

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

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Does high quality
integrated reporting



facilitate *investor* and
management understanding



which manifest in economic
benefits to the firm?

Motivating Question

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

Integrated thinking

Integrated Reporting

Mandatory since
March 2010

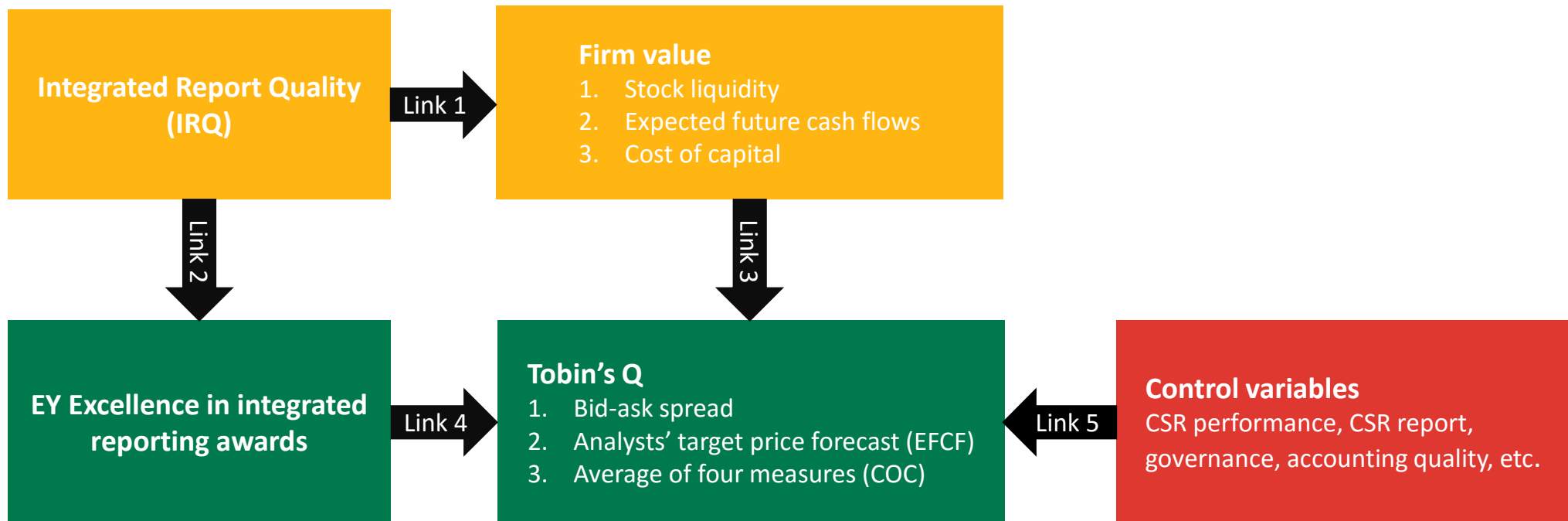
Rule is “apply
or explain”

Almost all firms
provide an identified
“integrated report”

Adopted the IIRC
Framework in 2014



South Africa



Research Questions and Design

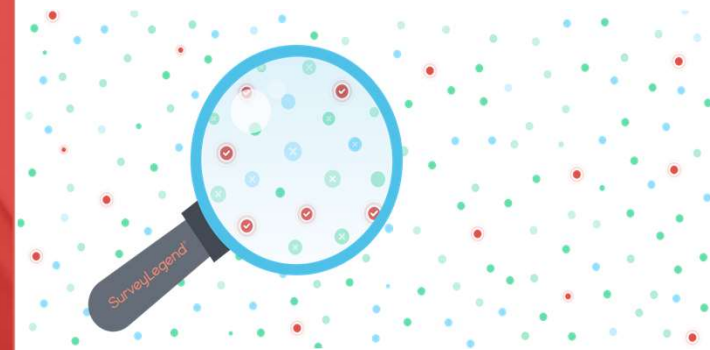


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Integrated Report Quality (IRQ)

2011 through 2014

**80 firms evaluated
by EY in all four
years**



Sample

IR Guiding principles

1. Strategic focus and future orientation
2. Connectivity of information
3. Stakeholder relationships
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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
3. Stakeholder relationships
4. Materiality
5. Conciseness
6. Organizational overview and external environment
7. Governance
8. Business model
9. Risks and opportunities
10. Performance
11. Basis of presentation and preparation
12. Other

IRQ - Components

Findings – Tobin's Q

Regression of Tobin's Q on IRQ.

