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Integrated Reporting and Investment: How are They Related?

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Abstract **-** The research aimed to explore how integrated reporting potentially impact the investor decision within mandatory and voluntary regulation. The method used was exploration of arguments from several researchers, either from theoretical and empirical basis, or literature review. The method of this qualitative research was dividing the literature into categories which in this research would be mandatory and voluntary regulations. The sub categories were divided by two countries which were Africa and The United States as research objects. The result and discussion were integrated reporting increases the value relevance of information produced by the company and underline the way companies create a value over the short until long term by informing business model, corporate strategy, and forecasting view. The result shows that Integrated Reporting will be more useful if the Government mandates the regulation like in Africa. It is considered that when Integrated Reporting potentially impacts the investors' decision assured by professional services, these disclosures will be more accurate and reliable. A contribution for the government to create a clear regulation of the integrated report and provide an assurance service to assure the accuracy of information in the Integrated Report will be our expectation.

Keywords: integrated reporting, integrated investor, mandatory regulation, voluntary regulation

I. INTRODUCTION

The world's economy is continually changing due to globalization. Companies are facing global competition, technology innovations, and increased regulation in response to financial and governance crises. The accounting profession has challenged the traditional financial business reporting model, arguing that it does not adequately satisfy the information needs of stakeholders for assessing a company's past and future performance (Flower, 2015). Stakeholders are depending on the provision of high-quality information. The value relevant information from companies to assure the effective and efficient allocation of resources to drive the motivation for investment activities and to facilitate transparent, ethical, and sustainable business practices. Currently, companies must report to a broader audience like stakeholder than shareholders to disseminate several information categories. These expectations are more than accounts, financials, and a business indicator. It is expected that this research finds why, where, and how companies create and add value, and how they deal with responsibility and sustainability.

Meanwhile, the basic reason for an organization's existence to create wealth has been questioned by society. This occurs due to the absence of creating value or justice for people, society, and environment (Gray, 2006). In the first instance, there are new issues in accounting related to decision-making a company. The need of financial statement to provide information is not only for inventors and creditors, but it is also expected to provide information for society and environment. Investors and creditors need a financial statement in their capacity as providers of corporate financial resources, while society needs it to understand the effect of the company's existence on the social and natural environment (non-financial information). By having stand-alone sustainability reports as one of the most main ways to inform about their organizations, they have increasingly utilized mechanisms beyond financial statements to satisfy increased stakeholder demands (Zhou, Simnett, & Green, 2017; Cohen et al., 2012).

Meanwhile the practice of issuing stand-alone sustainability reports is a major activity business

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practice (KPMG, 2013), one of the major criticisms of this practice is a little volume of information provided, often without identification of business strategic, financial implications or relation to information that contained in the Annual Report. Such condition causes that issues make the information a little useless for users especially investors (Eccles & Krzus, 2010; Eccles & Serafeim, 2015). van Zyl (2016) and Visser (2010) stated that these 'sustainability' reports have had little impact on the mainstream financial accounting and corporate reporting methodologies since it achieves little success in making business more accountable and responsible as evidenced by the fact that "at macro level, almost every indicator of our social, environmental, and ethical health is in decline".

The development of sustainability reporting can also be interpreted as the evolution of shareholder-centric models of corporate governance (Jensen & Meckling, 1976) to stakeholder importance through the holistic reports in conformance with societal expectations (Solomon, 2010). In this statement, it has been revealed that investors and stakeholders become important concerns as being prioritized, especially to get a lot of information that must be obtained from the company. When investors and stakeholders feel fulfilled with information, it affects their loyalty to the company. Therefore, it maintains long-term relationships with investors and stakeholders. The stakeholder theory recognizes that there are various agents who are interested in the company's attitudes towards sustainability, besides shareholders and creditors. Along with it, Integrated Reporting has recently been promoted as a solution to the shortcomings of financial reporting (The International Integrated Reporting Council, 2013).

