Integrated Reporting: Initial analysis of early reporters – an Institutional Theory approach

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ABSTRACT

This paper provides initial empirical analysis of the content and structure of the corporate integrated reports published as at January 2013 on the International Integrated Reporting Council (IIRC) Emerging Examples Database. Its aim is to provide insights into the early stage development of this new reporting mode. Integrated reports were analysed for company information, report information and report content, and evaluated as to the extent these adhere to the integrated reporting (IR) Guiding Principles, Content Elements, and the Multiple Capitals model. The analysis is informed by neo-institutional theory which underlies the evaluation of the extent of isomorphism identified in early industry adoption of IR. Our study finds that early integrated reports are in general lengthy rather than concise, but fail to adhere to all the Guiding Principles. Their focus emphasizes soft (general) measures like Strategy, Operating Context and Organisational Overview rather than hard (specific) measures like Performance and Future Outlook, with a generally low level of responsiveness to the principle of Stakeholder Inclusiveness. The reports cover four of the six capitals suggested. A significant finding is that early IR is not dominated by high social and environmental impact industries as suggested in current literature, but by the financial services industry. This study is important as it provides an understanding of the early stages of the development of IR, a new mode of reporting that represents a fundamental shift away from the traditional focus of financial reporting, and which is likely in future to become mandated in some form for large corporate entities with public accountability.

Keywords: Integrated reporting, multiple capitals model, institutional theory.

INTRODUCTION

In this paper we provide an initial empirical analysis of the content and structure of the corporate integrated reports published as at January 2013 on the International Integrated Reporting Council (IIRC) 'Emerging Examples' database The purpose of our study is to provide initial insights into this newly emerging form of corporate reporting, and to assess the range of ways that organizations are implementing integrated reports in the current absence of an internationally applicable IR framework and mandated standards. In addition, we use neo-institutional theory to inform our assessment of the extent to which conformity and difference is evident in the integrated reports of early adopters of IR in different industries.

Integrated reporting (IR) is being developed to replace the current annual report, and is likely in future to become mandated for at least some larger corporate entities with public accountability (IIRC website). The IIRC is currently the most likely developer of IR and has the backing of the IASC and the GRI. It is the stated intention of the IIRC, together with the IASB, that IR that is compliant with the IIRC International Framework will in future become the dominant mode of reporting for large corporate entities. Although it is currently premature to consider the value proposition of IR, the fact that it could soon be compulsory for at least major companies in IFRS adoption countries, makes it essential to analyse the content of the early integrated reports.

Currently there is very little published scholarly work focused on an empirical analysis of the content and form of existing publicly available integrated reports. In our view it is essential to gain an understanding of the initial stages of the development of IR, as this mode of reporting represents a fundamental shift in corporate reporting away from the traditional short-term focus on mainly financial information, towards a long-term focus on decision making and value creation and the impact of other factors beyond only financial capital (Armbrester, Clay and Roberts, 2011; Adams and Simnett, 2011) – IR aims at encompassing six kinds of capital. The IIRC argue that while IR will be of benefit to a wide range of stakeholders, it is mainly aimed at the interests of long term investors (providers of share capital and debt financing) (IIRC website).[1]

Integrated Reporting has been formulated and developed since 2010 in response to growing stakeholder demand for a broader range of decision-useful information than material provided in conventional corporate financial reports and other forms of communication (see, for example, Hanks and Gardiner, 2012; Armbrester *et al.,* 2011; Adams and Simnett, 2011; Roberts, 2011; Eccles and Krzus, 2011). In the context of an increasingly globalized and complex business environment over recent decades, investors and others require more extensive non-financial information regarding the environmental, social and governance (ESG) aspects of organizations' activities (Abeysekera, 2012; Eccles, Krzus and Serafeim, 2011; Krzus, 2011; Cooper and Owen, 2007). Also, a growing awareness of the need for additional decision-useful information necessary for strategic decision-making, assessing organizational value and capital growth, estimating supply chain and other business risk, and the valuation of factors such as climate change, access to natural and other capitals, and evaluating the impacts of human rights and other global issues, has developed over time (Jensen and Berg, 2012; Adams and Simnett, 2011; Cunningham, Fagerstrom and Hassel, 2011; Eccles *et al.,* 2011; Eccles and Krzus, 2010).

We contribute to the literature by analysing the content of the reports included in the IIRC's Emerging Examples Database. Particularly we analyse and assess company information, report information and report content. Our aim is to provide empirical information on initial stage integrated reporting and on the characteristics of early integrated reporters and reports. We are among the first to report this information,[2] and we show the extent to which the companies in our sample adhere to the IR Guiding Principles and

Content Elements, and to what extent the six capitals are covered in the reports. In addition, we consider the potential determinants for the extent to which organizations meet the IR content guidelines.

The rest of the paper is structured as follows: in the next part we discuss the development of integrated reporting, followed by a background to the study, where we also introduce our theoretical perspectives. This is followed by the method and the findings and finally by our discussion and conclusion.

DEVELOPMENT OF INTEGRATED REPORTING

IR forms the latest part of an 'evolution' of corporate reporting over the past three decades that builds on earlier developments which extended the provision of information to stakeholders (Abeysekera, 2012; Eccles and Krzus, 2011). Previous initiatives in reporting focused on providing a broader range of non-financial information than that provided in traditional reports to shareholders, and included the production of triple bottom line (TBL), social and environmental accounting (SEA), corporate social responsibility (CSR) and sustainability reports (Eccles and Krzus, 2011). Such reports have been produced by an increasing number of organizations since the 1980s, as evidenced by large-scale research such as the of *KPMG International Survey of Corporate Responsibility Reporting* series (KPMG, 2011). This series provides insights into national, international and industry trends in social and environmental reporting among large corporates since 1993.

However, while such research indicates a growing incidence of social and environmental and sustainability reporting world-wide, increasingly critiques of such reports have indicated that the growth in quantity of non-financial reporting does not correlate with high standards of quality in the information provided to stakeholders. A substantial literature has developed emphasizing the inadequacies of most existing non-financial reporting, and suggesting that such reporting has largely failed in its purpose of providing useful information to stakeholders that would drive improved corporate social and environmental behaviour (see for example, Barone, Ranamagar and Solomon, 2013; Milne, Tregidga, and Walton, 2009; Wild, 2008; Cooper and Owen, 2007; Gray and Milne, 2002; Bebbington and Gray, 2001).

