

The value of integrated reporting in South Africa



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Background: South Africa is currently the only country in the world where its largest stock exchange has adopted integrated reporting on an 'apply and explain' basis, through the implementation of the King Code for Corporate Governance (King IV). However, there exists significant uncertainty regarding the value of adopting integrated reporting.

Aim: The objective of this study is to establish whether organisations, perceived to produce higher-quality integrated reports, achieve better financial performance or if the value of integrated reporting lies in improving organisational legitimacy and managing stakeholders' impressions.

Setting: The sample consists of the Ernst & Young (EY) ranked companies listed on the Johannesburg Stock Exchange (JSE) from 2011 to 2020.

Method: The study examines whether the quality of integrated reporting is associated with various financial performance measures, namely liquidity, solvency, profitability, and market performance, using multinomial logistic regression.

Results: The multinomial logistic regression model is weak and indicates no direct relationship between integrated reporting quality and financial performance. An investigation into specific variables in the model indicates that top-performing companies, in terms of integrated reporting quality, tend to have significantly lower price-to-book value ratios and higher return on equity values. Companies with the best quality integrated reports also appear to be larger in terms of market capitalisation than those companies who prepare integrated reports of lesser quality.

Conclusion: The results of the study do not record a significant relationship between integrated reporting quality and financial performance. The results indicate that larger companies listed on the JSE produce better quality integrated reports. This may be an indication that companies produce integrated reports, not for their financial value-adding benefits but to maintain organisational legitimacy and to manage the impressions of stakeholders.

Keywords: integrated reporting, value of integrated reporting, organisational legitimacy, corporate governance, impression management.

Introduction

Society has challenged the economic objectives of organisations and demands that organisations consider activities that add value to not only shareholders and employees, but also to society and the environment (Eccles, Perkins & Serafeim 2012; Perego, Kennedy & Whiteman 2016). During the 1990s, the accounting profession was continually under scrutiny for not adequately satisfying the needs of all stakeholders and as a result, the concepts of performance and value were broadened to include non-financial activities (Laptes & Sofian 2016). A new approach to reporting was imminent, and the integrated reporting initiative was born (Flower 2015). Integrated reporting aims to provide an annual report that depicts a clear picture of an organisation's social, environmental, and economic inputs, outputs, achievements, risks, and opportunities in a manner that integrates information in a holistic way (IoDSA 2009).

South Africa became the first country in the world to formally recognise integrated reporting when the Johannesburg Stock Exchange (JSE) recommended sections of the King Report on Corporate Governance for South Africa 2009 (King III) as part of its listing requirements on 01 March 2010. The JSE, in a guidance letter dated 27 June 2013, clarified that, although the production of an integrated report was not a mandatory principle in terms of the JSE listing requirements, listed companies were advised to adopt integrated reporting on an 'apply or explain' basis. The introduction of King IV has further increased the requirement for integrated reporting by adopting an 'apply and explain' basis for the principles in the code (IoDSA 2016).

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Atkins and Maroun (2015) maintain that the attitudes of South African institutional investors are shifting and that investors now recognise the need for environmental, social, and governance reporting and applaud the decision by the JSE to adopt the King Code for Corporate Governance and thus integrated reporting. The JSE's initiative comes as a breakthrough in the development of integrated reporting; with South African listed companies publishing more integrated reports than listed companies in any other country worldwide (Laptes & Sofian 2016).

However, there is still uncertainty about the real value of integrated reporting, since most studies that have been conducted on integrated reporting are conceptual in nature, while empirical evidence to support the added economic value of integrated reporting is rather scarce (Ahmed Haji et al. 2016; Barthet et al. 2017; Sierra-García, Zorio-Grima & García-Benau 2015). Studies that investigated the relationship between integrated reporting and financial performance all differ in the method they employed, and the results vary between a positive relationship, a negative relationship, and no relationship. The purpose of this study is to examine the relationship between the quality of integrated reporting and financial performance measures over a longer period than previous studies to understand the value that is added in organisations that produce better quality integrated reports than their peers. The study contributes to the growing literature on integrated reporting and may be considered relevant as there still exists uncertainty about the value-adding benefits of integrated reporting (Ahmed Haji et al. 2016; Barth et al. 2017). Contributing to evidence on the value-adding benefits of integrated reporting supports the validity of this type of reporting, not only in South Africa but also in countries that still consider its implementation.

