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INTEGRATED REPORTING <IR>

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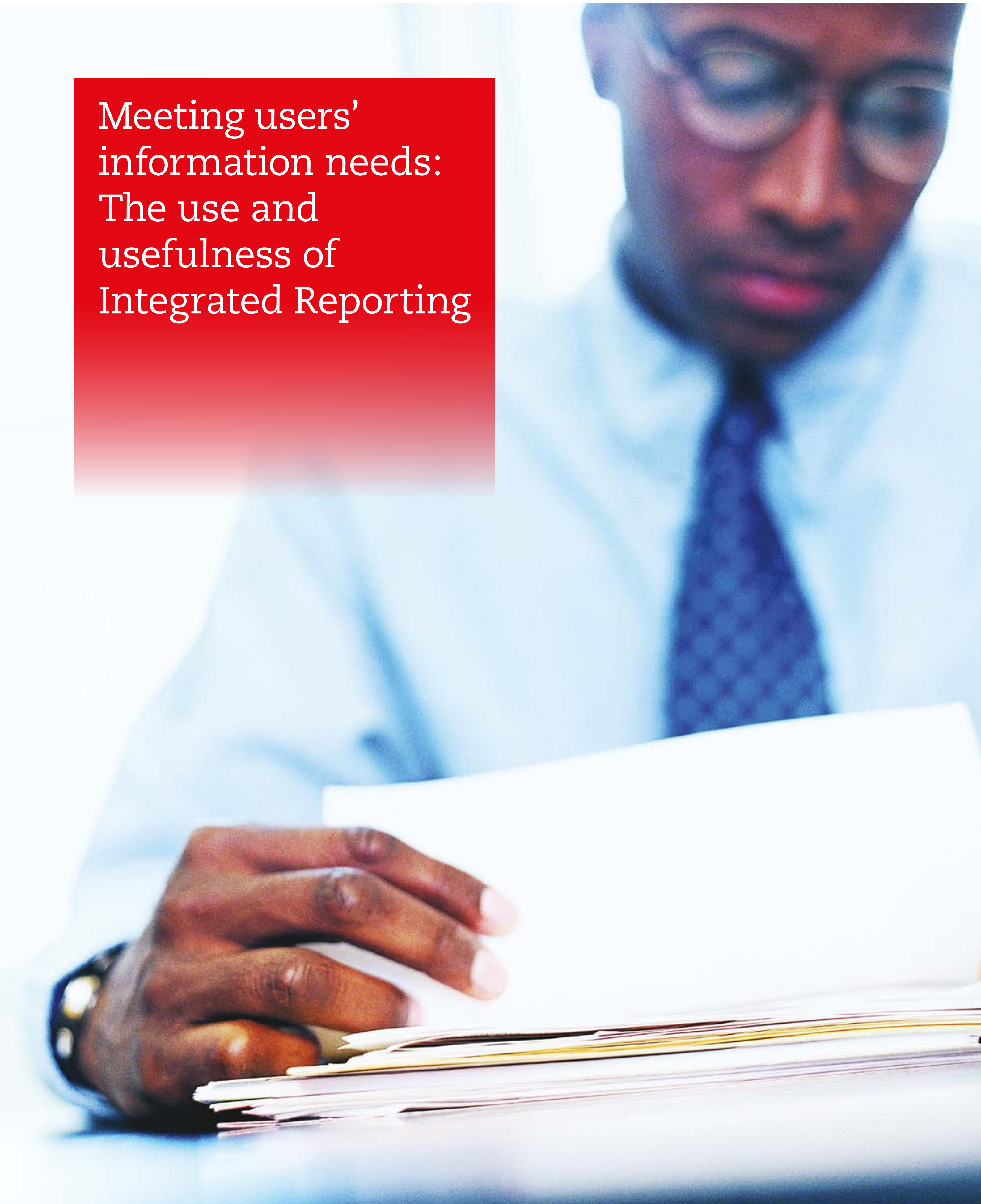
Meeting users' information needs: The use and usefulness of Integrated Reporting



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This report explores how providers of financial capital perceive integrated reporting (<IR>) and its potential for providing decision-useful information, through interviews with senor capital market participants.

In doing so, the report highlights investors' information needs, identifies the key challenges to widespread <IR> adoption and makes useful recommendations about how such challenges may be overcome.

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Meeting users' information needs:
The use and usefulness of Integrated Reporting

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Foreword

When the International Integrated Reporting Framework was launched in December 2013, it was with a laudable and lofty ambition – to make corporate reporting more rounded, more reflective of the genuine challenges organisations face, and therefore more useful to investors.

Two and half years on, this new research report explores the extent to which this aim of enhanced utility to the end user is being met. Through primary research with senior capital market participants and other significant report users, it provides a timely insight into the impact of integrated report on the investor community.

It is clear that there is an appetite for what integrated reporting was established to provide – that is a transparent and concise disclosure of corporate strategy, how it is measured and managed, and the risks associated with it.

However, this research shows that there is still work to do in raising awareness of <IR> principles among equity investors and other providers of finance so that integrated reporting is expected and demanded. For example, the research suggests that beyond financial capital, comparing capitals movement over time and between organisations is problematic for investors.

This is a clear challenge to us as leaders and educators in the accountancy profession. We need to ensure we explain and promote the value of integrated reporting to the users and future users of corporate reports, so that integrated reporting may become widespread practice.

This research identifies strategies for improving familiarity with and reliance on integrating reporting, through the communication of the tangible benefits it brings. In this way, the researchers provide an invaluable insight into how we can make integrated reporting work better for all of us.

Helen Brand OBE
Chief executive
ACCA

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The International Integrated Reporting Framework (<IR> Framework), published in December 2013, states that 'the primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time' (IIRC 2013a: 4).

ABOUT THE RESEARCH

The International Integrated Reporting Framework (<IR> Framework), published in December 2013, states that 'the primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time' (IIRC 2013a: 4). The Framework specifies a number of key aims in support of this purpose, such that an integrated report (prepared in accordance with the <IR> Framework) will improve the quality of information and its decision-usefulness to providers of financial capital and other users, to the extent that in the long term, Integrated Reporting (<IR>) 'will become the corporate reporting norm' (IIRC 2013a: 2). As specified in the Framework, <IR> aims to:

- 'Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time
- Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies
- Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term'. (IIRC 2013a: 2)

A fundamental concept within the <IR> Framework is the capitals model, which 'provide[s] insight about the resources and relationships used and affected by an organization (IIRC 2013a: 4). Further, the 'value created by an organization over time manifests itself in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs' (IIRC 2013a: 10).

Despite the international corporate and institutional support for <IR>, evidenced by the development and subsequent issue of the Framework, questions remain about its specific use by and usefulness to users and specifically to its primary audience, ie providers of financial capital. Although questions about its usefulness may arise, perhaps in part because any change in corporate reporting will require users to

This research was designed to ascertain the views of equity investors in the first place, and of other providers of financial capital and financial users in the second place, about <IR> and its potential for providing decision-useful information.

become accustomed to a new format of report, it is now apposite to investigate the perceptions of key users as to <IR>'s usefulness to them and whether the integrated report serves their needs. This research was designed to ascertain the views of equity investors in the first place, and of other providers of financial capital (such as corporate and investment bankers) and financial users in the second place, about <IR> and its potential for providing decision-useful information. The research aimed to establish, through interviews with senior global capital market participants and other significant financial users, these groups' use of corporate information and their information needs and how <IR> might address any information asymmetries. Further, through the interviews, evidence was sought of the current level of familiarity with and demand for <IR> among providers of financial capital and other financial users and so highlight the key challenges that face <IR> and the barriers that may serve to impede its wider adoption and demand across financial markets.

METHOD

To provide a meaningful understanding of users' needs and the use of <IR> by, and its usefulness to, providers of financial capital and other financial users, the primary research was conducted through semi-structured in-depth interviews. There were two sets of interviews, Set 1 comprising equity fund managers and equity analysts (hereafter 'equity investors') as the main focus of this research, and Set 2 involving other providers of finance and other potential financial users (hereafter other providers of finance/users) of <IR>, such as corporate financiers, private equity investors, corporate and investment bankers. For Set 1, the majority of interviews were held in London, as a global financial centre, and the interviewees were from a wide selection of global investment companies. The interviews with both fund managers and sell-side analysts reflected their respective responsibilities for investment decision-making and equity analysis across global markets covering the UK, Europe, North America, Asia, and Developing and Emerging markets. For Set 2, all the interviews were in the UK.

The first set of 21 interviews were conducted between June 2014 and January 2015 with senior global equity investors, of whom 12 were investment fund managers (buy-side) and the remaining nine were equity analysts (sell-side). Some of the second set of interviews were held in June and July 2014, with the remainder held between January and April 2015. In total a further 16 interviews were conducted as part of Set 2. In each set the majority of interviews were with mainstream[1] participants, but the research specifically sought views from others who were more engaged with socially responsible investment and wider environmental, social and governance (ESG) reporting issues. It is recognised that the research reports the views of those interviewed in respective sets. As such the research is qualitative and does not seek to generalise or to present statistically significant results.

Prior to each interview, the participant was sent an email setting out the main aims of the research and providing a link to the International Integrated Reporting Council (IIRC) website. To help achieve consistency, before each interview, the participant was asked to review the IIRC website (www.iirc.org). Additionally, where appropriate, the interviewees were requested to establish the views on <IR> of the teams in which they worked or which they managed, in their respective workplaces, so that these views could also be discussed in the interview. This enabled interviewees to bring in any necessary additional information that they found useful in the decision-making process and to reflect the views of their teams as well as their own personal views on <IR> and the <IR> Framework. In each set, all the interviewees were assured anonymity of person and institution, and all agreed to speak freely on their use of corporate reporting information, such as annual reports or sustainability reports, and their use of and views on <IR>.

The interviews were generally conducted by one or both researchers in a face-to-face meeting with each participant in their own office. In a small number of cases where a face-to-face meeting was not possible, the interview was conducted

1 Within the research, the term mainstream is used to refer to non-SRI institutional investment activities compared to SRI or other more specific ESG related investment activity (see for instance Juravle and Lewis, 2008; Solomon and Solomon, 2006, and from a practice perspective Radley Yeldar, 2011).

At present, there are mixed views on <IR> among participants in the equity market (fund managers and analysts) and other providers of finance/ users.

using Skype. All the interviews in each set followed the same format. With permission, each interview was recorded and subsequently transcribed. All the transcripts were independently read by both researchers, who then met to identify key themes and indicative quotations emerging from each set.

KEY FINDINGS

At present, there are mixed views on <IR> among participants in the equity market (fund managers and analysts) and other providers of finance/ users. There is some, although limited, evidence of use and demand from buy-side fund managers, some of whom had been involved in the consultation and development phase of the <IR> Framework. Conversely, other mainstream investment fund managers and, on the sell-side, equity analysts were not aware of or familiar with <IR>, which was reflected in their current lack of demand for <IR> and their perception that it lacked decision-usefulness. No evidence emerged from any of the interviews with equity investors and other providers of finance/ users that their familiarity with integrated reports was connected with their investment position or strategy (such as passive or active fund management) or geographical market coverage. Instead, their familiarity with and use of <IR> probably depended on the nature of their investment or analysis portfolio: the more directly associated that was with the ESG-orientated disclosure demands of responsible investment, the more knowledgeable they tended to be about <IR>. Other financial users were in general not familiar with <IR>, although again those more involved with ESG-related activities were more informed about and familiar with <IR>.

A number of key themes were prominent in the interviews, which are summarised below.

Use of corporate reporting information

All the participants were fully aware of, and used, corporate reporting information such as annual reports, including narrative sections such as the chairman's and chief executive's reports as well as financial statements. There is ample evidence from the cohort of interviewees, both equity investors and other providers/users, that the current, increasingly cluttered and voluminous, format of corporate reporting – and specifically the annual report – is of increasingly limited use to them as users, beyond any confirmatory relevance to them in relation to their prior understanding and knowledge of a company. Excepting the financial statements, much narrative reporting was criticised as being too backward-looking and lacking connectivity and measurability. Across the interviews, there was an appetite for more relevant, focused and material reporting with a recognised need for more relevant and concise narrative reporting and greater alignment with corporate strategy, key risks and key performance indicators (KPIs). Thus, it appears that there is a demand for disclosures that are more material in nature and a reporting culture that favours clearer disclosure of material risks and information on strategy and decision-relevant matters of interest and relevance to investors.

Familiarity with, knowledge of, and understanding of <IR>

In general, the current level of familiarity with and discourse surrounding <IR> across equity investors and other providers of finance and financial users is low, reflecting their apparent current low level of demand and lack of wider engagement. The exceptions to this are those more familiar with ESG-related issues and those self-selected participants who are engaged at a senior firm or institutional level with developments in <IR>. Although the current level of familiarity may be patchy, however, all participants had reviewed the IIRC website and had canvassed their respective teams for their opinions and were able to identify a number of potential key benefits associated with <IR>, even though these did not impact their current decision-making practice.

<IR> as a corporate reporting document and its use and potential in decision-making

Three key areas emerged from the interviews: the link between reporting and long-term value creation; the link between reporting and corporate strategy; and, aligned with these two, the reporting of KPIs relevant to strategy and value creation. A significant majority of all participants expressed a desire to see greater consistency and comparability of

> Some of the market actors expressed some scepticism on the reporting of the capitals, which may impede their current level of demand for, and use of, the <IR> Framework.

KPIs linked to corporate strategy and a clear articulation of drivers of corporate value. This was often restricted to financial information and thus not reflective of the broader capitals model envisaged in the <IR> Framework.

Use and relevance of capitals model

In general, clearer recognition and disclosure of wider issues relevant to value creation were welcomed. Whilst factors beyond financial capital, such as brand and supply chain management processes, are already recognised in investment decision-making, the potential use of the capitals model and the associated integration of reporting across all aspects of the business would strengthen this connectivity in reporting. Despite this, there was a general misunderstanding of, and concerns expressed about, the 'capitals model' of the <IR> Framework. Some of the market actors expressed some scepticism on the reporting of the capitals, which may impede their current level of demand for, and use of, the <IR> Framework. In part, this stemmed from a lack of any specific reporting template and questions about how reporting on the six capitals might be individually broken down and their comparability between companies and over time. A more focused discussion of strategy linked to the business model would be welcomed, and this might increase the relevance and usefulness of the six <IR> capitals for investment decision-making purposes to them. Moreover, some of the interviewees commented on the lack of granularity and specificity of risk reporting and associated KPIs that could be usefully addressed by <IR> alongside the relevant capitals.

Further, despite the growth in levels of sustainable and responsible investment (see, for instance, the Principles for Responsible Investment and the Forum for Sustainable and Responsible Investment[2]), there was a perceived lack of market demand for reporting on some of the capitals, especially social and relationship capital and natural capital, although this may be reflective of participants' more general unfamiliarity with such issues, despite their relevance to strategy and value creation, rather than the related capitals in the <IR> Framework. In contrast, participants with a special interest in ESG issues were often strong advocates of <IR> and the more meaningful disclosure that <IR> promotes, through for instance the alignment of natural capital to strategy.

Barriers to demand and use by capital market participants

While the participants, both equity investors and other providers of finance/users, recognised the need for better quality, more connectivity and less clutter in current corporate reporting, they spoke of a number of key barriers to market penetration of <IR> from a demand perspective. Firstly, their evident lack of familiarity with <IR> reflected a general lack of current market penetration. Secondly, some participants from each Set of interviews expressed concerns over the measurability and connectivity of the capitals model and the perceived use of unnecessary jargon. Thirdly, there is a current lack of widespread engagement and discourse, both internally in organisations and externally with clients and through wider capital market events, such as quarterly reports. Although an increased number of <IR> reports from preparers may help achieve a 'critical mass' of <IR> reports, a more demanding challenge is the culture within equity markets and the incentive-led demand of equity analysts. To address this, an evidenced shift in emphasis and demand placed upon <IR> by buy-side fund managers would stimulate its wider use in investment decision-making, and by equity analysts. For instance, Eumedion in the Netherlands has acted to encourage more widespread adoption and use of <IR> in investment decisions. The lack of demand and use in sell-side analysis reflects the short-term nature of current equity markets and the incentive-led behaviour of analysts.