These critiques assert that current sustainability reporting and other corporate responsibility, environmental and social reports are largely deficient in qualitative aspects of completeness, accuracy, transparency and relevance, and offer several reasons for the inadequacy of current sustainability reporting. These include the fact that such reporting is mostly voluntary and non-assured, and lacks internationally imposed common guidelines or mandatory standards (Marx and Van Dyk, 2011). In the context of a lack of regulation, there is strong motivation for firms to utilize such reporting for legitimizing strategies and reputation management (see for example, Barone *et al.*, 2013; Milne *et al.*, 2009; Gray and Milne, 2002). In addition, reported social and environmental information is frequently provided in discrete sections within existing annual reports, in separate standalone reports, or as supplements to financial information. This non-integrated, 'silo' treatment of non-financial information fails to provide stakeholders with necessary links and connections to effectively evaluate business performance, strategy and future value creation (Hohnen, 2012).

The development of IR was given impetus by the global financial crisis (GFC) and driven by a perceived need for an improved method of reporting that incorporates a range of financial and non-financial information necessary for effective decision-making and risk management in the current business and financial environment (see, for example, Abeysekera, 2012). Also, there is a growing awareness on the part of both corporates and investors of the interconnectedness between financial stability and environmental and social sustainability, and the need for greater integration between financial and non-financial information, and present and future-oriented data, in reporting to stakeholders (Hanks and Gardiner, 2013).

An integrated report is defined as ‘a concise communication about how an organization’s strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term’ (IIRC website). IR ‘integrates’ financial, social, and environmental information into a single report for stakeholders in a format that is concise, clearly expressed, consistent and comparable (Eccles and Krzus, 2010). International Accounting firm Ernst and Young describes IR in its study *Driving Value* (2012) as ‘reporting that provides context to financial and non-financial information and goals. It connects strategies with the organization’s commitment to the long-term stewardship of material environmental, social and economic issues (Ernst and Young, 2012).

The initiative to develop IR was undertaken by the International Integrated Reporting Council (IIRC), which was formed in 2010 under the auspices of the Global Reporting Initiative (GRI) and the Prince of Wales’ Accounting for Sustainability Project. The IIRC itself comprises ‘a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs’ (IIRC website). The stated aim of the IIRC is to develop and promulgate IR, which it promotes as being ‘communication about businesses’ value creation’ and ‘the next step in the evolution of corporate reporting’ (IR website). The current project of the IIRC is the development of a globally applicable Framework for Integrated Reporting (IIRC website), in conjunction with the International Accounting Standards Board (IASB).

In 2011 the IIRC published a discussion paper, ‘Towards Integrated Reporting – Communicating Value in the 21st Century’ (IIRC, 2011), which outlined the fundamental elements proposed by the IIRC as forming the basis for IR. The discussion paper sets out the IIRC's proposals for the structure of a global Integrated Reporting Framework, together with conceptual guidelines for the application, scope, content and presentation of integrated reports, and an outline of the concept of multiple capitals, the five Guiding Principles, and the six key Content Elements. The IIRC states that '[w]hile the communications that result from IR will be of benefit to a range of stakeholders, they are principally aimed at long term providers of financial capital' (IIRC website), and that an integrated report 'should be an organization's primary reporting vehicle' (IIRC, 2011).

The Guiding Principles for structuring IR are as follows (as defined by the IIRC):

1	**Strategic focus**	Insight into the organization's strategic objectives, and how those objectives relate to its ability to create and sustain value over time and the resources and relationships on which the organization depends.
2	**Connectivity of information**	The connections between the different components of the organization's business model, external factors that affect the organization, and the various resources and relationships on which the organization and its performance depend.
3	**Future orientation**	Management's expectations about the future, as well as other information to help report users understand and assess the organization's prospects and the uncertainties it faces.
4	**Responsiveness and stakeholder inclusiveness**	The organization's relationships with its key stakeholders and how and to what extent the organization understands, takes into account and responds to their needs.
5	**Conciseness, reliability and materiality**	Provides concise, reliable information that is material to assessing the organization's ability to create and sustain value in the short, medium and long term.

The Content measures establish qualitative criteria designed to determine that a report includes sufficient relevant information on the Content Elements. The Content Elements are as follows (as defined by the IIRC):

1	**Organizational overview and business model**	What does the organization do and how does it create and sustain value in the short, medium and long term
2	**Operating context, including risks and opportunities**	What are the circumstances under which the organization operates, including the key resources and relationships on which it depends and the key risks and opportunities that it faces
3	**Strategic objectives and strategies to achieve those objectives**	Where does the organization want to go and how is it going to get there
4	**Governance and remuneration**	What is the organization's governance structure, and how does governance support the strategic objectives of the organization and relate to the organization's approach to remuneration
5	**Performance**	How has the organization performed against its strategic objectives and related strategies
6	**Future outlook**	What opportunities, challenges and uncertainties is the organization likely to encounter in achieving its strategic objectives and what are the resulting implications for its strategies and future performance

IR therefore represents a fundamental shift away from the traditional financial reporting focus on retrospective reporting for shareholders (in accordance with past and current legislative requirements) towards an emphasis on future-focused information on strategy, risk, opportunity and value creation. Conventional financial reporting, which is largely limited to reporting on economic information as a single definition of capital type, was demonstrated to be inadequate in the context of the GFC to provide appropriate information for meeting investors' needs (see, for example, Abeysekera, 2012). The traditional statements of comprehensive income, movement in equity, cash flows and balance sheet are of limited usefulness when dealing with the evaluation of future structural and operational risk and opportunity, strategy and supply chain decisions. IR, however, is intended to present a fundamentally different range of foci. With the strong support of major accounting bodies and professional accounting organizations, IR is claimed to be the reporting of the future, superseding traditional financial reporting at least in the case of large investor-focused organizations (Phillips, Watson and Willis, 2011). Its primary focus is on decision making relating to the identification of risks and opportunities, and to value creation. Both the Guiding Principles and the Content Elements emphasize a focus on future-related information provision (IIRC website).