Literature review

Theoretical foundation

During the 21st century, the concept of performance has broadened to include the value created by companies on a financial, as well as a non-financial, level (Laptes & Sofian 2016). This view is supported by the political economy theory, which states that society, politics, and economics are inseparable and that economic issues cannot be investigated in the absence of the political, social, and institutional framework in which economic activity takes place. The political economy theory views accounting reports as documents that construct, sustain, and legitimise the processes and themes that contribute to the interests of an organisation (Deegan 2009). Integrated reporting has been branded the solution to meeting the reporting needs of stakeholders during the 21st century (Eccles & Saltzman 2011). Studies found that integrated reports might be used to improve organisational legitimacy (Ahmed Haji et al. 2016), stakeholder management (Eccles & Saltzman 2011), and impression management (Atkins & Maroun 2015).

One of the objectives of corporate governance is the achievement of legitimacy by a company (IoDSA 2016). The legitimacy of organisations depends on society's perceptions of the value that these organisations add to society (Setia et al. 2015). The legitimacy theory suggests that companies align their disclosures with the needs of their most influential stakeholders (Campbell 2000). Atkins and Maroun (2015) contend that institutional investors feel that integrated reporting increases the credibility of South African companies. Companies must establish and maintain their legitimacy because if society is not satisfied that an organisation is operating acceptably, it can revoke its support for the organisation by reducing the supply of labour, reducing access to financial capital, or by lobbying the government for fines or penalties (Deegan 2009). The fact that a lack of organisational legitimacy may lead to negative financial consequences, makes the achievement of organisational legitimacy imperative for companies to survive.

The stakeholder theory recognises that, besides the creditors and the shareholders of a company, there is a broad range of other stakeholders who are interested in a company's sustainability actions (Frías-Aceituno, Rodríguez-Ariza & García-Sánchez 2013). Deegan (2009) states that stakeholders' expectations are not treated equally, but that the relationships with stakeholders with more power to influence the continued success of the company are prioritised. Regardless of this, companies are encouraged to issue integrated reports that are transparent and meaningful to all stakeholders (IoDSA 2016). While most companies focus on the needs of shareholders, companies are, in fact, accountable to a wide range of stakeholders (Eccles, Ioannou & Serafeim 2014; Hassan 2019; International Integrated Reporting Council [IIRC] 2021). Other interested stakeholders such as employees, customers, suppliers, and the government, have a legitimate interest in the activities of a company and its ability to create value over time, presented through its integrated report (Freeman 1984; IIRC 2021).

The impression management theory explains the process by which people or organisations adopt strategies to control public perceptions to gain legitimacy (Elsbach & Sutton 1992; Rao, Schmidt & Murray 1995). Adams and Frost (2008) found that the accountability of companies that rely on their reputation to attract customers and staff becomes compromised if they perceive sustainability disclosures to reflect badly on them; these companies are susceptible to managing impressions if sustainability disclosures reflect badly on them. Atkins and Maroun (2015) state that South African institutional investors believe that integrated reporting enhances the credibility of South African listed companies; however, they also warn that impression management by preparers of integrated reports may function as a hindrance to the development of integrated reporting.

Criticism arose against non-financial reporting with critics indicating that the growth in the quantity of non-financial reports issued, does not necessarily result in the relevant type

of information being provided to stakeholders (Wild & Van Staden 2013). Critics further claim that some companies use the term 'sustainability disclosure' in an emblematic way, to legitimise themselves to stakeholders only to then carry on with business as usual (De Villiers & Alexander 2014).

Eccles and Saltzman (2011) recognise three kinds of benefits of integrated reporting:

- Internal benefits include better resource allocation, more effective engagement with stakeholders, and reduced reputational risk.
- External market benefits include satisfying investor demand for Environmental, Social and Governance (ESG) data and inclusion in ESG indices; and
- Managing regulatory risk, these benefits include anticipating and being prepared for integrated reporting regulatory and stock exchange requirements and being involved in the setting of integrated reporting standards and frameworks.

