Corporate Governance
in the Context of Integrated Reporting

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Abstract

This paper is a comparative qualitative analysis of the content found in integrated reports of European and African companies from the financial sector, with respect to information regarding their corporate governance.

As described by the International Integrated Reporting Council, integrated reporting refers to different aspects of a company, such as strategy, governance, performance and prospects, pursuing the creation of value over time. This article focuses on the aspect of corporate governance in the context of 2018 integrated reports of companies from the IR Example database.

The main results of the study consist of a comparison between companies from Europe and Africa regarding the similarities and differences between the shared information about their corporate governance within their integrated reports and the potential explanation for these facts.

Keywords: *Integrated Reports, IIRC, Corporate Governance, Disclosure, Information.*

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1. Introduction

The relationship between businesses, their stakeholders and the society in which they operate is getting more and more attention and importance day by day. The most commonly used financial reports are becoming inefficient, as non-financial information is regarded lately supremely important for all stakeholders. Investors do not receive complete information for their overall perception on different aspects of companies, in order to make the right investment decision and there is a lack of trust and a backward approach when regarding the disclosures of companies. These situations in which the capital markets are finding themselves these days are bringing with themselves significant compliance burdens.

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Integrated reporting (IR) is trying to solve all this problems, while combining financial information and non-financial information in a single document, assuring all stakeholders with a holistic image of a company.

According to integrated-reporting.org, these kinds of reports are based on communication between investors and businesses worldwide and numerous businesses from the public and private sectors have already adopted the integrated reporting framework.

Integrated reporting has been introduced by the International Integrated Reporting Committee (IIRC- established in 2010, subsequently renamed International Integrated Reporting Council), in order to create a solution for the increasing multiple demands of stakeholders for a wider selection of information useful for decision-making, in contrast with conventional corporate financial reports (de Villiers, Hsiao and Maroun, 2017). They promote the idea that “the process of integrated thinking and reporting” will result in “efficient and productive capital allocation and will act as a force for financial stability and sustainability” (IIRC, 2013, p. 2).

Starting from the main purpose of integrated reports, namely to offer explanations to financial capital providers- at the same time bringing benefits to all kind of stakeholders- about the way through which an organization creates value over time, this article analyses the content of integrated reports of 10 European and 10 African companies from the financial sector, with respect to their qualitative disclosure regarding corporate governance.

This paper consists of 4 sections, except for the introduction. The following section (Literature Review) provides relevant aspects taken from earlier specialty literature with respect to corporate governance and different possibilities of connections with integrated reporting. Following the literature review, the paper describes the methodology used in order to collect data (section 3) and a statement regarding results and findings (section 4). The final part (section 5) is a summary of the main findings of the study, and an admission of the limitations involved as well as highlights of some future research directions.

2. Literature Review

In this section, the paper is concentrated on previous studies that are relevant only for the present research direction.

Integrated report has been defined by the IIRC as “a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term” (IIRC, 2013, p. 8).

Integrated reporting “has a combined emphasis on conciseness, strategic focus and future orientation, the connectivity of information and the capitals and their interdependencies emphasizing the importance of integrated thinking within the organization” (IIRC, 2013, p. 3). The capitals are classified in 6 categories in the IIRC Framework, namely: “financial, manufactured, intellectual, human, social and relationship, and natural capital” (IIRC 2013, p. 4).

As stated by IIRC, the implementation of the Integrated Reporting Framework, which provides a basic guidance with respect to the principles of IR for companies and other organizations will “accelerate these individual initiatives and provide impetus to greater innovation in corporate reporting globally to unlock the benefits of <IR>, including the increased efficiency of the reporting process itself” (IIRC, 2013, p. 2.).

Lately, there has been a remarkable interest in the literature regarding the subject of integrated reporting, regardless of the outcomes of the studies- some authors highlighted positive aspects correlated with the implementation of IR (Lee and Yeo, 2016; Zhou, Simnett and Green, 2017; Barth, et al., 2015; Bernardi and Stark, 2016), and others negative ones (Chaidali and Jones, 2017).