Furthermore, the IIRC propose that an Integrated Report should display an organization's stewardship not only of financial capital, but also of the other "capitals" (manufactured, human, intellectual, natural and social), their interdependence, and how they contribute to success. This broader perspective requires consideration of resource usage and risks and opportunities along the organization's full value chain.

The capitals are defined as follows (sourced from IIRC website):

1	**Financial capital**	Financial capital is broadly understood as the pool of funds available to an organization. This includes both debt and equity finance.
2	**Manufactured capital**	Manufactured capital is seen as human-created, production-oriented equipment and tools
3	**Human capital**	People's skills and experience, and their capacity and motivations to innovate
4	**Intellectual capital**	Intangibles that provide competitive advantage, including: • intellectual property (such as patents, copyrights, etc) • the intangibles that are associated with the brand and reputation that an organization has developed.
5	**Natural capital**	Natural capital is an input to the production of goods or the provision of services. An organization's activities also impact, positively or negatively, on natural capital.
6	**Social and relationship capital**	The institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being

In 2012, the IIRC published its International IR Framework Outline, and later that year released its Prototype of the International Framework. In addition, the IIRC made available on its website a list of the investor and business organizations participating in its pilot programme of those preparing integrated reports, as well as access to its growing database of international 'Emerging Examples' of published integrated reports. In

November 2012, the IIRC released for public comment its prototype of the International IR Framework. This prototype Framework sets out definitions for key concepts and principles that are intended to underpin the content and presentation of integrated reports, and guidelines for the structure and presentation of the reports. The IIRC has announced its intention to publish the first version of the Framework (1.0) in December 2013 (News, IIRC website). The development and promulgation of IR as the future of corporate reporting is strongly supported by the IASB (IFRS, 2013).

BACKGROUND TO STUDY

A growing number of organizations are producing integrated reports, some now in their second or third iteration. Included in those listed on the IIRC's Pilot Programme are over 80 businesses and 25 investor organisations from more than 20 countries.[3] The IIRC states that this pilot project is aimed at testing the practical application of Integrated Reporting and contributing to the development of the Framework (IIRC website). In addition, the IIRC has published on its website its Emerging Examples Database, which provides access to a comprehensive range of examples of current best practice in reporting.

IR is still in its developmental stage and at present no mandatory standards or internationally applicable framework for IR exists. It is the stated intention of the IIRC, together with the IASB, that IR that is compliant with the IIRC International Framework will in future become the dominant mode of reporting for large corporate entities (IIRC website). An understanding of the implementation IR is therefore becoming essential for corporate entities that are accountable to stakeholders.

On 1 March 2010 the Johannesburg Stock Exchange (JSE) adopted the King III Principles as part of its listing requirements. The JSE requires listed companies to apply these Principles, or, in the case of those that fail to do so, to explain which recommendations have not been applied and to publicly provide reasons for their omission. As these Principles recommend IR as being fundamental to best reporting practice, the JSE requires its listed companies to issue integrated reports (SAICA, 2009).

Despite its significance, there is currently only scant published literature focused on IR and no literature focused specifically on this field that pre-dates 2010. Earlier literature in the general field of non-financial reporting is concentrated on social and environmental, or sustainability reporting (see, for example, De Villiers and Van Staden, 2011; Van Staden and Hooks, 2007; Gray and Milne, 2002). At present, the majority of published literature regarding IR is in the form of technical reports commissioned by the IIRC or produced by professional organizations (see, for example, Ernst and Young, 2012). Other studies, such as Hohnen (2012), Raar (2012), Eccles and Krzus (2011), and Phillips *et al.* (2011), focus on an assessment of the history of IR and its projected future. There is some recent general analysis of the South African experience of implementing the King III Principles, for example Marx and Van Dyk (2012), Armbrester and Clay (2012), and Samkin (2012). In the available body of published literature, there is very little based on empirical analysis of the contents and presentation of publicly-available integrated reports; our study contributes towards addressing this research gap.

As indicated earlier, our motivation is based on the importance of IR and its potential to become the new corporate reporting model. Our approach is therefore descriptive and our intention is to provide information on early integrated report contents. This will help current and potential preparers and users of these reports as well as inform the further development IR. In addition, we also analyse whether there are identifiable patterns in the types and nature of the organizations that are early adopters of IR, and the kinds and form of information reported. We also consider the determinants of the extent voluntarily disclosed social and environmental information in the literature, for example, size, industry, profitability, country, auditor (see for example, Clarkson, Li, Richardson and Vasvari, 2008) in order to see if these determinants also influence the guiding principles, content elements and capitals covered in early integrated reports.

The analysis in this paper is informed by neo-institutional (NI) theory. NI is predicated on sociological perspectives regarding the integral relationship between patterns of institutional norms and behaviour and the broader political and social structures within which institutions exist (see for example, Scott, 1995; Powell and DiMaggio, 1991; Suchman, 1995; Zucker, 1987; Dimaggio and Powell, 1983). The NI approach suggests that individual firms are influenced by the rules, norms and belief systems prevalent within the structural parameters of their particular operating environment, and are motivated to adopt organizationally advantageous behaviours and seek to optimize benefits to the firm within this specific environment (Scott, 1995; Suchman, 1995; Powell and DiMaggio, 1991; Zucker, 1987; DiMaggio and Powell, 1983; Meyer and Rowan, 1977). In order to survive and flourish, organizations must conform to, and operate within, the structures bounded by these group norms, identifying and utilizing mechanisms for maintaining legitimacy that become institutionalised within the organization. In this way, firm norms and behaviours attain a condition of institutional isomorphism, i.e. (similarity in form, both structurally and procedurally) (Scott, 1995; DiMaggio and Powell, 1983). NI therefore suggests some extent of isomorphism in the integrated reports produced by organizations of different industry, country and size.