The Integrated Reporting journey began in 1994 in Southern Africa with released of King Code of Corporate Governance Principle, commonly known as King I. Taken from Mervyn King's name who was the justice of the Supreme Court of South Africa at that time, King I was especially famed in the stakeholder perspective who wanted to know about the corporation's ambition (Dumay et al., 2016). The King I report was developed in South Africa as the country was starting to arise the real democracy and the new system of corporate governance where private sector saw it too (Stewart, 2010, stated in Dumay et al., 2016). Subsequently, The King II report (the continue of King I) introduced "Integrated Sustainability Reporting" as the concept of new and complex areas of non-financial reporting (Dumay et al., 2016). The current version of Integrated Reporting in South Africa appears from the King Report on Governance for South Africa — 2009 (King III) (Institute of Directors in Southern Africa, 2009), which advocates Integrated Reporting as a holistic report and integrated representation of financial and sustainability information which describes the company's performance. Accordingly, King III contains a set of principles for Integrated Reporting. On 1 March 2010, the Johannesburg Stock Exchange (JSE) mandated Integrated Reporting on a voluntary apply or explain basis (Institute of Directors in Southern Africa, 2009). When King III advocates to applying the voluntary principle for Integrated Reporting, accordingly there are always ways to getting around the rules. It is considerably harder to comply with the principle (Dumay et al., 2016). Currently, South Africa is the only jurisdiction that mandates Integrated Reporting on an apply or explain basis.

Some of leading companies have begun to integrate all their information statements into Integrated Reporting for the sustainable strategy (Eccles & Krzus, 2010). The statement of company's strategy, corporate governance, performance and prospects, commercial, the social and environmental context in one a composite, organized, and cohesive form is called Integrated Reporting. Thus, a clear and concise statement is arising about how the organization operates and how it creates and maintains value (International Integrated Reporting Committee, 2011). The firms that comply with reporting an Integrated Report have more Social Responsibility Investors' base, which will be impacted to having more dedicated investors rather than transient investors (Eccles & Serafeim, 2015). Investor activism on sustainability issues and the presence of a sustainability crisis makes firms to practice more about Integrated Reporting. Changing the Integrated Reporting is also related with changes of the investors' base.

Theoretically, an Integrated Reporting was intended for investor Social Responsibility. But, how are they related? An Integrated report provides the value creation over the short, medium and long term (Druckman, 2014). With these value creations, investors can evaluate the Company's performance, prospect and strategy from information disclosed in the Integrated Report. The value creation process of companies starts from how to process their capital into the business process to produce outcomes that can be reused by the company as capital resources. Information of the value creation contained in Integrated Reporting are more relevant since it does not only focus on historical information such as financial information (Cohen et al., 2012), but also providing information how to allocate their capital to be value creation for their company. Hence it enables the investors to evaluate the company's performance, prospects, and strategy. Moreover, with this information which is disclosed in Integrated Reporting, the investors will have a lot of source to be analytical considerations besides financial report. From these statements, it can be seen that there is a strong relation between an Integrated Reporting and the investor. According to Widiyastuti and Chariri (2012), Integrated Reporting is built on the concept of capital stewardship which is defined as the maintenance and expansion of various forms of capital contributing to the creation of long-term value of the company.

Integrated Reporting provides more relevant information for stakeholders because integrated report contains financial and non-financial information of the company. Zhou, Simnett and Green (2017) stated that Integrated Reporting has changed the landscape of Corporate Reporting. Integrated Reporting demonstrates the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, Integrated Reporting can help business to take more sustainable decisions and enable investors and the other stakeholders to understand how an organization is performing remarkably. Furthermore, García-Sánchez, Rodríguez-Ariza, and Frías-Aceituno (2013) have pointed out that companies, especially listed ones, have long been required to publish annual financial statements to report on the economic and financial situation of their assets, and have been obligated to publish a report on corporate governance so that users can determine their level of "corporate governance". However, current mandated corporate reporting is financial reporting which does not give a complete picture of a firm and has a short term orientation. Such condition occurs since financial reporting only provides financial information created by historical transactions in a few years' past.

Given the importance of an Integrated Reporting with more relevant information, some companies have presented their Integrated Reporting, However, it is still voluntary because there is no specific regulation that governs it. This is also Confirmed by Cohen et al. (2012), who stated that regulation of financial disclosure is heavier than non-financial disclosures. In addition, the firms have significant latitude in choosing whether to disclose, and if to disclose they have option how to do that. It differs with financial disclosure which clearly regulates in reporting standards (i.e. IFRS).

Due to this unclear regulation, the non-financial disclosure in an Integrated Report might not be reliable and transparent. Thus, the regulation of Integrated Reporting must be determined as mandatory to reduce the lack of information provided in an Integrated Reporting by the firms. Accordingly, the research question has been formulated: How does the Integrated Reporting potentially impact the investor decision within mandatory and voluntary regulation?

At the end, this research is expected to give a contribution for the government to consider mandating the regulation of the integrated report and provide an assurance service to assure the accuracy of information presented in the Integrated Report. Moreover, it is necessary to remind investors to consider non-financial information because non-financial disclosures are not less important than financial disclosures. Indeed, considering financial disclosures only contains of historical information.