With respect to the previous mentioned benefits, there are many recent papers, which can be taken into consideration with respect to the effectiveness of the IIRC framework for the characteristics expected from an integrated report in South Africa, studies that address financial performance of different companies, which uses data from before and after the implementation of IR. Lee and Yeo (2016) study the correlation between cross-sectional variation in Integrated Reporting disclosures and firm valuation in the period after the implementation of Integrated Reporting and discover a positive association between them and that the relationship is stronger for firms with increased organizational complexity and with higher needs for external financing. They also find that firms with high Integrated Reporting exceed in terms of stock market and accounting performance those with low Integrated Reporting. Hurghiș (2017) mentions the correlations between a disclosure index and the corporate governance characteristics, emphasizing the fact that only the size of the board influences the extent to which integrated reports comply with the IR Framework. Zhou, Simnett and Green (2017) study the relationship between the level of alignment of South African financial integrated reports and analysts’ earnings forecast accuracy and dispersion and the relationship between companies which use integrated reports with a high level of alignment and the cost of equity capital. They provide evidence that analysts’ forecast error reduces as a company’s level of alignment with the IR framework increases and that information from integrated reports is helpful for analysts’ earnings prediction, probably due to future-oriented information about strategies and business models contained in IR. Barth et al. (2015) also study the relationship between the quality of integrated reports and firm value. They find a positive association between integrated reporting quality and liquidity, expected future cash flows, investment efficiency and no evidence of a relation between integrated reporting quality and the cost of capital. A similar subject investigates the impact of the reporting form change on analyst forecast accuracy, evaluating the usefulness of IR for different users (Bernardi and Stark, 2016). They find that ESG disclosure levels - especially environmental disclosures, but also governance disclosures are associated with forecast accuracy after the introduction of integrated reports for South African companies.

Other authors describe the connection between the concepts of sustainability and integrated reporting in more detail, claiming, at the same time, that they are playing a role in the future developments of reporting of transnational corporations. They also highlight the main global players involved in the promoting this type of reporting at that time and the challenge of the external assurance of such reports (Dima, Popa and Farcane, 2015). All these papers suggest that integrated reports can be linked to a higher financial performance, and provide useful information to capital markets.

On the other hand, there are studies which take into consideration the “downsides” of and when implementing integrated reporting.

Regarding the performance and appearance of integrated reports, preparers are often concerned and suspicious with respect to the motives of the IIRC professionals (Chaidali and Jones, 2017). They tend to believe that the composition of the IIRC Board has a negative impact on influencing their trust of this initiative. According to Chaidali and Jones (2017), preparers are also showing concerns about the credibility of a single report and with respect to of the potential benefits or the beneficiaries of IR. They tend to believe that IR do not provide adequate and clear guidance, are associated with high costs of preparation. They also show concerns regarding the format and the length of different reports.

In what regards the compliance level of 2015 European integrated reports with the Guiding Principles of the IIRC Framework, other authors state that companies differ in matter of stages they are in, related to their compliance with the IIRC requirements (some companies are in the vanguard of the initiative while others have combined reports rather than integrated ones) by using a content analysis and scoring based methodology (Bratu, 2017).

Dumay et al. (2017) highlighted some aspects which they call “barriers” in implementing the IIRC framework:

- the numerous different explanations of the concept of IR,
- the vague and abstractly defined terms used in explaining integrated reporting (“integrated thinking” and “value creation”),
- insecure usefulness for the value relevance,
- improper internal processes and lack of regulations.

Other authors, focused on the perceptions of shareholders and potential investors, finding out both positive aspects- integrated reporting (IR) as an improvement of traditional annual reports and negative ones – long, repetitive and difficult structures which can “detract from the usefulness of the reports and undermine the development of an integrated thinking ethos” (Atkins and Maroun, 2015, p. 215). They researched the first reactions of the South African institutional investors towards some of the first integrated reports of companies listed on the Johannesburg Securities Exchange, based on interviews conducted with 20 experts from the South African investment community.

3. Methodology

According to IIRC, there are 8 content elements that “are fundamentally linked to each other and not mutually exclusive”, which an integrated report should include:

- Organizational overview and external environment,
- Governance,
- Business model,
- Risks and opportunities,
- Strategy and resource allocation,
- Performance,
- Outlook,
- Basis of presentation. (IIRC, 2013, p. 5)

This article focuses on the second content element, namely “governance”, while conducting a basic content analysis of the integrated reports of 20 companies, by analysing their corporate governance disclosures.

According to IIRC, the companies are supposed to demonstrate the means by which their governance structure supports their abilities to create value over time while publishing their disclosure of information regarding the “governance” content element (IIRC, 2013).