Their findings align with those of Black Sun (2014), who found that one of the greatest motivators for companies to produce integrated reports is to strengthen stakeholders' relationships. The findings further align with those of Wild and Van Staden (2013) who assert that in an environment lacking the regulation of ESG information, firms are motivated to legitimise themselves and manage their reputations through integrated reporting.

It is thus imperative to investigate whether integrated reporting, with its increased focus on adding non-financial information to traditional financial statements, is merely a tool for legitimacy or impression management, or whether it adds financial value, which will benefit stakeholders both internal (e.g. employees) and external (e.g. investors) to the company.

Integrated reporting in South Africa

South Africa is at the forefront of the worldwide integrated reporting movement, with the King Code of Corporate Governance, prescribed by the JSE listings requirements, strongly recommending that companies publish integrated reports. This is now generally accepted to be a mandatory requirement on a *de facto* basis, since most companies listed on the JSE do publish an integrated report, in many cases even companies with a primary listing in another country, produce these reports.

In South Africa, integrated reporting was introduced with the release of King I in 1994, with a stakeholder-inclusive approach to governance. King II, released in 2002, advocated an integrated approach to good corporate governance. The adoption of King II by the New York Stock Exchange and its incorporation into the Sarbanes-Oxley Act after the collapse of WorldCom and Enron, saw King II as firmly rooted as a leading voice in corporate governance (Dumay et al. 2016). King III, released in 2009, further emphasised the need for

integration and stakeholder inclusiveness in reporting (Barth et al. 2017). Following King III, the Integrated Reporting Committee of South Africa (IRCSA) was established in May 2010, followed by the IIRC in August 2010. These committees were established to provide guidelines on integrated reporting practice. The IIRC released the International <IR> Framework in December 2013, which was endorsed by the IRCSA in March 2014. King IV, introduced in April 2016, furthered the movement toward integrated thinking (IoDSA 2016). The updated <IR> Framework released by the IIRC in 2021 further promotes the movement towards integrated thinking.

To promote excellence in integrated reporting, Ernst & Young (EY) South Africa introduced the EY Excellence in Integrated Reporting Awards, in which they rank the Top 100 companies listed on the JSE (by market capitalisation) according to their integrated reporting quality (EY 2016). EY, in collaboration with a University in Cape Town, created a marking plan based on the guiding principles and content elements in the International <IR> Framework. Ahmed Haji and Anifowose (2016) found an increase in the extent and quality of integrated reports after the commissioning of the EY Excellence in Integrated Reporting Awards.

The value of integrated reporting

Even though integrated reporting is strongly encouraged, there is still controversy as to its value. In studies it is noted that, while there has been a growth in the number of integrated reports produced, the diversity of the field of integrated reporting, the lack of guidance on the preparation of integrated reports, and the lack of understanding of firms producing integrated reports, are factors which contribute to a lack of comparability, quality and cohesiveness in integrated reports (Perego et al. 2016; Wild & Van Staden 2013).

Atkins and Maroun (2015) maintain that, despite the challenges faced by the implementation of integrated reporting, South African institutional investors see integrated reporting as an improvement on traditional reporting.

The most recent studies on the relationship between integrated reporting and financial performance provide widely opposing results. Adegboyegun et al. (2020) found no relationship between integrated reporting and financial performance in the short term, but suggested that it will affect financial performance over time, and thus in the long term. Many studies found a significant relationship between integrated reporting and the value of companies (Albetairi, Kukreja & Hamdan 2018; Barth et al. 2017; Cosma, Soana & Venturelli 2018; Iyoha, Ojeka & Ogundana 2017; Lee & Yeo 2016; Mans-Kemp & Van der Lugt 2020; Vitolla et al. 2020; Wen et al. 2017). Barth et al. (2017) found that the quality of information and the quality of internal decision-making, enhanced by a better quality integrated report, results in improved financial performance. However, some studies found a negative relationship between integrated reporting and financial performance (Conway 2019; Jeroe 2016), while

others found no relationship (Bijlmakers 2018; Churet & Eccles 2014; Matemane & Wentzel 2019; Nurkumalasari, Restuningdiah & Sidharta 2019; Smith 2016; Soumillion 2018).

