



Integrated Reporting

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Integrated Reporting

What preceded it?

- Social and Environmental Accounting
- CSR reporting
- Sustainability Accounting

Outline of my talk

- Some issues with Integrated Reporting (IR)
- Some issues with sustainability accounting
- Some thoughts on what we know about corporate social and environmental disclosures
- How this might apply to integrated reporting
- Areas for future research in integrated reporting

Integrated Reporting

Some issues

- Value creation is paramount
- Reporting should cover 6 capitals X according to 6 guiding principles X 7 content elements = 252 cells
- And, by the way, it has to be concise

- Early exemplars on the IIRC website
 - do not report anything in many of the suggested cells
 - have long IR reports (not concise), mostly longer than 100 pages, some longer than 250 pages

The materiality conundrum in IR according to the IIRC framework:

Identifying relevant matters

Relevant matters are those that have a past, present or potential future effect on the organization's ability to create value over time. This is determined by considering the effect on the organization's strategy, its business model, or the capitals it uses or affects.

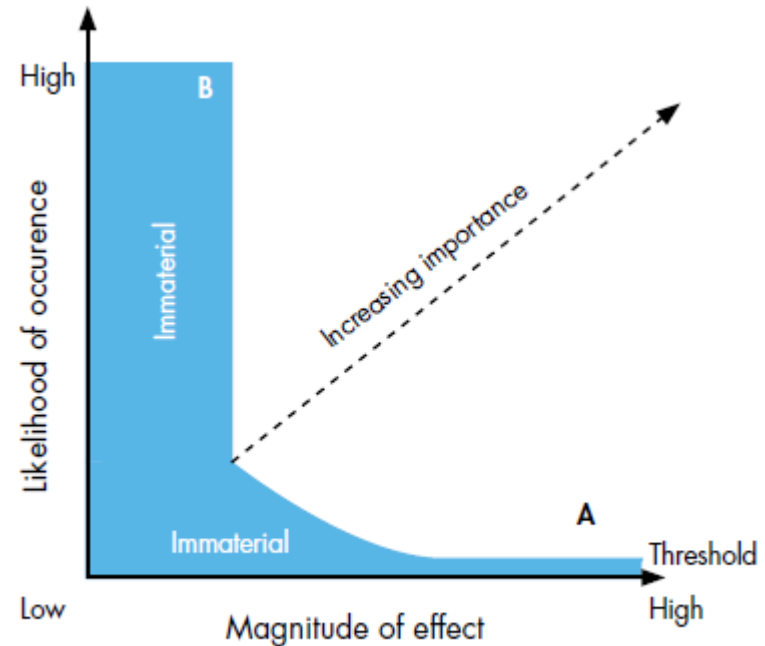


Figure 6: Assessing importance.

Relevant matters effect future value creation

Thus, some thing that does not affect value creation does not make it onto the agenda at all

Then, it could still be ignored if likelihood is small

Materiality in IR



- A line from Lemony Snicket's 'A Series of Unfortunate Events' comes to mind:
“Some of you may have to die, but it is a risk I am willing to take.”
- Species extinction, 3rd World employee safety, 3rd World consumer safety probably won't make it into the report? And will not be managed?
- Also, if the likelihood of occurrence is small, don't report (and don't manage)?

Sustainability

- Human's influence on the environment
- One of the defining issues of our age

- Companies play an important role in product/ service provision
- Therefore companies' role in sustainability important

What sustainability means

- Brundtland definition:
- Basically enjoying ourselves without compromising the next generation's ability to do so
- Its all about inter-generational equity
- And its all about humans

- There are other views, e.g. deep ecology, i.e. its all about eco-systems and if humans have to die, so be it

Companies and sustainability

- Sustainability cannot really be assessed on an individual company basis
- What most companies do cannot really be classified as environmentally sustainable
- What many companies do can NEVER be sustainable
 - e.g. mining companies
- Does this mean we have to leave it in the ground so it can be there for our children?
- But wait, they won't be able to use it, they have to leave it for their children!
- Cop-out: As long as we develop technology that frees them from having to use minerals.