Starting from a prior literature study conducted by Cohen et al. (2011), this study identifies relative ratings of governance indicators, and uses them to identify the quality of integrated reports with respect to corporate governance disclosures. Cohen et al. (2011) examined the perceptions of 750 retail investors about different economic performance-, corporate governance policies- and corporate social responsibility indicators. Their results highlighted that retail investors were most concerned at that time with economic performance information, followed by governance, and then by corporate social responsibility information. Nonetheless, interest in non-financial data has grown very fast lately, as satisfaction of stakeholders is one of the key aspects in obtaining many benefits.

Thus, 2018 integrated reports of 10 European and 10 African companies from the financial (banking) and insurances sectors were analysed, while searching for disclosure of information (qualitative descriptions) regarding the following indicators: director independence standards, board selection processes, executive remuneration policy, change of control procedures, audit processes, ethics guidelines, innovative management strategies, board qualifications, gender quotas and ethnicity. The companies which contained in their integrated reports disclosures about these indicators received 1 point/indicator, and the ones which did not revealed any details received 0 points. All companies are listed through the examples of integrated-reporting online database. Table 1 summarises the analysed indicators, while providing a short description for each of them.

Table 1. Corporate Governance Indicators

Indicator	Description
Director independence standards	Independency percentage of board members
Board selection processes	The nominations' committee attributions and processes with respect to appointing of new members
Remuneration Policy	Practices used in the remuneration process
Change of control procedures	Details about the systematic approach regarding the management of all changes made to a product or system
Audit processes	Processes described in the independent auditors' report
Ethics Guidelines	The Board's approach to ethical and effective leadership
Innovative Management Strategies	Innovative solutions along the full extent of the wealth creation, management and protection value chain
Board Qualifications	Skills and expertise of the board members
Gender Quotas	Female/Male board members
Ethnicity	Inclusion of diversity (e.g. black board members)

Source: own construction

4. Findings and Results

This study reveals that all analyzed European companies revealed much information with respect to corporate governance (Table 2). Using descriptive statistics, we obtained many indicators, which were eliminated due to statistical irrelevancy, because of the significantly small set of analysed data.

The maximum mean was 1 and the minimum one was 0,7. Moreover, 4 out of 10 European companies (ING GROUP, HSBC, RSA and ROYAL BANK OF SCOTLAND) shared descriptive information about all researched indicators.

Table 2. Governance Disclosures of European Companies

European companies	Mean
GENERALI	0,7
FIDEURAM	0,8
GARANTI BANK	0,8
ING GROUP	1
HSBC	1
RSA	1
RABOBANK	0,9
SEK	0,8
UNICREDIT	0,9
ROYAL BANK OF SCOTLAND	1

Source: own construction

Table 3. European responses with respect to corporate governance indicators

Indicators	Percentage	Sum	Count
Director independence standards	100%	10	10
Board selection processes	70%	7	10
Remuneration policy	100%	7	10
Change of Control Procedures	40%	4	10
Audit Processes	100%	10	10
Ethics guidelines	90%	9	10
Innovative Management Strategies	100%	10	10
Board qualifications	100%	10	10
Gender Quotas	100%	10	10
Ethnicity	90%	9	10

Source: own construction

Table 3 indicates that all European companies shared information within their integrated reports regarding the director's independence standards, their remuneration policies and audit processes, the innovative management strategies they introduced, the board qualifications and gender quotas. 90% of the European companies mentioned information regarding ethical aspects and inclusion of diversion (ethnicity related aspects), 7 out of 10 companies described their board selection processes and only 40 % of them revealed information about their change of control procedures.

Table 4. Governance Disclosures of African Companies

African companies	Mean
BANK WINKHOEK	0,8
ALEXANDER FORBES	0,9
ABSA	0,8
ACCELERATE	0,9
AEEI	0,9
AFRICAN BANK	0,8
CAPITEC BANK	0,9
DISCOVERY	0,9
IDC	0,8
SANLAM	0,8

Source: own construction

Table 5. African responses with respect to corporate governance

Indicators	Percentage	Sum	Count
Director independence standards	90%	9	10
Board selection processes	80%	8	10
Remuneration policy	100%	10	10
Change of Control Procedures	10%	1	10
Audit Processes	100%	10	10
Ethics guidelines	100%	10	10
Innovative Management Strategies	100%	10	10
Board qualifications	80%	8	10
Gender Quotas	90%	9	10
Ethnicity	100%	10	10

