How relevant is Integrated Reporting?

Ana Isabel Lopes
BRU-IUL, Instituto Universitário de Lisboa (ISCTE-IUL)
ana.isabel.lopes@iscte.pt

Jonas Oliveira
BRU-IUL, Instituto Universitário de Lisboa (ISCTE-IUL)
jonas.silva.oliveira@iscte.pt

Ana Margarida Coelho
ISCTE-IUL

Área Temática: M - Ética e Responsabilidade Social

Abstract

The present study is focused on the potential market benefits of presenting a high quality Integrated Report. Specifically, this preliminary research assess whether such characteristic is value relevant to investors. We investigate whether the market valuation of traditional accounting measures (book value of equity and net income) is higher for companies presenting an integrated report considered as "leading practice" when compared to companies publishing a regular integrated report. Our sample includes all the unique companies from the IIRC Examples Database. Financial and non-financial data were collected for a period of 10 years starting in 2006. Main findings confirm that either the book value of equity or operating income have a positive and statistically significant impact on the market value and, as expected, those relationships are intensified when they come from companies recognized as "best practice" in the integrated reporting process.

Key words: Sustainability; Integrated Reporting; Value Relevance.

1. Introduction

The International Integrated Reporting Council (IIRC) defines integrated reporting as "a process that results in communication by an organization, most visibly a periodic integrated report, about how an organization's strategy, governance, performance, and prospects lead to the creation of value over the short, medium and long-term."

Conceptually, integrated reporting adds to the existing financial reporting model extra information about a company's strategy, governance, and performance. It is aimed at providing a complete picture of a company, including how it demonstrates stewardship and how it creates and sustains value over time.

The main benefits associated with Integrated Reporting (<IR>) disclosure are a consequence of an opportunity for firms to communicate on and implement a sustainable strategy, which will create value for shareholders over the long term while contributing to a sustainable society (Eccles & Saltzman, 2011). Eccles & Saltzman (2011) argue that it is possible to identify three classes of benefits. The first is internal benefits, including better internal resource allocation decisions, greater engagement with shareholders and other stakeholders, and lower reputational risk. The second is external market benefits, including meeting the needs of mainstream investors who want ESG (Environmental Sustainability Governance) information, appearing on sustainability indices, and ensuring that data vendors report accurate nonfinancial information on the company. The third is managing regulatory risk, including being prepared for a likely wave of global regulation, responding to requests from stock exchanges, and having a seat at the table as frameworks and standards are developed.

Because integrated reporting still was in an initial stage, the benefits prior identified were merely theoretical and need further empirical evidence to corroborate them. Consequently, there are still a lot of questions open for further development, namely: whether <IR> changed the way companies are doing business (Cheng et al., 2014); if there is a role for the assurers in <IR> (Cheng et al., 2014); the impact of firm-level characteristics to publish <IR> (Jensen & Berg, 2012); the extent to which <IR> meets stakeholders' demands (García-Sanchez et al., 2013); the analysis of the impact made by corporate culture values on the elaboration of integrated information (García-Sanchez et al., 2013); the <IR> and the relationship with capital markets, namely, if it affects the cost of capital or if it attracts longer term investors (Cheng et al., 2014).

As far as we know, there is still no evidence that integrated reporting published by firms are perceived to be value creating or value relevant to investors, who seek for useful information to their decision takings. Prior research however provides evidence that: i) financial analysts use corporate sustainability disclosures to make forecasts for future financial performance (Dhaliwal et al. 2012), ii) this information is being increasingly used by investors to analyse management quality and its implication on the potential to grow the value of the business (Eccles et al. 2011), and, iii) companies with reputation for sustainability leadership are higher valued by the market (Lourenço et al. 2013). Based on these findings, our research questions is: how market reacts to the publishing of high quality integrated reports?

To answer this research question the present study focus on the potential market benefits of Integrated Reporting, and thus it tries to assess in which way Integrated reporting is value relevant to investors. Therefore, all the unique companies included in the IIRC database, who publish their <IR> according to the IIRC Guiding Principles, were selected totalizing 224 companies, covering a period of analysis of 10 years, from

2006 to 2015. From the total sample, we stand out group with companies considered by IIRC as “Recognized reporters”, and all the others companies are also publishing integrated reports but classified as Non-reference. The importance of this distinction is because “Recognize reporters” are those companies that published integrated reports that have been recognized as leading practice by a reputable award procedure or through benchmarking. These reporters, and their integrated reports, are thus considered as reference, and the market will probably pay an higher attention to their performance.