How companies 'use' Sustainability

- Yes, they use it
- Business co-opted the term
- Use it to appear to care
- Use the word as a symbol of good values
- Use it to gain legitimacy
- To ensure continued access to resources
- Resources being:
 - Capital (shares and loans), custom, smart employees, good relations with and contracts from government
- Based on research grounded in the critical tradition – specifically Milne and others

Sustainability Accounting

- As accountants we are interested in information
- Financial information – very regulated
- Because it is important to protect investors

- Social and environmental information – mostly voluntary
 - But could change with societal attitudes – e.g. through IR

- Societal norms changed re:
- **Slavery** (150 years ago in the US), **Child labour** (only 100 years ago), **Smoking** (now)

Corporate Social and Environmental disclosures

- Companies disclose voluntarily
- This is potentially costly (direct cost and litigation risk)
- Why would they?

- Sounds like a simple question, but
- Answers are varied and complicated

- Its like asking why men buy expensive cars
 - I need it; its good for image, so business; I score with the girls; its actually cheaper after the tax break; I like speed/power; etc.

Why companies disclose social and environmental information voluntarily

There are different theories and methods we can use:

Theories:

Legitimacy/Stakeholder/Institutional theories

Agency theory

Methods:

Ask them – questionnaires

Ask them – interviews

Case studies

Qualitative methods, e.g. discourse analysis

Experiments

Archival - compare disclosure and accounting numbers with market reactions, or compare social performance with social disclosure

WHY disclose – a framework

- One way of thinking about the problem is to distinguish between factors that **predispose** companies and **consequences**
- Predispose:
 - Need for legitimacy
 - Need for resources
 - Performance
- Consequences:
 - Improved legitimacy
 - Influence on cost of capital
 - Influence on share price
 - Other potential advantages

PREDISPOSE

De Villiers & Van Staden, 2011, JAPP

- Distinguish between firms with
 - Long term bad environmental reputation
 - Environmental crisis event – such as a spill
- Long term bad environmental reputation firms
 - Disclose more environmental info in their annual reports
 - Aimed at shareholders and lenders
 - Explains that cash flow effects won't be too bad
- Environmental crisis firms
 - Disclose more environmental info on their website
 - Aimed at external stakeholders
 - Explains why the firm is not so bad, actions to remedy, actions to prevent recurrence

De Villiers & Marques, 2013, AFAANZ

• Predispose

- Firms are likely to disclose more CSR information in countries with better investment protections, more democracy, more effective governments structures, more press freedom
- Firms are likely to disclose more CSR info if they are larger, in sensitive industries, more profitable, higher leverage, have older assets and spend more on Capex

• Consequences

- In general: more CSR disclosure assoc. w. higher share prices
- BUT: Disclosure at different levels of GRI – different assoc.:
 - GRI A: positive
 - GRI B: no impact
 - GRI C: negative !!!

What do we know about voluntary SEA disclosures from the prior literature?

- Companies pat themselves on the back in disclosures
- They use disclosures to manage their image
- They will not disclose info that reflects badly on them unless it is already known
- If known, they will try to manage the situation with disclosures
- They are more careful with powerful stakeholders
- With less powerful stakeholders - use symbolic means
- Environmentally and socially sensitive industries disclose more and cash flow implications more direct

Relevance for Integrated Reporting

- There is hope that IR might become mandatory
- However, IR is still predicated on future value
- Thus, as long as the firm can ‘get away with it’, there is no need to report – let alone manage things like:
 - Species extinction
 - Employee deaths
 - Global warming
- And companies won’t disclose if no benefit

Implications for IR

- IR still leaves room for manager choice (and we cannot get away from it)
- Managers will choose to disclose in ways that suit them, in terms of:
 - the capitals (the exemplars do not even report on all the capitals)
 - ‘content elements’ (the exemplars are already doing this)
 - Guiding principles – we have those in financial accounting too, and research shows that managers choose how to report
- Add the wriggle room of materiality =
Much the same as with social and environmental accounting

Future IR research

Some early questions

Based on the finding about the level of GRI disclosure having opposite effects on share price:

- Optimum level or manner of IR disclosure?
- How do you measure (or distinguish) a good IR report from a bad?
 - There are potentially multiple dimensions of 'measure'
- Who can (or should) we ask what is good IR?
- Should we confine it to investors and the market?
- Who will look after the interests of the voiceless?

THANK YOU