The International <IR> Framework is principle-based and does not provide a specific format or disclosure requirements for integrated reports. This, coupled with the fact that some integrated reports have been found to consist of up to 462 pages in length (Havlová 2015; Wild & Van Staden 2013), contributes to readers finding integrated reports difficult to read and digest. Integrated reporting policies and guidelines being interpreted and enacted inconsistently by companies, further contribute to this confusion (Stent & Dowler 2015). Experts perceive the field of integrated reporting to be fragmented and find that companies do not understand its purpose (Perego et al. 2016). Some explain the reasons for this to be a level of incompleteness concerning current integrated reporting policies (Adams 2015).

Adams (2004) found that integrated reports do not demonstrate a prominent level of stakeholder accountability and that the successful implementation of integrated reporting is dependent on the improvement of accountability of companies by the introduction of mandatory integrated reporting guidelines; the development of integrated reporting auditing requirements; and the radical transformation of corporate governance systems. There is a mismatch between the extent to which companies are willing to disclose their strategy to maintain a competitive edge and the amount of information stakeholders require for decision-making (Chersan 2015).

The research question this study investigates is as follows:

Is there a relationship between integrated reporting quality, as measured through the EY Excellence in Integrated Reporting Awards, and the financial performance of companies or does the value of integrated reporting lie elsewhere?

Research method

This study aims to empirically determine if companies with exceptional quality integrated reports also perform better and generate more value for investors. This section outlines the data and the analysis thereof as used in this study.

The sample for this study consists of the top companies rewarded for their integrated reporting performance by the yearly EY Integrated Reporting Awards, from 2011 to 2020. The sample of 2011 to 2020 was selected because EY started the EY Excellence in Integrated Reporting Awards in 2011; therefore, no older data is available. The period under investigation ends in 2020, before the start of the COVID-19 pandemic. The EY Integrated Reporting Awards assesses the integrated reports of the Top 100 companies listed on the JSE, South Africa (EY 2021). The Top 100 companies listed on the main board of the JSE account for approximately 95% of the total market capitalisation of the JSE; therefore, these companies represent a considerable proportion of the listed companies in South Africa. The Top 100 companies, by

market capitalisation on the JSE, include companies from the full range of industries, namely industrials, retail, and financial institutions. Only considering the top 100 companies by market capitalisation on the main board of the JSE may exclude those companies on the main board that are not in the top 100 companies but which may produce high-quality integrated reports that could provide useful insights into the value-adding benefits of integrated reporting.

As the proxy for integrated reporting quality, this study makes use of the ranking compiled by EY South Africa, similar to the data used in the study by Barth et al. (2017), Cosma et al. (2018), and Mans-Kemp and Van der Lugt (2020). EY uses a checklist to assess the integrated reporting quality of the Top 100 JSE-listed companies. The checklist was developed by three independent professors in the College of Accountancy from the University in Cape Town (EY 2016). The checklist is based on the guiding principles and content elements obtained from the International <IR> Framework, issued by the International <IR> Council (EY 2016). When the analysis of integrated reports is completed, the companies are ranked into six categories according to integrated reporting quality, namely Top 10, Excellent, Good, Average, and Progress to be made. Data from 2011 to 2020 integrated reporting quality evaluations and rankings were obtained from the EY website. For the present study, integrated reporting quality is ranked according to the quality categories included in the EY survey and coded as follows:

- 1 – Progress to be made
- 2 – Average
- 3 – Good
- 4 – Excellent
- 5 – Top 10

Financial performance can be measured in a multitude of ways (Allouche & Laroche 2005), with the focus falling mainly on measures capturing the market, and accounting performance, as well as perceptual measures. However, the number of measures used in financial performance studies is as numerous as there are previous studies. For purposes of this study, previous research that investigated a relationship between financial performance and aspects such as disclosure, corporate social responsibility, or corporate governance were considered. This resulted in a selection of several often-used measures to capture various aspects of financial performance and value creation. The financial performance measures are share returns (Abdo & Fisher 2007; Nelling & Webb 2009; Nollet, Filis & Mitrokostas 2016; Sahore & Verma 2017) for shareholder value creation, the price-book value ratio (Abdo & Fisher 2007; Charlo, Moya & Muñoz 2015) for firm value, and return on equity (ROE) (Boaventura, Da Silva & Bandeira-de-Mello 2012; Bussin & Nel 2015; Callan & Thomas 2009; Charlo et al. 2015; Chen, Feldmann & Tang 2015; De Wet & Du Toit 2007; Elouidani & Zoubir 2015; Fijałkowska, Zyznarska-Dworczak & Garszka 2018; Flammer 2015; Nor et al. 2016; Qiu, Shaukat & Tharyan 2016; Rodriguez-Fernandez 2016; Saeidi et al. 2015; Wang et al. 2020) as a