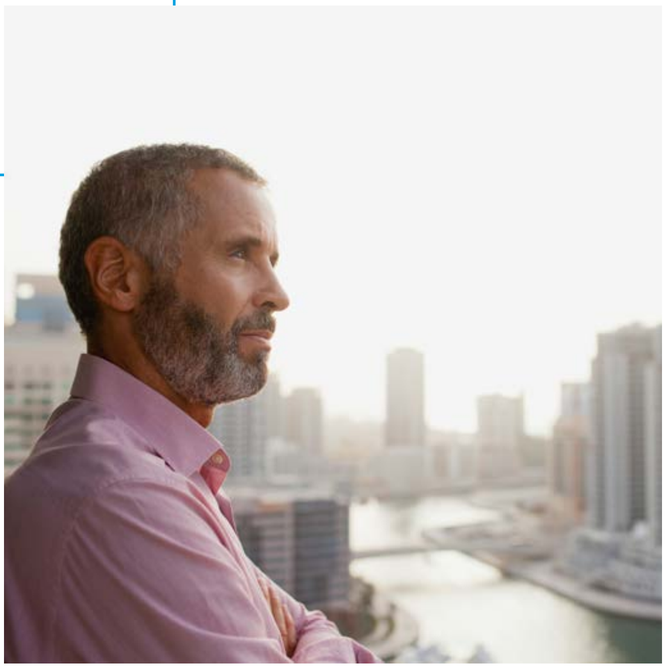
RECOMMENDATIONS

Key issues to be addressed are the current level of market penetration of and familiarity with <IR> among equity investors and other providers of finance/users and the levels of demand for and the perceived usefulness of <IR>, in practice, to users. Thus, there is a need to gain more evidence of the benefits of <IR> for the providers of financial capital and other user groups. A number of recommendations are made to help address these demand-side challenges.

2 Principles for Responsible Investment, <www.unpri.org/introducing-responsible-investment/>, accessed 14 March 2016. Forum for Sustainable and Responsible Investment, <www.ussif.org/sribasics>, accessed 14 March 2016.

Continued investor pressure, to which IIRC and supportive institutions can contribute, is needed to put greater emphasis on long-term sustainable value when making investment decisions.

- Empirical research should be carried out to establish the market benefits of <IR>, such as lower cost of capital and reduced risk premiums. Beyond direct user engagement such as that undertaken during this research, there is at present some, although limited, empirical evidence of the capital market benefits of <IR> and its more



widespread adoption. The lack of such evidence is in part due to <IR>'s relative newness, other than perhaps in South Africa. If such benefits were more clearly established, companies would have a greater incentive to adopt <IR> and, given its relevance to corporate value, this would facilitate a higher level of user demand.

- Although the nature of financial capital was generally understood, knowledge of the use of other capitals and their interrelationships was more difficult to establish across the interviews despite their importance to long term value. To help promote the understanding of the remaining five capitals in the Framework and their direct relevance to long-term value and decision-making, more guidance and examples would be supported, especially showing the capitals' direct relevance to investment decision-making. This could be evidenced through capital market presentations by companies that have adopted <IR>, illustrating the relevance and use of capitals in identifying key value drivers, underlying risks and KPI monitoring.

- Current institutional investors in the <IR> investor network, or those otherwise supportive of <IR>, should be encouraged to promote the inclusion of <IR> in client meetings and associated agendas.

- To establish <IR> more fully, together with its relevance to meaningful reporting on strategy and key risks, current <IR> preparers should present their use of <IR> and its benefits for investment decision-making at capital market events outside the results season, as these are already highly time-pressured. This could be a platform on which <IR> could be more fully introduced and its value to company analysts and fund managers explained, including its benefits for consistency of KPI reporting, risk monitoring and key risk 'traffic light' reporting and long-term drivers of value that underpin corporate strategy. The relevance of the capitals model could therefore be promoted. Stemming from this, organisations should include <IR> in their staff training programmes and in company evaluation guidance for portfolio managers or analysts.

Continued investor pressure, to which IIRC and supportive institutions can contribute, is needed to put greater emphasis on long-term sustainable value when making investment decisions. In line with this, there should be greater levels of engagement with buy-side fund managers to demand greater use of long-term value metrics by sell-side analysts in their reports and more consideration of wider risks and performance measures in research notes. Future longitudinal research could usefully examine the decision-making usefulness of <IR> to investors.

1. Introduction

Corporate reporting has never before been as complex as at present, with increased mandated content and listing rule provisions, resulting in increased length and complexity of annual reports.

Corporate reporting has never before been as complex as at present, with increased mandated content and listing rule provisions, resulting in increased length and complexity of annual reports. To this can be added the continual growth in the information that is also disclosed voluntarily, reflecting current practice in areas such as environmental, social, risk and sustainability reporting (de Villiers et al. 2014). Accordingly, it is perhaps not surprising that some corporate reporting is seen by certain users as being overly complex and providing information overload (ACCA 2012) and criticised for containing 'too much clutter' (ACCA 2013: 24). Indeed, there have been a number of calls for content considered redundant in annual reports to be eliminated and for better coordination and, of importance to this research, integration of disclosures to increase the value and relevance of financial and, significantly, non-financial reporting to users (EFRAG et al. 2012; FRC 2011, 2012; ICAS 2010). Concerns over the current usefulness of the annual report were well summarised in the foreword to an ACCA review (2012: 3), *Re-assessing the Value of Corporate Reporting*, which states: 'The state of corporate reporting has become a source of increasing comment and debate in recent years. As annual reports have got ever longer, and taken up increasing resource on the part of preparers, so satisfaction levels of the users of those reports have diminished. The advent of the global financial crisis has shone an unforgiving light on the purpose and effectiveness of companies' reports. Is there still a place for the traditional annual report?'

The debate on the content and materiality of reporting is now several decades old and a number of past initiatives have attempted to address a range of concerns over the relevance, usefulness and user-friendliness of reporting, including PricewaterhouseCoopers' *'Value Reporting'*, (Eccles et al. 2001, and see also ICAEW 2009; Stevenson 2011). In parallel with these initiatives, demand has increased for corporate reporting to integrate wider frameworks more fully and effectively, particularly for sustainability and governance reporting, as called for by, for instance, Accounting for Sustainability (A4S); Connected Reporting and the World Intellectual Capital Initiative (WICI); and the Global Reporting Initiative (GRI), which advocates 'triple bottom line' reporting. The growth of regulatory control in such wider reporting initiatives is illustrated by South

For such a substantive change in reporting to be credible, it would need to enjoy widespread adoption and use at an international level, with institutional and corporate support.

Africa's King code of corporate governance principles. Part of that code (principle 9.2) expresses the intention that financial reporting be integrated with environmental, social and governance (ESG) reporting to show the economic, environmental and social impact and performance of the reporting entity. The Johannesburg stock exchange has formally mandated the King principles, and accordingly introduced integrated reporting as part of its listing requirements from 1 March 2010.

Within the UK context, the Connected Reporting Framework was launched by A4S in 2007 to help embed sustainability more fully into corporate decision-making and to cultivate and demonstrate clearer connections between financial and sustainability information and reporting (Druckman and Fries 2010). For such reporting to be meaningful, Druckman and Fries (2010) propose that wider issues, such as governance and sustainability, need to be linked to strategy, risk and organisational performance. Furthermore, it has been envisaged that such a framework would help to break down the supposed compartmentalisation of reporting and the strategic detachment of non-financial information (Hopwood et al. 2010).

In December 2009, following the annual A4S forum, the International Integrated Reporting Committee (IIRC) was established to help devise and promote, for mainstream reporting, a globally accepted framework for, 'the development of an integrated sustainability and financial reporting framework' (Eccles and Krzus 2010: 9). For such a substantive change in reporting to be credible, it would need to enjoy widespread adoption and use at an international level, with institutional and corporate support. The International Integrated Reporting Council (IIRC) was formally launched by A4S and Global Reporting Initiative (GRI) (with support by the International Federation of Accountants (IFAC)) in August 2010. Subsequently the IIRC made clear the importance of <IR> and its positioning as being, 'the global authority on <IR>. Its mission is clear: to enable integrated reporting to be embedded into mainstream business practice in the public and private sectors' (IIRC 2013c). Over the four years following its formation in 2010, the IIRC had a period of intense activity culminating in the publication of the International <IR> Framework in December 2013. As an ACCA report (2012: 4) observes: 'We are now witnessing the emergence of integrated reporting, which attempts to bring together these themes [such as strategy, risk and value creation] in a coherent framework'. Indeed, Stewart (2015: 6) comments that 'there is growing demand by investors for effective disclosure of this information' and that, inter alia, the IIRC should, through the use of the <IR> Framework, serve to improve the usefulness, to investors, of such disclosures. Table 1.1 summarises the key history and development of <IR>.

Table 1.1: Summary history and development of <IR>

Date	Key event/description
December 2009	A4S forum: emergence of the International Integrated Reporting Committee (IIRC).
August 2010	Launch of IIRC, later renamed International Integrated Reporting Council (November 2011).
September 2011	Discussion paper *Towards Integrated Reporting* published by IIRC.
October 2011	Business network pilot programme launched.
July 2012	Draft framework outline.
 March 2013 March 2013 March 2013 July 2013 July 2013	Background papers (and lead party) for the Integrated Reporting Framework: Capitals (ACCA, Netherlands Institute of Chartered Accountants) Materiality (American Institute of Certified Public Accountants (AICPA)) Business model (Chartered Institute of Management Accountants (CIMA)), International Federation of Accountants (IFAC), PricewaterhouseCoopers (PwC)) Connectivity (World Intellectual Capital Initiative (WICI)) Value creation (Ernst and Young LLP (EY)).
April 2013	Pilot programme investor network launched.
April 2013	Consultation draft: *Integrated Reporting <IR> Framework* published (IIRC 2013b).
December 2013	Basis for conclusions – response to consultation and publication of the International <IR> Framework (IIRC 2013a).

The International <IR> Framework, published in December 2013, states that 'the primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time' (IIRC, 2013a: 4).

The International <IR> Framework, published in December 2013, states that, 'the primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time' (2013a: 4, repeated p. 7). The focus of integrated reporting on providers of financial capital as the principal user group is noted by ACCA (2012: 4) in its earlier review of corporate reporting: 'It seeks to confirm *investors as the primary audience*, and to communicate more effectively a wide variety of financial and non-financial disclosures' (emphasis added). The present research examines such users' information needs with regard to <IR>. In doing so, it examines the use and usefulness of <IR> to investors and other providers of financial capital.

As well as establishing the importance of providers of capital as the primary audience, the <IR> Framework is an attempt to set out, from a user perspective, the scope and orientation of a form of reporting that is designed to integrate in one report the organisation's business strategy, its use of resources and value creation: 'to provide insight about the resources and relationships used and affected by an organization – these are collectively referred to as "the capitals"[3] in this Framework. It also seeks to explain how the organization interacts with the external environment and the capitals to create value over the short, medium and long term' (IIRC 2013a: 4).

Within the Framework a number of key aims and benefits are set out. These are summarised in Table 1.2. Furthermore, and a significant aspiration for the future reporting landscape, through the future adoption and use of <IR>, 'it is anticipated that, over time, <IR> will become the corporate reporting norm' (IIRC 2013a: 2).

The Framework provides principles-based guidance. There is no reporting template, and in recognition of the inherent differences between entities, reports should reflect each entity's unique strategy, use of resources (the six capitals) and how they create value over time. This is shown visually in the <IR> Framework (2013a: 13). As is consistent with the longer-term strategic orientation of such reporting, wider environmental, social and governance (ESG) aspects are integrated as part of the 'capitals' framework, which recognises their importance through related disclosures, of, for instance, social and relationship capital and natural capital to users. Eccles and Krzus (2010: 35) remark, in relation to the use of the 'capitals model', that 'given that the market values of most companies exceed their book values by a wide margin, additional reporting about a company's environmental, social, and governance (ESG) initiatives and investments can provide useful information about the values of intangible assets – including human capital, natural capital, corporate brands and general reputation – that are not captured on the balance sheet' (see Eccles et al. 2001).

Table 1.2: Summary of <IR> aims

Summary of <IR> aims
'Improve the quality of information available to *providers of financial capital* to enable a more efficient and productive allocation of capital'.
'Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to *create value over time*'.
'Enhance accountability and stewardship for the *broad base of capitals* (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of *their interdependencies*'.
'Support integrated thinking, decision-making and actions that focus on the *creation of value* over the short, medium and long term'.

Source: The International <IR> Framework (2013a: 2, emphases added)

3 The 'capitals' referred to in the <IR> Framework are financial, manufactured, intellectual, human, social and relationship, and natural capitals. The capitals are one of the fundamental concepts that underpin the <IR> Framework, the others being value creation for the organisation and others, and the value creation process itself.

Within this research, specific views of global mainstream and more ESG-related investors and other providers of capital and financial users are presented.

Through the development and adoption of the <IR> Framework, <IR> provides a challenge to the traditional annual report, with a clearer focus on the links between strategy and value creation, which in turn serves both investors and other users of financial statements and providers of capital such as corporate debt and private equity professionals. In recognition of such potential usefulness, Eccles et al. (2015: 10) comment that, 'when put into practice by companies and used by the audience of investors as well as other important corporate stakeholders, [<IR>] has the potential to transform the way resource allocation decisions are made inside companies and markets across the globe'. Nonetheless, despite a high level of institutional and professional-body support evident in <IR>'s formulation and development, the IIRC's aspirations for it to become 'embedded into mainstream business practice' and the 'corporate reporting norm' face fundamental challenges for its actual use and demand by its intended prime audience, namely providers of financial capital. Humphrey et al. (2015: 4) question whether it is 'realistic to expect a change in corporate reporting traditions to be capable of disrupting long standing patterns of investor behaviour and capital markets'. From a practice perspective, the GRI (2013: 7) raises concerns about 'who integrated reports' users are, and how such reports would be consumed'. Bluntly, are equity investors, as a key intended user, driven by short-term (financial) pressures augmented by quarterly reporting, and therefore privileging that information over information on longer-term sustainability issues and value creation? (See also Barton 2011; Kay 2012).

Arising from the emergence of the <IR> Framework and in response to such challenges, research on the further development of <IR> was initiated jointly by ACCA, IAAER and the IIRC (2013). A key aspect of this call for research was to establish the views of users, specifically providers of financial capital, about their information needs (ACCA et al. 2013: 3), particularly their use, and the current usefulness to them, of <IR>. Within this research, specific views of global mainstream and more ESG-related investors and other providers of capital and financial users are presented. A key initial part of the research was to establish the level of awareness and penetration of <IR> into their vocabulary and their decision-making processes. This would, in turn, help to determine the current familiarity with, and use of, <IR>, and also the challenges for its demand by equity investors and wider providers of finance. Beyond this, the research examined, from a significant user perspective, the claimed benefits of <IR> to investors, with relevance to other key users. The aim was to:

- establish the potential value of <IR> to each significant user group,
- examine whether <IR> makes clearer the connections between an organisation's strategy, governance, performance and prospects through the 'capitals' model, and the relevance of this to users if it does,
- ask how the disclosure of key risks and opportunities (as management views them) enables investors to assess their short-, medium- and long-term impact, and
- ask users how <IR> could lead to more effective capital-allocation decisions, leading to better long-term investment returns.

Overall, the research described in this report provides evidence of the current level of demand for, understanding of, and usefulness of <IR> for, its identified target audience, which may help inform its future development. In doing so, the research will also identify barriers to demand for and use of <IR> that may impede its use in decision-making processes and that might ultimately provide a key challenge to its long-term sustainability and its ability to challenge the annual report as the dominant source of and vehicle for corporate reporting.

2. Literature review

Integrated reporting and specifically <IR>, as a relatively recent development in corporate reporting, has been the subject of limited historical research.

