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Research agenda on integrated reporting: new emergent theory and practice

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Abstract

This paper investigates integrated reporting by presenting the main theories that surround this new and emergent reporting trend. We analyze the previous literature in the field of corporate disclosure, non-financial reporting, and sustainability providing a deep understanding on the process of diffusion and adoption of integrated reports. The paper represents a discourse on theories about integrated reporting, claiming that institutional theory and diffusion and adoption theory represent solid research base for studies in the area of integrated reporting. We also employ in a presentation of the most appropriate methodology and data sources for research on integrated reports. We consider that the current paper sets the main coordinates of integrated reporting by connecting this field to the contemporary literature and providing a set of methodologies for future studies along with the research fundamentals in the form of ground theorization.

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1. Introduction

Nowadays, there is great concern for social and environmental sustainability. Innovative solutions are needed in addressing the 21st century challenges of globalization, population growth, climate change and resource scarcity.

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Corporations become more aware of the importance of sustainability information for the different types of stakeholders, presenting them as a completion of financial information, in a mixed integrated report. As an initiative of the IIRC- International Integrated Reporting Committee, the integrated report represents the new reporting trend in which financial and non-financial information is interrelated and thus presents a complete image of the organization.

More and more companies are willing to adopt integrated reporting for various reasons. While some practice accounting for sustainability and integrated reporting because of legislative pressure (e.g. in South Africa, where integrated reporting is mandatory), others have understood the benefits derived from it, in the form of reputation, effective decisions and capital allocation, profit increases on short and long-term, future orientation, stakeholder engagement, retaining customers and employees. Whether applied on a voluntary basis or not, integrated reporting practices provide many advantages: reputation, a better understanding of the impact of the business on the environment or society, or correlating financial with non-financial performances. All the elements of an integrated report are presented/ disclosed in such a manner that links and connections are made between financial, sustainability/CSR information.

We note that organizations’ enhancement of both diffusion and adoption of integrated reporting practices were determined by motivation factors, as mentioned previously. Companies that independently decide to apply such practices through diffusion can be enforced by legislation pressure or can be interested in the internal and external benefits. Once corporations have simultaneously engaged in the diffusion process, they can start to adopt IR practices by incorporating such behaviour.

Within the current paper, we provide a description of integrated reporting, by stating the main definitions and theories according to different views or perspectives from the most updated literature sources. The new reporting trends- established by International Integrated Reporting Committee IIRC among others- are debated, so that we try to perceive integrated reporting as part of this background. The importance of the current research lies in its contribution to international economic literature in the field of corporate reporting and accounting. The study could become a starting point for future research debates on integrated reporting practices and mainly their diffusion and adoption.

By underlying the advantages of developing IR practices, we also intend to increase the number of companies that adopt IR on a voluntary basis, and therefore they will also benefit from this type of reporting, along with their stakeholders.

2. Literature insights on integrated reporting

Eccles and Saltzman (2011) mention the factors that contribute to the legitimacy of integrated reporting: standards for measurement, reporting and auditing, mechanisms of enforcement, inclusion of law courts regarding fraud in financial statements, modern systems for internal control, informatics programs for data gathering and processing. The critics of financial reporting claim the complexity of the current financial reports and the fact stakeholders find difficult to assimilate the information.

If we add that most corporations publish social responsibility or sustainability reports as separate non-financial reports, we can state that this contributes even more to the information dissemination and confusion, instead of preparing a single, integrated annual report that eliminates the ambiguity by disclosing both financial and non-financial information in a clear and concise manner. Further on, Eccles and Saltzman (2011) actually build the case of integrated reporting from stakeholder theory.

According to Eccles & Saltzman (2011), approximately 1,400 corporations were publishing non-financial information during 2009 and their reports corresponded to G3 Guidelines criteria. The academics highlight the progress from the previous year, as the percentage of non-financial reporting companies has increased by 29%. Eccles & Saltzman (2011) consider that the future of non-financial reports lies in integrated reporting trends,
and G4 Guidelines to be issued in 2014 by the GRI should be a prerequisite for financial and non-financial integration.

