



# Is Integrated Reporting the silver bullet of financial communication? A stakeholder perspective from South Africa



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## ARTICLE INFO

### Article history:

Received 25 October 2013

Accepted 13 November 2013

### Keywords:

Integrated Reporting  
Financial communication  
Financial reports  
King III  
South Africa

## ABSTRACT

Companies are being forced to critically re-evaluate how they communicate their financial information to stakeholders. Integrated Reporting, as mandated by the King III Report seeks to combine the reporting of financial and nonfinancial performance measures in a way that promotes corporate strategy. South Africa is leading the way in corporate governance and financial reporting with the first large-scale adoption of Integrated Reporting by listed companies. While there is a marked increase in financial communication from companies, it is not clear how all stakeholders use and value this information. The primary aim of this paper was to investigate how financial information is consumed within the ambit of the new financial reporting standards. Through a national online survey, this study found that very few stakeholders use the Integrated Reports as their main source of financial and investment information, and that these reports are seen as additional information. Annual and interim financial reports by companies are still the mainstay for corporate financial information. While stakeholders currently seldom use the Internet for financial information, they have indicated that they would increasingly prefer to do so. The paper concludes with a discussion of opportunities and challenges that future Integrated Reporting faces based on these findings.

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## 1. Introduction

Global corporate reporting practices are undergoing radical changes as stakeholders make growing demands on companies and resources are becoming increasingly limited. Companies are being forced to critically re-evaluate how they can communicate financially, as transparently as possible, to all their stakeholders. Integrated Reporting (IR), as mandated by the King III Report on Corporate Governance for South Africa, seeks to combine the reporting of financial and non-financial performance measures in a way that promotes corporate strategy (Ernst & Young, 2012). An Integrated Report is “a concise communication about how an organization’s strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term” (IIRC, 2013). Integrated Reporting is aimed towards providing benefits to a range of stakeholders and in particular to providers of financial capital allocation or investment decisions (IIRC, 2013). South Africa is leading the way with corporate governance as well as being the first country in the world to take on the implementation of Integrated Reporting (Ernst & Young, 2012). In 2010, the Johannesburg Securities Exchange (JSE) made the Integrated

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Report a requirement for all listed companies, crowning South Africa as the first country to require Integrated Reporting on a large scale (SAICA, 2013).

Analysts predict that the Integrated Report will have a strong correlation to the resilience and ability of a business to create value in the short, medium and long term (IIRC, 2013). Since its inception, the reporting of both financial and non-financial information in a single document has grown as many companies are producing Annual Reports, Integrated Reports and separate Sustainability Reports (Hutton, 2004). Consequently, companies are passing on an ever-increasing amount of information to stakeholders.

While the initial objective of the Integrated Report was to communicate company financial and non-financial information to a broad range of stakeholders (IIRC, 2013), almost without exception, current Integrated Reports are aimed at investors (Watson, 2012). While there is mention made of other stakeholders, it is almost exclusively to show that the company is “*an enlightened shareholder and a good corporate citizen and not directly for the needs of the other stakeholders*” (Watson, 2012). It is this approach to financial communication that makes these reports inaccessible to the broader audience. Given the diversity of different stakeholder groups, it is understandable that companies mainly speak to investors. However, companies should be clearer in communicating what their overall philosophy is in respect to other stakeholders, as well as the value that they add to different and broader stakeholder groups.

At the same time, companies have to release ever-increasing amounts of information, making it difficult for investors to achieve and maintain an accurate valuation of a company's stock (Hutton, 2004), and near impossible for other stakeholders to do so. Hutton (2004) stated that standard disclosure practices left many companies releasing a great deal of data while conveying only limited understanding to outsiders. He proposed that the Integrated Report could possibly be the solution to this problem. After the initiation of Integrated Reporting, however, no further research has been done on whether these reports have added value to stakeholders' knowledge of the company and its activities. Little is still known about how investors and other stakeholders consume financial information, whether the Integrated Report has replaced or supplanted other stakeholder sources of company information, if stakeholders and investors understand the information contained in these reports and which factors influence how stakeholders consume their financial information. These changes in financial reporting have been paired with an increasingly complex economic and business environment in South Africa.

This study takes an exploratory look at financial communication in South Africa, with a particular focus on the Integrated Report. The article begins with a view of the social, political and economic climate within which these new financial communication standards had been released, where after financial reporting in South Africa is briefly discussed. This is followed by a description of the Integrated Reporting Standards. The methodology of the study is then described, followed by a discussion of the findings and their managerial implications. The article concludes with a discussion of the limitations of the study, as well as future research implications.

## 2. The South African context

South Africa has a unique economy. It is home to eleven official languages and its political history of apartheid still has strong undercurrents in today's economic environment. Poverty is rife and inequality in the workplace is ever present, whilst acceptable education levels are still found wanting. Out of this population of approximately 50 million, 79% is made up of black Africans, whilst 10% are white. Whites make up 12% of the workforce, but hold 65% of the top and executive management positions in companies across all economic sectors, indicating a substantial inequality in the workplace (StatsSA, 2011). In a recent community survey, it was found that 8% of households have no income and that a further 22% live with less than R10 000 per year (AMPS, 2011). On the other side of the scale 9% of households have an income larger than R300 000 per year (AMPS, 2011).

With regards to education, 22% of people older than 20 have not had any schooling, with only 12% having access to higher education. The unemployment rate is reported as being close to 30%, indicating that the bulk of the economy is carried by only 70% of those able to work (AMPS, 2011). On the other hand, the South African stock market rose 23% in 2012 (Anon, 2013; Department of Trade and Industry, 2013). South Africa ranks first in the world in terms of platinum output, second in palladium output, third in gold output, sixth in coal output and ninth in wool output (Department of Trade and Industry, 2013). It has officially become part of the BRICS countries in December 2010, making it one of the key emerging economies in the world (Conway-Smith, 2011), even though its growth is slower compared to the other BRICS countries (Brazil, Russia, India and China).

With a particular focus on financial communication to the general public, there had been approximately 160 000 copies of economically orientated publications, aimed at the end consumer and not business-to-business, in circulation during the first quarter of 2010 (AMPS, 2011). These are predominantly published in English, which is first language to less than 10% of the South African population. Of the 11 official languages, IsiZulu is the first language of the majority of the population, but this is still only in 22% of the households (AMPS, 2011). IsiZulu then, is the first language of most South Africans (22%), followed by isiXhosa (16%), Afrikaans (13.5%) and English (9.6%) (StatsSA, 2011). English is, however, the language most commonly shared by South Africans, as well as the common language of business in the country. These figures suggest, though, particularly due to the complex nature of most financial reports, that these reports might not be well understood by the general population.

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