To analyze whether the value of the company, perceived by the market, is influenced by the fact that the reporter is considered by the IIRC as reference <IR> reporter when compared to a non-reference <IR> reporter, a linear regression model was built. The basic model relates the market value of the companies with the book value and the operating income, and it is well supported in literature (Ohlson, 1995) who created the model that started to be commonly used in accounting literature (e.g. Abbody et al, 2004; Niu & Xiu, 2009; Callahan et al, 2013).

Main findings indicate that either the book value of equity (BV) or the operating income per share (OI) have a positive and statistically significant impact on the market value. Moreover, the market valuation of BV and OI is higher for firms publishing integrated reports that are considered of high quality when compared with firms publishing integrated reports without such mention.

In the following section, we review previous literature and propose the hypothesis for testing. Thereafter, we explain our research method, report results, and present conclusions.

2. Literature review and development of hypothesis

Prior (scarce) studies point at an increasing concern with Integrated Reporting as well as the impact it has on the company's business model, on the society in general and on its stakeholders more specifically. Companies that embraced a long-term corporate culture of sustainability outperform their peers in terms of reputation, net income, and stock price (Eccles et al, 2014). Besides, it has also been analyzed that the cultural, business and social factors possibly influence the disclosure of <IR>. Concretely, prior results obtained suggested that companies operating in countries with similar cultural systems adopt homogeneous patterns of behavior regarding Integrated Reporting (García-Sánchez et al, 2013). In García-Sánchez et al. (2013), this effect is explained both by the match of the management standards, norms and practices as well as the ambition to fulfill similar needs and expectations of the stakeholders, due to their shared culture. They demonstrated that companies located in collectivist countries (e.g., countries were citizens tend to think more about their actions as a members of a group than about their individual behavior), show a greater interest in disclosing integrated information that facilitates decision-taking by diverse stakeholders, based on the greater comparability and usefulness of the information provided. The authors also concluded that companies with a higher potential for business growth are less likely to disclose integrated reports in order to diminish problems of information asymmetry. Some other studies also looked into determinants of <IR>, but their purpose were to examine the decision to publish an integrated report, comparing companies preparing and not preparing an <IR> (e.g., Sierra-García et al., 2015; Vaz et al., 2016; Rivera-Arrubla et al., 2017).

Beyond determinants, as far as we know, there is a gap on the analysis of the relationship between <IR> and investors' expectations through the way they price known companies publishing integrated reports. Investors and other stakeholders are

increasingly relying on non-financial data to make investment, credit, and other decisions, placing more pressure on management to promote corporate social responsibility rather than focus solely on maximizing short-term profits. Eccles & Saltzman (2011) explored the strengths and challenges of integrated reporting and concluded at the time that that there was an increasing number of companies voluntarily starting to produce integrated reports. Currently, some countries mandates companies listed in stock exchanges to prepare it (e.g., South Africa, Brazil). Although the original intention of nonfinancial reporting was to provide information of interest to stakeholders, shareholders started paying increasing attention. Hughen et al. (2014) note that many organizations find that financial reporting alone no longer satisfies the needs of shareholders, customers, communities, and other stakeholders for information about overall organizational performance. In a similar approach, and based on the recent <IR> initiatives and the implications in the accounting education if <IR> gets widely adopted, Owen (2013) defended the importance of improving the relevance of information for decision-making for all stakeholders, thereby allowing greater efficiency in the allocation of financial and other resources and in adding public value. Also Boerner (2012) perceived that both issuers and investors get positive benefit by adopting <IR>, reason why investors welcome the idea of <IR> to be implemented.

Notwithstanding the influence of national culture on the developing of integrated reporting as a means of facilitating decision-taking by different stakeholders (García-Sanchez, 2013), providers of financial capital (and executives) remain too focused on short-term financial performance, which may hamper an organization's ability to implement the fundamental business model changes that are needed to provide the impetus toward accounting for value creation, fundamental to <IR> (Cheng et al., 2014). Even though relevant achievements have already been attained, there are still a

lot of questions open for further development, namely: whether <IR> changed the way companies are doing business (Cheng et al., 2014); if there is a role for the assurers in <IR> (Cheng et al., 2014); the impact of firm-level characteristics to publish <IR> (Jensen & Berg, 2012); the extent to which <IR> meets stakeholders' demands (García-Sanchez et al., 2013); the analysis of the impact made by corporate culture values on the elaboration of integrated information (García-Sanchez et al., 2013); the <IR> and the relationship with capital markets, namely, if it affects the cost of capital or if it attracts longer term investors (Cheng et al., 2014).