This may be achieved by coercive pressures (coercive isomorphism), in the form of regulatory or other authoritative imperatives. However, in the case of IR, at present there exists no internationally accepted IR Framework or relevant reporting standards that mandate IR. In the absence of coercion, other pressures on organizational behaviour may bring about organizational conformity, in the form of mimetic conduct. This is driven instead by perceived ‘soft’ compulsion, such as the need to conform to wider industry norms regarded as best practice in order to avoid reputational risk, to employ report content as a means to manipulate stakeholder perceptions, and to gain, or attempt to regain, operational legitimacy. This aim may drive individual firms within an industry to adopt particular practices, such as its manner of communicating firm information (Scott, 1995; DiMaggio and Powell, 1983). In this way, the pressures of mimetic isomorphism influence firms to respond to their stakeholders’ demands for an increased range of information on the firm’s social and environmental impacts by reporting in a manner that is perceived to be not inconsistent with, or inferior to, that of their competitors in a particular industry.

Institutional theory commonly has been utilized as a means to provide an understanding of why organizations in a particular industry attain conformity and standardization in their norms of behaviour (for example, Scott, 1995; DiMaggio and Powell, 1983). However, NI can also provide valuable insights into the motivations for and drivers of institutional change, which can be applied, for example, in regard to understanding industry shifts in accounting behaviour (see for example, Ball and Craig, 2010; Lounsbury, 2008; Dillard, Rigsby and Goodman, 2004; Bebbington and Gray, 2001; Larrinaga-Gonzalez and Bebbington, 2001; Greenwood and Hinings, 1996; Gray, Walters, Bebbington and Thompson, 1995; Jepperson, 1991). In this way, firms may perceive pressure to change organizational behaviour following a major shift in their operating environment. This may be observed for example, in the case of financial services institutions as early adopters of IR, and suggests that this industry is pursuing this change in reporting regime in order to regain legitimacy following the major loss of investor confidence in the wake of the global financial crises.

In order to assess whether and in what form such change has occurred, we analyse the content and structure of currently available integrated reports produced by early adopters, and provide a detailed analysis of the companies and industries involved, and the reporting characteristics and report contents, which could indicate if mimetic isomorphism has been a factor in the manner in which these firms have responded to IR. In addition, we also analyse whether there are identifiable patterns in the characteristics, types and nature of the organizations that are early adopters of IR, and of the kinds and form of information reported, in order to assess the perceived advantages of firms in undertaking such early adoption.

We consider that a NI model suggests that within a given financial environment and industry activity climate, firms seek advantages and benefits from early adoption of a new reporting regime such as IR, including such factors as supporting business confidence and optimizing access on favourable terms to capital markets. For example, Phillips, *et al.* (2011, p.27) identify the advantages of firms providing integrated reports as including those of facilitating in 'seeking new business opportunities, safeguarding reputation, maximizing competitive advantage, and mitigating operations risk'. We do not compare early reporters with those not reporting so we cannot comment on what motivated the early reporters. Jensen & Berg (2012) focus on this issue by comparing the qualitative characteristics of companies that produce traditional sustainability reports and those that produce integrated reports while Frias-Aceituno *et al.* (2012) examine the influence of the composition of company Boards and other organizational factors on the adoption of IR. We focus on the report content and the differences and similarities observed and report company, industry and country information in a bid to better understand who is doing this type of reporting.

METHOD

We use all the companies included in the IIRC examples database as at 7 February 2013 – giving us a sample of 58 companies. The purpose of the database is to provide an online resource for organisations that are developing, or planning to develop, an Integrated Report. It contains examples of emerging practice in Integrated Reporting that illustrate how organisations are currently reporting material information about their strategy, governance, performance and prospects in a clear, concise and comparable format (IIRC, 2013).[4] The database is expanded with new examples as practices develop. The examples have been selected from publicly available reports published in English, including those produced by participants in the Integrated Reporting Pilot Programme.[5,6] At the date we took our sample, there were 58 companies with example reports in the database. The database includes companies demonstrating the guiding principles and content measures as presented in the IIRC Discussion Paper.

We analysed information on the companies to give some background to the companies included in our sample. We then analysed their reporting to establish information about the reports and also to investigate the detail of the reports in relation to the IIRC guiding principles, content measures and multiple capitals.

FINDINGS

1. Company details – Table 1.

A regional analysis of the companies (Panel A) shows that most are from Europe (44%) with the second highest group coming from Africa (24%). Australasia, North and South America have 10% each of the companies in the database. A country analysis (Panel B) shows the UK to have most companies in the database (27%) followed by South Africa (SA) with 24%. In fact all the companies from Africa in the database are from SA. It is therefore clear that Europe and SA represent nearly 70% of the companies in the database while US companies represent only 7% of companies in the database.[7] In SA IR is required by the JSE listing requirements – it is therefore not surprising that there are many SA companies in the sample. Furthermore, the proximity of the IIRC to Europe and specifically England, could explain the proliferation of European and UK companies in the database.

<<Insert Table 1 here>>

The companies are mainly public companies (93%) (Panel C), meaning publicly traded companies or publicly held companies, and are large in size. These are companies that offer their securities (stock/shares, bonds/loans, etc.) for sale to the general public, typically through an exchange. In terms of an industry analysis (Panel D) we note that the majority of companies are from the Financial Services sector (21%), followed by Basic Materials and Consumer Goods (19% each).[8] The reports are therefore from different industries and are not dominated by any one industry. Furthermore, the reports are not dominated by high (environmental) impact industries. This is quite a different trend from that observed in the literature where companies with a high impact on the environment and society tend to do most of the non-financial (social and environmental) reporting.

In terms of size, 52% of the companies have total assets of £10,000,000,000 (ten thousand million) and more (Panel E). We translated all currencies into UK pounds for comparison purposes. In terms of employees, 64% of the companies have more than 10,000 employees. The size measures total assets and number of employees are highly correlated (R = 0.436, Sig = 0.001). In terms of country and industry correlation with size, we find that the financial services industry has a significant correlation with total assets (R = 0.545, sig = 0.000) while Europe has a significant correlation with employees (R = 0.336, sig 0.011).

Companies in the financial services industry therefore seems to be bigger in terms of assets while European companies have more employees.

Finally we note that 10 of the companies (17%) in the database submitted a comment on the IIRC discussion paper (Panel E). Of those submitting a comment, all were supportive of developing an IR Framework; 80% were supportive on an average level (meaning that they are supportive, but had some issues that they were not happy about) while 20% were highly supportive. The IIRC received 36 responses from reporters, which means that roughly a third of these are included in our sample.