Integrated reporting and specifically <IR>, as a relatively recent development in corporate reporting, has been the subject of limited historical research. Indeed, de Villiers et al. (2014: 1054) lament, 'given the developments in integrated reporting, there is a dearth of research papers in this area'. Notwithstanding this complaint, owing to the subject's contemporary nature and emergence, an increasing number of papers, primarily from practice and, to a far lesser extent, from academic perspectives have been published, and calls for more research in this area continue to emerge (de Villiers et al. 2015; Humphrey et al. 2015, Serafeim 2015, Stubbs et al. 2015).

This literature review comprises three key areas. Firstly, it briefly examines the prior research into the value relevance of non-financial disclosure to capital market participants, to inform the subsequent research discussion of the role of <IR> in promoting the use of, and demand for, such information in capital markets' decision making. More specifically in relation to <IR>, it then summarises the practice-based publications on the emergence of <IR> and its potential advantages to such users and the challenges <IR> faces. Finally, the current, more critical academic literature in this area, although relatively limited at this stage, is discussed.

NARRATIVE REPORTING AND DECISION-USEFULNESS

Of initial importance to this research is the value relevance and hence decision-usefulness of corporate information in general, and non-financial information in particular, to providers of finance and in particular equity investors. Cascino et al. (2013), in their wide-ranging review of the literature on the use of corporate information by capital market users, find that capital providers are highly varied in their information use. While fund managers and sell-side analysts use annual report information, this is primarily financially orientated for estimating future cash flows and modelling value (see, for instance, Bozzolan et al. 2009; Coram et al. 2011; Flöstrand and Ström 2006; Imam et al. 2008; Orens and Lybaert, 2010; Schleicher et al. 2007). Beyer et al. (2010), in their review of the relevant literature, conclude

The challenge is for reporters that adopt <IR> to show that including material that directly relates to a firm's value can make such reporting useful for decision making by capital market and other financial users.

that disclosures serve to enhance analysts' understanding of company prospects. In early studies, Amir and Lev (1998) and Flamholtz et al. (2002) noted the putative importance of both hard (financial) and soft (non-financial) information in gaining a holistic appreciation of a company. Breton and Taffler (2001) and Abdolmohammadi et al. (2006) report on analysts' reports, highlighting the confirmatory relevance of narrative information, for instance in relation to company strategy, the business model and forward-looking information. Further, voluntary information has also been used to help investors to understand why performance has deviated from prior expectations (Coram et al 2011; Imam et al. 2008). In their study, Barth et al. (2001) show a positive correlation between the increase in and/or improvement of the quality of information disclosed by companies and the increased coverage by financial analysts, which is consistent with the later study by Sakakibara, et al. (2010) highlighting that, where an information gap is evident in reporting, this negatively influences the evaluation process by analysts. The challenge is for reporters that adopt <IR> to show that including material that directly relates to a firm's value can make such reporting useful for decision making by capital market and other financial users.

Overall, it is far from clear how relevant and useful investors find specific sections of the annual report narrative, given the mixed evidence in the literature. For more specific ethical or social investment decisions, environmental, social and governance (ESG) issues are sometimes perceived to be decision-useful (see, for instance, Harte et al. 1991, and more recently, Cohen et al. 2011). More broadly, Holm and Rikhardsson (2008), using an experimental design, provide evidence that investors are influenced by environmental disclosures, a finding consistent with that reported by de Villiers and Van Staden (2010) in their study examining individual shareholders (not institutional investors), but this is at variance with other research in this area. The relevance of ESG-related disclosure to investors was also shown by Cohen et al. (2011), albeit with a bias in the research towards socially responsible investors (SRI). Solomon and Solomon (2006) report that institutional investors value additional private ESG information owing to the perceived inadequacy of publicly available disclosure, for instance in annual reports. In contrast to these studies, Adams (2015: 24) argues that 'the integration of sustainability considerations into mainstream decision making, reporting and performance management has arguably been limited or at best slow and patchy' (and see Adams and Frost 2008). More widely on the corpus of voluntary reporting, in their research, Campbell and Slack (2008, 2011) show that reporting is often copied-and-pasted from year to year with a strong tradition of 'boiler-plating'. Furthermore, they find clear evidence that the narrative sections of annual reports are generally not used and are viewed as immaterial by capital market users in making decisions. Chairman's letters are often believed to be overly positively biased, in contrast to the putatively independent nature of the chairman's position (Aerts 1994, 2005; Clatworthy and Jones 2003, 2006), while social and environmental reporting is rarely ever believed to be decision-material (Campbell and Slack 2011; Chan and Milne 1999; Deegan and Rankin 1997; Milne and Chan 1999) unless the company is highly exposed to a range of environmental or social risks. More recently, Serafeim (2015: 37) reports that, 'surveys of institutional investors have reported that 73% of the respondents disagree that sustainability reporting is linked to business strategy and risk, and 93% disagree that sufficient information is provided to assess financial materiality' and thus there is a failure to provide value-relevant information to investors. Murray et al. (2006) opine that as long as social and environmental disclosures do not form a substantive part of a company's mainstream activities, such considerations will rarely be considered material by investors.

PRACTITIONER PERSPECTIVES ON INTEGRATED REPORTING

In an ACCA survey based on 300 UK and Irish investors, 90% of these respondents agreed that, 'it would be valuable for companies to combine financial and non-financial information into an integrated reporting model' (ACCA 2013: 6). This raises questions about what such a model would look like and the use of metrics in reporting based on such a model. Furthermore, the survey report goes on to say that there remains 'some confusion over what it [<IR>] can achieve and how it will work in practice' (ACCA 2013: 7). Commenting on the lack of reporting standards in <IR>, a GRI report

'Integrated Reporting can help readers look beyond companies' short-term results to form clearer views on long-term value' (KPMG, 2012: 3).

cautions that: 'no globally accepted standards or practices exist with regard to what an integrated report should cover and how it should be constructed to meet the needs of its users. Neither is there clarity on who exactly integrated reports' users are, or how such reports should ultimately be appraised for quality and substance' (GRI 2013: 7).

Nonetheless, and despite these uncertainties, the findings from the ACCA survey revealed wide support for 'a strengthened explanation of the linkages between sustainability and long-term performance' (ACCA 2013: 20). An earlier survey by Radley Yeldar (2011) was conducted with 34 investors and 35 analysts, researching their use of non-financial information and the potential usefulness of <IR>. Over 80% of the respondents claimed that <IR> would add benefits to their analysis of companies and their assessments, by helping to increase the reliability and comparability, and hence the potential value-relevance to them, of extra-financial information. Further, 84% said that <IR>, by more clearly articulating the linkages between the different strands (capitals) in a business and its strategy and performance, was either very important or important to them as corporate report users. It is significant, however, that the findings are drawn mostly from socially responsible investors (SRI) with 68% of the respondents being directly engaged in socially responsible investment, with the remainder acknowledged as having at 'least an interest in such issues' (Radley Yeldar 2011: 12). Perhaps indicative of this bias among SRI compared with mainstream actors is the finding that, 'other extra-financial factors, notably natural resource considerations, are identified as being important to SRI investors, but to a lesser extent mainstream investors' (Radley Yeldar 2011: 3).

In its review of <IR>, KPMG (2012: 3) refers directly to the challenge for value-relevant reporting: 'there is a gap between the information currently being reported by companies and the information investors need to assess business prospects and value; Integrated Reporting can help fill this gap by providing a basis for companies to explain their value creation more effectively to the capital markets; thus, Integrated Reporting can help readers look beyond companies' short-term results to form clearer views on long-term value'.

PricewaterhouseCoopers (PwC 2010) comments that what is missing from reporting is an understanding of the interrelationships between all the critical elements of reporting such as those from the business strategy, business model and key reporting areas, eg sustainability and relevant risks. Indeed, one of the putative strengths of the IIRC and the development of the <IR> Framework has been the level of support that it has received from the global professional accounting bodies, the 'Big Four' auditors and from a number of institutional investors and global multinational corporations, as evidenced by their responses to consultation and participation in the pilot programme. It was this degree of combined support, in contrast with the lesser support for similar, earlier reporting initiatives that led many to believe that the <IR> Framework was likely to enjoy a wider degree of adoption and use. Deloitte (2011: 3) states: 'Not long ago, a company could deliver its product or service, publish its annual report, distribute a dividend, and be considered a model organization. No longer'. An earlier KPMG report introduces the subject by saying that, 'Integrated Reporting is about better communication between companies and the capital markets'. KPMG then continues to frame the narrative in terms of the supposed social contract between companies and their stakeholders, 'by convincingly telling their organization's story to the markets, they can obtain capital at a reasonable cost, enhance their corporate reputations and maintain their licences to operate' (KPMG 2011: 2). Perhaps a concomitant assumption here is that an effective integrated report is necessary to renew a company's legitimacy through the materiality and value of the information conveyed. Earlier, and prior to <IR>, Thomas (2004: 81), writing from a practitioner perspective, notes that the quality of reporting information, including narrative-based reporting, resulted in more confident equity forecasts and hence 'generates rewards in the capital markets', the implication of which is that future models of reporting would lead to investor demand.

Most of these commentaries, and the IIRC itself, are, in general, critical of backward and historical reporting models. It is these weaknesses that <IR> is intended to remediate. 'Gone are the days when different images of a company, and its performance, could be conveyed to different audiences and management

> It is envisaged that through <IR> the market would receive material information, so that investors would be able to predict market out-turns more accurately and hence arrive at a more accurate company valuation.

could control how and when the information was distributed. Reporting and communication will instead become an extension of the core management information processes. The challenge is now more concerned with determining where the line of transparency should run, rather than trying to determine what story should be told' (PwC 2010: 22). A report on <IR> by UBS (2012) sets out the case for it as a 'new approach': 'Integrated reporting is a new approach to corporate reporting, designed to allow investors to make insightful connections between key pieces of information, thereby smoothing the investment process. Evidence of investor interest in shifting the reporting landscape towards a consideration of medium- to long-term issues (such as environmental change) is apparent at the time of writing' (UBS 2012: 1). The report continues: 'we would expect one of the benefits of IR being widely adopted to be improved market efficiency. That said, the effects of shifting to <IR> on individual share prices would likely depend on the context: new information or insight [disclosed in integrated reports] could potentially be positive or negative. For companies moving to <IR>, we believe it may be a case of who dares wins' (UBS 2012: 1). An EY report (2014) predicts that one benefit of <IR>, as a conduit for material market-sensitive information, will be a reduction in over or under valuation of companies. Because with <IR> the market would receive material information, investors would be able to predict market out-turns more accurately and hence arrive at a more accurate company valuation. Such a benefit would be associated with 'full disclosure'. This includes, with regard to strategy disclosures, a number of questions, such as, 'what does the organization do to create value for its customers, the providers of financial capital and other stakeholders? What outcomes does the organization strive for? What capitals does the organization rely on? How will the organization position itself in the value chain and in its operating markets?' (EY 2014: 16). From the foregoing practice-based publications it is evident that there is a high level of support for <IR> as a way forward in corporate reporting and the connectivity of financial and non-financial information is of relevance to users and a move away from the criticisms of compartmentalisation in reporting.

ACADEMIC PERSPECTIVES ON INTEGRATED REPORTING

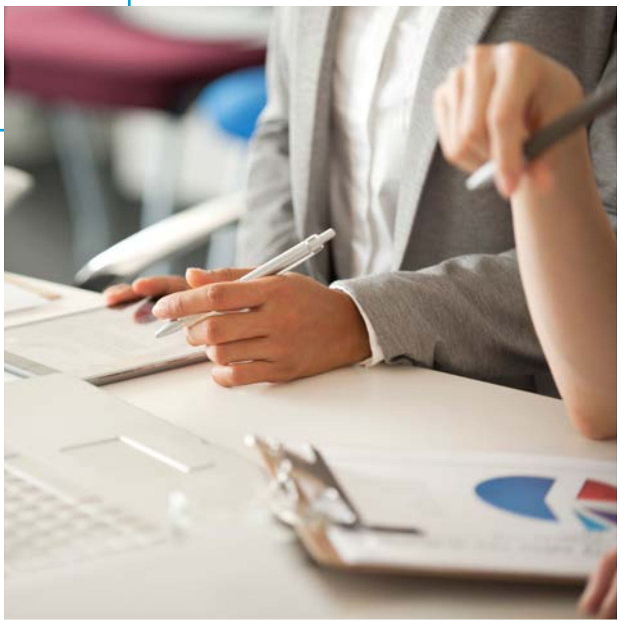
While the academic literature in this area is relatively small in comparison with that for other areas of reporting, such as environmental, social and governance, nonetheless there is an emergent literature and such academic scrutiny has produced a more nuanced set of findings than the generally positive tone emanating from the practice-based literature (Humphrey et al. 2015). This literature has included critical pieces (Flower 2015; Thomson, 2015) and contrasting more supportive studies (Adams 2015) expressing a range of views, aspirational, hopeful and less hopeful, held by academics. It seems that <IR> has its enthusiastic supporters who believe that it has the capability to change reporting practices. It has been argued that the existing corporate reporting model has severe limitations when it comes to the conveyance of investment-material narratives (Campbell and Slack 2008; see also Burritt and Schaltegger, 2010). Optimism about <IR> may be tempered in part by the belief that any given kind of reporting can be a 'fad', with practices rising and falling in popularity over time. Value-added statements are given as an example of a practice once regarded enthusiastically and now long gone (Haller and van Staden 2014). In recognition of such a concern, Eccles et al. (2015: 4) offer a number of recommendations for accelerating the adoption and use of <IR>; these include that the IIRC and other organisations such as the Sustainability Accounting Standards Board (SASB) and GRI, 'should work together to explain to companies, investors, and other stakeholders how their missions relate' to creating more awareness and understanding of <IR> to its primary audience.

A special edition of *Accounting, Auditing and Accountability Journal* in 2014 was helpful in advancing discussion of the <IR> Framework and <IR> in general. Containing a set of intelligent discussions, it raises a number of informed and relevant questions about the <IR> initiative. In the editorial, de Villiers et al. (2014) set out the key themes in the special edition and lay out a research agenda from an accounting perspective. Furthermore, they comment on the growing academic interest in <IR> recognising that it 'has rapidly gained considerable prominence since the formation of the IIRC in 2010', and

A critical issue facing <IR> is its sustainable demand and use by investors, consistent with <IR>'s claim that such reporting, designed for providers of financial capital, is a response to market-driven demands.

'has attracted a great deal of academic attention' (de Villiers, et al. 2014: 1043).

A number of themes can be identified emerging from the current <IR> literature. Firstly, some studies have examined the emergence of <IR>, the role of the IIRC and the interrelationships forged in its development. Reuter and Messner (2015) examined the comment letters of stakeholders when lobbying the IIRC, in



which, 'the most important points of contestation regarding the IIRC's initial proposal for integrated reporting are identified and discussed' (Reuter and Messner 2015: 365). The study interrogates the political nature of standard setting, specifically in the context of <IR>. Rowbottom and Locke (2016) critically trace the emergence of <IR>, highlighting the 'complex and fragile relationships' between the parties to the manifestation of the <IR> Framework. Despite this, they argue that uncertainty still prevails as to <IR>'s positioning in corporate reporting. Owen (2013) addresses changes to accounting curricula occasioned by the importance of <IR>, noting that the IIRC has been widely supported by accounting bodies and corporates. Owen (2013) notes a development of thinking on reporting, beginning with the publication in 1975 of *The Corporate Report*, Triple Bottom Line reporting, the Accounting for Sustainability (A4S) initiative and the GRI. He comments that, 'the above [supporters of <IR>] and other organisations are expressing the view that integrated reports may provide a more holistic, multi-dimensional and lucid representation of the business than the current reporting model, which has a greater focus on detailed historical financial information' (Owen 2013: 341). Finally, Humphrey et al. (2015) provide a critical examination of the institutionalisation of <IR> and the bold claims that it is: 'representing a new and striking feature of corporate reporting... with regard to the future relevance and value of such reporting and towards the long term sustainability of business' (Humphrey et al. 2015: 1). They highlight that <IR> is often advocated in positive terms through the use of interrelationships in its formulation, to advance its legitimacy and its attempts to re-configure corporate reporting. In practice, however, a critical issue facing <IR> is its sustainable demand and use by investors, consistent with <IR>'s claim that such reporting, designed for providers of financial capital, is a response to market-driven demands. Thus, developments in <IR> may offer a parallel to Young (2006) who argued that standard setters construct user needs to justify the demand for the reporting and disclosures that they advocate. In contrast to this argument, Serafeim (2015) shows that companies that practice <IR> attract a long-term shareholder base and hence adopt a longer-term orientation in decision-making compared with more transient or short-term investors (and see Bushee and Noe 2000). Indeed, he points out that 'because <IR> could be a more effective way to communicate a firm's capabilities for increasing long-run value, companies that practice <IR> are likely to attract longer-term investors'. (Serafeim 2015: 36). Such a long-term orientation attracting 'business value' investors encompassing sustainability was supported by Chew (2015: 2) who asserted that, 'these are the kinds of investors who are likely to place higher values on companies that commit to making ESG investments and, by so doing, to provide managements with the confidence to carry them out'.