Early adopters of integrated reporting activate in various industries and are dispersed in different regions (Table 1). This fact underlines the diffusion and adoption process. However, given the regional divergence, we can assume that the corporations were not aware one of the other from the point of view of integrated reporting matters.

Table 1. The Emergence of IR

<table>
<thead>
<tr>
<th>Year</th>
<th>Company</th>
<th>State</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>Novozymes</td>
<td>Denmark</td>
<td>industrial enzymes, micro organisms, and biopharmaceutical ingredients</td>
</tr>
<tr>
<td>2004</td>
<td>Novo Nordisk</td>
<td>Denmark</td>
<td>diabetes care</td>
</tr>
<tr>
<td>2008</td>
<td>United Technologies</td>
<td>US</td>
<td>manufacturing</td>
</tr>
<tr>
<td>2008</td>
<td>Natura</td>
<td>Brazil</td>
<td>cosmetics and fragance</td>
</tr>
<tr>
<td>2008</td>
<td>Philips</td>
<td>Netherland</td>
<td>health care and lighting</td>
</tr>
</tbody>
</table>

(Source: Adapted from Eccles & Saltzman, 2011)

Sometimes reporting practices precede theory and established norms or standards. This is the case of integrated reporting, whose disclosure has been made before any mention within literature or any inclusion in international guidelines. In addition, the main drivers for pursuing on integrated reports have been (Eccles & Saltzman, 2011): sustainability commitment, shareholder engagement, and willingness to prove a “sustainable strategy” (p.58).

On an international scale, the imposition of integrated reporting is beginning to make sense, as in South Africa it is already mandatory, while Denmark, Norway, and Sweden regulate sustainability reporting (Eccles & Saltzman, 2011), and France require for non-listed corporations to present environmental and social information and to highlight sustainable development issues (Grenelle II legislation). Therefore, the tendency for voluntary non-financial information is to become mandatory. Eccles & Saltzman (2011) underline the Sustainable Stock Exchanges Initiative that follows up regulation setting. Australia, Italy, Japan, Korea, and New Zealand intend to collaborate with the IIRC in order to set national organisms for promoting integrated reports.

Corporations that choose to adopt integrated reporting are to enhance a series of benefits, of either internal or external nature. According to Eccles & Saltzman (2011) the internal benefits refer to improvements in resource allocation, shareholder engagement, reputation, while the external advantages relate to investors who rely on environmental, social and governance disclosure and to stock exchanges regulation, frameworks, standards, guidelines and compliance with these criteria.

Diffusion and adoption of integrated reporting is increasing its borders, as more and more corporations are willing to apply for this system. The process of diffusion and adoption of reporting practices originates from the diffusion theory (Chatelain & Morrain, 2012), that has actually evolved from institutional theory and the institutional factors that influence the behavior of organizations (Berg & Jensen, 2012). However, the main limitations for adoption and diffusion process represent the missing framework for integrated reports, lack of standards and specific guidelines, no measurements for non-financial information, and finally the convergence between financial and non-financial information. More specific constraints are created by the fact that only few corporations implement integrated reporting in their disclosure process. In the same time, the lack of non financial information assurance leads to unreliable information.

Within the discussion paper “Towards Integrated Reporting – Communicating Value in the 21st Century”, the IIRC sets out connections between the financial performance and the non-financial one- environmental, social and governance issues. According to the IIRC, an integrated report should tell the story of the
organization. Ernst & Young (2011) mention in one of their reports that the CFO is responsible for presenting the “sustainability story” (p.5) of the corporation. In addition, investors have become more interested in then on-financial aspects, along with the financial ones. Moody’s and Standard & Poor are starting to recall for sustainability policies, while ratings and indices on sustainability are being developed for measuring sustainability reporting practices.