2. Report details – Table 2

Most of the reporting (78%) uses 2011 data (Panel A), while there are some (17%) using 2012 data and a few (5%) from 2010. In terms of length (Panel B), the bulk of the reports are between 100 and 250 pages long (69%), with nearly half (48%) in the range 100 to 200 pages. Some reports have more than 250 pages, the longest being 462 pages in length. Reports of this magnitude (100 pages plus, with 55% of the reports longer than 150 pages) could possibly lead to information overload and may in fact be quite difficult to digest. Combining all reporting (financial and non-financial) in one (integrated) report is going to have the (perhaps unintended) side effect of making the reports longer, and by implication, more difficult to read. For example, Li (2008, p. 225) indicates that:

> "Because the information-processing cost of longer documents is presumed to be higher, assuming everything else to be equal, longer documents seem to be more deterring and more difficult to read".

This was confirmed by Richards and Van Staden (2011). It is not clear how much of the report is taken up by the requirements of reporting in terms of IFRSs, and this is something that could be investigated further.

We related the length of the report to measures that the literature normally regard as determinants of the extent of (voluntary) reporting, i.e., size, industry, leverage, profitability country and auditor. We find significance at the 5% level ($p < 0.05$) for the size measure total assets, for Africa and other Non-European regions, for the basic materials industry and for the auditor KPMG. We therefore find that size, some industry and country determinants and auditor influence the length of the reports.

With regards to auditing, Table 2 (Panel C) shows that the big four audit firms audited 83% of the financial reports of the companies in our sample in roughly equal numbers, except that Deloitte audited about half the number of companies compared to the other three. In terms of assurance on the rest of the annual report (i.e. excluding the financial reports) the situation is quite similar although not immediate clear from the table (Panel D). A large proportion of reports (half) were not assured, i.e. they had an audit for the financial reports, but this audit excluded the rest of the report. The non-financial information, including the information required for IR, was therefore only assured for 50% of the companies in the sample. Of these, the big four accounting firms again assures the majority (79%) and Deloitte again lags behind the other three. In terms of other assurance providers, only one provider (Det Norske Veritas Certification) assured two of the companies and the rest of the providers assured only one company each. The influence of the big four accounting firms is clear from this analysis. To what extent these firms influence their clients to expand their reporting to include the IR principles and measures is not clear.

<<Insert Table 2 here>>

In terms of the GRI ratings (Panel E), we find that most of the companies achieved a GRI rating of A+ (33%) followed by B+ (22%). In terms of breaking it down by grade, 36%

of the companies report are rated A+ and A, 28% are rated B+ and B, while only 3% are C+ and C. It is therefore clear that the reports in the examples database are very high quality with about 65% rated A and B. Unfortunately we found that 33% of the reports were not rated or we could not find the rating – this needs further investigation. Of those that were rated, 95% were A or B and only a very low percentage (5%) were rated on level C.

3. Report Content

3.1 IR Guiding Principles – Table 3

In Table 3 we analyse the IR Guiding Principles that were covered in the reports in our sample. The five principles were defined earlier in the paper. Panel A shows that many of the companies covered the Strategic Focus (76%) and Connectivity of Information (62%) principles. Conciseness and Reliability of Information was achieved by 55% of the companies. Only a third of the companies achieved the Responsiveness to Stakeholder Inclusiveness principle while 43% achieved Future Orientation.

<<Insert Table 3 here>>

Although these percentages seem high, it is disappointing that they are not higher as these are the underlying principles to IR. Every company in the sample (example database) adhered to at least one principle (Panel B), but only 5 companies achieved all five principles (9%) and 8 achieved four (14%). The majority of companies achieved three or two principles (26% and 41% respectively), while 6 companies (10%) achieved only one principle. The mean and the median in terms of number of principles achieved is 2.7 and 2 respectively. The companies are therefore still at the beginning phase of achieving the reporting principles, with most (67%) achieving 2 or 3 principles and the average being 2.7 principles achieved. Only 23% achieved more than 3 principles. Although this seems disappointingly low, it could be explained in the light of the phase of development the IR is in and considering that the Framework is still being developed. These companies are following principles as exposed in the discussion document. In terms of the determinants of the Guiding Principles, we find none of the determinants that we tested (size, industry, leverage, profitability, country, audit firm, length of report) to be significantly related to the Guiding Principles achieved by the companies in our sample.

3.2 IR Content Elements – Table 4

In Table 4 we analyse the IR Content Elements that were covered in the reports in our sample. The six Content Elements were defined earlier in the paper.

<<Insert Table 4 here>>

Compared to how the companies addressed the Guiding Principles, the Content Elements were very poorly achieved (Panel A). The two elements that received the most coverage were Organisational Overview and Strategic Objectives which were achieved by 43% and 45% of the companies respectively. Operating Context and Performance were achieved by 33% and 21% of the companies while the remaining elements were only achieved by 5% of the companies. Analysing the elements further shows that no company addressed all six elements (Panel B) and one company addressed five. Most companies (57%) addressed only one of the elements while 33% addressed two. The mean and the median is 1.57 and 1 respectively, showing that companies only addressed 1 or 2 of the content elements.

In terms of the determinants of the content elements, we find that none of the determinants that we tested (size, industry, leverage, profitability, country, audit firm, length of report) to be significantly related to the content elements achieved by the companies in our sample.

3.3 IR Guiding Principles by Content Elements– Table 5

Since the IIRC suggests that companies cover all (or as many as possible) of the Guiding Principles for each Content Element, we find that the Content Elements covered are highly correlated with the Guiding Principles achieved (R = 0.682, Sig = 0.000). We therefore analyse the Guiding Principles by Content Element in Table 5. The Guiding Principles are in the five columns while the Content Elements are in the six rows of the table. For each Content Element, the table shows which Guiding Principles were achieved. For Strategic Objectives, Operating Context and Organisational overview, the highest level of Guiding Principles were achieved (ranging from 68% to 57% of the total Guiding Principles achieved). For Governance and Remuneration and Future outlook the least of the Guiding Principles were achieved (5% and 6%). Strategic Focus, Connectivity of Information and Conciseness, Reliability and Materiality, were the Guiding Principles that were mostly achieved for the Content Elements covered, while Responsiveness to Stakeholders and Future Orientation were the least achieved.