As expressed, there is still no evidence that integrated reporting published by firms are perceived to be value creating or value relevant to investors, who seek for useful information to their decision takings. Prior research however provides evidence that financial analysts use corporate sustainability disclosures to make forecasts for future financial performance (Dhaliwal et al. 2012) and this information is being increasingly used by investors to analyse management quality and its implication on the potential to grow the value of the business (Eccles et al. 2011).

Based on these arguments, and considered that companies with reputation for sustainability leadership are higher valued by the market (Lourenço et al. 2013), we will present a characterization study about companies that are publishing <IR> and empirically examine the following main hypothesis:

H_1: The market valuation of book value and net income will be higher for firms publishing integrated reports that are considered of high quality when compared with firms publishing integrated reports without such mention.

3. Research Design

3.1. Data and Sample

Data was collected from several sources. The most important, which was the starting point for this preliminary paper, was the IIRC Example Database. This database has 224 integrated reports of companies from about 26 different countries for the period between 2011 and mid-2015. Because those reports follow the IIRC guiding principles, the companies that publish them are presented as <IR> Reporters.

This set of companies was divided into two partitions: 1) one group to include those companies that are considered as <IR> Recognized Reports according to IIRC's classification based on awards attributable to the report – and so, they are the "reference"; 2) another group with all the companies publishing an <IR> but that are not considered as reference reporters. Moreover we hand collected extra information directly from the integrated reports presented by the companies and available for download on the IIRC website. Accordingly, from the total 224 companies, the IIRC distinguishes 79 companies that are considered as <IR> Recognized Reports, and these constitutes the first group of the analysis. The other companies are included in the second group. The criteria, according to IIRC, to define those reporters as reference is have been recognized as a leading practice by reputable awards process or through benchmarking.

To aim our objective other information was also hand-collected from the IIRC Examples Database, namely, the exact year in which the 79 reporters were first considered as reference, the country of the company and the industry sector. All these information was completed with data extracted from the Datastream Worlscope Database, namely the parent auditor, the market value per share, the book value per share, the operating income, the earnings per share, the total assets, the return on equity

and the leverage. The sample period for our research comprised 10 years, from 2006 to 2015. Therefore, 2240 observations were treated, being 790 from those considered as reference <IR> reporters. However, some companies were not considered in the regression model analysis due to lack of data or for being outliers. Consequently, the final sample was re-shaped and the total observations were 2.048, from which 747 observations corresponded to <IR> reference reporters. Table 1 presents the characterization of the sample.

Table 1 – Sample per industry

Oil & Gas	Basic Materials	Industrials	Consumer Goods	Health Care	Consumer Service	Telecom municat.	Utilities	Finan-cials	Technology
<IR> Reporters (n=2.048)									
77	342	442	174	59	244	54	110	476	70
<IR> Reference Reporters (n=747)									
57	146	100	70	20	87	26	50	161	30
<IR> Regular Reporters (n=1.301)									
20	196	342	104	39	157	28	60	315	40

The firms considered as <IR> Reference Reporters are the ones considered by IIRC as outstanding reporters at least one year in the period being considered, that is from 2005 to 2015. The firms considered as <IR> Regular Reporters are the ones considered by IIRC as <IR> regular reporters at least one year in the period being considered, that is from 2005 to 2015. The firms considered as <IR> Reporters correspond to the sum of all the <IR> Reference Reporters and <IR> Regular Reporters for the period being considered, that is from 2005 to 2015. Concerning the industry classification, it was attributed according the Industry Classification Benchmark (ICB).

The industry classification in Table 1 was attributed to the reporters according to the Industry Classification Benchmark (ICB). When analysing only the <IR> regular reporters, the *Industrials* is the leading category (n=342), followed by Financials (n= 315). The Financials (n=161), the Basic Materials (n=146) and the Industrials (n=100) sectors are the main industry within <IR> reference reporters. When considering both groups of <IR> Reporters pooled, the Financials industry is the most represented

business sector, in line with Climent & Hollander (2014), which stated that globally, the financial sector self-declares more integrated reports than any other sector.

