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Do industrial companies respond to the guiding principles of the Integrated Reporting framework? A preliminary study on the first companies joined to the initiative

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ABSTRACT

The current crisis puts pressure on companies to be more transparent about their business model, their value proposal, their risks and future impacts with a short, medium and long term focus.

To address this need for transparency and with the aim of providing a common framework to meet all these needs, *The International Integrated Reporting Committee* (IIRC) has developed a framework called Integrated Reporting (IR).

The objective of this research is to understand the state of affairs in the level of attention of the principles of Integrated Reporting in the industrial companies which have adopted this initiative in their communications concerning the achievement of a sustainable environment.

The results show that, despite the efforts of the analyzed companies to address the guiding principles, they still have a long way to go, especially in relation to the principle of "conciseness". It has also been proven that the companies analyzed were not influenced by the environment relating to the level of attention given to the incorporation of this type of reporting.

¿Responden las empresas industriales a los principios orientadores del marco de Reporting Integrado? Un estudio preliminar sobre las primeras empresas adheridas a la iniciativa

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RESUMEN

La crisis actual presiona a las empresas para que sean más transparentes acerca de su modelo de negocio, su propuesta de valor y sus riesgos e impactos futuros con un enfoque de corto, medio y largo plazo.

Para atender esta necesidad de transparencia y con el ánimo de ofrecer un marco común que responda a todas las necesidades, *The International Integrated Reporting Committee* (IIRC) ha desarrollado un marco de referencia denominado *Integrated Reporting* (IR).

El objetivo de esta investigación es conocer el estado de la cuestión en cuanto al nivel de atención de los principios del Reporting Integrado en las empresas industriales que han incorporado esta iniciativa en su comunicación respecto a su actuación para el logro de un entorno sostenible.

Los resultados del estudio demuestran que, a pesar de los esfuerzos realizados por las empresas analizadas por atender los principios orientadores, aún les queda mucho camino por recorrer, principalmente en relación al principio «Concisión». Además, se ha contrastado que las empresas analizadas no han sido influidas por el entorno en relación con el nivel de atención prestado a la incorporación de este tipo de reporting.

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Introduction

The current crisis accompanied by recent corporate scandals peppered by numerous cases of corruption, puts pressure on companies to be more transparent about its business model, their value proposition, their risks and future impacts. The information provided must maintain simultaneously a focus on the short, medium and long term, demanding financial and non-financial information from them, to disclose to their stakeholders on how they are performing and how they will respond to their objectives.

The financial information provided by the annual accounts replies to the need to know what the financial position of the company is and what resources it provides to meet its future objectives, at least in the short term. These resources are the tangible capital, knowledge which is essential to make an assessment of the company from an investor's standpoint. However, financial reporting is not without its critics (Eccles & Serafeim, 2011).

At present, to understand the long-term prospects of companies, it is necessary to supply financial and non-financial information on their tangible and intangible capitals, which would lead to a holistic approach on the organization's reporting. The interrelationship between these capitals generates the necessary capabilities to create value and meet future challenges (Eccles & Saltzman, 2011).

Also, instability, the environment, the situation of economic and political crisis, lack of confidence in institutions, are all issues that have caused greater demands for information from the various stakeholders. To provide this information, on their economic, social environmental and governance impacts, companies are developing their sustainability or social responsibility reports, accompanied in most cases by the corporate governance reports.

Some international organizations have identified sustainability as a crucial issue in the current context of international financial crisis. The European Union (EU, 2011) stated that socially responsible companies could contribute to the goals of sustainable, intelligent and inclusive growth for 2020, and that this disclosure of information is key to identifying material risks and improving public confidence in these companies. These arguments are in line with the pronouncements of other agencies like the U.S. Agency for International Development (USAID, 2011), the Center for Strategic & International Studies (CSIS, 2010) or the OECD (2007).