Secondly, a number of studies have raised serious concerns about the claims of <IR> and its putative positioning as an information conveyance vehicle for a range of stakeholders, in addition to the importance of materiality to shareholders. Flower (2015), in a critical piece, opines that <IR> has, 'abandoned sustainability accounting' because of claims that it

Those more supportive of the <IR> initiative believe that, to a certain extent, it has the capability to change the reporting culture and norms.

primarily focuses on being of 'value to investors' as opposed to being of 'value to society', leading him to conclude that 'in effect, the IIRC has been the victim of "regulatory capture"' (Flower 2015: 1). He continues that <IR> 'places no obligation on firms to report harm inflicted on entities outside the firm (such as the environment) where there is no subsequent impact on the firm' (Flower 2015: 1) and hence nothing of material interest to shareholders. Further, despite the Framework, he argues that the IIRC's proposals will have little impact on corporate reporting practice, because of their lack of force. Thomson (2015), in his commentary on Flower (2015), broadly supports the criticisms made about <IR> and Flower's contention that it has been 'professionally captured' (Thomson 2015: 19). In their critical review, Brown and Dillard contend that the IIRC framework is a 'very limited and one-sided approach to assessing and reporting on sustainability issues' (Brown and Dillard 2014: 1120), and they encourage a broadening out and opening up to foster more effective reporting practices. Viewing the IIRC initiative in terms of its potential to strengthen sustainability reporting, they argue that 'power elites' may dominate the agendas on reporting, given the (deliberate) lack of prescription in the <IR> Framework. In calling for 'polylogic' accountings and empowering designs for reporting, Brown and Dillard (2014) stress the need for engagement with robust sustainability techniques to facilitate a more meaningful sustainability reporting. Van Bommel (2014) similarly reflects on business capture of <IR> rather than a reconciliation of issues and stakeholders (set out as 'orders of worth'[4] encompassing market, industrial, civic and green interests), as a result of which, <IR> may become a more legitimate practice. Such broad concerns echo those raised by Solomon and Maroun that adopting <IR> 'does not necessarily imply that the reporting will fulfil its potential for transforming corporate behaviour or will not produce merely empty rhetoric' about sustainability issues in corporate thinking and reporting (Solomon and Maroun 2014: 14).

Those more supportive of the <IR> initiative believe that, to a certain extent, it has the capability to change the reporting culture and norms. Supporters have generally taken the view that <IR> has the capability to make corporate reporting more material to investors by being forward looking, containing material information on strategy and risk, and, through reporting on the 'six capitals' or their derivatives, making reporting a more holistic and meaningful exercise. Abeysekera (2013: 227) describes this as 'the story of reaching the organisation's vision, underpinned by its values, enacted by management, monitored by governance, and using facets of resources relating to financial capital, intellectual capital, social capital, and environmental capital'. Likewise, Adams (2015: 23) sets out the case for <IR> and discusses 'its potential to change the thinking of corporate actors leading to the further integration of sustainability actions and impacts into corporate strategic planning and decision making'. On this basis, the <IR> initiative may encourage executives to think more about the longer term and more widely about the capitals within the business and their use in value creation. Thus, Eccles et al. (2015: 10) remark that <IR> is 'a means to influence both companies and investors in such a way that they consider the consequences of the positive and negative externalities associated with corporate investment and operating decisions (particularly those that concern the social and environmental issues that generally come under the rubric of "sustainability")'.

In the wider accounting literature, there has been an emphasis, of relevance to the <IR> initiative, on longer-term corporate concerns. A 2011 article in the *Harvard Business Review* by the CEO of McKinsey makes a number of observations about long-termism in capitalism, describing short-termism as a 'tyranny' (Barton 2011: 86). He continues, 'when making major decisions, Asians typically think in terms of at least 10 to 15 years. In the US and Europe, nearsightedness is the norm… myopia plagues Western institutions in every sector' (Barton 2011: 86). In the UK, the Kay Review (Kay 2012) likewise emphasises the greater need for long-term decision-making. Kay notes that, 'a financial world different from our recent experience' is necessary to reconfigure companies' focus from short-term to a longer-term perspective (Kay 2012: 5). Moreover, with reference to sustainability and longer-term investment, Serafeim (2015: 36) highlights 'the identification of "short-termism" as a major barrier to the willingness of

4 Being 'particular notions of the common good' (Van Bommel, 2014: 1159)

'While <IR> is gaining in popularity, current momentum is limited until there is clear evidence of benefits' (Zhou et al. 2016: 2).

businesses to transition to sustainability. In the 2012 version of the SustainAbility Survey[5], for example, 88% of the 642 representatives of businesses, NGOs, academia and government who responded cited pressure for short-term financial results as a major obstacle to corporate investments in sustainability or ESG issues'.

A third strand of literature has examined the impact of <IR> on reporting and whether it has led to a significant change in reporting mechanisms or the reporting environment. Drawing on Laughlin's model of organisational change (1991), Stubbs and Higgins (2014) examined whether <IR> stimulates innovative reporting practices; they focused on early adopters in Australia. They highlight the importance of finance and strategy teams in the cohesion of the reporting process of non-financial information, and of a more holistic reporting environment, but question whether <IR> can reconfigure reporting in such a way that its emphasis on finance is reduced. These authors contend that <IR> is more an incremental than a 'radical, transformative change' (Stubbs and Higgins 2014: 1068) owing to a lack of comprehensive standards; hence, there is a barrier to more widespread adoption. Higgins et al. (2014) use a sense-making approach to understanding the institutionalisation of <IR>. They contend that early adopters will set the future agenda for other adopters of <IR> and the style of reports that may result, and the consequent issue of 'reporting isomorphism' rather than company innovation in future reporting, if <IR> becomes an expectation and a corporate norm. A small number of studies have sought to apply <IR> to corporate practice, partly as a result of the deliberate lack of templates or pro formas in the <IR> Framework. Haller and van Staden (2014) argue that a value-added statement would complement <IR> and the capitals framework, providing a structured presentational format filling the current void in <IR> reporting tools. Abeysekera (2012) outlines a reporting template for <IR> in an organisational context.

Finally, from a demand perspective, two recent studies, Zhou et al. (2016) and Stubbs et al. (2015) provide some initial insights into <IR> pertinent to this research. In their study examining integrated reporting in a South African context, Zhou et al. (2016) find that analysts forecast error and dispersion reduces as the level of alignment with the <IR> Framework increases. They suggest that '<IR> is providing incrementally useful information over existing reporting mechanisms to the capital market' (Zhou et al. 2016: 2). This is arguably owing to the increase in the quality of information provided in areas such as corporate strategy, the business model and more future-orientated disclosures. Nonetheless, despite their positive findings, these authors caution that 'while <IR> is gaining in popularity, current momentum is limited until there is clear evidence of benefits' (Zhou et al. 2016: 2). Furthermore, the study is based on company reporting in South Africa, where the adoption of integrated reporting is mandatory, rather than the voluntary, through the 'provide or explain' requirements of the Johannesburg Stock Exchange. In contrast to the generally positive empirical findings of Zhou et al. (2016), in their pilot study Stubbs et al. (2015) provide reason to be reticent about IR's demand by capital market users. While the pilot study was limited to four participants (fund managers and advisers) from the Australian IR investor network, Stubbs et al. (2015) highlight the lack of understanding of <IR>, and the capitals model, among mainstream providers of capital and claim that the benefits of <IR> to such users are 'anticipated rather than actually being realised' (Stubbs et al. 2015: 13).

Despite the growth in the academic literature on <IR>, much of the research to date has focused on the supply and content of integrated reports, the emergence and criticisms of <IR>, the role and interrelationships of the IIRC and the debate about the primacy of investors in contrast to wider stakeholder groups. Stubbs et al. (2015) highlight the lack of research into <IR> from a demand perspective: 'no studies have investigated the demand side, the users' perspectives of IR' (Stubbs et al. 2015: 1) and, similarly, Serafeim (2015: 34) notes that, 'we still have a very limited understanding of the effects of <IR>' on investors and decision-making. This is consistent with the calls for research from a user perspective noted by Adams (2015), Cheng et al. (2014) and Humphrey et al. (2015), which the present research sought to address.

5 Available at www.sustainability.com/projects/the-globescan-sustainability-surveys

3. Research approach and method

This research, in line with the focus of the International <IR> Framework on providers of financial capital, centres upon capturing the views of equity market participants (fund managers and equity analysts) and other providers of financial capital on issues associated with <IR>.

This research, in line with the focus of the International <IR> Framework on providers of financial capital, centres upon capturing the views of equity market participants (fund managers and equity analysts) and other providers of financial capital on issues associated with <IR>. To help provide a meaningful understanding of user needs, the use of <IR> by providers of financial capital and its usefulness to financial users, this research was designed and conducted through semi-structured in-depth interviews. There were two main sets of interviews: Set 1 focused on equity investors, as the primary focus of this research, and Set 2 involved other providers of finance and other potential users of <IR> such as corporate financiers, private equity investors, and corporate and investment bankers. Crucially, for the success of this research in engaging with providers of financial capital, the research team combined two senior accounting academics (authors of this research), who engaged initially with two senior equity market practitioners, assured of anonymity, who were instrumental in helping to secure access to interviewees across a wide range of global financial institutions.

Before the interviews, a detailed review of the <IR> Framework and related literature was undertaken. This enabled the researchers to develop a number of key questions, which formed the structure of each interview. This common structure enabled the creation of a comprehensive overview on the current use of <IR> by significant user groups and its usefulness to them. Furthermore, it helped identify areas of commonality and difference in the information requirements of the respective groups; their familiarity with and knowledge of <IR>; and their understanding of the <IR> Framework. Moreover, as with the emergence and establishment of any new framework in reporting, the levels of familiarity and discourse among users and the degree of penetration of issues relating to the new framework within their organisations are manifestly important. Through the interviews, insights were

As part of the development of the interview questions, two pilot interviews were conducted to ensure that the questions were appropriate and to allow for the interviewees to outline and discuss their familiarity with, and understanding and use of, <IR>.

obtained into the current level of <IR> engagement and awareness. Following this initial review, for each interview set, the research addressed a series of underlying areas of enquiry, namely:

- interviewees' familiarity with, knowledge of, and understanding of <IR>,
- interviewee's current use of formal corporate reporting documents, such as the annual report and the relationship of the annual report with <IR>,
- whether interviewees' use <IR> as a reporting document and decision-making tool,
- whether <IR> is helpful to interviewees' needs through its focus on value creation, corporate strategy and the use of the 'capitals model',
- the key strengths of <IR> and its limitations, particularly with regard to any perceived weak points in the information 'supply chain' that fail to satisfy information needs for investment decisions,
- the barriers to the use and usefulness of <IR>, and
- future developments in <IR> that would be helpful in addressing interviewees' needs for corporate information.

These lines of enquiry were formalised into a series of common interview questions as detailed in the Appendix. The interview questions were purposefully semi-structured in nature, allowing the interviewees to express their opinion on a number of pre-determined issues relevant to <IR> but importantly also allowing the researchers to probe issues that needed further clarification and offering the chance for interviewees to elaborate on aspects of <IR> that they believe are important (Barker 1998; Beasley et al. 2009; Jones and Solomon 2010). As part of the development of the interview questions, two pilot interviews were conducted to ensure that the questions were appropriate and to allow for the interviewees to outline and discuss their familiarity with, and understanding and use of, <IR>. Initially, the interviewees were to be sent an example of an integrated report to review before the interview. Owing to the different sectors covered by the interviewees, however, it was thought more appropriate to ask each interviewee to review the <IR> website (www.iirc.org) before their respective interview and to choose, as appropriate, examples of reports of relevance to him/her. In asking each interviewee to review the website, it was hoped that greater relevance and uniformity of the research would result. Before each interview, the participant was sent an email setting out the main aims of the research and providing a link to the <IR> website. Additionally, where appropriate, the interviewees were also requested to establish the views on <IR> of the teams in which worked, or which they managed, so these views could then be referred to in the interview. This enabled the interviewees to bring any necessary additional information that they would find useful in their decision-making process and to reflect the views of their team as well as their own personal views on <IR> and the <IR> Framework.

At the start of each interview, the researchers provided an overview of the research and their role as information gatherers, with a resolute position of neutrality on the issues associated with <IR>, so that the interviewee would be inclined to speak openly and honestly on his/her use of reporting information in general and specifically in relation to <IR>. Next, the participant briefly outlined his/her role in the organisation and how they use and consume financial reporting information. The interview then followed the structure of the questions set out in the Appendix, subject to any diversions or context-specific points of interest made by the interviewee. One or both members of the research team were present at all interviews. Face-to-face interviews were conducted in the interviewee's office. For other interviews, where either travel could not be arranged or costs precluded face-to-face interview, either telephone or Skype was used. With permission, all the interviews were recorded and subsequently anonymously transcribed for analysis.

As outlined above, the interviews were undertaken in two sets, which are now discussed in more detail. The main focus of the research and 'the primary part of the project' (ACCA 2013: 3) relates to the first set of interviews, those with senior equity market participants, which covered global

All the interviewees were either lead global portfolio/fund managers or held a director-level position in global equity analysis.

equities from both mainstream and ESG investment perspectives (Juravle and Lewis, 2008; Solomon and Solomon, 2006). To reflect the nature of global equity markets, global equity analysts (the sell-side) as well as global investment fund and portfolio managers (the buy-side) were interviewed. In broad terms, investment

managers and analysts were divided into two groups, information intermediaries/analysts and fund/portfolio managers (Barker 1998; Campbell and Slack 2008). Such research shows that the two groups operate in distinctive aspects of the market but are interdependent. Sell-side analysts are generally believed to have a short-term orientation, acting on news information sources (results announcements, for example) and generating stock or investment recommendations to fund managers (the buy-side). It is in the interests of the sell-side analyst to cultivate a following of fund managers through, for instance, incisive insights as communicated in company research notes and recommendation history. In their investment decision-making, fund managers will typically use sell-side research as well as that of in-house equity analysts and their longer-term company relationships and understanding of their equity positions (Barker 1998; Brown et al. 2014).

The present research required in-depth discussions with both fund managers and equity analysts: capital market participants who are generally difficult-to-reach individuals (Pettigrew 1992; Roberts et al. 2006). Access to senior analysts and lead investment fund managers covering global equities was secured owing to the composition of the research team and their initial engagement and collaboration with senior practitioners. This access initially relied on the personal contacts of the practitioners across a number of global investment houses. These contacts introduced the researchers to potential interviewees (Buchanan et al. 1988). Each potential interviewee was personally contacted by the lead researchers, who further outlined the scope of the research and agreed interview timing and logistics. Importantly, all the interviewees were assured anonymity of person and institution, and each agreed to speak freely on his/her use of corporate reporting information and use of and views on <IR>. During the interview process, each interviewee was invited to suggest further appropriate capital market participants, with a view to increasing the number of interviewees to maximise, within the research period, the number of interviews across different institutions. Owing to the combination of initial personal contacts from practitioners and the further recommendations of those involved in the interviews, the first set with senior capital market participants included a total of 21 interviews (initial target 8 to 12), conducted between June 2014 and January 2015.