Table 5 therefore confirms what the previous two tables revealed, i.e. that the Guiding principles of Future Outlook and Responsiveness to Stakeholder Inclusiveness were the principles that were least adhered to, while the Future Outlook and Governance and Remuneration elements were covered the least. Performance was also covered at only a very basic level. This suggests that companies at this stage focus on Strategy (Strategic overview and Strategic objectives) Organisational overview and Operating context (with principles such as connectivity of information and conciseness, reliability and materiality being emphasised).

<<Insert Table 5 here>>

Much less attention is given to present a Future Outlook (Future Orientation), Performance information, Responsiveness to stakeholders and Governance and Remuneration. At this stage it would therefore appear that the focus is more on soft (general) measures[9] like Strategy, Operating Context and Organisational Overview. Hard (specific) measures like Performance and Future Outlook still need to be developed. Surprisingly also is the generally low level of responsiveness to Stakeholder Inclusiveness, suggesting the reports (and indeed business operations) are still only focused primarily on the shareholder group's needs.

3.4 The Capitals - Table 6

We determine which of the capitals have been addressed in each of the reports in our sample. We did not determine the extent or quality of coverage of each of the capitals. We report our findings in Table 6. Most companies addressed Financial, Human, Natural and Social capitals in their reports (ranging from 86% to 90%). Manufactured and Intellectual capital were not well addressed (43% and 40% of the companies addressed these). Most companies in the sample addressed four of the capitals (40%). 80% of the companies in the sample covered four and more of the capitals while only 20% of the companies covered less than four of the capitals in their reports. It would therefore appear that as far as the concept of multiple capitals go, the progression to covering multiple capitals (rather than only financial) has been very successful. In terms of determinants for covering the capitals that we tested (i.e. size, industry, leverage, profitability, country, audit firm, length of report) we found only the financial services industry and the basic materials industry to be significantly related to covering the capitals in our sample. None of the other indicators showed any significance.

<<Insert Table 6 here>>

3.5 Determinants of report contents

In an effort to understand what determined the Guiding Principles, Content Clements and the capitals covered in the reports in our sample, we run an ordinal regression against various determinants that have been identified in the literature to influence companies' (voluntary) disclosure decisions. These determinants are: size, industry, leverage, profitability, country, and audit firm engaged. We use the natural log of assets as our size measure. For industry, country and audit firm we use dummy variables. We run a separate model for guiding principles, content elements and capitals, using the extent that these have been covered in the reports as our dependent variable in each model. Since the extent measures for guiding principle take the values of 1 – 5 (mean 2.71, std. dev. 1.108), for content elements the values of 1 – 6 (mean 1.55, std. dev. 0.799) and for capitals the values of 1 – 6 (mean 4.37, std dev 1.055) the use of ordinal regression is best suited to our dependent variables. Also, since we have too many dependent variables for the number of observations in our sample, we run each of the three models separately for industry, country and audit firm as these have a number of dummy variables for each, and then also with all the variables together.

The results (untabulated) show that the models for Guiding Principles and Content Elements are not significant and in addition none of the explanatory variables are significant. This result is in itself significant in that it suggests that none of the traditional explanatory variables for voluntary reporting are useful in explaining the extent to which the early reporters covered the Guiding Principles and Content Elements.

The model for capitals is significant and has a Nagelkerke's Pseudo R-Square of 0.50. This model shows size, the financial services industry and the capital goods industry to be significant determinants for indicating the number of capitals that were achieved while controlling for all other influences on reporting.

DISCUSSION AND CONCLUSION

The purpose of integrated reporting is to report material financial and non-financial information about an organization's strategy, governance, performance and prospects in a clear, concise and comparable format. At present those organizations producing integrated reports are doing so prior to the existence of applicable standards or the availability of an accepted IR Framework. Most are doing so on a voluntary basis (those companies listed on the JSE being an exception). It is important that research is focused on the early reporters at these initial stages of the development of IR, as this will provide useful insights into the future direction and impacts, as well as potential costs and benefits of IR. Given the high level of support from major regulatory bodies and professional accounting organizations, it is likely that this new form of reporting will become mandated in future for at least large corporate organizations with public accountability.

The bulk of organizations in the database provided very detailed and lengthy integrated reports, with the majority (69%) between 100 and 250 pages long. This suggests that rather than provision of succinct information sources in integrated reports, combining all reporting (financial and non-financial) into one (integrated) report will instead produce longer reports which could deter users and create a barrier to the provision of decision-useful information to stakeholders. Longer reports also seem at odds with one of the IR guiding principles (i.e. conciseness, reliability and materiality). Size, country and audit firm played a role in the length of the reports. However, the length of the reports was not statistically related to the Guiding Principles and Content Elements achieved, or the multiple capitals covered in the reports. Longer reports therefore do not suggest better quality in the IR environment.

Based on Institutional Theory, we assess the extent of mimetic isomorphism identified in the early integrated reports in our study, and its influence on the early adoption of IR. We analysed early reporters in our sample according to industry type, country and size, and then applied further analysis to the characteristics of the content and presentation of the integrated reports they have produced. From this we made a preliminary evaluation of the existence and extent of mimetic isomorphism in the IR of the companies under review. From our findings, we consider that it is not possible at this early stage in the development IR to demonstrate conclusively that mimetic isomorphism exists as a factor in the construction of the early reports themselves, due to the availability of only a small sample for analysis at present, and the fact that few have produced more than a single report. However, we suggest that based on our findings regarding the prevalence of particular industry types in the early adoption of IR – in particular the financial services industry – we can draw preliminary conclusions suggesting that institutional factors – including, for example, industry membership, played a role in the early IR and also that size and industry membership influenced some of the contents of the reports. Further research of a direct nature is required, however, in order to develop these findings into a more nuanced pattern, and to confirm them more conclusively.