However, despite the growing interest in reporting on sustainability (Jensen & Berg, 2012), its implementation is not free of difficulties (Stubbs, Higgins, & Milne, 2013) and there are significant barriers to the integration of this information in the financial reports, given the absence of standards to normalize the non-financial information (Eccles, Krzus, Rogers, & Serafeim, 2012a;. Sierra-García, Zorino-Grima, & García-Benau, 2013). According to the findings of Eccles and Serafeim (2011) conducted on a sample of 2,255 companies, only 48.25% of the analyzed companies include environmental issues in their financial reports and only 44.07% include social issues in their reports.

To answer this need for transparency in terms of sustainability and with the aim of providing a common framework for communicating the process of value creation, *The International Integrated Reporting Committee* (IIRC) has been developing, since 2011, a framework called Integrated Reporting (IR). IR has advocated the publication of a single document combining financial, social, environmental and governance reports and other key elements (IIRC, 2013). Using this framework should show the connections between the two types of information and its contribution to the creation of sustainable value (Eccles & Serafeim, 2011).

Since to date little research has been carried out on the proposed IR and its impact on sustainability reporting (Eccles, Krzus, & Watson, 2012b), the objective of this research is to understand the state of affairs in industrial companies that have publicly acknowledged their incorporation of Integrated Reporting in their communication processes. Some of them joined the pilot launched by IIRC in 2013, and others have been considered by IIRC as an example of good practice, their reports being included in the database of the IR project. Beyond analyzing of the contents of the reports, and given the difficulty of comparing them to the diversity of information and situations that different companies could meet, we aim to analyze if the companies which have committed to this framework may have been influenced by the environment in which they operate and if they respond clearly to the guiding principles of this initiative.

The study is structured as follows: after this introduction, a review of the literature related to sustainability reporting and its evolution to the proposal made by IIRC, which leads us to propose the hypothesis of the research carried out. The methodology used and the results obtained are then presented, finishing with the conclusions of the analysis.

Review of the Literature

In recent years there has been growing interest in research on the disclosure of non-financial or sustainability information by businesses, using the approach of different theories. Amongst these theories, the Agency Theory should be highlighted, (Ness & Mirza, 1991) according to which companies disclose information to the extent that the benefits outweigh the associated costs. Studies like Hasseldine, Salama, & Toms (2005) demonstrate the usefulness of these reports to improve their competitive edge and enhance their reputation. The Political Theory (Gray, Kouthy, & Lavers, 1995) assumes that the performance of companies depends on the economic, political and social environment in which they operate, which influences them when deciding how to respond to the demands of stakeholders. The Stakeholder Theory, using the approach of Roberts (1992), assumes that the disclosure of information on corporate commitments to sustainability is used strategically to manage relationships with stakeholders, and therefore the level of disclosure will depend on the power and influence of said stakeholders. This approach is in line with the strategic level of the Stakeholder Theory defined by Goodpaster (1991). Finally, the rise of reporting on sustainability can be analyzed using the Theory of Legitimacy, in which authors indicate that the reports are used to improve the reputation of businesses and therefore to attain the support of key stakeholders in their operations (Lindblom, 1994; Suchman, 1995; Deegan, 2002; O'Donovan, 2002).

All research deriving from different theories has emphasized the importance of transparency about the quantitative and qualitative information, to predict the impacts of the development of business activity. However, there is no single theoretical framework for businesses to systematize information about corporate responsibility or their contribution to sustainability (Kabir, 2007; Branco & Rodrigues, 2007).

This interest in the communication of commitment to sustainability has led to the publication of international guidelines on the diffusion of such practices across the board. These guidelines may be useful in order to facilitate the diffusion of the various economic, social, environmental, ethical and governance issues to a wide range of stakeholders (Gray, 2006; Chen & Bouvain, 2009; Dumay, Guthrie, & Farneti, 2010). Many of these guidelines have been formalized through different normalizing proposals for management policies of social responsibility and for the contents of the information for sustainability. Among the most important guidelines we must highlight the OECD (2011), the World Bank (World