Therefore, integrated reporting represents one important step for enhancing sustainable development reporting practices. By integrating sustainability- environmental, social and economic aspects- within the annual report, organizations bring progress and development, generating a sustainable society for current and future generations.

3. Theories about integrated reporting practices

The vision of integrated reporting has developed on the grounds of novel theorizations. This section highlights the most relevant theories for integrated reporting. Mainly, there are three theoretical circles that surround integrated reporting initiatives (Chatelain & Morrain, 2012): stakeholder theory versus shareholder theory, (2) new institutionalism and legitimacy theory and (3) innovation diffusion theory (DiMaggio & Powell, 1983; Suchman, 1995; Rogers, 1962, 1995; Zaltman, Duncan, & Holbeck, 1973).

The diffusion and adoption theory for organizational practices (Berg & Jensen, 2012) originated from the institutional theory, as the latter states the influence of certain factors in the practices adopted by corporations (Jackson and Apostolakou, 2010; Matten and Moon, 2008; Guerreiro et al., 2006; Aguilera and Jackson, 2003; Oliver, 1991; DiMaggio and Powell, 1983).

According to Eccles et al., (2010), integrated reporting represents the reconciliation of two main theories, namely: shareholder theory and stakeholder theory. The theory of shareholder primacy states that the main objective of companies should be to maximize shareholder’s value. From the perspective of this theory, the role of integrated reporting would be to approach environmental, social and governance issues that are considered to influence the value of the company. Therefore, when setting the framework for integrated reports, one should also consider the additional value for shareholders. The stakeholder model implies creating value for all the stakeholders, or participating parties. This theory incorporates environmental, social and governance issues. By introducing integrated reporting, companies would become more aware of their stakeholders, who might impact the decision-making process. Although the two theories are apparently opposite, the traditional accounting theory underlines that a single objective function of maximizing shareholder’s value does not necessarily eliminate the other participating parties, being considered as an element of the social function of a company. Integrated reporting is based on these two models, and combines the theories in order to balance the opportunities of incorporating benefits from both producers and users of accounting information.

4. Building up the case of integrated reporting – methodology versus data collection and analysis

The current section investigates the most appropriate methodologies that are suitable for integrated reporting research papers development. With the purpose of finding the proper methodology to be applied for the analysis of integrated reports, we made a trespassing through the recent and updated literature in the area of non-financial reporting/sustainability/corporate social responsibility/integrated reporting. Prior research shows that the most common methods involve the case study method, content analysis, filed studies/experimental/surveys, archival research, or comparative analysis.

The case study method is illustrated in a recent ACCA report (ACCA, 2011) that shows the integrated reporting trends in Australia for ASX 50 listed companies. The main criteria used for measuring the integration level are (ACCA, 2011: 13): mission and strategy, management approach, performance tracking, risk management, stakeholder engagement, format public reporting, CSR, environmental, and sustainable development research papers are generally built on the content analysis technique (Mirfazli, 2008; Thompson
and Zakaria, 2004; Vuontisjarvi, 2006; Perrini, 2006; Parker, 2005; Thomson, 2007, Azcarate et al., 2011). As an analogy, the integrated report covers both financial and non-financial (CSR/environmental/sustainability related) information and therefore is also suited for this type of information. Field studies such as surveys and interviews have been broadly initiated by international organizations. In 2008, KPMG was discussing the GRI compliance in terms of sustainability reports and information disclosed. They applied a survey to 250 corporations from Fortune 500. Their findings can be illustrated by the table below:

Table 2: Use of reporting schemes by G250 and N100

<table>
<thead>
<tr>
<th>Type of scheme</th>
<th>G250 (per cent)</th>
<th>N100 (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRI Guidelines</td>
<td>77</td>
<td>69</td>
</tr>
<tr>
<td>Internally-developed company schemes</td>
<td>20</td>
<td>19</td>
</tr>
<tr>
<td>National reporting schemes</td>
<td>19</td>
<td>17</td>
</tr>
<tr>
<td>Other schemes</td>
<td>13</td>
<td>13</td>
</tr>
</tbody>
</table>

(Source: KPMG 2008: International Survey of Corporate Responsibility Reporting 2008 Reporting Companies’ Perspective on Sustainability Reporting, p. 71)

Szegedi (2010) discusses previous studies, as well as a series of interviews and surveys and uses descriptive analysis to find the true essence of CSR. Finally, he demonstrates that corporate social responsibility represents a must for any company that pursues profit maximization, as this latter is influenced by CSR.