II. METHODS

The research aims at exploring arguments from several researchers who believe in different theory, either from theoretical and empirical basis, or literature review. The qualitative method applied in this research is conducted by dividing the literature review into some themes or categories. The categories are in a form of integrated report regulations, in which it could be mandatory or voluntary. The sub themes will be divided by two countries, which is Africa and The United States.

It is a fact that a systematic organization technique is mandatory in scientific research to simplify the measurement that will be taken. This research puts some arguments from several researchers. Accordingly, this research also has literature review as its method for the data collection, by dividing the literature into themes or categories as the approach with three steps. The first step is identifying all existing articles. Second step is to categorize articles based on themes. The last step of the approach is selecting articles that is be adopted and used to support the proposed arguments, as well as presenting articles with contrast opinion as a comparison material.

Certainly, from many literatures of research, there are a lot of arguments of the results about the advantage and disadvantage after establishing Integrated Reporting. This research focuses on a qualitative approach to answer the following research question: Are the benefits of implementing Integrated Reporting have the correlation with investor's decision in investing and the Company's sustainability on long-term period? US as voluntary country and Africa as mandatory country that are implementing Integrated Reporting specifically will present information about the difference results through our result and discussion explanation.

Literature was collected from several research related to the implementation of Integrated Reporting, which is categorized into mandatory and voluntary regulation. Most of the research was done in South Africa and US, thus the sub-themes are divided into these countries. In Africa, few researchers observed the implementation of Integrated Reporting by reviewing listed companies within 2016-2017. In the US, the argument is collected based on research done by examining 50 publicly traded firms across five industries.

III. RESULTS AND DISCUSSIONS

In accordance with the institutional theory, organizations will change their structures or operations to meet stakeholder expectations around important issues (Vaz, Fernandez-Feijoo, & Ruiz, 2016). The institutional theory focuses on the external issue such as politic, social, and economic systems on company behavior and legitimacy. The institutional context may affect the expansion of accounting regulations as well as the characteristics of Integrated Reporting. Vaz, Fernandez-Feijoo, & Ruiz (2016) identify three types of institutionalization mechanisms: (1) coercive, which focuses on the rule setting, monitoring, giving reward, and punishment; (2) normative, which is based on non-imposed values and norms; and (3) mimetic, where companies imitate fellow companies that they perceive to be successful. Based on these three types of institutional mechanisms, the effects of pressure from top level structures, such as countries, increase the company's awareness in presenting integrated report.

Dissanayake & Ekanayake (2018) stated that decision usefulness theory is built on the view that the primary purpose of accounting, including corporate environmental reporting, is to provide information to allow informed judgments and decisions by users of information (Dissanayake & Ekanayake, 2018). Based on the decision usefulness theory, all users of corporate reporting are likely to demand the same qualitative characteristics of information provided through corporate environmental reporting similar to financial reporting, to make it easier when evaluating the usefulness of decisions from the information provided. This implies that although corporate environmental reporting may not purely be directed towards for the user's economic decision making, the information contained within it should have decision-useful characteristics for those users to ensure the credibility of the reported information (Dissanayake & Ekanayake, 2018).

Furthermore, Hoque (2017) states that Integrated Reporting is one of the new mechanisms to face corporate governance. Since it is related to corporate governance, Integrated Reporting has transparency that is indispensable for making investment decisions made by investors. Especially, after so many financial crisis and scandals, transparency about the board of companies and their activities becomes the main concern from shareholders' point of view and fund providers, even respective authorities also (OECD, 2009). Thus, the responsibility of the top level management (board) is to disclose information related to financial and non-financial performance in mandatory or voluntary (Hoque, 2017).

The fact is, the higher level of disclosure, the higher transparency of financial and non-financial report. Thus, firms may gain investor's trust on those charged with governance. Additionally, this transparency and disclosure increase corporate reputation in others view as well. Integrated Reporting is effective in the process of communication, which can help investors and other stakeholders to understand more about the company, not only its past and current performance, but also its future resilience (Wadee, 2011 in Hoque, 2017).

Because the regulation of financial disclosure is heavier than non-financial disclosures, there might be a lack of non-financial information provided by Company in the US (Cohen et al., 2012). Some of literatures even suggest that the cost of equity capital can be affected by reducing the information asymmetry between the company and its investors (Zhou, Simnett & Green, 2017). It was due to unclear regulation in the US and the firms have no obligation to disclose their non-financial information clearly and transparency.