measure for accounting performance. Included as control variables are the debt/assets ratio (Aly, El-Halaby & Hussainey 2018; Aras, Aybars & Kutlu 2010; Awaysheh et al. 2020; Charlo et al. 2015; Flammer 2015; Nelling & Webb 2009; Nollet et al. 2016; Qiu et al. 2016) as a measure of leverage or long-term risk and the natural logarithm of market capitalisation to controlling for company size (Elouidani & Zoubir 2015). Secondary data for the independent variables from 2011 to 2020 were collected from the IRESS database of financial information.

Multinomial logistic regression is used in this study, as the outcome variable (Y) is presented as an ordinal variable in the form of a ranking. Since multinomial logistic regression is used to predict the membership of predictor variables in more than two outcome variables (Starkweather & Moske 2011), this is considered the most appropriate statistical technique for the type of data items used in the study. In addition, multinomial regression analysis allows for both continuous and binary independent variables. Multinomial logistic regression does not require careful analysis in terms of the assumptions of normality, linearity, or homoscedasticity as is the case for linear regression models (Starkweather & Moske 2011). However, it relies on careful consideration of sample size (at least 10 observations per independent variable), outliers, and the presence of multicollinearity between independent variables. These factors were assessed and found to be acceptable for multinomial logistic regression.

The section that follows, describes the results of the descriptive analyses and multinomial logistic regression model.

Ethical considerations

This article followed all ethical standards for research without direct contact with human or animal subjects.

Results

A total of 147 companies' data over a period of 10 years (2011 to 2020) were included in this study, representing 901 valid company years included in the statistical analysis. Table 1 presents the distribution statistics for the companies included in the empirical analysis. Most company years (32%) fall in the 'good' category for integrated reporting quality.

A basic frequency analysis presented significant outliers that had to be investigated. After ensuring that the outliers were not the result of errors in the data, winsorizing was implemented. Outliers can be retained in the dataset,

TABLE 1: Integrated reporting quality (IRQ) distribution statistics.

IRQ classification	Code	N	%
Progress to be made	1	161.00	17.87
Average	2	187.00	20.75
Good	3	286.00	31.74
Excellent	4	168.00	18.65
Top 10	5	99.00	10.99
Total	-	901.00	100.00

removed, or winsorized (Huck 2012; Lusk, Halperin & Heilig 2011). Retaining and removing outliers may distort the results. However, through winsorizing, the value of the outlier is modified to bring it in line with other variables. For this study, the outliers associated with the dependent variables were winsorized at the 1st and 99th percentiles.

An analysis of multicollinearity did not indicate any significant collinearity between the winsorized independent variables. This was confirmed through low variance inflation factor (VIF) statistics. Table 2 presents descriptive statistics for the variables used in the analysis.

The correlation statistics for the dataset are presented in Table 3. The only significant correlation with integrated reporting quality is market capitalisation, indicating that size is a valuable variable when integrated reporting quality is considered.

The overall fit of the multinomial logistic regression model is reflected in the -2 log-likelihood and its associated chi-square (Field 2013). The significance of the chi-square statistic must be less than 0.05 for the model to be a significant fit to the data. For the multinomial logistic regression model analysis for this study, the chi-square statistic is 0.000, indicating that the model is a significant fit to the data. The goodness of the fit also has a significance of 0.000, further supporting that the model is an acceptable fit to the data.

The model has a Cox and Snell's R-Square of 0.063 and a Nagelkerke R-square of 0.066, which means that the model is fairly weak. A Durbin-Watson test for auto-correlation was also conducted for further confirmation of the data fit: the model receives a score of 1.84, indicating that the data is not

TABLE 2: Descriptive statistics.