3.2. Research model

Based on previous literatura (Ohlson, 1995; Abbody et al, 2004; Niu & Xiu, 2009; Callahan et al, 2013) we propose the following regression model:

$$MV = \alpha_0 + \alpha_1 BV + \alpha_2 OI + \varepsilon \qquad (1)$$

In the model presented above, Equation 1, the MV corresponds to the market value at the fiscal year end, the BV represents book value at the fiscal year end and the OI stands for operating income at the same moment of time.

Based on our hypothesis, whether the market valuation of net income and book value is higher for firms considered as regular reporters of <IR>, when compared to firms considered <IR> reference reporters, Equation 1 was extended and modified to Equation 2. This Equation 2 permits the coefficients of the variables BV and OI to vary according to whether the firm is considered has reference reporter or not and is given by:

$$MV = \alpha_0 + \alpha_1 BV + \alpha_2 OI + \alpha 3\ DYIR + \alpha_4\ DYIR \times BV + \alpha_5\ DYIR \times OI + LEV + SIZE + ROE + EPS + \varepsilon \qquad (2)$$

where DYIR is a dummy variable which assumes the value 1 if the company is considered a reference reporter and 0 if the company is considered a regular reporter.

The Equation 2 is assessed with industry and year fixed effects. As usual in empirical researches that analyses the relationship of financial and non-financial information with the market value of the companies, some variables are used and added to the Equation to control firm's leverage, size, return on equity and profitability, which gives rise to four additional variables, namely, LEV (end-of-year total debt divided by end-of year total assets), SIZE (natural logarithm of total assets as of the end of the year), ROE (return on equity) and EPS (earnings per share).

The expectations on the Equation 2 are the following: if the market values the summary of accounting measures differently for <IR> reference reporters when compared to regular <IR> reporters, then the estimates for the coefficients of the interaction of <IR> (DYIR) with BV and with OI, namely, coefficients α_4 and α_5, should be statistically significant. If the market valuation of book value (operating income) is higher for firms considered as reference reporters, when related to firms without it, then it is likely that $\alpha_4>0$ ($\alpha_5>0$).

To avoid scale bias, all the continuous variables are deflated by the number of shares outstanding, turning Equation 2 to a per share basis.

4. Results

Table 2 presents the descriptive statistics for the entire sample as well as for the two types of reporters' samples. Through the comparison of <IR> reference reporters' values and <IR> regular reporters' values it is possible do conclude that both the mean and the median are higher for the variables of the <IR> reference reporters. This is suitable for all the variables except for the leverage level, for which the mean and medium of <IR> regular reporters are higher. This is a good indicator since it suggests

that companies making an effort to embrace the idea of <IR> and work hard on the preparation of these reports can beneficiate from it. Market value per share of <IR> reference reporters (19,57) is higher than market value per share of <IR> regular reporters (9,35), which may indicate that the market is willing to pay more for companies making a greater effort to disclose good <IR>. Another two important indicators are the ROE and the EPS. The mean of the ROE (EPS) is 0,44 (1,16) for <IR> reference reporters while for <IR> regular reporters it's 0,19 (0,62), and the level of leverage reference reporters (1,19) is approximately half of the level of the <IR> regular reporters (2,21).

Table 2 – Descriptive statistics

	MV	**OI**	**BV**	**SIZE**	**ROE**	**LEV**	**EPS**
<IR> Reporters (n=2.048)							
Mean	13,08	1,17	5,95	6,52	0,28	1,72	0,75
Median	5,73	0,50	2,64	6,50	0,15	0,49	0,28
Std. Deviation	23,48	2,08	9,58	1,06	2,80	13,45	1,42
Minimum	0,00	-10,57	-1,70	1,83	-5,57	-30,05	0,00
Maximum	377,48	22,32	95,11	9,36	104,00	400,69	22,45
<IR> Reference Reporters (n=747)							
Mean	19,57	1,85	7,44	7,13	0,44	1,19	1,16
Median	10,00	1,05	4,56	7,09	0,15	0,61	0,69
Std. Deviation	31,42	2,65	9,99	0,94	4,53	3,07	1,72
Minimum	0,00	-3,18	-1,70	4,43	-5,57	-30,05	0,00
Maximum	377,48	22,32	88,25	9,36	104,00	33,67	17,42
<IR> Regular Reporters (n=1.301)							
Mean	9,35	0,78	5,01	6,17	0,19	2,21	0,62
Median	3,48	0,32	1,58	6,14	0,15	0,47	0,228
Std. Deviation	16,24	1,53	9,23	0,96	0,78	17,43	1,10
Minimum	0,00	-10,57	0,00	1,83	-2,00	0,00	0,00
Maximum	216,85	10,79	95,11	9,02	20,82	400,69	22,45