Chatelain et al. (2012) employ in an archival research for studying the level of sustainable development practice in the educational sector- universities. Further on, the comparative analysis is highly used for setting the sustainable development/integrated reporting research in both space and time (Chatelain et al., 2012, Solomon and Maroun, 2012, Ansari & al., 2010; Jarzabkowski, 2004). Solomon and Maroun (2012) used comparative analysis to investigate the South African companies before and after integrated reporting initiatives.

The below table shows the main methodology used for studying integrated reports and their predecessors in the form of sustainability/CSR/non-financial information:

Finally, we agree that all the above presented methods and methodologies can be used in a successful manner to demonstrate the nature of integrated reports. From content analysis or archival research, to case studies, comparative analysis, surveys and interviews, we advise researchers to test as many methods as possible, in order to obtain relevant, valid, and significant findings.

Table 3: Research agenda on IR methodologies

<table>
<thead>
<tr>
<th>Type of research design/methodology</th>
<th>Study (author/year)</th>
<th>Sample</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>descriptive-case study</td>
<td>Eccles &amp; Saltzman, 2011</td>
<td>early adopters of integrated reporting</td>
<td>regional divergence of diffusion and adoption</td>
</tr>
<tr>
<td>archival research – uses diffusion theory</td>
<td>Chatelain &amp; Morrain, 2012</td>
<td>high-educations institutions</td>
<td>positive signals for reporting on sustainable development</td>
</tr>
<tr>
<td>empirical – uses institutional theory</td>
<td>Berg &amp; Jensen, 2012</td>
<td>GRI database, sustainable reports, CSR reports, other reports..</td>
<td>political, cultural, economic, social, and other institutional factors influence the release of IR</td>
</tr>
<tr>
<td>descriptive-case study</td>
<td>ACCA, 2011</td>
<td>ASX 50 listed companies</td>
<td>means for measuring the integration level</td>
</tr>
<tr>
<td>content analysis technique</td>
<td>Mirfazli, 2008; Thompson and Zakaria,</td>
<td>CSR, environmental, and</td>
<td>important contribution for CSR, environmental, and</td>
</tr>
</tbody>
</table>
5. Conclusions

This paper consists of a research agenda on integrated reporting. We started our case by defining integrated reporting as an integration of sustainability and corporate social responsibility information into the annual report. Then, we presented the origins of integrated reporting in both theory and practice as it evolves from socio-environmental literature and non-financial reporting practices. Further on, we discussed the main fundamental theories that apply to integrated reporting research as well as various methodological approaches for testing the emergence of integrated reports.

We showed that the main theories that apply to IR background are actually interrelated, from the institutional and legitimacy approach, to the diffusion and adoption of IR reporting practices, or shareholders versus stakeholder theories. Previous studies demonstrate a preference for institutional and diffusion theory, as scholars and academics investigated the factors affecting IR as well as the diffusion and adoption of this phenomena. Further on, we agree on this research perspective because we have here a case of recent developments in a quite new field, so first we should find the determinants- the causality for the IR initiative, and then follow the spread of these reporting practices. Thus we are in the favor of descriptive/empirical studies, comparative/ content analysis, or field studies such as interviews and questionnaires that can contribute to a broader knowledge in IR literature.

Finally, we have to consider the limitations of the current study, in the form of additional research methods that can be used for investigating IR and other non-mentioned theories that should conduct to significant results in the field of integrated reports.

References


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