Variables	Mean	Median	Standard deviation	Minimum	Maximum
Integrated reporting quality (IRQ)	2.84	3.00	1.23	1.00	5.00
Current Ratio (CR)	1.58	1.30	1.32	0.03	9.83
Debt/Assets (DA)	0.50	0.48	0.32	0.00	2.67
Price/Book Value (PB)	2.73	1.77	2.68	0.35	14.69
Return On Equity % (ROE)	13.89	13.35	19.00	-59.04	75.08
Share Return % (SR)	4.91	3.02	36.52	-91.16	147.77
Market capitalisation (MCap) [†]	24.46	24.30	1.25	22.04	28.53

n = 901.

[†], To align the market capitalisation variable with the values of the other variables, the natural logarithm of market capitalisation was used.

TABLE 3: Correlations.

Variable	IRQ	CR	DA	PB	ROE	SR	MCap
IRQ	1.000	-0.030	0.107**	0.003	0.034	-0.031	0.162**
CR	-0.047	1.000	-0.472**	-0.055	-0.052	0.015	-0.043
DA	0.051	-0.385**	1.000	0.247**	0.108**	-0.027	0.027
PB	0.023	-0.078*	0.195**	1.000	0.665**	0.350**	0.206**
ROE	0.037	-0.007	0.039	0.516**	1.000	0.352**	0.140**
SR	0.012	0.030	-0.060	0.205**	0.264**	1.000	0.250**
MCap	0.137**	-0.034	0.205**	0.111**	0.146**	0.229**	1.000

IRQ, Integrated reporting quality; ROE, return on equity; CR, Current Ratio; DA, Debt/Assets; PB, Price/Book Value; SR, Share Return; MCap, Market capitalisation.

Notes: The Pearson correlation appears below the diagonal and the Spearman correlation above the diagonal; **, and * indicate significance at the 0.05, and 0.1 levels.

TABLE 4: Multinomial logistic regression.

IRQ	B	Standard error	95% CI for the odds ratio		
			Lower bound	Exp(B)	Upper bound
2 (Average)					
Intercept	-0.021	2.242	-	-	-
CR	0.077	0.072	0.938	1.080	1.243
PB	-0.003	0.052	0.900	0.997	1.105
ROE	0.003	0.007	0.989	1.003	1.017
MCap	0.000	0.092	0.835	1.000	1.199
3 (Good)					
Intercept	-1.558	2.032	-	-	-
CR	-0.170	0.083**	0.717	0.844	0.994
PB	0.028	0.046	0.940	1.028	1.125
ROE	0.002	0.006	0.990	1.002	1.015
MCap	0.094	0.083	0.933	1.098	1.294
4 (Excellent)					
Intercept	-1.585	2.277	-	-	-
CR	-0.173	0.098*	0.695	0.841	1.019
PB	0.069	0.047	0.976	1.072	1.176
ROE	-0.006	0.007	0.982	0.994	1.007
MCap	0.073	0.094	0.895	1.075	1.292
5 (Top 10)					
Intercept	-11.455	2.501***	-	-	-
CR	0.042	0.089	0.875	1.043	1.243
PB	-0.162	0.076**	0.733	0.850	0.987
ROE	0.022	0.010**	1.003	1.023	1.043
MCap	0.445	0.101***	1.279	1.560	1.902

Note: $R^2 = 0.063$ (Cox & Snell), 0.066 (Nagelkerke). Model $\chi^2(12) = 58.705$, ***, ** and * indicate significance at the 0.01, 0.05 and 0.1 levels; Reference Category is 1 (Progress to be made).

ROE, return on equity; CR, Current Ratio; PB, Price/Book Value; MCap, Market capitalisation; B, logistic coefficient.

auto-correlated (1.5 to 2.5 is acceptable). The implementation of a backward elimination removed the share return variable, as this variable did not contribute to the model. Table 4 presents the summarised results from the statistical model.

Due to the Cox & Snell and Nagelkerke R-square values being low, one can make the deduction that there is no real relationship between the perceived quality of integrated reports and the various financial performance measures in the overall regression model.