The firms considered as <IR> Reference Reporters are the ones considered by IIRC as outstanding reporters at least one year in the period being considered, that is from 2005 to 2015. The firms considered as <IR> Reporters are the ones considered by IIRC as <IR> regular reporters at least one year in the period being considered, that is from 2005 to 2015. The firms considered as <IR> Total Reporters correspond to the sum of all the <IR> Reference Reporters and <IR> Reporters for the period being considered, that is from 2005 to 2015. Regarding the variables, the MV is the market value per share at the fiscal year-end, BV corresponds to the book value of equity per share at the end of the year, OI is the operating income per share of the year, SIZE is the natural logarithm of total assets at the end of the year, ROE corresponds to the return on equity, LEV is the leverage calculated as the end-of-year total debt divided by end-of-year total assets and finally the EPS corresponds to the earnings per share.

These outcomes are in line with Ott (2016), who stated that long term oriented investors are more likely to invest in firms which provide integrated reports. This implies an increase in price that investors are willing to pay for companies disclosing <IR>, therefore an increase in the market value because investors expect to extract better benefits. These findings are also consistent with Eccles et al. (2014), who found that companies embracing a long term corporate culture of sustainability outperform their peers in terms of reputation, net income, and stock price. Additionally, Eccles & Saltzman (2011) also identified three classes of benefits for companies preparing <IR>, namely, some better resource allocation decisions, increased external market benefits and better management of regulatory risk. Analysing the results of table 3 indeed the financial situation of <IR> reference reporters, those putting on more effort in the report, looks better than <IR> regular reporters. Additionally, it is expected that the major international companies (larger SIZE) have an extra incentive to produce this reports since, according to Morros (2016), the IIRC most remarkable feature at its incorporation was the extraordinarily high-powered character of its governing body, its Council. Among its 40 members were the heads of the IASB, FASB, IFAC and IOSCO, the CEOs of the Big Four, the heads of major British professional accountancy bodies, and the CFOs of major multi-internationals, such as, Nestlé, Tata and HSBC. Given the fact that big companies are embracing this change, then other big companies will feel forced or threatened and so enforced to embrace it too.

Table 3 bring out the Pearson correlation analysis for the continuous variables included in the regression Equation 2. The market value is positively and statistically related with the BV, the OI, the EPS and the SIZE. This implies that when MV increases by 1, then the BV will increase by 0,766, the OI will rise by 0,799, the EPS will increase by 0,818 and the SIZE will grow in 0,297. On the other hand the LEV and

ROE have a weak statistical relation with the MV. Specifically, every time that MV increases by 1, the impact on ROE is an increase of 0,062. Regarding the LEV it has a negative relation with MV which means that when MV increases by 1, the leverage level will decrease 0,024. This relation is in accordance with the expectations since the lower the level of debt, usually, the better the economic situation of the company.

The correlations achieved are supported by the expected benefits that Morros (2016) identified in its study, which stated that <IR> transforms decision-making process in a way which aligns benefits to the business, society and the environment, as allowing a better risk identification and mitigation. By applying these benefits to the business, companies are able to better organize and extract benefits from its activities, processes and outcomes.

Table 3 – Correlation matrix

	MV	BV	OI	EPS	SIZE	ROE	LEV
MV	1	-	-	-	-	-	-
BV	,766	1	-	-	-	-	-
OI	,779	,587	1	-	-	-	-
EPS	,818	,768	,686	1	-	-	-
SIZE	,297	,388	,338	,312	1	-	-
ROE	,062	-,029	,068	,047	-,005	1	-
LEV	-,024	-,029	-,026	-,023	,031	,194	1

The firms considered were <IR> Total Reporters which correspond to the sum of all the <IR> Reference Reporters and <IR> Reporters for the period being considered, that is from 2005 to 2015. Regarding the variables, the MV is the market value per share at the fiscal year-end, BV corresponds to the book value of equity per share at the end of the year, OI is the operating income per share of the year, SIZE is the natural logarithm of total assets at the end of the year, ROE corresponds to the return on equity and LEV is the leverage calculated as the end-of-year total debt divided by end-of-year total assets.

