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The Integrated Reporting Initiative from an Institutional Perspective: Emergent Factors

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Abstract

The financial crisis and its negative effects upon the global economy emerged in demand for corporate reporting transparency. This can be attained by issuing integrated reports in which financial and sustainability reporting interrelate. In contrast to traditional reporting where corporate responsibility or environmental reports were separate documents from the annual financial report, by integration, the report gains commitment to the environment, social recognition, and a more efficient management system. In 2011, the International Integrated Reporting Committee was submitting its first document on integrated reports. Since then, the organization has been the main driver for integrated reporting practices. The IIRC has initiated a pilot program for corporations willing to adopt integrated reporting. This initiative has gained the interest of more than 75 worldwide organizations that decided to submit for this programme. We argue that the emerging determinants of the voluntary adoption of an integrated reporting system are the political, cultural, and economic factors. We build the research design on institutional theory and involves a content analysis on the reports issued by the corporations in the IIRC pilot programme. The problem statement of this paper involves the determination of the emergent factors for integrated reporting from an institutional perspective. The main scope of the research is to investigate whether we can find a correlation between the voluntary adoption of integrated reporting and the external political, cultural and economic factors as argued according to the institutional theory. The applied research methodology implies content analysis and SPSS data processing. The findings bring evidence that the political, cultural, and economic factor, are influencing the release of integrated reports.

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1. Introduction

The financial crises demonstrated the need for a transparent reporting system in which financial and non-financial elements interrelate. In a world dominated by climate change, resource scarcity, poverty, inequality, we argue for the opportunity of integrated reporting that provides economic, social, and environmental stability for stakeholders. This research brings a contribution to the implication of integrated reporting for international standards, by investigating the emergent factors that determine the disclosure of integrated reports.

2. Review of Literature

2.1. Non-financial reporting initiatives

In 2009, an estimated number of 1,400 organizations were disclosing non-financial reports, while in 2010 this number has met progress from a 29% increase. Therefore, we can expect that reporting would eventually shift to a mixture of financial and non-financial elements, being presented in an integrated form (Eccles et. al, 2010). The UN Global Compact Leaders’ Summit that in 2010 was discussing the effects of the crises for the global economy, stating very clear the need for a sustainable approach when rebalancing the economy (UN Global Compact-Accenture, 2010).

2.2. Institutional Theory

We intend to justify the research on the grounds of the institutional theory. Apostolakou and Jackson (2010), Matten & Moon (2008), Granovetter (2000), and Granovetter (1985) claim that institutions of economic, cultural, educational, financial, and political nature maintain a significant influence upon worldwide organizations. Berg and Jensen (2011) study integrated reporting from an institutional approach. In an attempt to find the main determinants for traditional sustainability reporting in contrast with integrated reporting, the scholars conduct an empirical research upon 309 corporations selected from various sources, namely GRI reports list, GRI dataset with best traditional sustainability reports, CRRA Reporting Award 2010. Results show that integrated reporting correlates with the stage of economic development, national corporate responsibility, countries’ values system, trade unions, private expenditure of tertiary education, ownership dispersion. The authors failed to prove the influence of the political factor, underlining the inconsistency of data regarding the years for which we collected information, given the fact that the analysis does not consider the presumption of major changes in the political system. Therefore, the current research completes previous empirical studies. We aim to demonstrate the political pressure over corporate reporting and bring evidence for both economic and cultural influence upon reporting trends. In addition, the paper represents an update of the sample tested by Berg & Jensen (2011) as it consists of corporations dedicated to the concept of the integrated report- as part of the pilot programme initiated by the IIRC.

2.3. Prior research

Academic research demonstrates high interest for integrated reports. A recent ACCA report (ACCA, 2011) presents an Australian case study of integrated reporting regarding financial and non-financial reporting trends for ASX 50 listed companies. The report finds empirical evidence for integration of non-financial information among annual, and sustainability reports, as well as websites- mainly all the available online information-. UK, Germany and Spain are the most representative states that pursue on integrated reports initiatives, according to a report released by the Harvard Business School (Eccles et al., 2012). The study involved a sample of 2,255 firms.
from 23 countries. The authors analyzed the stage of integrated reporting by employing measurements of index raking and key performance indicators.

3. Methodology

The research methodology involves content analysis, disclosure index computation, SPSS data processing. The sample consists of the 58 companies from the IIRC pilot programme. We will enroll in a content analysis of the annual integrated reports for the period of 2010-2012. Scholars and academics use content analysis technique in corporate disclosure studies (Mirfazli, 2008; Thompson & Zakaria, 2004; Vuontisjarvi, 2006; Perrini, 2006), environmental data analysis (Parker, 2005; Thomson, 2007) or sustainability research (Azcarate et al., 2011). In order to demonstrate the implications of the current study, we have formulated the research question regarding the voluntary adoption of integrated reporting, and its emerging factors: Which are the emerging factors for voluntary adoption of integrated reporting?. Berg & Jensen (2011) mentioned this research gap in corporate reporting literature. In view of institutional theory, we claim first of all the political pressure. The influence of the political factor upon domestic regulation and reporting practice is very much debated in the international literature (Bushman & Piotroski, 2006; Fermer, 1997; Berg & Jensen, 2011). We argue that the political system determines integrated reporting. Jensen & Berg (2011) noted that countries with a civil law political system have an extended approach towards stakeholders while encouraging social- environmental information (Kolk & Perego, 2010; Kolk et al., 2001). On the other hand, the common law system is much more shareholder oriented (Kolk & Perego, 2010; Ball et al., 2000; La Porta et al., 1998). We classify common and civil law variables according to La Porta et al (1998). Therefore, the first hypothesis takes the following form:

