in a relevant way to add value to the stakeholders. Given the concept of reporting it is fundamental that the reports can be comparable as well as understandable in different contexts. Indeed, the major accounting standard setters have made substantial development in improving the transparency of many areas within financial reporting. Other settings boards are requiring or advising new type of communication tools beyond financial reports.

As world is dynamic and it is constantly changing, then also the business reporting must evolve to accomplish and answer the progressive needs of society. That is when <IR> starts to play an important role. Definitely, <IR> is the logical consequence of the growth of sustainability and corporate responsibility concerns. Based on organisational vision and values, an <IR> combines diverse dimensions of organisational performance, to demonstrate how organisation's vision and values are internalized and externalised outside the organisation. These aspects not only increase the benefits for the company as well as impact the society, in a way the market values more the company. In this context, the purposes of this dissertation were to demonstrate what were the characteristics <IR> reporters and the association of <IR> on the perceived market value of those companies.

To achieve the objectives, two different steps were performed. Firstly, and through a characterization analysis, some patterns were defined. The first characteristic is that Africa is the most present region regarding <IR> since it is mandatory for all listed companies on the Johannesburg Securities Exchange (JSE). Another feature is that the number of <IR> reference reporters is growing. Also <IR> reference reporters' dimension, in terms of total assets, is considerable higher than the <IR> regular reporters' dimension. Concerning the performance, it is remarkable that the <IR> reference reporters' performance, in terms of operating income, is considerable higher than the <IR> regular reporters. In addition, all the <IR> reporters have their debt level inferior to their total equity. Although the <IR> reference reporters have a slightly lower debt level.

As a final point, regarding the business sectors, the financial services are the most present area.

Secondly, and through a research model, an empirical research was performed based on the hypothesis that the market valuation of book value and net income will be higher for firms publishing integrated reports that are considered of high quality when compared with firms publishing integrated reports without such mention. The conclusions attained evidenced that either the BV or the OI have a positive and statistically significant impact on the market value. Although the impact of the OI is higher when compared to the BV, which means that the impact on MV is also stronger. Since, the operating income stands for the profit that a company will get after deduct the operating costs and before take away the interest and taxes, then it may be defined as an indicator of the firms' success. As the model tested in this dissertation enabled to conclude that if a firm disclosing a reference <IR> increases its operating income and consequently its value perceived by the market, then a reference <IR> reporter is able to better cover its costs and make profit.

To conclude, the results achieved in this study may define three benefactors: the stakeholders, the companies and the <IR> supporters. Regarding the companies, the benefit is the increase of the market value. That is by the increment of the book value and operating income investors are willing to invest more on companies and consequently the market price raises. Moreover the more effort the company put on the integrated report, to produce a reference report, the greater the increment on the MV. For the company, the greater the market price that investors are willing to pay, the better. Therefore companies will know that if they produce outstanding <IR> then an increase in their OI will not only mean a better financial situation but will also increment its value perceived by the market. Concerning <IR>, this dissertation achieved outcomes that proved that <IR> can beneficiate the society in general, not only by the increase of the market value but also by the way relevant information is disclosed. Note these conclusions are valid for all companies producing <IR> either they are considered as reference <IR> or not. However, if the company is considered as a reference <IR> reporter, then all the effects are even greater.

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