When variables that were shown to be significant in the model are considered separately, it seems that, if an integrated report is top quality (i.e. in the Top 10), the price-to-book value ratio and ROE are significant at the 0.05 level with the market capitalisation (size) being significant at the 0.001 level. The negative coefficient of the price-to-book value indicates higher book than market values for companies with better quality integrated reports, while the ROE indicates higher profitability. However, the market capitalisation, being the most significant, creates the impression that it is larger companies that perform better at integrated reporting.

These results are in line with various other studies that found no significant relationship between integrated reporting and financial performance (Bijlmakers 2018; Churet & Eccles 2014; Matemane & Wentzel 2019; Nurkumalasari et al. 2019; Smith 2016; Soumillion 2018).

Conclusions and discussion

The accounting profession has been criticised for not meeting the information needs of all stakeholders. To address these issues, the concept of performance was broadened to include not only financial aspects but also aspects that concern the entity at the social and environmental levels. South Africa is the first country in the world where integrated reporting is recognised at the stock exchange level – on an ‘apply and explain’ basis – making it the perfect case study to investigate economic and other consequences associated with integrated reporting. This study examined the relationship between the quality of integrated reporting and measures of financial value to determine if there is a relationship. The study further investigated the reasons why companies produce integrated reports.

Prior studies that investigated the relationship between integrated reporting and financial performance found results varying between a positive relationship, a negative relationship, and no relationship. Investigating the relationship between integrated reporting quality and firm performance, this study does not record a significant relationship between integrated reporting quality and measures of firm performance.

The results of the study do, however, indicate that larger companies tend to produce better quality integrated reports; this may indicate that integrated reporting quality may be a function of firm size. This finding is consistent with the view of Deegan (2009), that the needs of more influential stakeholders are prioritised above those of other stakeholders. Since institutional investors are the largest shareholders in the largest companies listed on the JSE, this view is consistent with prior research that states that institutional investors believe that integrated reporting increases the credibility of companies and that companies produce integrated reports to strengthen stakeholder relationships (Atkins & Maroun 2015; Black Sun 2014).

The internal, external, and regulatory benefits of integrated reporting, recognised by Eccles and Saltzman (2011), further highlight the motivation for companies to produce better quality integrated reports. Larger companies may produce better quality integrated reports to satisfy their largest stakeholders (i.e. institutional investors), manage stakeholders’ impressions, be included in ESG indices, such as the EY Excellence in Integrated Reporting Awards, adhere to stock exchange requirements, and ensure that they have a seat at the table when integrated reporting standards and frameworks are developed.

Given that one of the main objectives of corporate governance is the achievement of organisational legitimacy and that the legitimacy of organisations depends on society’s perceptions of the value added by companies (IoDSA 2016; Setia et al. 2015), the results of this study may indicate that companies produce better quality integrated reports to legitimise themselves in the eyes of society and to manage

stakeholder impressions (Ahmed Haji et al. 2016; Atkins & Maroun 2015; Du Toit 2017).

This study only focused on the integrated reporting practice in South Africa, as it is currently the only country in the world where the largest stock exchange requires companies to adopt integrated reporting. The results of this study may, however, be useful to firms and investors outside of South Africa wishing to understand the economic and social impacts of these disclosures. This study only considered the integrated reports of the top 100 companies by market capitalisation listed on the main board of the JSE, more insightful findings may be discovered by investigating the integrated reports of the entire main board of the JSE. This study focused on the economic value added by integrated reporting, but it did not investigate whether the users of integrated reports find these reports more useful than traditional accounting reports in decision-making. One of the best indicators of value will be in determining if the users of these reports find them useful.

Other than institutional investors, ordinary shareholders and stakeholders of financial statements may not have the ability to analyse financial statements for themselves and may rely on analysts' forecasts when deciding which share to buy. To further investigate the usefulness of integrated reporting, it might be of value to assess the effect of better quality integrated reports on analyst forecast error.

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Competing interests

The authors have declared that no competing interest exists.

Authors' contributions

M.M. and E.D.T. contributed both to the design and implementation of the research, to the analysis of the results and to the writing of the manuscript.

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Data availability

The data that support the findings of this study are publicly available from the IRESS Financial Database and the Ernst & Young website (https://www.ey.com/en_za/assurance/excellence-in-integrated-reporting).

Disclaimer

The views expressed in this paper are our own conclusions derived from the results generated through statistical analyses.

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