All the interviewees were either lead global portfolio/fund managers or held a director-level position in global equity analysis. The average interview length was around 50 minutes, with a maximum length of 80 minutes. A descriptive summary of the interviewees is shown in Table 3.1 along with an indication of their prior knowledge or awareness of <IR> (see section 4.2.1). All the interviewees in the first set of interviews were coded CP1 onwards, in chronological order.

Of the 21 interviews, 12 were with buy-side fund managers and the remainder (9) with sell-side equity analysts. Although most coverage related to mainstream investment, reflecting current global capital markets, five of the interviewees were

> The interviews with both fund managers and sell-side analysts reflected their respective investment decision-making and equity-analysis roles across global markets.

specifically engaged with ESG-related equity research and fund management. More broadly, the overall sample size for the first set of interviews compares well to that for similar capital market participant research (Barker et al. 2012: 11 fund managers; Campbell and Slack 2008, 2011: 19 sell-side analysts; Coram et al. 2011: 8 financial analysts; Solomon et al. 2011: 20 institutional investors; Solomon and Solomon 2006: 21 institutional investors).

The majority of interviews were held in London, as a global financial centre, and the interviewees were from a wide selection of global investment companies. Accordingly, the interviews with both fund managers and sell-side analysts reflected their respective investment decision-making and equity-analysis roles across global markets covering the UK, Europe, North America, Asia, developing markets (including Brazil, Russia, India and China) and emerging markets. The broad geographical coverage by the interviewees of these markets is summarised in Table 3.2, although it should be noted that nearly all the interviewees covered more than one region, including both developed and emerging capital markets (for instance, specialist funds) and were not restricted to single markets.

Thus, the views of those interviewed within Set 1 encompassed a wide range of capital markets not restricted by geographic location.

Table 3.1: Summary of senior equity investor interviewees

Ref	Position/job title	Mainstream/ESG	Sell-side (SS)/Buy-side (BS)	Prior knowledge of <IR>
CP1	Global markets portfolio manager	Mainstream	Fund manager BS	x
CP2	Head of global specialist funds	Mainstream	Fund manager BS	x
CP3	Head of European equity research	Mainstream	Equity analyst SS	x
CP4	Investment director, global equities	Mainstream	Fund manager BS	✓
CP5	Senior equity analyst	Mainstream	Equity analyst SS	x
CP6	Equity research, global sustainability	ESG	Equity analyst SS	✓
CP7	Associate director equity funds and corporate engagement	ESG	Fund manager BS	✓
CP8	Deputy head of UK investment office for global equity funds	Mainstream	Equity analyst SS	x
CP9	Managing director, global markets research – industry sector equities	Mainstream	Equity analyst SS	x
CP10	Managing director, global markets research – equities and financial	Mainstream	Equity analyst SS	x
CP11	European funds director	ESG	Fund manager BS	✓
CP12	Global equity director – governance	ESG/Mainstream	Fund manager BS	✓
CP13	Executive director, wealth management	Mainstream	Fund manager BS	x
CP14	Global equity fund manager	Mainstream	Fund manager BS	x
CP15	Director and head of UK institutional funds	ESG/Mainstream	Fund manager BS	x
CP16	Global portfolio manager	Mainstream	Fund manager BS	✓
CP17	Managing director – global equities	Mainstream	Fund manager BS	x
CP18	European equity analyst ESG	ESG	Equity analyst SS	✓
CP19	European head of ESG research	ESG	Equity analyst SS	✓
CP20	Associate fund manager	ESG/Mainstream	Fund manager BS	✓
CP21	Equity research analyst	Mainstream	Equity analyst SS	x

Table 3.2: Summary of cumulative investment coverage

	UK	Europe	North America	Asia	Developing markets	Emerging markets
Fund manager	9	8	6	4	4	3
Equity analyst	9	8	6	3	4	1

> For the analysis, each researcher separately conducted a detailed manual thematic analysis of the interview data, identifying themes relevant to each area of enquiry and isolating emerging patterns.

Set 2 interviews involved wider providers of finance and other financial users of corporate information. A number of Set 2 interviews were held in June and July 2014, in parallel with Set 1 interviews, with the remainder held between January and April 2015 after the completion of Set 1. The same process of contact and agreement with interviewees outlined for Set 1 was followed for Set 2. Similarly, the logistics, planning and execution of all the interviews followed the same format, with a combination of face-to-face and telephone/Skype interviews. Where appropriate, the questions set out in the Appendix were tweaked to reflect the position and specific context of each interviewee in Set 2, which involved a more diverse group than the more narrow group of capital market actors in Set 1. Initially it was planned to carry out between 8 and 12 interviews with the second set of participants. Following the use of practitioner contacts and the increase in potential interviewees during the research phase, the final number of participants in Set 2 reached 16, as detailed below in Table 3.3. All the interviews conducted among Set 2 participants are coded OU to signify 'other provider/user', with the numeric reflecting their chronological ordering. Of the 16 interviewees, four had prior knowledge of <IR> (OU3; OU7, OU8 and OU 11) (see Section 4.2.2).

The interviews with wider providers of finance/other users tended to be shorter compared to Set 1. Nonetheless, the average interview time was around 35 minutes, with a maximum interview length of 50 minutes.

All the transcribed interviews were then coded by interviewee, as shown in Tables 3.1 and 3.3, to enable key verbatim quotations to be identified so as to highlight the dominant views on and issues with <IR>. Initially, all the transcripts were read by both the academic researchers, to familiarise themselves with the general findings across all the interviews in both sets. The subsequent transcript analysis was guided by the general areas of enquiry supported by the structured interview questions that related to each area. For the analysis, each researcher separately conducted a detailed manual thematic analysis of the interview data, identifying themes relevant to each area of enquiry and isolating emerging patterns (Boyatzis 1998; Miles and Huberman 1994). The method of analysis is consistent with that used in the staged approach suggested by Easterby-Smith et al. (1991) and used in other interview-based research (Campbell and Slack 2008; Armitage and Marston 2008, Solomon et al. 2011). Following this independent analysis, the researchers met to discuss all the identified quotes relevant to each area and to agree the final coding of the interview data. It is recognised that the research reports the views of those interviewed in respective sets. As such the research is qualitative and does not seek to generalise or to present statistically significant results.

Table 3.1: Summary of senior equity investor interviewees

Ref	Position/job title	Type
OU1	Team head, alternative investment strategies	ESG
OU2	Charity investments department, investment manager	ESG
OU3	Ethical investment advisory group	ESG
OU4	Private equity – portfolio manager	Mainstream
OU5	Managing partner – brokerage firm	Mainstream
OU6	Private equity – head of portfolio	Mainstream
OU7	Associate director – adviser on sustainability reporting	ESG
OU8	Independent adviser – sustainability	ESG
OU9	Private equity – investment partner	Mainstream
OU10	Senior corporate manager – credit and lending	Mainstream
OU11	Corporate finance company research analyst	Mainstream
OU12	Corporate finance company research analyst	Mainstream
OU13	Corporate banking relationship director	Mainstream
OU14	Private equity – funding head	Mainstream
OU15	Senior manager corporate credit and lending	Mainstream
OU16	Senior manager corporate credit and lending	Mainstream

4. Findings

The findings are presented in five main sections based on the underlying areas of enquiry and the related interview questions.

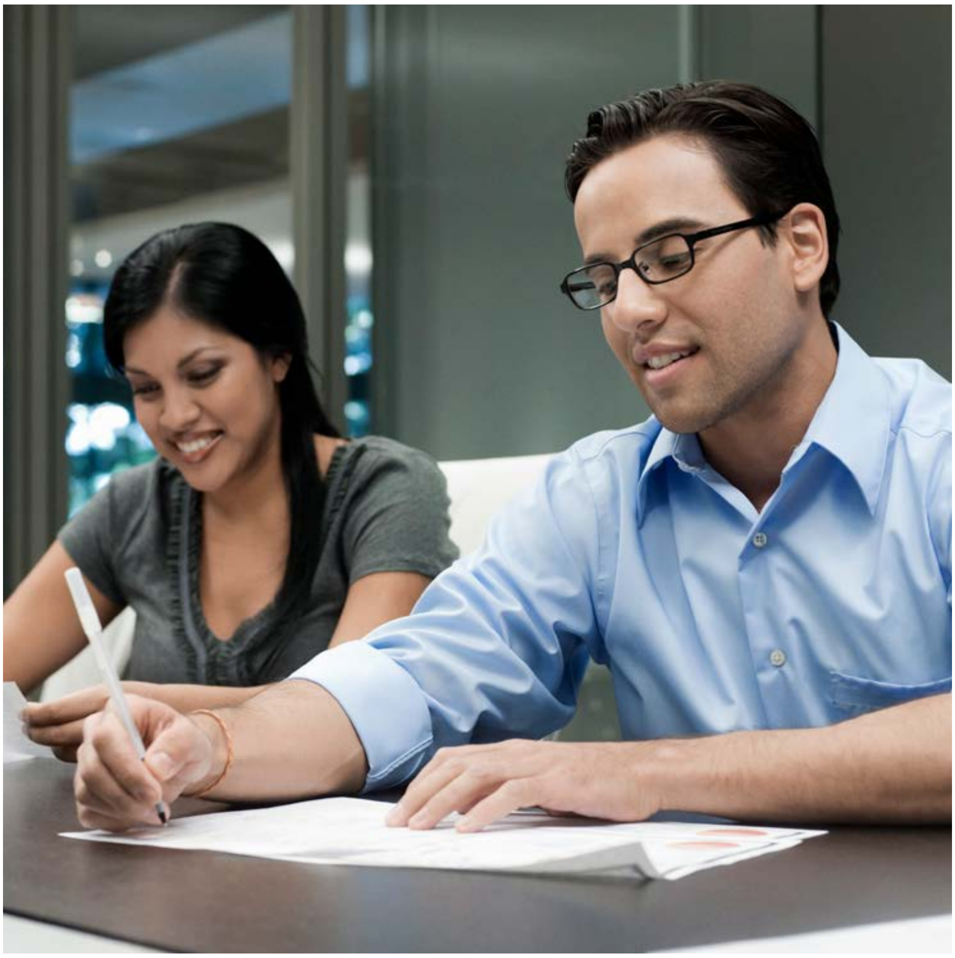
The findings are presented in five main sections based on the underlying areas of enquiry and the related interview questions. Each section begins with the views of the providers of financial capital, noting, where appropriate, the distinction between fund manager and analyst and between mainstream and ESG perspectives. Where relevant, the coding also refers to ESG to denote that the interviewee was engaged with ESG-related activity. This forms the main body and emphasis of the findings, in line with the scope and aims of the research and the primacy of that group in the <IR> Framework. For each section, the views of these providers of equity finance are followed more briefly by the findings from other providers of finance/ users of <IR>. Where appropriate, the functional activity of other users, such as those involved with corporate debt, credit rating, private equity, corporate finance and ethical/ sustainability-related activities, is noted.

4.1 USE OF CORPORATE REPORTING INFORMATION

4.1.1 Providers of financial capital (equity investors)

As expected, all the interviewees, on both buy-side and sell-side, were very familiar with corporate annual reports and the reporting environment. A broad consensus emerged from the discussions on the annual report that it had its use a reference document, sporadically accessed by users, but it lacked sufficient forward-looking information relevant to corporate value creation. For instance, CP1 referred to his/ her use, and that of his/her team, as follows:

> 'annual report as…I suppose, a second port of call…if you want to get up to speed with exactly what the business does, what its competitive advantages are and where it's going I think it's a very relevant reference source'.



> Despite their use of the annual report, interviewees were, nonetheless, often critical of current corporate reporting practice owing to its historic nature and perceived lack of user orientation and hence value relevance to them as an investor group.

Unsurprisingly, given their roles, the equity market users focused directly on the financial statements and aspects of the management discussion/chairman's statement. Their views were encapsulated by CP5, who commented,

> 'I'll look at it [the annual report] once a year…but I will pick bits out of it and so I'll tend to read the management discussion...I also read the chairman's statement but that probably stops there'.

Others similarly referred to their use of the annual report: '[while] the primary source of data and information is the company releases…you get an extra level of granularity generally with the report and accounts...so it's there for bits of information, but I wouldn't say we sit and read it cover to cover' (CP9). CP8 commented, '[the] most heavily [used section for me] would be the executive summary at the front, to get an overview of what's been going on and what the outlook is, and then the financial accounts'.

Despite their use of the annual report, interviewees were, nonetheless, often critical of current corporate reporting practice owing to its historic nature and perceived lack of user orientation and hence value relevance to them as an investor group. From a fund manager perspective, CP4 opined,

> 'by and large [the annual report is] backward-looking, and it really tells you what the company has done in the last year or so. There's not much [sic] forward-looking statements; there [are] not many comments about how the company actually attempts to create value for shareholders'.

Similarly, CP15, commenting on annual reports and with a veiled reference to the potential usefulness of <IR>, remarked, 'the problem is that they [annual reports] are just telling us what you do, but actually bringing all you said together would be more useful'.

Such criticisms concerning the historic focus of the annual report and the lack of more specific connectivity to value creation were also expressed by a number of the equity analysts, for instance, 'I would tend to see accounts as backward-looking' (CP14); 'at best it gives us a review of what has happened with some insights into the future although at a very general level' (CP19). Furthermore, the annual report contains, 'too much detail of the past and not sufficient focus on future value' (CP21). These concerns over the user relevance of the annual report led to remarks such as,

- 'Not many people are reading these [annual reports]' (CP7).
- 'They [global accounting bodies] worry that the annual report has lost its impact in financial capital markets; it's seen as a sort of regulatory, mandatory, lengthy document that nobody really uses anymore' (CP4).
- From an equity analyst, the view that fund managers, 'don't necessarily take any notice of the company report' (CP13).

When pressed as to why, interviewees referred to the annual reports 'historic[al] content' and a 'lack of focus on future value'. After this initial overview of annual reports, which established their, albeit expected, familiarity with reporting, the interviews then focused on <IR>.

4.1.2 Other providers of finance/financial users

Like the providers of financial capital, Set 2 interviewees, the 'other providers/users', were conversant with the annual report and explained their use, and criticisms, of it as a reporting document. In general, all the respondents in Set 2 used the annual report in their respective functional areas mainly to provide background and as a confirmatory document of their evaluation of a company. For instance, OU10 remarked on his/her teams' use in relation to corporate debt and credit scoring: 'We use financial statements quite substantially. Our models clearly use those quite substantially in assessing the creditworthiness of the customer'. Other users similarly remarked on use of annual reports but also noted criticisms. From a private equity perspective, 'obviously we read the annual reports, but they are simply there to complete the knowledge that we've already accumulated...They'll just cut and paste [the narratives from year to year] as it is currently structured, so I think most people actually ignore narratives' (OU6). A respondent from a corporate debt background commented 'with every company I deal with that's the starting point of – the first port of call I'll go to is the annual accounts' (OU13). Regarding usefulness, however, this

In general, the other providers/users were critical of the real value of annual reports but were unsure or did not know or appreciate how <IR> would be beneficial to them.

respondent then commented: 'only a small percentage provide anything that really adds any value to what you're reading as it is out of date and too often backward-looking in orientation'.

In general, the other providers/users were critical of the real value of annual reports but were unsure or did not know or appreciate how <IR> would be beneficial to them. This was succinctly put by a sustainability adviser who commented:

> 'you do need to change reporting and reporting isn't fit for purpose at the moment, but I think there's a lot more work needs to be done on actually how businesses function effectively in an integrated way and to stimulate interest in such reporting in the mainstream' (OU7 ESG).

Although all the users were comfortable in their knowledge and use of current reporting, few referred to narrative beyond the chairman's or chief executive's review. Thus, environmental issues were largely ignored unless there was a specific environmental risk identified from a due diligence or valuation perspective, but no further relevance was identified by or forthcoming from the majority of the other users. The exceptions were those involved with ethical or environmental issues; one interviewee commented on his/her team's use of such reporting: 'we're users of company reporting, specifically some of the ethical investment policies refer to the ESG reporting that we use. We're also quite networked into the space in London on sustainable capitalism, social investment and finance, and thus routinely engage with ESG issues' (OU3 ESG).

