The economic consequences associated with integrated report quality: Capital market and real effects

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Elmar R. Venter
Motivating Question

Does high quality integrated reporting facilitate investor and management understanding which manifest in economic benefits to the firm?
Integrated Reporting

Guiding principles
1. Strategic focus and future orientation
2. Connectivity of information
3. Stakeholder relationships
4. Materiality
5. Conciseness
6. Reliability and completeness
7. Consistency and comparability

Content elements
1. Organizational overview and external environment
2. Governance
3. Business model
4. Risks and opportunities
5. Strategy and resource allocation
6. Performance
7. Outlook
8. Basis of preparation and presentation

Six capitals
1. Financial
2. Manufactured
3. Intellectual
4. Human
5. Social and relationship
6. Natural

Value creation
Effects of the firm’s business activities on the six capitals
Mandatory since March 2010

Rule is “apply or explain”

Almost all firms provide an identified “integrated report”

Adopted the IIRC Framework in 2014

South Africa
Integrated Report Quality (IRQ)

Research Questions and Design

Firm value
1. Stock liquidity
2. Expected future cash flows
3. Cost of capital

EY Excellence in integrated reporting awards

Tobin’s Q
1. Bid-ask spread
2. Analysts’ target price forecast (EFCF)
3. Average of four measures (COC)

Control variables
CSR performance, CSR report, governance, accounting quality, etc.

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CSR performance, CSR report, governance, accounting quality, etc.
2011 through 2014

80 firms evaluated by EY in all four years
IR Guiding principles

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IR Content elements

1. Organizational overview and external environment
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Twelve IRQ components

1. Strategic focus and future orientation
2. Connectivity of information
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8. Business model
9. Risks and opportunities
10. Performance
11. Basis of presentation and preparation
12. Other
### Findings – Tobin’s Q

**Regression of Tobin’s Q on IRQ.**

<table>
<thead>
<tr>
<th>Variable</th>
<th>(Pred.)</th>
<th>Coefficient</th>
<th>t-stat.</th>
<th>Variable</th>
<th>(Pred.)</th>
<th>Coefficient</th>
<th>t-stat.</th>
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<td>IRQ_R</td>
<td>(+)</td>
<td>0.350**</td>
<td>1.89</td>
<td>ΔIRQ_R</td>
<td>(+)</td>
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### Findings – Tobin’s Q

#### Panel B: IRQ components

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<th>STHR_R</th>
<th>MAT_R</th>
<th>CONS_R</th>
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<td><strong>TobinQ</strong></td>
<td>0.303* (1.57)</td>
<td>0.305** (1.93)</td>
<td>0.223** (1.97)</td>
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<td>0.532** (2.15)</td>
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<td>0.296* (1.50)</td>
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Findings

IRQ + Tobin’s Q
IRQ - Bid-Ask
IRQ + EFCF
IRQ × COC

Capital market
Capital market / Real
Capital market
**Findings**

EFCF – Capital market and / or real?

<table>
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<th>IRQ</th>
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<tr>
<td>IRQ</td>
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<td>Analysts’ target price forecast accuracy</td>
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<td>IRQ</td>
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<td>Ex-post realised operating cash flows</td>
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<td>IRQ</td>
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<td>Investment efficiency</td>
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Capital market / Real

Capital market

Real

Real
Twelve IRQ components

1. Strategic focus and future orientation
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Findings - Components
Concluding Remarks

• We find:
  • A positive association between IRQ and liquidity (capital market)
  • A positive association between IRQ and expected future cash flows
    • No evidence of an association between IRQ and target price forecast accuracy
    • IRQ positively associated with ex-post realised operating cash flows and investment efficiency (real)

• Our evidence is consistent with the dual objective of IR of improving information quality and promoting integrated thinking
THANK YOU