Our analysis suggests that the companies are still at the beginning phase of addressing the IR Guiding Principles, with most addressing two or three of the five principles (the average being 2.7 principles addressed). Only a small percentage of companies addressed more than three principles. With regards to the Integrated Reporting content elements, most companies achieved only one of the elements while a third of the companies achieved two. Very few companies achieved more than two (of the six) Content Elements. At this stage it would therefore appear that the focus is more on soft (general) measures. Hard (specific) measures still need to be developed. When considering the shift in emphasis to future orientated reporting that IR brings, the lack of future orientated information that meets the guiding principle ‘future orientation’ and the content element ‘future outlook’ is disappointing and show that companies are not yet ready to give future orientated information in their reports. Furthermore, the low level of responsiveness to stakeholder inclusiveness is also surprising as this suggests that the companies are not taking the interests of a wide range of stakeholders into account in their reporting. None of the determinants suggested in the literature (i.e., size, industry, leverage, profitability, country, audit firm, length of report) could explain the guiding principles and content elements covered in the integrated reports. This suggest that the traditional determinants of voluntary reporting content is not able to explain the content of integrated reports, at least at this early stage.

As far as the multiple capitals concept is concerned, most companies addressed Financial, Human, Natural and Social capitals in their reports while Manufactured and Intellectual capital were not well addressed. Most companies in our sample addressed four types of capital. In terms of determinants for covering the capitals we find industry membership to be significantly related to covering multiple capitals.

The development of IR is directed primarily at meeting the informational needs of investors for decision-making (IIRC website). Our study of early IR reporters found that the majority of organizations currently producing integrated reports are large public companies, and dominated by the financial services industry. Most firms producing IR are located in

South Africa, Europe, and the UK, which together represent nearly 70% of the companies in the database. The majority of the companies in the database (58.67%) operate in the Financial Services, with Basic Materials and Consumer Goods industries also represented. Our analysis also shows that the incidence of early IR is not dominated by industries with high social and environmental impacts. This is surprising, as it indicates a different trend from that observed in the literature focused on environmental and sustainability reporting, where it has been found that companies with a high impact on the physical environment and society tend to produce the majority of non-financial reporting. The financial services industry, due to heavy losses by investors during the global financial crises in 2007, suffered significant reputational damage and a crisis of legitimacy. It has since sought actively to restore its reputation and investor confidence (Othman, Darus and Arshad, 2011). Our analysis shows that companies in the financial services industry are disproportionately represented among early voluntary adopters of IR, rather than those companies with significant environmentally negative impacts, which have traditionally been dominant in sustainability reporting. While accepting the limitations inherent in results obtained from a small sample, we consider that this finding provides initial support for our premise that mimetic isomorphism is a factor driving the early uptake of IR, as demonstrated by firms in the financial services industry. Further research is required as the uptake of IR becomes more widespread, in order to provide further support for this conclusion.

The major accounting firms have a significant influence over the auditing and assurance of the integrated reports studied. For the majority of the reports, the financial information provided was audited by the big four accounting firms. However, the non-financial information was assured only for 50% of the companies in the sample. Of these, the big four accounting firms again were responsible for assuring the majority. Two-thirds of the integrated reports studied were calibrated against the GRI Guidelines, and of these reports, almost all (95%) were rated as being high quality, (A or B standard).

These findings suggest that, in the absence of relevant IR standards and an international IR Framework, and without a mandatory requirement for assurance of non-financial information, there is in general a wide range of diversity in the type and quality of information, and forms of presentation, being provided in early integrated reports. This suggests more broadly that at present, the early integrated reporters are not achieving the standard of reporting that meets the aims of the IIRC – that is, integrating financial, social, environmental information into a single report for stakeholders in a format that is concise, clearly expressed, consistent and comparable.

The generalisability of these findings is limited by the relatively small number of companies that are currently producing integrated reports. Further research is required to test these findings when larger numbers of such reports from a broader range of organizations become available in future. Also, additional research undertaken after the International IR Framework is published in December 2013 would provide useful insights into the extent of influence the availability of the Framework will have on the content and presentation of the integrated reports produced subsequent to its introduction.

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Tables

Table 1 Company details

PANEL A	***REGION***			**Austra-lasia**	**North America**	**South America**		
		Europe	**Africa**					**Total**
	Number	26	14	6	6	6		58
	Percentage	44.83%	24.14%	10.34%	10.34%	10.34%		100.00%
PANEL B	***COUNTRY***	**UK**	**South Africa**	**Brazil**	**Nether-lands**	**USA**	**Other**	**Total**
	Number	16	14	5	4	4	15	58
	Percentage	27.59%	24.14%	8.62%	6.90%	6.90%	25.86%	100.00%
PANEL C	***ORGANISATION TYPE***							
		Public Company	**Private Company**	**Other**				**Total**
	Number	54	2	2				58
	Percentage	93.10%	3.45%	3.45%				100.00%
PANEL D	***INDUSTRY***							
		Financial Services	**Basic Materials**	**Cons Goods**	**Industrial**	**Health-care**	**Other**	**Total**
	Number	12	11	11	8	5	11	58
	Percentage	20.69%	18.97%	18.97%	13.79%	8.62%	18.97%	100.00%
PANEL E	***SIZE[10] ASSETS***	**More than:**	**£100,000m**	**£10,000m**	**£5,000m**	**£1,000m**	**£50m**	**Total**
	Number		7	23	11	13	4	58
	Percentage		12.07%	39.66%	18.97%	22.41%	6.89%	100.00%
	SIZE[11] EMPLOYEES	**More than:**	**100,000**	**50,000**	**10,000**	**1,000**	**400**	**Total**
	Number		5	10	21	18	2	56
	Percentage		8.92%	17.86%	37.50%	32.14%	3.58%	100.00%
PANEL F	***SUPPORT FOR IIRC DISCUSSION PAPER***							
		No Subm	**Subm**	**Support High**	**Support Average**	**No Sup**		**Total**
	Number	48	10	2	8	0		58
	Percentage	82.76%	17.24%	20.00%	80.00%			100.00%