4.2 FAMILIARITY WITH, KNOWLEDGE OF, AND UNDERSTANDING OF <IR>

4.2.1 Providers of financial capital (equity investors)

Interviewees gave mixed responses about familiarity with <IR> before they had reviewed the IIRC website as specified in the pre-interview email. While some on the buy-side were familiar with <IR>, albeit with differing views on its use and demand, the mainstream sell-side interviewees, in contrast to ESG-focused equity analysts, were almost universally not familiar with <IR>. Of the 12 fund managers, six (of whom two had ESG-related interests) had previously heard of, and had used, <IR> reports within their roles and were highly familiar with documents using this form of reporting. One commented, 'an integrated report is not something that's sort of hived off completely separate. It's an intelligent discussion of your business but in a wider sense than just about how you make money' (CP7). CP4 explained that such reports covered: 'how the management delivers on the creation of that value-added', and added: 'when I compare Asian stocks sometimes I would say it [<IR>] is important...it is important for me how they basically see corporate governance and the links to strategy and value' (CP11 ESG). From a similar ESG perspective, reflecting on the buy-side, one of the analysts commented that in his/her team's view, 'the buy-side and our clients are quite knowledgeable about integrated reporting and very often they have discussions with the IIRC' (CP6, ESG). In a similar positive tone, CP20 noted that in his/her view integrated reports are 'potentially, a key communication mechanism between a company and its investors, and particularly its longer-term investors'.

Three of the fund managers specifically referred to an aspect their firm's position as part of the <IR> consultation process. For instance,

- 'I am our firm's representative within the IIRC working group' (CP4).
- 'We responded to a consultation that they did, probably about three years ago now, when they were considering what the framework should look like' (CP12).
- 'I have heard of integrated reporting... I think it was on the capital market's advisory committee for the IASB that I was a member of' (CP16).

In contrast, six of the fund managers, including two whose roles were ESG related, and the majority of sell-side analysts (six of the nine interviewed), notably excepting those who were ESG orientated, had not previously heard of <IR>, even where some of companies that they analysed prepared integrated reports and were part of the IIRC pilot network. Typical responses included (interviewer in italic):

- 'Integrated reporting, no, that was new to me' (CP2).
- *'Had you heard of integrated reporting?'* 'I'm assuming you just mean an annual report?' *'No, integrated reporting'.* 'So I guess the answer is no!' (CP5).

'We tend to use corporate reporting for engagement purposes so it's when we're briefing ourselves for a meeting we obviously use public disclosure and the policies that refer to ESG reporting'.

- *'Had you ever heard of integrated reporting?'* 'No'. *'Even though xxx Bank do it?'* 'Correct, yes I haven't heard of it I'm afraid' (CP10).

Despite the mixed responses concerning familiarity with <IR> prior to the research, all the interviewees had reviewed the IIRC website in advance of the interviews and were thus able to express their views on <IR> as a reporting vehicle.

4.2.2 Other providers of finance/financial users

With the general exception of those involved in ethical or-ESG related activities, the vast majority of the other (ie Set 2) providers/users (12 of the 16 interviewed) had not heard of <IR> and thus had not used it within their day-to-day functional roles. When asked about <IR>, most respondents said they had no familiarity, for instance: *'have you ever heard of <IR>?'* 'No. Would you expect me to have?' (OU13). More widely, OU10 (credit and lending) remarked in his/her response to *'had you previously heard of integrated reporting?'* 'Not at all; I thought I would speak to some of the other credit analysts as well in our global corporate area, and again they hadn't either'. Others were more dismissive of any reporting beyond the current, already cluttered reporting landscape. For instance,

- As expressed by a private equity interviewee: 'I'm against these mini industries which are created to produce stuff which isn't worth anything anyways' (OU6).
- 'I think it's a nice aspiration. I can't see it ever coming to fruition' (OU14).
- One of the corporate financiers had come across the IIRC in his/her former role as an auditor, but not in practice, although he/she did acknowledge that it would be read as a document. In response to *'had you ever heard of integrated reporting?'* he/she replied 'No, I'd heard of the IIRC from a former life of being an auditor but never the integrated report. But it would certainly give us a starter. There's no harm in reading it if it's there' (OU12).

Although all the interviewees had visited the IIRC website and were therefore able to comment on its potential use, the capitals and barriers, only one of the mainstream users spoke about his/her current familiarity:

'as an M&A analyst, it gives you a very clear picture of how this company is going to execute their strategy, which means going into a bit more detail – I think it's a great idea and … to me it seems like a bit more of a clearer picture of longer-term strategy, not just quarterly reporting, which I think is positive and I think a good mind-set, speaking ethically as well' (OU11).

Those engaged in an ethical investment/ESG orientation were, as perhaps expected, more conversant with <IR>. While OU3, an ethical investor adviser, did not claim any <IR> expertise, he/she highlighted its use and his/her team's familiarity with the reporting design and aims: 'we tend to use corporate reporting for engagement purposes so it's when we're briefing ourselves for a meeting we obviously use public disclosure and the policies that refer to ESG reporting'. A sustainability adviser, commenting on the footprint and historical development of <IR>, remarked: 'where has <IR> come from, well what the Prince of Wales was trying to do was really change the way that companies report on their performance by being far more inclusive of environmental and social issues and not just [focusing] purely on financial performance' (OU7).

4.3 <IR> AS A REPORTING DOCUMENT AND ITS USE AND POTENTIAL AS PART OF DECISION-MAKING

4.3.1 Providers of financial capital (equity investors)

A number of claimed benefits of <IR> and the hopes of what <IR> can potentially achieve in terms of its current and future use as part of decision-making were discussed with Set 1 interviewees. Thus, despite the reported lack of familiarity, especially from equity analysts, when asked about their views on the actual or potential use of <IR> to them as equity market users, three key areas emerged from the interviews: the link of reporting to long-term value creation; the link of reporting to corporate strategy; and, aligned to these two, the use in reporting of KPIs relevant to strategy and value creation. These are set out in Table 4.1 below. It was evident that both fund managers and equity analysts recognised the potential benefits of <IR> as a reporting vehicle in their reviews, although not currently evidenced by either their knowledge of, or use of, such reporting.

Table 4.1: Equity investor views on the potential benefits of <IR>

Theme	User group	Comment
<IR> and long-term value	Fund managers, buy-side	'If we had that sort of 4- to 10-page summary of an integrated report which shows what the companies are trying to achieve in terms of creating value, that becomes a great template for us to look at, it's a better way of conversing about the future' (CP4). 'Tying value creation into the actual annual reports and with the reporting...that's useful for those in the capital markets...a more focused report, a focus on the right things would be tremendously useful' (CP13). 'One of the good things about the integrated reporting framework is that they're exactly trying to look at all these levels of value creation and that, and sustainability and how you can grow long-term shareholder value' (CP16).
	Equity analysts, sell-side	'It gives us a better feel for where the business is trying to go over the longer term' (CP3). '<IR> systematically laid out that the moving parts that get us from the metric from a to b for long-term value' (CP5). 'Some of the companies that have adopted <IR> are very progressive in the US. We found [that] and so there's a stronger alignment so the long-term value of the business' (CP6 ESG). 'That's incredibly helpful...It's trying to show where the economic value drivers or changes are coming from for the longer term...forcing the companies to give a level of detail that …improves visibility and makes our assessment much easier' (CP9).
Links to corporate strategy	Fund managers, buy-side	'What is different…with <IR>, [is] how fund managers would use it differently, especially those that use company management meetings to discuss strategy to help act as a tool for their decision making...there should be commentary I think, included, where they talk about where things haven't gone to plan and how the management intend to change their strategy to react' (CP4). 'It's just brilliant, they've just got their strategy in a chart and..all you'd need to do is read that and you go 'I get what they do, I totally understand it' (CP15). 'What we want [in reporting] is "how is this business going?" "[What] do we think the business is going to do based on their strategy and execution within economies and within markets, and all the various other factors that are impinging on them externally?"...that is relevant for the integrated reporting' (CP16).
	Equity analysts, sell-side	'It only makes sense if it's really well aligned with your strategy...if your strategy is clear and your targets are clear, so everything should be. It's just a matter of formulating it in a concise way' (CP6). 'It [strategy reporting] would become interesting…if they then came out two years later and you can see the shift... Now that becomes interesting, so…that it has a consistency about it and it becomes iterative...if the strategy document said…this year, we are adopting a process of assessing productivity efficiencies and we are going to come back to you in a year's time, then that would be more useful' (CP9).
Use and link to strategy of KPIs in reporting	Fund managers, buy-side	'Having some monetary [values or] [sic], having some numbers in there, having some explanations, but also showing us what…sort of key performance indicators will be [used] to measure how the management delivers on the creation of that value-added'. (CP14) 'What's driving this business and married to that, KPIs about how are management incentivised. I want to see the two married together and if they aren't, then we will see them and go, "Why not?" I want the KPIs [to be] integrated in the report and accounts. I want some text on that but also the numbers. This is the strategy to deliver these KPIs' (CP15).
	Equity analysts, sell-side	'The concept of one report [is attractive]. So it means that it's easier for long-term investors...through key performance indicators, to clearly understand the consistency or not between the strategy and business model of the company and sustainability' (CP6 ESG). 'What we need as a minimum is...to have some development dealing with business models, strategy and sustainability, and some key performance indicators, some quantitative, some qualitative, not 100 but perhaps four, five, six to be sure, in terms of results but also objectives linked to key strategy' (CP18 ESG). 'Clearly integrated reporting to address [the] business model, quality of management, financial statement, clearly it will help us, help me...You know that you have some financial KPIs but also non-financial KPIs, so if you tell me that this indicator, this objective is in your balance that's an important [item of] information for the investor' (CP19 ESG).

> Broadly, from these conversations it would appear, prima facie, that there is recognition of the benefits of a new reporting framework that more clearly sets out strategy and its connectivity with key risks and measurement through KPIs.

In the interviewees' recognition of potential benefits and possible future use, there were no recognisable differences in opinion related to their investment strategy. The exception was the much greater familiarity and use associated with <IR> held by those from an ethical/ESG investment environment. Broadly, from these conversations it would appear, prima facie, that there is recognition of the benefits of a new reporting framework that more clearly sets out strategy and its connectivity with key risks and measurement through KPIs. Nonetheless, such positive views needs to be contextualised against the interviewees' general lack of use or operational knowledge of <IR>, as discussed in sections 4.2 (above) and 4.5 (below) respectively of this chapter, the latter being relevant to the barriers to such use in the future. As with earlier reporting initiatives, evidence is still needed that what may be viewed as beneficial enjoys sustainable demand by capital market actors and is clearly relevant to them as a user group.

4.3.2 Other providers of finance/ financial users

The interviewees in Set 2 expressed broadly similar views about an increase in granularity of strategy reporting and associated risks and the potential benefits offered by <IR>. Such views were across the spectrum of other users as set out in Table 4.2 below.

These perceived benefits again need to be tempered by the interviewees' current lack of engagement with such reporting and their views, like those of Set 1, on the actual demand for <IR> in practice will be similarly addressed in section 4.5 of this chapter.

4.4. USE AND RELEVANCE OF THE CAPITALS MODEL

4.4.1 Providers of financial capital (equity investors)

Following on from discussion of the potential relevance of <IR> to each Set, through the integration of strategy and value in reporting, the interviewees were then asked to give their views on the 'capitals' model as a fundamental concept in the <IR> Framework. Some fund managers (6 of the 12 interviewed), notably those who had previously heard of <IR> and thus pertinent from an ESG perspective, and a minority of sell-side analysts (four of the nine interviewed) understood the ideas underlying the capitals model and the associated integration of reporting across all aspects of the business and how these ideas

Table 4.1: Equity investor views on the potential benefits of <IR>

Other user	Comment
Alternative/ethical investment advisory	'But I think the key thing for integrated reporting is to get granular, it's to get data…that's what annual reports are good for in terms of financial data, I think, …the kind of data [that] helps comparability year on year, comparability with other companies in the sector…that's where integrated reporting comes into its own for me' (OU1 ESG).
Sustainability advisory	'So if an organisation is actually preparing any communication to investors, if it's aligned to their strategy and from a risk perspective it picks up wider risks, not just financial risks, and also is more forward looking, then I think investors would see value in that but if you just show them a framework that's going to produce another report, I don't think it's really going to command much of their attention' (OU7 ESG).
Corporate debt and lending	'There is a need to understand the strategy of a business and any credit analyst does a spot analysis of the business... So, that [integrated report] would probably add to those pieces of information, because obviously if you can get to understand that sort of depth of that in reporting then that would be useful and may add some value' (OU10). 'There is variable quality in strategy reporting and its connectivity to the underlying businesses. Hence for me <IR> would pull everything together in one nice place – their strategy and what are those risks associated with that strategy' (OU15).
Corporate finance	'I think that's an interesting way to approach risk…going back to your strategic review that happens outside of the financial reporting cycle, then that might be a mechanism to actually focus on risks and opportunities associated with the strategy' (OU11).
Private equity	'A clearer depiction of risks to the underlying business strategy and how risks would be measured, monitored and used in the business. Beyond that how KPIs were more clearly linked to strategy and their consistent reporting over time' (OU 14).

> 'The capitals make sense only where they are really well aligned with your strategy...for us there needs to be a narrative that clearly connects the strategy, the financials *and* sustainability'.

connected with the business model and strategy. Such connection facilitates appropriate reporting of the strategic value chain and value creation through the use of the relevant identified capitals. Hence, the capitals are 'stocks of value that are increased, decreased or transformed through the activities and outputs of the organization' (IIRC 2013a: 4). Speaking from an analyst's perspective, CP9 stated, 'what I liked, and…what I was trying to understand was the additional level of detail that was coming out...it is forcing companies to reconcile and break out the moving parts'. Similarly, a fund manager's view was that,

> 'the capitals tie in long-term strategic direction... what's driving that, what are the key parts for value creation… is absolutely critical...so we actually will look for businesses where the management really understand that, so I'm not sure all management teams do and so that is a big part' (CP14).

The link of 'capitals' to value reporting and strategy was emphasised by CP6, an ESG analyst, who was highly supportive of their role in linking strategy to wider sustainability issues. 'The capitals make sense only where they are really well aligned with your strategy...for us there needs to be a narrative that clearly connects the strategy, the financials *and* sustainability'. Such a viewpoint was echoed by CP19, talking about environmental capital. 'They have maybe 20–25 pages of sustainability in the annual report but the question is how does it relate to what they do...what the integrated report brings [in] is the fact that if financial analysts *read* that report they will be exposed to the information, but I think it has to go a bit further so it can be really integrated in their analysis'.

The integration of sustainability issues through capitals was also referred to by one of the fund managers, who said that, 'if you think about the capitals, I think globally, people are realising that things like water are now huge issues for some companies, [and it] is really important [that]…companies will realise over time they have to report more on some of these issues, and integrated reporting will be the most obvious, easiest, most evident way of doing that' (CP12). One of the fund managers, discussing the benefits of reporting on the capitals in relation to associated risk reporting, opined that, 'I would say it depends on the sector. For instance [for natural capital] where water is a crucial aspect of the business model, for these companies I would like to see more about the associated risks' (CP11 ESG).

Nonetheless, other buy-side interviewees and those on the sell-side were generally dismissive of the 'capitals' model from their review of the website, regarding it as unnecessarily jargonistic, which created barriers to its wider use. Although some of the interviewees appreciated the link of 'capitals' to strategy and value, they were nonetheless sceptical as to the labelling given to reporting in the <IR> Framework. For instance, CP2 argued, 'so there's a possibility [that there is] a bit of a need to change the way we think about what we're saying integrated reporting is. I'm not sure that that diagram with the capitals in it is particularly useful. It's useful from the sense that it helps you take a broader view, but trying to label them all and going through and actually calling them "capitals", I'm not entirely sure'. CP7, an ESG-orientated fund manager, similarly expressed the view that, 'it's just good reporting, it's understanding. So if you want to call that human capital, you can call it human capital'.