Table 4, Panel A, comes to light the summary of the regression analysis of Equation 2. It is possible to conclude that 78,1% of the total variation on MV

(dependent variable) is explained by the variation of the explanatory variables (BV, OI, SIZE, LEV, ROE, DYIR, DYIR x OI, DYIR x ROE) of the sample being considered.

The ANOVA analysis is shown up in Table 4, Panel B. Once the significance level (Sig.) is minor than 0,05, it means that in Equation 2 there is at least one coefficient (β) different from 0. This fact implies that since one or more coefficients are different from 0, then from all the dependent variables (BV, OI, SIZE, LEV, ROE, DYIR, DYIR x OI, DYIR x ROE) being considered there is at least one that can explain the market value.

Table 4 – Model summary and ANOVA

Panel A: Model summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
,884[a]	,781	,781	11,01

Panel B: ANOVA analysis of equation 2

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	881.549,006	8	110.193,626	908,376	,000[b]
Residual	246.498,712	2.032	121,308		

The firms considered were <IR> Total Reporters which correspond to the sum of all the <IR> Reference Reporters and <IR> Reporters for the period being considered, that is from 2005 to 2015. Concerning the dependent variables, the MV is the market value per share at the fiscal year-end, BV corresponds to the book value of equity per share at the end of the year, OI is the operating income per share of the year, SIZE is the natural logarithm of total assets at the end of the year, DYIR (an indicator variable that equals 1 if the firm is considered as <IR> reference reporter at least one year in the sample period and 0 otherwise, that is if the firm is only considered as <IR> regular reporter in the sample period), ROE corresponds to the return on equity and LEV is the leverage calculated as the end-of-year total debt divided by end-of-year total assets.

Table 5 presents the main results of our regression analysis of Equation 2, namely, the parameters (β) estimated by the Ordinary Least Square method (OLS). Except for LEV, the only dependent variable that does not explain the MV ($p>0,05$), all the remaining dependent variables are important to explain the MV. Particularly, the BV (coefficient =1,13; *p* value=0.000) and the OI (coefficient =4,60; *p* value=0.000) are positive and statistical significant, both positively impacting the MV.

Concerning our hypothesis, the outcomes of table 5 show that the MV suffers different variations depending on the book value and the net income of firms considered as <IR> reference reporters. The coefficient estimated for the interaction of <IR> Reference reporters with BV (coefficient: 0,20; *p* value =0,04) and with OI (coefficient: 2.72; *p* value =0,00) are positive and statistically significant, which means that on average the book value and net income of companies publishing a high quality integrated report have a higher value perceived by the market.

Table 5 – OLS regression analysis

Variables	Unstandardized Coefficients		Standardized Coefficients	t	p-value
	β	Std. Error	Beta		
(Constant)	7,71	1,64		4,69	0,00
BV	1,13	0,03	0,46	32,61	0,00
OI	4,60	0,17	0,41	26,61	0,00
SIZE	-1,19	0,27	-0,05	-4,46	0,00
ROE	0,00	0,00	0,04	3,47	0,00
LEV	0,00	0,00	0,00	-0,30	0,77
DYIR	-1,53	0,83	-0,02	-1,85	0,07
DYIR x BV	0,20	0,10	0,05	2,02	0,04
DYIR x OI	2,72	0,40	0,16	6,79	0,00

The firms considered were <IR> Total Reporters which correspond to the sum of all the <IR> Reference Reporters and <IR> Regular Reporters for the period being considered, that is from 2005 to 2015. Concerning the dependent variables, the MV is the market value per share at the fiscal year-end, BV corresponds to the book value of equity per share at the end of the year, OI is the operating income per share of the year, SIZE is the natural logarithm of total assets at the end of the year, DYIR (an indicator variable that equals 1 if the firm is considered as <IR> reference reporter at least one year in the sample period and 0 otherwise, that is if the firm is only considered as <IR> regular reporter in the sample period), ROE corresponds to the return on equity and LEV is the leverage calculated as the end-of-year total debt divided by end-of-year total assets.

Additionally, one could analyze the standardized coefficients in order to support the previous statement. The standardized coefficients expurgate the unit effect by adjusting the estimate coefficient to permit the variables to be comparable. Since the

standardized coefficient of OI and BV are 0,16 and 0,05 respectively the statement is reinforced.

Based on prior results, our Hypothesis is supported. The findings indicate that the market valuation of BV and OI is higher for firms publishing integrated reports that are considered of high quality when compared with firms publishing integrated reports without such mention. Moreover, either the BV or the OI have a positive and statistically significant impact on the market value. It was also realized that <IR> reference reporters disclose a better financial situation when compared to <IR> regular reporters, as on average the MV, the OI, the BV, the SIZE, the ROE and the EPS are higher for the reference reporters. Additionally, the leverage level is higher for <IR> regular reporters than for <IR> reference reporters.