Zhou, Simnett and Green (2017) found that the level of alignment is negatively associated with an analyst earning forecast error. In addition, information reported in an integrated report is helpful for earning forecast analysis. It was due to the Integrated Report contains information on corporate strategy, the business model and future-oriented information that help investor in decision making as well. The results from their research suggest that the integrated report does matter to the capital market in that it helps to improve the non-financial information disclose. It will be a consideration by Social Responsibility Investor in decision making, evidenced by improved analyst forecast accuracy.

To answer the research question, several arguments are investigated, especially the ones related to Integrated Reporting and investor decisions in mandatory or voluntary regulations that had been submitted by previous researchers. Corporate Reporting not only focuses on the financial disclosure but also on non-financial disclosure. Integrated Reporting is present as an evolutionary form of corporate reporting that combines financial and non-financial information which mutually integrated.

Furthermore, Integrated Reporting also provides the company value creation process. This was also stated by Zhou, Simnett and Green (2017) that Integrated Reporting could underline the way companies create a value over the short until long term by providing information relating to business model, corporate strategy, and forecasting view. Therefore stakeholders, especially Social Responsibility Investors, can predict the company's earnings forecast by considering this non-financial information provided in the Integrated Report. The regulation of publishing Integrated Reporting was in line with institutional theory. According to institutional theory, organizations will change their structures or operations to meet external expectations surrounding important issues (Vaz et al., 2016). In other words, companies will report the Integrated Reporting if there are regulations that require it. A country has to follow one of the mechanisms in institutional theory, which is coercively focus on the rule setting, monitoring, reward, and punishment.

Integrated reporting will be increasing the relevancy of information reported or produces by the company and assisting stakeholder in decision making (Zhou, Simnett & Green, 2017). Research was done by observing 443 companies listed on the JSE in South Africa, it is concluded that information provided in Integrated Reporting potentially impacted to the investor to make a decision in the country which mandating the regulation of Integrated Reporting (i.e. Africa). Supported by Vaz et al. (2016), Africa is one example of a country which shows that regulations will affect the issuing of Integrated Reporting, which is good things to be applied by other countries.

Cohen et al. (2012) has found that non-financial disclosures are heavily regulated than financial disclosure, which affect the bias non-financial information in an Integrated Reporting because of no clear regulation. The research was done in the US Company as the limited sample. Although, the disclosure of Integrated Reporting revealed some advantages related with the decision-making process, it should be noted that the disclosure contains information relevant to users is not always performed voluntarily, because company need to spend a lot of costs to these practice (Prado-Lorenzo & Garcia-Sanchez, 2010). As widely known, US does not mandate the regulation of Integrated Reporting. In other words, the companies have no obligation to disclose their non-financial information or they have an option to do so. Several big companies presents Integrated Reporting on a voluntary basis, in which there are no specific or clearly regulations governing them as in financial statements. That means, the company discloses Integrated Reporting in accordance with the objectives to be achieved by the company. It will affect the level of transparency and value relevance of Integrated Reporting to be questioned.

IV. CONCLUSIONS

Since non-financial information heavily regulated than financial information in many countries, Integrated Report will be more useful if the government has a clear regulation and give punishment to firms who violate the rules, following a coercive mechanism in institutional theory. Supported by Zhou, Simnett and Green (2017), Integrated Reporting does matter in the capital market which potentially impacts Social Responsibility Investor's decision making because of non-financial information provided in the Integrated Report. In addition, if Integrated Reporting assured by an independent professional services, these disclosures will be more accurate and reliable then could potentially impact the investor decision as well.

The result in a country which does not mandate the Integrated Reporting is, due to this unclear regulation, the non-financial disclosure in Integrated Reporting might not be reliable and transparent. They have significant latitude in choosing what kind of information to disclose, when to disclose and how to disclose information in their Integrated Reporting. The company discloses Integrated Reporting in accordance with the objectives to be achieved by the company since they have no obligation to report their non-financial disclosure.

The research is expected to give some contribution to a few parties. First, for the government, it is suggested that they consider about establishing a clear regulation of the Integrated Report. Second, providing an independent assurance service to assure the accuracy of information and to make it reliable. Third, for the investors, to remind them that non-financial disclosures are not less important than financial disclosures.

However, the limitation from the research is related to the sample of country which has mandatory regulation of Integrated Reporting. The fact that from all the reviewed countries, only Africa applies the mandatory regulation indeed caused an unbalanced comparison between the mandatory and the voluntary. Therefore, it is suggested for future research to, do another comparison if there is a new country which implements a mandatory regulation of Integrated Reporting to give more evidence and source to be relied on.

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