Table 2 Report Details

PANEL A	***YEAR***	**2010**	**2011**	**2012**				**Total**
	Number	3	45	10				58
	Percentage	5.17%	77.59%	17.24%				100.00%
PANEL B	***LENGTH - PAGES***	**Under 50**	**50 - 100**	**101-150**	**151 - 200**	**200-250**	**Over 250**	**Total**
	Number	4	8	14	14	12	6	58
	Percentage	6.90%	13.79%	24.14%	24.14%	20.69%	10.34%	100.00%
PANEL C	***AUDIT - FINANCIAL***	**EY**	**PWC**	**KPMG**	**Deloitte**	**Other**		**Total**
	Number	14	14	13	7	10		58
	Percentage	24.14%	24.14%	22.41%	12.07%	17.24%	%	100.00%
PANEL D	***ASSURANCE - OTHER***	**EY**	**PWC**	**KPMG**	**Deloitte**	**Other**	**None**	**Total**
	Number	5	8	7	3	6	29	58
	Percentage	8.62%	13.79%	12.07%	5.17%	10.34%	50.00%	100.00%
PANEL E	***GRI RATING***	**A+**	**A**	**B+**	**B**	**C+&C**	**None**	**Total**
	Number	19	2	13	3	2	19	58
	Percentage	32.76%	3.45%	22.41%	5.17%	3.45%	32.76%	100.00%

Table 3 Integrated Reporting Guiding Principles

PANEL A	***PRINCIPLES ADDRESSED***					
		Strategic Focus	**Connectivity of Information**	**Future Orientation**	**Responsiveness of Stakeholder Inclusiveness**	**Conciseness, reliability materiality**
	Number of Companies	44	36	25	19	32
	Percentage of companies	75.86%	62.07%	43.10%	32.76%	55.17%
PANEL B	***NUMBER OF PRINCIPLES ADDRESSED***	**5**	**4**	**3**	**2**	**1**
	Number of Companies	5	8	15	24	6
	Percentage of companies	8.62%	13.79%	25.86%	41.38%	10.34%

Table 4 Integrated Reporting Content Elements

PANEL A	ELEMENTS ADDRESSED	Organisational overview	Operating context	Strategic objectives	Govern & Rem	Perfor-mance	Future outlook
	Number of Companies	25	19	26	3	12	3
	Percentage of companies	43.10%	32.76%	44.83%	5.17%	20.69%	5.17%
PANEL B	**NUMBER OF ELEMENTS ADDRESSED**	**6**	**5**	**4**	**3**	**2**	**1**
	Number of Companies	0	1	0	4	19	33
	Percentage of companies	0.00%	1.72%	0.00%	6.90%	32.76%	56.90%

Table 5 Integrated Reporting Guiding Principles by Content Elements

	GUIDING PRINCIPLES					
	Strategic Focus	Connectivity of Information	Future Orientation	Responsiveness of Stakeholder Inclusiveness	Conciseness, reliability materiality	Total
CONTENT ELEMENTS						
Organisational overview	21	16	4	7	9	57
Operating context	14	13	8	10	15	60
Strategic objectives	22	17	10	4	15	68
Governance and Remuneration	2	2	1		1	6
Performance	9	6	4	3	8	30
Future outlook	1	1	2		1	5
Total	69	55	29	24	49	226
Percentage	30.53%	24.34%	12.83%	10.62%	21.68%	100.00%

Table 6 – The Capitals

PANEL A ***CAPITALS ADDRESSED***

	Financial	Manufactured	Human	Intellectual	Natural	Social
Number of Companies	51	23	52	25	50	52
Percentage of companies	87.93%	39.66%	89.66%	43.10%	86.21%	89.66%

PANEL B ***NUMBER OF CAPITALS ADDRESSED***

	6	5	4	3	2	1
Companies	11	12	23	11	1	
Percentage of companies	18.97%	20.69%	39.66%	18.97%	1.72%	0.00%

Endnotes

[1] The IIRC states that the aim of Integrated Reporting (IR) is to enhance accountability and stewardship with respect to the broad base of capitals (financial, manufactured, human, intellectual, natural, and social and relationship) and to promote understanding of the interdependencies between them. In this way its objective is to promote integrated thinking, decision-making and actions that focus on the creation of value in the long term, as well as short and medium term (IIRC website).

[2] Other research in this field has taken a substantively different approach. The study by Jensen and Berg (2012) for example, compare IR reporters with non-reporters, i.e. focus on company characteristics and not report characteristics.

[3] Although these organisations participate with the aim to produce initial integrated reports for their organizations, it should be noted that many have not yet published an IR for external stakeholder use.

[4] The database does not provide definitive guidance, and examples have not been selected on the basis of criteria designed to rate the relative merits of various reports, as would be the case in an awards program. Rather, the examples have been selected simply to provide a range of emerging reporting practices that organizations may choose to adopt or modify to suit their individual circumstances. (IIRC, 2013).

[5] The IIRC Pilot Programme underpins the development of the International Integrated Reporting Framework. The group of organizations participating in the Pilot Programme have the opportunity to contribute to the development of the Framework and to demonstrate global leadership in this emerging field of corporate reporting. (IIRC, 2013).

[6] It is worth noting that not all companies in the Pilot Program have produced a report yet. Our sample includes 20 companies that are in the Pilot Program. This program will run until September 2014 (publication of the first version of the Framework is expected in December 2013), allowing participants time to test the impact of the Framework on their reporting.

[7] The category ‘Other’ represents all countries with 3 and fewer reports. Australia has 3 companies while Canada has two companies. The remaining 10 countries have one company each.

[8] Other represents all industries with 4 and less reports. Oil and Gas had 4 reports while Utilities had 3 and Telecommunications 2. The remaining two industries had one report each.

[9] See for example Clarkson *et al*. (2008) for a discussion on hard and soft environmental disclosures where hard disclosures include items such as governance information and performance information while soft disclosures include vision and strategy and operational overview and context. See Wiseman (1982) for a discussion on the specificity of disclosures and De Villiers and Van Staden (2006) for a discussion on specific and general disclosures, where specific disclosures were described as quantitative and measurable (among others), and general disclosures include mission and policy, among others.

[10] Assets are expressed in millions of UK pounds (£ m) at exchange rates at the end of February 2013. 7 companies have a turnover of more than one hundred thousand million UK pounds, etc.

[11] Two companies did not supply employee numbers, so the total adds up to 56 companies.