5. Conclusions

Reporting is a crucial part of every business activity. It is a strong tool of communication between the company and the stakeholders, particularly the investors. Reporting is also the channel that companies use to disclose useful information to the society. Taking this into account it is crucial to select adequate information to release and present it in a relevant way to add value to the stakeholders. Given the concept of reporting, it is fundamental that the reports can be comparable and understandable in different contexts. Indeed, the major accounting standard setters have made substantial development in improving the transparency of many areas within financial reporting. Other settings boards are requiring or advising new type of communication tools beyond financial reports.

As world is dynamic and it is constantly changing, then also the business reporting must evolve to accomplish and answer the progressive needs of society. That is when <IR> starts to play an important role. Definitely, <IR> is the logical consequence of the growth of sustainability and corporate responsibility concerns. Based on organisational vision and values, an <IR> combines diverse dimensions of organisational performance, to demonstrate how organisation's vision and values are internalized and externalised outside the organisation. These aspects not only increase the benefits for the company as well as impact the society, in a way the market values more the company. In this context, the purposes of this preliminary research was to demonstrate the relationship of <IR> on the perceived market value of companies that publish the best integrated reports.

To aim this objective, our empirical research was performed based on the hypothesis that the market valuation of book value and net income will be higher for firms publishing integrated reports that are considered of high quality when compared with firms publishing integrated reports without such mention. The conclusions attained evidenced that traditional measures of accounting are value relevant to market participants, but book value and net income of <IR> Reference Reporters are both even more relevant.

To conclude, the results achieved in this study may define three benefactors: the stakeholders, the companies and the <IR> supporters. Our results suggest that companies can benefit from increases in their market value, and the higher the effort to produce a reference report, the greater the increment on the MV. So, <IR> can beneficiate the society in general, not only by the increase of the market value but also by the way relevant information is disclosed. Note these conclusions are valid for all companies producing <IR> either they are considered as reference <IR> or not.

However, if the company is considered as a reference <IR> reporter, then all the effects are even greater.

This research is a preliminary research. We are developing an extending study on <IR> to include more companies based on updates of IIRC Examples Database and to control for other firm-level (e.g., board characteristics and assurance) and country-level (e.g., economic indicators, voluntary vs mandatory <IR> report) characteristics.

References

ACCA (2013). Adding Value to a Global Society – ACCA Annual Report, http://www.accaglobal.com/content/dam/acca/global/pdf-agm/ar2012-13.pdf, accessed at 23-07-2016

Aboody, D., Barth, M., Kasznik., R. (2004). Firms' Voluntary Recognition of Stock-Based Compensation Expense. Journal of Accounting Research, 42, 123-150

Adams, C. a. (2014). The International Integrated Reporting Council: A call to action. Critical Perspectives on Accounting, 27, 1–17

Arbex, N., Hjaltadóttir, A. & Brandt S. (2013). The sustainability content of integrated reports – a survey of pioneers, GRI Research and Development Series

Boerner, Hank (2012). Trendwatching: The coming of Integrated Corporate Reporting, Corporate Finance Review, 17, 2

Callahan, C., Smith, R., Spencer, A. (2013). The valuation and disclosure implications of FIN 46 for synthetic lease. Journal of Accounting and Public Policy, 32 (4). 271-291

Cheng, M., Green, W., Conradie, P., Konishi, N., & Romi, A. (2014). The International Integrated Reporting Framework: Key Issues and Future Research Opportunities. Journal of International Financial Management and Accounting, 25(1), 90–119

Climent, J.C & Hollander H. (2014). Integrated Reporting Elevating Value, EY

Eccles, R. G., & Krzus, M. P. (2010). Integrate Reporting for a Sustainable Strategy. Financial Executive, 26(2), 28–32

Eccles, R. G., & Saltzman, D. (2011). Achieving Sustainability Through Integrated Reporting. Stanford Social Innovation Review. 56–61

Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organizational processes and performance. Management Science, 60(11), 2835–2857

Fried, A., Holtzman, M. P., & Mest, D. (2014). Integrated Reporting: The Annual Report for the 21st Century?. Financial Executive, 1(3), 24–31