Source: own construction

Table 4 suggests that African companies also revealed much information about their corporate governance. Nonetheless, none of the African companies shared information with respect to all researched indicators, such as 4 of the European companies (Table 4). All companies shared details about their remuneration policy, their audit processes, their ethics guidelines, their innovative management strategies and ethnicity related aspects (Table 5). 90 % of all companies revealed descriptive information about the directors' independence standards and the gender quotas and 80 % of analyzed African companies mentioned details about their board selection processes and the board qualifications and experiences. The results are quite similar with the ones for European companies, except the disclosures about the change of control procedures (which was the least distributed information also in the previous case), because only one out of ten African companies shared such information within their integrated reports.

An important observation is the fact that the descriptive data revealed through the studies of integrated reports took the qualitative form in some cases, whereas in others, there were also quantitative disclosures.

5. Conclusion

Developing economies have a vital need for an economical corporate segment in order to grow and develop properly. They must ensure the investors that what they bring to the table will benefit from a safe and efficient management based on transparency and accountability. That assurance can only be sustained by good corporate governance.

There exist few opinions which state, that African countries however often lack the necessary equipment to implement the corporate governance systems due to political reasons. According to Lazonick and O'Sullivan (2000), one of the major problems with respect to this issue, is the ownership structure of the corporate sector, the relationships between the financial sector and the government, weak judiciary and legal systems as well as limited human resources.

Although there is only one state owned company analyzed through this current research, of particular interest regarding a different opinion about corporate governance in Africa is given by Chigudu (2018), who finds out that the civil services surpass the need of the countries' population, the judiciary lacks independence and corruption is at a high level, while participatory decision-making is low with weak parliamentary oversight when interrogating the public sector of selected countries from West and Southern Africa of the corporate governance principles. He also recommends some actions that must be undertaken over the short, medium and long term in order to obtain good corporate governance in the African public sector.

The main findings of this paper reveal that there are no significant differentiations between the corporate governance disclosures of European and African companies within their 2018 integrated reports. The only major "lack" of information disclosure is connected to the change of control procedures of companies. Surprisingly, the European companies, although not pressured by any legislation changes regarding the reporting norms, publish almost the same quantitative information as the companies from Africa, integrating reports being mandated for those who are listed on the Johannesburg Stock Exchange. Nonetheless, there is no information regarding the consequences of not providing integrated reports for Johannesburg Stock Exchange companies, due to the ambiguity of many aspects included in the integrated reports. This could lead to the idea that IR doesn't have to become mandatory in order to encourage more substantive and qualitative disclosures, despite the contradictory opinions of Stubbs and Higgins (2018). The European companies could influence a new reporting form, providing information regarding the benefits of introducing integrated reports.

This article is part of an ongoing study, thus containing some significant limitations regarding different aspects, such as the small data set analysed and the subjectivity involved in analysing and reviewing the reports. Because of the small number of analysed companies, the statistical interpretation is irrelevant, thus observing only the quality of integrated reports. Furthermore, the study is limited to only one sector – financial sector (including also insurances sector) and incorporating a greater number of reports for different sectors could result in a comparative analysis that could reveal the differences regarding the corporate governance disclosure within these sectors. Other limitations refer to the difficulties involved in comparing the qualitative data analyzed –methodology, because of the main differences with respect to the length and content of reports.

One of the guiding principles of IIRC for the IR Framework refers to the conciseness of integrated reports. Unlike the previous principle, the length of the studied reports varied from the shortest -90 pages (ABSA) to the longest -628 pages (GARANTI BANK). However, the quality of the reports in this case, was not related to their length.

Future research directions include indicators which could be analysed from a quantitative perspective and then associated with performance indicators in order to sustain the largely debatable theme of advantages of integrated reports revealed through financial performance. Another important observation is related to the form of the integrated reports disclosures, as it would be of great interest to all integrated reports users to find a standardized option of those reports. The non-financial disclosures are really difficult to compare, as descriptive information is not included in standardized tables.

Despite all limitations, this article revealed significant information related to the content of 20 integrated reports and the corporate governance disclosures of European and African companies within the financial and insurances sectors.

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