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Saying more with less? Disclosure conciseness, completeness and balance in Integrated Reports

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ABSTRACT

The Integrated Reporting Framework of 2013 represents the latest international attempt to connect a firm's financial and sustainability (i.e., environmental, social and governance) performance in one company report. An Integrated Report (IR) should communicate "concisely" about how a firm's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of sustainable value. At the same time, an IR needs to be "complete and balanced", i.e., broadly including all material matters, both positive and negative, in a balanced way. Drawing on impression management studies, we examine a selection of performance determinants to gain insights into the factors associated with conciseness, completeness and balance in IR. The results from a sample of IR early adopters show that in the presence of a firm's weak financial performance, the IR tends to be significantly longer and less readable (i.e., less concise), and more optimistic (i.e., less balanced). We additionally find that firms with worse social performance provide reports that are foggier (i.e., less concise) and with less information on their sustainability performance (i.e., less complete). Our evidence implies that IR early adopters employ quantity and syntactical reading ease manipulation as well as thematic content and verbal tone manipulation as impression management strategies. The results also suggest that such strategies depend not only on the level of firms' performance but also on the type of performance (financial versus nonfinancial/sustainability). This paper adds to the limited literature on IR in sustainability accounting as well as to the research in mainstream financial accounting that examines disclosure quality using textual analysis.

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1. Introduction

There is a wide consensus that increasing the extent of corporate information disclosed (i.e., quantity) does not necessarily imply better disclosure (i.e., quality) of a firm's actual activities (e.g. Plumlee et al., 2015). In particular, investors and financial analysts denounce a perceived 'information overload' from financial disclosures without an increase in corresponding quality and usefulness for users. Increased disclosure quantity might therefore appear as a smokescreen for low disclosure quality and possibly low firm performance. For this reason, international standard-setting bodies have initiated public debates and issued discussion papers in an effort to bring the length of financial reporting disclosures under control and to increase their quality (EFRAG, 2012; ESMA, 2015; IASB, 2013).

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The debate is complicated by the extant lack of convergence in the accounting literature on how to define and empirically disentangle disclosure quantity and quality. On the one hand, in the absence of a generally agreed model for disclosure quality, as well as relevant and reliable techniques to measure it, prior studies tend to use disclosure quantity as a proxy for disclosure quality (e.g. Botosan, 1997). On the other hand, researchers suggest that investigating only the volume of disclosure could be misleading (Plumlee et al., 2015; Toms, 2002). Provided that high quality reports should be concise and focused (i.e., not very long), making "quantity" a proxy of disclosure quality becomes questionable (Hooks and van Staden, 2011). As a result, the question of how disclosure quality is best defined and measured and its relation with disclosure quantity and/or level has yet to be answered (Beyer et al., 2010; Leuz and Wysocki, 2016).

A recent initiative intended to overcome the drawbacks in the format and usefulness of current financial reporting points at the Integrated Reporting movement (Baboukardos and Rimmel, 2016; Eccles and Krzus, 2010; Perego et al., 2016; Soderstrom and Potter, 2014) led by the International Integrated Reporting Council (IIRC). This emerging approach represents a relevant shift from existing reporting practices, which generally involve the production of financial statements in accordance with financial accounting standards and a separate, mostly voluntary, stand-alone sustainability report. Sustainability reports have a much broader scope than financial statements and encompass the social, human, environmental, and other dimensions of a firm's operations. According to IR proponents, having separate reports makes the interconnections between the different dimensions of performance difficult to understand. Moreover, a specific Guiding Principle of the International Framework for Integrated Reporting released in December 2013 (IIRC, 2013) is *conciseness*, which has been used by IR advocates to assert that it will ultimately assist in reducing the reporting burden for many organizations (IIRC, 2013: paragraphs 3.36–3.38). The emphasis on conciseness represents an innovative element with respect to prior attempts to enhance the disclosure quality of financial as well as nonfinancial/sustainability information. While the intention underlying the IIRC Framework is clear, there is nevertheless an "apparent tension" involved in providing a corporate report that is concise but also '*complete and balanced*' (i.e., broadly including all material matters, both positive and negative, in a balanced way). It has to be noted that, in the IIRC Framework, balance and completeness are "grouped" together because they refer to the same overarching principle of "3F Reliability and completeness" (IIRC, 2013: paragraph 3.39). For this reason, in the following, we refer to completeness/balance.[1] To the best of our knowledge, we are not aware of any study that examined disclosure conciseness and completeness/balance in the novel setting of IR.

The objective of our paper is twofold. First, we assess conciseness and completeness/balance as key features underpinning an Integrated Report (IR) by developing a measurement approach that draws on both the IIRC Framework (IIRC, 2013) and extant accounting studies applying textual analysis of narrative disclosures in financial reporting (cf. De Franco et al., 2015; Lang and Stice-Lawrence, 2015; Li, 2008, 2010; Loughran and McDonald, 2016). We identify specific textual attributes that distinguish the concept of conciseness (measured by length and readability) from completeness and balance (captured by scope and tone, respectively) and explore the interplay among them. Second, we examine a selection of a firm's performance-related determinants to gain insights into the factors associated with IR conciseness and completeness/balance. Our empirical analyses aim at documenting whether *lower* levels of conciseness and completeness/balance in IR are associated with a *weaker* firm's performance. Such a relationship would confirm an impression management approach in an IR disclosure strategy, similarly to the obfuscation strategies detected in narrative disclosures examined in financial accounting (cf. Merkl-Davies and Brennan, 2007) and sustainability/environmental reporting studies (e.g. Arena et al., 2015; Cho et al., 2010; Michelon et al., 2015; Plumlee et al., 2015).

We examine a sample of IR early adopters that were involved in the IIRC Pilot Programme focusing on all the Integrated Reports available for the years 2013 and 2014 as of 15th September 2015. Our findings show that, in the presence of a firm's weak financial performance, the IR tends to be significantly longer, less readable (i.e., less concise) and more optimistic (i.e., less balanced), indicating the manifestation of obfuscation strategies. We also find support for the impression management argument because our results suggest that firms with worse social performance are foggier (i.e., less concise) and disclose less information on their environmental, social and governance issues (i.e., are less complete). Overall, our evidence implies that IR early adopters employ quantity and syntactical reading ease manipulation as well as thematic content and verbal tone manipulation as impression management strategies. We lend empirical support to the studies on narrative disclosures; management may be induced to manipulate an IR through a combination of concealment strategies resulting in syntactically complex reports, the omission of information content and the obfuscation of bad news (Merkl-Davies and Brennan, 2007).

Our study adds to the literature in several ways. First, we contribute to the stream of accounting literature that analyses lexical characteristics of narrative disclosures (De Franco et al., 2015; Lang and Stice-Lawrence, 2015; Li, 2008, 2010). IR as an object of textual analysis provides a unique empirical setting for various reasons. The principle-based approach taken in developing the IIRC Framework enables variation in reporting practices, with firms having the opportunity to communicate proprietary information to stakeholders without being constrained to report in standardized ways. Such a discretionary approach offers a rich context to detect wide variation in practice that is not mirrored in more regulated, standard-based financial reporting disclosures. The integrated nature of this novel form of reporting allows a deeper understanding of the interconnections among disclosure characteristics that so far have been studied in isolation. Further, the current adoption of IR takes place across institutional settings with an interesting blend of mandatory and voluntary regimes and types of communication channels, making the setting rich in terms of variation in reporting practices and underlying theoretical

[1] To be consistent with the IIRC Framework, we use the label "completeness/balance", although in the following analyses we operationalize them separately.

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