Panel A: Levels and changes							
Variable	(Pred.)	TobinQ		Variable	(Pred.)	Δ TobinQ	
		Coefficient	t-stat.			Coefficient	t-stat.
IRQ_R	(+)	0.350**	1.89	Δ IRQ_R	(+)	0.117**	1.74
AtGr		-0.674**	-2.08	Δ AtGr		-0.234	-1.33
Cash		1.562**	2.02	Δ Cash		0.498	0.56
ROA		6.578***	7.99	Δ ROA		0.650	0.80
Lev		0.117	0.38	Δ Lev		-1.030	-1.24
Beta		0.265**	2.56	Δ Beta		0.018	0.42
IRisk		0.055	0.43	Δ IRisk		0.045	0.38
Size		0.083	1.05	Δ Size		-0.040	-0.17
Gov		0.001	0.35	Δ Gov		-0.003	-1.31
CSRPerf		-0.001	-0.38	Δ CSRPerf		0.004	0.59
LowAQ		-0.196	-0.99	Δ LowAQ		0.126	1.47
Complex		-0.069***	-3.10	Δ Complex		-0.017	-0.82
Fog		0.036	1.18	Δ Fog		0.018	1.28
Prime		0.411**	2.33				
CSR_SA		-0.073	-0.71	CSR_SA indicators			Yes
Div		-0.065	-0.62	Div indicators			Yes
Industry fixed effects		Yes		Industry fixed effects			Yes
Year fixed effects		Yes		Year fixed effects			Yes
Adjusted R ²		0.71		Adjusted R ²		0.13	
N		292		N		212	

Findings – Tobin's Q

Panel B: IRQ components						
	<u>SFO_R</u>	<u>CONT_R</u>	<u>STHR_R</u>	<u>MAT_R</u>	<u>CONS_R</u>	<u>OOEE_R</u>
	Coefficient (t-stat.)	Coefficient (t-stat.)	Coefficient (t-stat.)	Coefficient (t-stat.)	Coefficient (t-stat.)	Coefficient (t-stat.)
<i>TobinQ</i>	0.303* (1.57)	0.305** (1.93)	0.223** (1.97)	0.362*** (3.06)	0.302** (2.10)	0.272 (1.23)
	<u>GOV_R</u>	<u>BMOD_R</u>	<u>RIOPP_R</u>	<u>PERF_R</u>	<u>BPP_R</u>	<u>OTH_R</u>
	Coefficient (t-stat.)	Coefficient (t-stat.)	Coefficient (t-stat.)	Coefficient (t-stat.)	Coefficient (t-stat.)	Coefficient (t-stat.)
<i>TobinQ</i>	0.532** (2.15)	0.134 (0.76)	0.251* (1.59)	0.296* (1.50)	0.288* (1.39)	0.206 (1.12)

Findings

IRQ  Tobin's Q

IRQ  Bid-Ask

IRQ  EFCF

IRQ  COC

Capital market

Capital market / **Real**

Capital market



IRQ



EFCF

IRQ



Analysts' target price
forecast accuracy

IRQ



Ex-post realised
operating cash flows

IRQ



Investment efficiency

Findings

EFCF – Capital market and / or real?

Capital market / **Real**

Capital market

Real

Real

Twelve IRQ components

1. Strategic focus and future orientation
- 2. Connectivity of information**
- 3. Stakeholder relationships**
- 4. Materiality**
- 5. Conciseness**
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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



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