There were also more dissenting views on both the relevance and terminology of capitals, evident in fund managers' responses, although the interviews noted that preparers would only report on those capitals appropriate to the company, thereby reflecting capitals that were material to their value creation chain. CP1 expressed robust views on the issue of reporting on the six capitals, saying,

> 'I wouldn't want to see a business wasting time on thinking about things in that way...I think it's too much of a burden and I don't see any real benefit in that,…it would be a waste of time'.

Another of the fund managers dismissed the 'capitals' model as comprising: 'too many jargons, which if you're trying to turn it mainstream just doesn't help...do you really need to be talking about environmental capital when you're thinking about trying to mitigate your carbon

In general, current reporting was collectively viewed as lacking specificity and sufficient granularity; both fund managers and analysts addressed this issue.

emissions because of the risk of pricing in the future or you're just trying to cut your energy bills?' (CP13). Further, some of the analysts expressed concern over the value relevance to them of the 'capitals' model. 'A lot of [the capitals] would be totally subsumed by just the financial piece [information], and a lot of the other stuff might be nice to have but actually the financial side of things is going to so dominate stock price' (CP10).

Criticisms of current risk reporting and whether <IR>, through more focused reporting on 'capitals' and their links to strategy, could help improve current practice, arose partly from the discussions on strategy reporting and the use of 'capitals'. This was appropriately summarised by CP4, who observed that, 'we need the analysts to understand those risks...they'll ask the right questions but an <IR> report might just bring it more to the forefront'. In general, current reporting was collectively viewed as lacking specificity and sufficient granularity; both fund managers and analysts addressed this issue. The Set 1 interviewees regarded this as an inherent consequence of public documentation of formal reporting documents and a lack of incentive for any preparer to isolate and identify their critical risks in the public domain potentially compromising business sensitive information.

The researchers sought to probe whether interviewees foresaw any changes in more critical risk reporting that could be brought about through <IR>'s more specific linkage of key risks to strategy and relevant capitals.

On a positive note, CP4 noted that,

'we need the analysts to understand those risks, but if they know their company they will know that stuff or they will find out that information, they'll ask the right questions but an <IR> report might just bring it more to the forefront...<IR> provides a commentary on where things haven't worked out or where there's been new risks that we potentially didn't know about'.

Similarly, CP20 expressed hope that <IR> would help to, 'focus a board's attention more on the returns and risks of the business and [that] may [be] an impact of integrated reporting [because it] might be that it improves disclosure. CP14, observed that with <IR>, 'from the US reporting that I've seen where they do key risks...[it] does tend to highlight whether there's any issues that are relevant to strategy'.

Nonetheless, even with a focus on strategy, and through the focus helped by the capitals model, the interviewees were, in general, sceptical about any real improvement in risk reporting, although as users they would value such change. CP11 commented: 'I would like to see more about the associated risks'. Likewise, CP7 said that,

'if…new risks appeared or [if] risks have changed over the year [then] that should be talked about. If the strategy hasn't panned out the way they mentioned in the last report, [then] they should comment on that...There should be commentary included where they talk about where things haven't gone to plan and how the management intend to change their strategy to react'.

In relation to key risk reporting, CP17 highlighted that, 'I don't want risks, what I want, and I ask this when I meet them, is the three key challenges they face. Only one would be financial, the others would be broader. So the challenges are what I would want [from <IR>] and a commentary on them'. Whether such disclosure, would

> 'I suppose…you get used to terminology after a while, but maybe to begin with it would be… slightly alien to them, and a definition or a full understanding at each point would be sensible. People can over-jargonise and that hides probably what <IR> is talking about'.

be forthcoming was in general questioned by CP1, who reflected that, 'I suppose you want the risks of the business, which [are] those things that [determine] the quality of the earnings, again, and then it's up to you what valuation you want to play...but that's not going to happen'.

4.4.2 Other providers of finance/ financial users

In general the Set 2 cohort of other providers/users were not familiar with the 'capitals model' and in their review of <IR> expressed concerns about its usefulness to them, raising similar criticisms about jargon and measurability. For instance 'I'm not a huge fan of it, I think people are different from financial capital and the environment…it's a slightly kind of 'techie' way of talking about it, I wonder whether it might put people off' (OU3 ESG) and 'it's slightly sort of cultish in a way' (OU11). Others, similar to some of the capital market voices, were more vehement in their criticism: 'what use is the information? Absolutely no information – they've ticked a box – it won't make a damn [bit] of difference to the people who pull the trigger and buy or sell shares because nobody knows what the information means anyway' (OU6). In contrast, others were more willing to accept new technologies in reporting: 'I suppose…you get used to terminology after a while, but maybe to begin with it would be…slightly alien to them, and a definition or a full understanding at each point would be sensible. People can over-jargonise and that hides probably what <IR> is talking about' (OU10). One of the corporate financiers remarked that,

> 'more broadly I would like to see there being more understanding from an investor perspective, really what are the things that they would like to see from this process that they don't currently get? Is it that there needs to be more appreciation of some of these capitals?' (OU16).

Set 2 interviewees often had little to say on the 'capitals model' and the use of capitals in reporting. From a practice perspective only one of the users specifically commented on its use from a client: 'they've [client name] looked at the framework, they've adapted it to fit their business requirements, they've looked at – they're not taking the six capitals, they're looking at four capitals and actually changing them slightly so I think all of that is very much in the spirit of the framework' (OU7 ESG).

4.5 BARRIERS TO DEMAND AND USE BY CAPITAL MARKET PARTICIPANTS

4.5.1 Providers of financial capital (equity investors)

As set out in sections 4.3.1 and 4.4.1 above, a number of benefits in relation to <IR> were identified by both fund managers and equity analysts through their respective reviews of the IIRC website. Nonetheless, despite these benefits, there was a notable lack of familiarity with <IR>. The interviewers sought to identify barriers to the demand for, and use of, <IR> by fund managers and equity analysts respectively.

Three main issues, reported in Table 4.3, emerged from these discussions alongside a small number of more minor, more specific issues referred to individually. Firstly, while <IR> is intended to 'explain to providers of financial capital how an organisation creates value over time', there was a clear divergence between fund managers and analysts over its relevance to them as equity market users and, in the case of the latter group, their more short-term orientation and incentives stemming from capital market behaviour and culture. Although some fund managers viewed <IR> and its longer-term orientation as being helpful in informing decision making, the majority of sell-side equity analysts had a clear short-term focus, and accordingly viewed <IR> as remote. From a sell-side perspective, the interviewees reflected on the short-term focus of their work in general and the compensation and incentive schemes that reflect this. This gives insight into a tension between investment for long-term value and the short-term horizons of sell-side at play in capital markets. Secondly, despite its evident high-level institutional support in the consultation phase, there was a perceived lack of 'critical mass' (see for instance CP4 below) among <IR> adopters, and related to this, the lack of common discourse (or agenda items) on <IR> within organisations and between organisations and their investment advisers. Beyond market culture, all the interviewees were asked how <IR> should be promoted and embedded, and the potential for wider discourse and coverage of <IR>-specific reporting. Such discourse may help to stimulate demand for <IR> and would increase awareness from an equity analyst's

Table 4.3: Demand for <IR> and market tensions

Theme	User group	Comment
Capital market culture	Fund managers, buy-side	*Are they* [sell-side] *incentivised sufficiently to take a broader look?* 'Probably not, the mainstream sell-side is not being asked to think about these things. *In many ways it's actually down to us lot to be asking for this kind of information from them* because they're a service provider and they're not going to be spending time talking and thinking about things that they're not being asked to, are they?' (CP4) (Emphasis added by authors). 'I would say the incentives are wrong in terms of having a long-term view which manifests itself in not properly considering the longer-term drivers of value creation or of risks in the business (CP14). 'The city's too short-termist. I think it's here to stay. There's not a lot you can do about it. But then the onus is on us to demand more longer-term value' (CP15).
	Equity analysts, sell-side	'I would only [read <IR>] if I think it's affecting the financials' (CP5). 'I am assessed monthly, no weekly pretty much, so long-term performance is not a key driver' (CP8). 'A lot of the other stuff might be nice to have but…it becomes a little irrelevant...there's probably a subset of investors that take very, very long-term views to which, you know, if you were writing a long-term industry report to them it could be of relevance' (CP10).
'Critical mass' for a shift in demand	Fund managers, buy-side	'There's not enough "best of breed" [and this] is the one problem and we're struggling to get that critical mass...I don't think any of us have really utilised it enough yet in our meetings' (CP4). 'That's a real challenge I think, is to get that critical mass and to get that drag factor' (CP7 ESG). '[We need to be] talking about their integrated reporting or us asking the question, "have you got – are you doing integrated reporting?"' (CP11 ESG). 'I think, gradually, awareness will come through, as more companies produce them and more companies use them as a tool to communicate with fund managers and sell-side then it will gradually evolve' (CP16).
	Equity analysts, sell-side	'OK a little few extra hours will increase people's awareness of it; it may or may not affect their investment decisions. At this stage it probably won't but you're increasing their awareness for very little cost but would it have an impact on me tomorrow? No. Will it in 10 years' time? Maybe' (CP8). 'The buy-side would basically need to say we need to have this metric [wider social or natural capitals] covered so that we can make a decision...I would say 98% [of buy-side] would not bother...there would be no audience for the time it would take for us to fill in the paperwork and resultant research notes' (CP9). 'It would obviously be demand-driven, so if the buy-side told us that they thought this was important, we'd obviously focus on that, yes. But I think for them to think it was important they'd have to perceive it making a difference to the stock price and I don't see that they're at that stage in my sector right now' (CP10).
Discourse on use of <IR> in practice	Fund managers, buy-side	'Certainly my colleagues are not asking me about it, so [if I have] 60-odd colleagues, very few [are] mentioning or even bringing it up in communications with companies, *so it's really left to me to do that'* (CP4, emphasis added by authors). 'No [there is no <IR> training, because]…not enough companies are using <IR>. Once there is a critical mass and once companies start saying to analysts have a look at our…integrated report. …we've just got to keep the push and the danger in the US is that they don't get involved so we've got to make it a global thing' (CP4). 'I think it's about education and working with them...I think one of the problems is there aren't really that many people [fund managers and companies] doing it' (CP12). 'So whether we would get that filtration effect [talking about <IR>], I don't think so' (CP13).
	Equity analysts, sell-side	'Get the market used to the idea that you can use these capitals as a way of presenting the business and presenting and relating that to future value' (CP3). Talking about the use of <IR>: 'I think the buy-in from the department has grown and so we're doing that ESG survey every year and…we have a conversation with analysts and we have more and more work with the analysts' (CP6 ESG). 'It's important for integrated reporting to be in the kind of discussions we have during the general assembly or during meetings we have [with clients]' (CP19 ESG).

The specific coverage of, and use of, <IR> in meetings between investment advisers and their clients, and in internal meetings, and the role of <IR> in investment house induction and training on reporting remain key issues to be resolved.

perspective. This could include specific coverage of <IR> and reflections on <IR>'s link to strategy and its value, as part of company presentations to providers of financial capital at capital market day events. The specific coverage of, and use of, <IR> in meetings between investment advisers and their clients, and in internal meetings, and the role of <IR> in investment house induction and training on reporting remain key issues to be resolved.

From a buy-side perspective, although there are challenges in market culture and an increased need for internal and external discourse reflecting <IR>, there are nonetheless some supportive views of <IR>'s decision-relevance to users that may support longer-term market penetration. Against this, the sell-side reflected a low level of familiarity with and current demand for <IR>, possibly compounded by lack of demand from those on the buy-side for more longer-term, integrated analyst reports and a failure to promote <IR> discourse more widely. The current challenge for <IR> is that, for the change in culture required, the sell-side would need to appreciate the relevance of <IR>, and enlightened. Furthermore, in time more buy-side users would need to promulgate IR's importance and relevance beyond preparers, the supply chain, to foster a more sustained and wider capital-market demand. At present this is not evident from a sell-side perspective and only in pockets of the mainstream buy-side.

4.5.2. Other providers of finance/ financial users

The issues of investor demand and the culture of markets were both referred to by the other providers/users when they expressed concerns over the adoption and use of <IR> more generally. Broadly, the other providers/users did not foresee an immediate change in their consumption of annual report information, subscription databases or data gathering from private communication channels. For instance, one of the corporate financiers remarked: 'I have not used integrated report information and, unless there is evidence that it will help in my financial evaluation, why would that change? My current data sources are an adequate source of information on which to base conversations with management' (OU12). A similar view was voiced by corporate debt managers, one of whom said:

> 'I see little reason to demand such reports, if I want strategy and business information then either I should already know that or it is already in the public domain. There is no need to move it somewhere else' (OU16).

In concurrence with the views of Set 1, many of the interviewees in Set 2 remarked on the nature of financial markets in which they operated and, without prompting, raised the issue of the perceived lack of demand from equity market users and the tension between short-term and long-term market demands and culture. For instance, speaking from a corporate finance perspective, OU11 noted: 'a key issue here is that we're too focused on quarterly reporting and that's because people that buy shares in these companies are typically looking in three-month cycles. You've got more short-term lookers than long-term [ones] in the market so where is the demand?' A private equity participant similarly expressed concerns for the use and adoption of <IR> owing to the nature of capital markets, but did recognise that this is not a universal problem. He/she stated 'there's plenty of short-term traders out there who won't give a damn, I know that, but that shouldn't apply to everybody' (OU6). One of the corporate debt providers

<IR> is still viewed as a separate reporting document, even if it becomes more widespread in its adoption and use, whereas its aim is to be the single corporate reporting document.

had more encouraging words but still agreed that <IR> faced a challenge to break through to widespread adoption and use. He/she argued that timing was important in the market: rather than competing with year-end results, the integrated report could be a document providing a more circumspect review of the business, with appropriate gravitas. He/she stated,

> 'maybe there does need to be a rethink about the whole way the company investor system [works], from an investor perspective. We need to rethink the way that this whole system works – to now introduce this into the system, which is what is suggested. Maybe then [having] a review at a different point in the year…taking a more integrated look at things' (OU9).

From this, it is apparent that <IR> is still viewed as a separate reporting document, even if it becomes more widespread in its adoption and use, whereas its aim is to be the single corporate reporting document.

While the more mainstream providers/users were more sceptical about <IR>'s widespread use owing to associated barriers broadly similar to those identified by those in Set 1, those providers/users who were more orientated towards ethical investment and ESG-related activities were the most positive in their viewpoints. For instance, OU2, an ESG investment manager, remarked 'you've got the mainstream reporting of investors and then you've got the responsible investment reports. I think there's a lot of work to do across the piece; clearly investors need to be on board as well...measuring environmental and social impacts is quite challenging for investors with complex multi-asset portfolios, so it's a journey. When I talk to asset managers, mainstream investment officers and analysts, these are the kind of interactions between responsible investment teams and the mainstream people, so the debate around such issues addressed by integrated reporting seems to be getting richer'. Further, the issues of 'critical mass', ie the level of use that would make <IR> mainstream, and the discourse around <IR> were highlighted by OU3, another ethical investment adviser. He/she commented:

> 'I think if it's there, that's a start isn't it? If they're not seeing it in annual reports and accounts then…it's off their radar. They don't *have* to base their assessments of companies on it but it's there if they want to. It's visible for them'.

Perhaps the challenge faced by <IR> and the optimism of some users was well encapsulated by OU7, a sustainability adviser: 'I think, from an IIRC perspective, they've had a real challenge…with the investor community to get buy-in from that sector group...I think what the IIRC really needs to look at is how they can enhance [discussion] more around the ethos that this is a different way in which businesses need to function and run and actually an integrated report is an output of that'.

5. Conclusions and summaries

There are, at present, mixed views on <IR> across the spectrum of equity investors (fund managers and analysts) and other providers of financial capital/financial users.