García-Sánchez, I. M., Rodríguez-Ariza, L., & Frías-Aceituno, J. V. (2013). The cultural system and integrated reporting. International Business Review, 22(5), 828–838

Global Reporting Initiative, https://www.globalreporting.org/Pages/default .aspx, accessed at 24-07-2016

Haller, A., & Van Staden, C. (2014). The value added statement – an appropriate instrument for Integrated Reporting. Accounting, Auditing & Accountability Journal, 27(7), 1190–1216

Hoffman, B. M. (2012). Integrated Reporting in practice: The South African story. KPMG

Hughen, L., Lulseged, A., & Upton, D. R. (2014). Improving Stakeholder Value through Sustainability and Integrated Reporting. CPA Journal, 57–61

International Integrated Reporting Council, Integrated Reporting Examples Database, http://examples.integratedreporting.org/home, accessed at 23-07-2016

International Integrated Reporting Council, Find out what is happening in your region, http://integratedreporting.org/when-advocate-for-global-adoption/find-out-what-is-happening-in-your-region/, accessed at 23-07-2016

International Integrated Reporting Council, Helping you Spread the word, http://integratedreporting.org/ home/helping-you-spread-the-word/, accessed at 23-07-2016

International Integrated Reporting Council, http://integratedreporting.org/, accessed at 23-07-2016

James, M. L. (2014). The Benefits of Sustainability and Integrated Reporting: An Investigation of Accounting Majors' Perceptions. Journal of Legal, Ethical and Regulatory Issues, Vol. 17, No. 2

Jensen, J. C. & Berg N., 2012. Determinants of Traditional Sustainability Reporting versus Integrated Reporting. An Institutionalist Approach. Business Strategy and the Environment, 21, 299-316

Kiron, D. (2012). Get Ready: Mandated Integrated Reporting Is The Future of Corporate Reporting. MIT Sloan Management Review, 53(3), 1–3

Lourenço I. C., Curto J. D., Callen J. L., Branco M.C. (2014). The Value Relevance of Reputation for Sustainable Leadership, Journal of Business Ethics, 119:17 - 28

Morros, J. (2016). The integrated reporting: A presentation of the current state of art and aspects of integrated reporting that need further development. Intangible Capital, 12(1), 336–356

Needles, B. E. (2013). Capacity Building and Integrated Reporting: A Framework for Development. Independent Business Review vol.6 nr 2

Niu, F., Xu, B. (2009). Does Recognition Versus Disclosure Really Matter? Evidence from the Market Valuation of Recognition of Employee Stock Option Expenses. Asia-Pacific Journal of Accounting & Economics, 16, 215-234

Ohlson, J.A. (1995). Earnings, Book Values, and Dividends in Equity Valuation. Contemporary Accounting Research, 11(2), 661-687

Ott C. (2016). Investors' Perceptions of Integrated Reporting. AAA Annual Meeting.

Owen, G. (2013). Integrated Reporting: A Review of Developments and their Implications for the Accounting Curriculum. Accounting Education, 22(4), 340–356

Paul E. & Nieland K. (2013). Integrated reporting: Going beyond the financial results, PWC

Rivera-Arrubla, Y.A., Zorio-Grima, A. and García-Benau, M.A. (2017),"Integrated reports: disclosure level and explanatory factors ", *Social Responsibility Journal*, Vol.13, No.1, pp. 155 – 176.

Sarfaty, G. a. (2013). A Case Study of Corporate Sustainability Reporting. Virginia Journal of International Law, 53(3), 575 – 624

Sierra-Garcıa, L., Zorio-Grima, A. and GarcıaBenau, M.A. (2015). "Stakeholder engagement, corporate social responsibility and integrated reporting: an exploratory study", *Corporate Social Business Ethics: A European Review*, Vol.22, No.5, pp. 286–304.

The International Integrated Reporting Council. (2013). The international Integrated Reporting framework. The International <IR> Framework, 37

Thomson, I. (2014). "But does sustainability need capitalism or an integrated report" a commentary on "The International Integrated Reporting Council: A story of failure" by Flower, J. Critical Perspectives on Accounting, 27, 18–22

Tschopp, D., & Huefner, R. J. (2014). Comparing the Evolution of CSR Reporting to that of Financial Reporting. Journal of Business Ethics, 1–13

Vaz, R., Fernandez-Feijoo, B; Ruiz, S. (2016), "Integrated reporting: an international overview", Business Ethics: A European Review, DOI: 10.1111/beer.12125.