**H1:** Corporations with headquarters in civil law political system countries tend to report in an integrated manner.

We add that we gather the data regarding common or civil law classification from the set of information made public by the sample companies from the IIRC pilot programme, and considering their countries of origin. We compute a disclosure index for integrated reporting, based on the component elements and principles mentioned by the IIRC in their exposure drafts: strategic focus; connectivity of information; future orientation; responsiveness and stakeholder inclusiveness; conciseness, reliability and materiality; organizational overview and business model; operating context, including risks and opportunities; strategic objectives and strategies to achieve” those objectives; governance and remuneration; performance; future outlook (IIRC, 2011).

$$DI_{IR} = \frac{\sum_{i} di \text{ effectively disclosed}}{\sum_{i} \text{di all possible cases of disclosure}}$$

The institutional theory outlines cultural pressure as an indicator for corporate reporting (Jensen & Berg, 2011). Kolk & Perego (2010) investigated the role of the National Corporate Responsibility Index (NCRI) for corporate social and environmental reporting. They claim that NCRI is lower in US than in Sweden. Scholars and academics show that social and environmental disclosure is very much affected by NCRI (Kolk & Perego, 2010; Sotorro & Sánchez, 2008). When determining the NCRI level, we consider the data presented in Kolk & Perego (2010) and AccountAbility (2005). In view of the evidence from previous research, we extend the hypothesis issued by Jensen & Berg (2011):

\[ H12: \text{Corporations from countries with high responsibility index tend to report in an integrated manner.} \]

Research on corporate disclosure reveals that companies operating in developing countries are more eager to present information on a voluntary basis (Deegan and Islam, 2008), especially of non-financial nature (Neumayer & Perkins, 2004; Belal, 2000), than the ones in less developed countries. In the light of the previous statements, we particularize the assumption studied by Berg & Jensen (2011) from a different analysis perspective:

\[ H13: \text{Corporations from countries with a strong economy tend to report in an integrated manner.} \]

Also, we intend to measure the economic development stage by computing an indicator previously used by Berg & Jensen (2011), Gross National Income per capita.
4. Results

The results of the SPSS analysis show that the political, economic, and cultural emergent factors explain integrated reporting disclosure in a percentage of 8.1% (see table no. 1).

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.034</td>
<td>.284</td>
<td>.081</td>
<td>.1434</td>
</tr>
</tbody>
</table>

Table 1. Model Summary

The correlation between the emergent factors- political, economic, and social, and the degree in which organizations disclose elements and principles from the IIRC draft can be explored through the following econometric model (according to the table no. 2):

\[
D_{IR} = 0.769 - 8.559 \times 10^{-3} \times NCRI + 3.441 \times 10^{-6} \times GNI\_CAP + 9.833 \times 10^{-2} \times LAW,
\]

where \( D_{IR} \) – disclosure index of elements and principles issued by the IIRC;
NCRI – National Corporate Responsibility Index;
GNI\_CAP – Gross National Income per Capita;
LAW – Legal origin of the country: common / civil law.

The model indicates that both political and economic factor maintain a positive correlation while surprisingly, a higher National Corporate Responsibility Index matches lower interest for reporting in an integrated manner. However, we have to admit that the presented model might have some limitation, starting from the sample- we analysed only 58 integrated reports-, or even the reports aggregation- we could have included other companies that were not in IIRC pilot programme and are not adopting IR in order to compare the results. In addition, these could be subject for further research.

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.769</td>
<td>.271</td>
<td>2.834</td>
<td>.006</td>
</tr>
<tr>
<td>NCRI</td>
<td>-8.559 \times 10^{-3}</td>
<td>-.398</td>
<td>-1.699</td>
<td>.095</td>
</tr>
<tr>
<td>GNI_CAP</td>
<td>3.441 \times 10^{-6}</td>
<td>.441</td>
<td>1.982</td>
<td>.052</td>
</tr>
<tr>
<td>LAW</td>
<td>9.833 \times 10^{-2}</td>
<td>.296</td>
<td>1.938</td>
<td>.057</td>
</tr>
</tbody>
</table>

Table 2. Coefficients

5. Final Remarks

This paper addresses the issue of integrated reports, namely the emergent factors of IR adoption. On behalf of institutional theory, we claimed that the political, economic, and cultural factors maintain an influence upon the disclosure of IR elements and principles. The findings suggest that these emergent factors have a small influence of 8.1% on IR disclosure. Further on, statistical tests show both positive and negative correlations between IR and its determinants- political, economic, and cultural.

The current paper brings new insights on the IIRC perspective for developing international standards on integrated reports. The emergent literature from the area of IR compresses and mentions a series of research gaps.
We believe that finding the emerging factors for IR adoption represents the most important one. In addition, this can be further on developed by extending the analyzed sample and bringing more arguments for the institutional theory.

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