There are, at present, mixed views on <IR> across the spectrum of equity investors (fund managers and analysts) and other providers of financial capital/financial users. There is evidence of use and demand from some buy-side fund managers, although this is not universal. Also, perhaps as expected, specific ESG managers, analysts and other providers/users were advocates of <IR> and its greater orientation of meaningful ESG disclosure through the alignment of capitals (specifically natural capital) relevant to strategy. In contrast, other mainstream fund managers and, on the sell-side, equity analysts were, in general, not aware of or familiar with <IR> before they were introduced to it through this research. This was mirrored in their current lack of demand for <IR> and its perceived lack of usefulness to them. Against this is appreciation that there is a need for increased focus and the associated quality and comparability of reporting addressing the connectivity of strategy, risks and KPIs on a consistent basis. Through the interviews, all the participants are now aware of <IR> and its reporting focus on strategy, capitals and value creation, as a single report encapsulating the annual report or as part of the annual report, although misgivings and doubts as to its actual use in practice were evident and remain.

A key challenge highlighted by the research is a current lack of sufficiently widespread use of, and discourse on, <IR> in practice, both within organisations and externally with their clients and though wider capital market events. While supply into the market from preparers may help achieve a sufficient volume of <IR> reports to trigger wider awareness, a more demanding challenge is the culture within equity markets and the shorter-term incentive-led demand of equity analysts. To address this, there needs to be an evidenced shift in emphasis and demand placed upon <IR> by buy-side fund managers. The following questions, among others, need to be addressed.

- Is <IR> information specifically referred to in meetings, both internally and externally?
- What coverage is given to <IR> in capital market presentations?
- Is <IR> included on meeting agendas?

> Companies may more positively change their reporting and more fully adopt <IR> if there is evidence of demand from equity investors and other providers of finance, if and when adopters of <IR> come to be regarded as best practice in corporate reporting by users.

Issues about the jargon aspects of <IR> may then dissipate if, as a result of such demand and interest, <IR> becomes more mainstream in its use and relevance to equity investors and other providers of finance/users. Although many of the issues identified reflect the tensions in the capital markets between short-term and long-term orientation, culture and incentive structures, these are fundamental challenges being faced by the IIRC and <IR> as a corporate reporting tool. These challenges need to be met if <IR> is to become sustainable and market-driven rather than a fad of corporate reporting history.

The authors believe that this research represents the most extensive interrogation yet of global equity market participants and other providers of finance/users about their attitudes towards <IR>. At the conclusion to this report, it is possible to make several observations and recommendations, where appropriate, as a result of the collected findings.

5.1 OBSERVATION 1

There are clear limitations to the current corporate reporting model. This is because the annual report is viewed as being historically focused and thus rarely contains decision-material narrative or non-financial information because there are strategic disincentives to do so.

There is ample evidence from the cohort of interviewees, both equity investors and other providers of finance/users, that the current, and increasingly cluttered and voluminous, format of corporate narrative reporting is, beyond its confirmatory nature, of decreasing value to them as users. In part this reflects a perceived lack of connectivity with strategy, key associated risks and relevant KPI's, and thus areas of narrative disclosure, in particular, are often viewed in silos with limited relevance to decision making. Excepting the financial reporting, there is little evidence that any of the voluntary reporting is material and is often never read by mainstream equity market participants. This fatigue has engendered receptivity at a senior corporate and institutional level towards new initiatives, including <IR>, assuming that this has the potential to create a climate of more focused, connected and material reporting.

There are likely to be differing rates of <IR> adoption by preparers, as referred to by some of the interviewees, who beyond the current annual report, perhaps see little incentive to disclose further information in relation to strategy, and more particularly, to identify key strategic risks and associated KPI's. This may be due in part to inertia (or the use of boiler-plated disclosure). Concerns regarding business sensitive information may also explain resistance to more granulated, connected, and potentially more decision-relevant, disclosure. Companies may more positively change their reporting and more fully adopt <IR> if there is evidence of demand from equity investors and other providers of finance, if and when adopters of <IR> come to be regarded as best practice in corporate reporting by users.

5.2 OBSERVATION 2

Because of fatigue with conventional reporting, there is an appetite, from a user perspective, for more relevant, focused and material reporting. Once <IR> was explained, or following their review of the IIRC website, many interviewees responded positively (albeit from a hypothetical perspective rather than at-practice situation) to the prominent ideas and themes.

It is evident that there is market demand for a more granulated and decision-relevant style of corporate reporting. It is clear from the many conversations held in the course of this research, that any initiatives that promise to increase the quality and connectivity of information are well received in principle. There is a manifest demand for more relevant and focussed disclosure and a reporting culture that favours materiality in the reporting of risks, strategy and selected items of decision-making, such as KPI's, relevant to investors. A reporting culture that discloses in general or un-granulated terms is of little direct use to providers of financial capital and, accordingly, many rely on their accumulated sector knowledge, which is not readily available in public reporting vehicles such as the annual report or other Web-based reporting.

5.2.1 Recommendation

Following on from these two observations, a focus of future empirical research should be to establish the market benefits of <IR>, for instance through lower cost of capital and a lower risk premium as a consequence of the increased reporting quality and transparency (see for instance Barth et al. 2013; Zhou et al. 2016) that is associated with clear, connected integrated reports.

> The uniqueness of corporate reporting through <IR> on a company level reflective of strategy, risks and value creation and the relevance of capitals needs to be clearly signalled to users.

Beyond direct user engagement such as that undertaken during this research, there is at present limited empirical evidence of the capital market benefits of <IR> and what the benefits would be of its more widespread adoption. If such benefits of value relevance were more clearly established then not only would companies have greater incentive to adopt <IR> from a preparer perspective, it would also potentially be associated with a higher level of demand from a user perspective. Against this, the concern with such a focus is that <IR> does not fulfil its potential and would become too concentrated on financial capital, with other capitals being marginalised owing to the emphasis on financial drivers in establishing future patterns of capital market demand.

5.3 OBSERVATION 3

The current level of penetration and discourse on <IR> across capital market and other financial users is low, reflecting their current level of demand and lack of wider engagement. The obvious exceptions to this are those more familiar with ESG-related issues and those participants who are engaged at a senior firm or institutional level with developments in <IR>.

During the research process, it was evident that a majority of both equity investors and other providers of finance/financial users were unfamiliar with or had not heard of <IR>. Although they were often critical of current reporting, they nonetheless were very familiar with the annual report as a confirmatory document. There was no evidence emerging from any of the interviews that their familiarity with <IR> was connected with their investment position or strategy (such as passive or active fund management and associated investment time horizons) but was more probably a function of either their own portfolio, where that was directly associated with ESG-orientated disclosure demands of responsible investment. Other interviewees, who were familiar with <IR>, had often acted as representatives in the consultation and development phase of the <IR> Framework. A similar lack of familiarity was also evident among other financial users, excepting those involved with ESG or ethical finance-related functions who were already more familiar with, and actively used, sustainability and other wider social and environmental reports.

The lack of familiarity also manifested itself in the misconception espoused by some of the respondents that <IR> was a compliance-based framework and as such would require companies to make additional disclosures on the strategy, risks and associated KPIs with respect to each of the six capitals. Linked to this is the expectation, from some respondents, that a reporting template for <IR> could be used to enable greater comparability of reporting. It is clear within the <IR> Framework that reporting should be reflective of each company's strategy and value creation. Hence, <IR> is purposefully free of template-style reporting requirements; rather, the principles enshrined in the <IR> Framework encourage companies to more fully reflect and capture their strategy, their use of relevant capitals, and associated risks in value creation.

5.3.1 Recommendation

To help increase the level of familiarity and discourse associated with <IR>, there is a need to establish <IR> more firmly within the remit of the equity investors and other providers of finance/financial users. The uniqueness of corporate reporting through <IR> on a company level reflective of strategy, risks and value creation and the relevance of capitals needs to be clearly signalled to users. This could be facilitated by increased use of <IR> in client meetings, with associated agendas cascading down from buy-side fund managers or those engaged with wider sustainability reporting, who would act as change agents. As one of the participants reflected, if <IR> is there it will be talked about, and more clearly understood, but at present its absence from meetings means that it can go unnoticed and perhaps misunderstood. Given the level of institutional support for <IR> in its development such agenda-setting and coverage of <IR> in internal and external investment meetings could perhaps be more actively encouraged from a senior level.

A further challenge is to increase the coverage of and attention given to <IR> in capital market presentations. A common feature of results-day presentations is the rush to market and to equal or better the reporting date achieved the previous year. Given this struggle for attention and the focus on results at such a time, more consideration should be given to establishing <IR> and reflections on

> The whole nature of <IR> is to explain and delineate the drivers of long-term value creation for a company.

strategy and key risks at other capital market events outside the results season. This could be a platform on which <IR> could be more fully introduced and its value to company analysts and fund managers explained, including consistency of KPI reporting, risk monitoring and key-risk traffic-light reporting, using the capitals model to consider long-term drivers of value and reflecting the underpinning corporate strategy.

5.4 OBSERVATION 4

The short-term focus of the sell-side militates against their adoption of <IR>. Because the sell-side personnel are often the first users of reported information, it would take a change in the sell-side culture to stimulate their demand for <IR>, as well as more uniform evidence of increased demand from the buy-side to reflect their use of it.

One of the main aspects of the 2012 Kay Review was its critique of short-termism in investment decision-making, noting, 'an explosion of intermediation in equity investment', which has 'led to increased costs for investors, an increased potential for misaligned incentives and a tendency to view market effectiveness through the eyes of intermediaries rather than…end investors' (Kay 2012: 10). This is probably a fair criticism as the sell-side participants have a short-term incentive and, accordingly, tend to overlook the possibly more long-term needs of investors in favour of maximising their own short-term rewards. Stressing the need for 'collective engagement by investors in UK companies', Kay (2012:13) suggested that short-termism militates against this level of engagement because of the nature of the incentives for investment intermediaries such as sell-side analysts and fund managers.

The whole nature of <IR> is to explain and delineate the drivers of long-term value creation for a company. If traders and those on the sell-side are given short-term incentives, they are unlikely to take note of the more medium and long-term value drivers, and this is likely to restrict the interest taken in <IR> by some of the most significant market actors, including, but not limited to, the sell-side. Until the reward structures of the sell-side are addressed, this is likely to act against the interests of the end investor (such as a pension fund or unit trust) and instead serve the rewards of the more short-termist sell-side. Humphrey et al. (2015: 4) note the current system of financial capital provision's emphasis on 'privileging the short term over the longer term' and question whether <IR> is capable of 'meeting supposedly market-led information needs of long-term providers of financial capital'. This is clearly a threat to the widespread adoption of <IR> if there no sustained market-demand from key market actors.

5.4.1 Recommendation

<IR> is intended to provide value-relevant disclosure for long-term value creation and to improve the quality of information for decision-making. While sections of the market may have longer-term horizons, the apparent focus of the sell-side on short-term issues means that <IR> faces fundamental challenges to its more widespread demand and use. Thus, there is a need for continued pressure, to which the IIRC through its investor network and other supportive institutions can contribute, towards basing investment decisions on more long-term sustainable value. Accordingly, there should be greater levels of engagement with buy-side fund managers to stimulate demand for greater use of long-term value metrics by sell-side analysts in their reports and consideration of wider risks and performance measures in research notes. Although market forces are highly unlikely to change in the short term, a gradual shift towards a more rounded approach to making investment decisions would facilitate both, an increased demand for, and use of, <IR>.

> For this potential to be realised in any way, significant market-culture challenges remain to be overcome. If demand for <IR> were to develop then this would in turn trigger greater pressure for fuller adoption of such reporting across preparers.

5.5 OBSERVATION 5

There is a general misunderstanding of, and scepticism about, the six capitals framework of <IR>. Interviewees expressed some scepticism on the reporting of these, partly because of the lack of any reporting template in <IR>. They expressed concerns that reporters can measure and say what they like, and partly because of a potential lack of market demand for the reporting of some of the capitals, especially natural capital, despite the capitals' historical significance in the evolution of <IR> and its contextual relevance to strategy and long-term value creation. The general reaction to this initiative may limit and constrain the adoption of reporting on all six capitals, unless there is agreement on how each one might be reported, to ensure consistency of reporting between companies and over time. Interviewees raised questions about how capital reporting might be broken down into KPIs and comparability of reporting over time and between companies, and this may foreshadow a general failure to implement this part of the <IR> Framework. Further, some of the interviewees, partly through their lack of knowledge about <IR>, thought that all capitals, even those not relevant to the company, would need to be reported and hence result in needless reporting.

5.5.1 Recommendation

On the basis of the evidence, there appears to be a need for the six capitals model to be revisited, and particularly for the removal of the jargon associated with <IR>, as referred to by some of the interviewees. Although some participants expressed hope that once the capitals were understood this barrier to engagement and use would disappear, others questioned their very use in <IR> owing to their apparently jargonistic nature. While financial capital, by its nature, was understood, reference to and use of other capitals and their interrelationships was more difficult to establish across the interviews. To help promote the issue of the six capitals and their direct relevance to long-term value and decision-making, the interviewees called for clearer guidance and illustrative examples of the capitals, especially their direct relevance to investment decision-making. This could be evidenced through capital market presentations by companies that have adopted <IR>, showing the relevance and use of the six capitals in identifying underlying risks, key value drivers and long-term value-creation and in KPI monitoring. This should further emphasise the need for consistent reporting of relevant KPIs over time, matched to key risks, to ensure that reporting comparability is a feature of <IR> (as envisaged in the <IR> Framework Guiding Principles) and hence further promote its decision-usefulness to market actors.

5.6 CONCLUSION

Overall, from the evidence gathered from a significant number of equity investors and other providers of finance/ financial users, it appears that sustained growth of demand for <IR> is needed for it to succeed in becoming the mainstream reporting framework. At present, while there is evidence of some use of and familiarity with <IR> among providers of financial capital, this appears to be limited mostly to those involved with specific ESG or ethically related investments/decision making and already familiar with broader sustainable reporting and those who have been involved at a firm or institutional level in the development and emergence of <IR>. There is at present little evidence of either use of or demand for <IR> among many mainstream fund managers or sell-side analysts. Even so, the majority of interviewees did accept the need for changes in current corporate reporting and for greater connectivity of strategy, risk and business-value drivers. For this potential to be realised in any way, significant market-culture challenges remain to be overcome. If demand for <IR> were to develop then this would in turn trigger greater pressure for fuller adoption of such reporting across preparers. If sufficiently wide use was achieved, providers of finance would put further pressure on remaining reporters for the same levels of meaningful disclosure.

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Integrated reporting research: Interview questions overview

INTRODUCTION

- Briefly outline the purpose of the research – its focus on the use and usefulness/relevance of <IR> and understanding/wider filtration of <IR> Framework.
- Briefly outline the growth of 'responsible capitalism' and narrative-based reporting/link to strategy and long-term value creation and the information needs of investors/providers of financial capital.

INTERVIEW QUESTIONS

- What is your job role (buy-side/sell-side); mainstream or SRI; investment strategy (active/passive)?
- What is your level of seniority/decision-making?
- What is your use of the annual report and other corporate reporting documents? And your information needs from corporate reporting?
- Prior to this interview had you heard of <IR> or how familiar are you with <IR>?
- What are your initial opinions on <IR>'s usefulness to you and your use of <IR>? Can you see investors as the primary audience?
- From the <IR> website and your review of IR, what are your views on the link of strategy and risks to the business model and the connectivity of reporting? Can this show how a business creates value?
- What is the relevance to you of the various capitals and their link in value creation?
- What is the relevance of risk information in <IR> and do you think that material risk information in value creation would be signposted in disclosure?
- Has there been a shift in market expectations/sentiment to ESG reporting and its relevance? Is the link between financial reporting, sustainability and governance an issue for you?
- Is there an issue of no template for reporting but each company has its own <IR>?
- How could <IR> become mainstream – what is stopping this?
- Should <IR> be part of the annual report? Would it be useful to include <IR> as a specific feature of capital market presentations?
- Have you had any training/internal course/information on <IR>? What is the dissemination of <IR> within the organisation? Does it feature at client meetings or on agendas?
- Do you think that <IR> could reach a critical mass for its use and usefulness in capital markets?

PI-USE-USEFULNESS-IR

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