

INTEGRATED REPORTING: NEW TREND FROM THE PERSPECTIVE OF CZECH COMPANIES

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Abstract

In corporate finance area we are currently facing the problem of overwhelming number of various reports for stakeholders. Within this paper we aim to provide a proposal of “all in one report” known in common practice as integrated report. This type of statement includes all relevant and important information for all company’s stakeholders. First discussions about the topic of integrated reporting started in 2000 when the corporate reporting framework was published. Nowadays there are under preparation the Integrated Reporting Standards. Their biggest problem is that they are not fully acceptable from the perspective of significant number of companies. The main aim of this paper is to identify the best practice of the integrated reporting. From the methodological point of view there are examined statements and reports of several Czech companies. Our results are furthermore linked to the best practice of Integrated Reporting Standards to find out the formal harmonization level.

Key words: integrated reporting, reporting standards, corporate finance, reporting framework

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Introduction

The history of reporting is long. We can discover its origin in Ancient Rome when the Romans started to use the financial books. Then in medieval Italy the basics of double-entry accounting appeared. Financial reporting issues were wider discussed after New York Stock Exchange Fall and the question of harmonization arose. The function of harmonization of accounting principles fulfils International Financial Reporting Standards (IFRS) that are used in more than 120 countries all around the world. During last few decades, the need of nonfinancial reporting appeared and new reports, such as environmental and CSR reports, are published. With increasing number of reports the trend of reporting changes. There is still higher pressure on reducing this number and the possible solution offers integrated reporting (IR).

1 Review of literature

1.1 Trend of nonfinancial reporting

One of the most important indicators of the company's performance is profit. For a long time, profit was the only criterion in order to assess how the company manages resources. A lot of investors monitored only the financial indicators. During last few decades, the trend has changed – not only financial figures are needed. Information on nonfinancial performance can determine company's long-term financial picture (Eccles & Saltzman, 2011).

Disadvantage of nonfinancial reporting is missing regulatory framework. While financial statements are regulated by legal or other reporting standards (e.g. International Financial Reporting Standards, US Generally Accepted Account Principles etc.), nonfinancial reporting standards are not as well established. On the other hand, investors use those information and there is a growing pressure on the enterprises to disclose those data, therefore a lot of entities regularly publishes nonfinancial reports related to their customers, environmental aspects of their business or quality management tools. As an example, we can use Bloomberg that requires from public companies to disclose environmental, social and governance (ESG) information since 2009. In 2013, more than 9,600 users searched ESG data on Bloomberg.

1.2 Need of integration

With increasing number of reports and their higher complexity the question of integration arises. It is often hard for even the most sophisticated users to understand the reports (Krzus, 2011). Corporations are dealing with the internal figures integration for a longer time than with disclosures dedicated to stakeholders. Rizescu and Andone (2011) are dealing with the question of integrated reporting in organizations. They see the greatest potential in information technology. With modern software there is a potential to integrate data from the whole business and get the overview of the total operating processes in the enterprise. This solution can be also applied to the published disclosures. Information technology brings a lot of opportunities how to simplify the access to outputs and offers to choose the relevant report.

Dragu and Tiron-Tudor (New corporate reporting trends. Analysis on the evolution of integrated reporting, 2013) studied the future trend of the reporting. According to them, the first regulation initiatives will lead to sustainability implementation and finally to the single report containing both financial and nonfinancial information.

In 2009, the King Report was published in South Africa. This regulation contained the topic of integrated reporting and South Africa became the first country that required listed companies to issue IR (Prickett, 2014). In 2010, International Integrated Reporting Council (IIRC) was founded. Its purpose was to solve the integrated reporting issues and prepare framework of principles for wide usage. In 2011, IIRC launched a pilot programme where over 100 corporations from all around the world took part in. The participants aimed to contribute on testing the integrated reporting framework (IRF) developed by IIRC.

1.3 Prior research

During last years, number of academics who include the thought of integrated reporting into their studies increased. A lot of papers focuses on early adopters participated in the pilot programme of IIRC and changes in the processes that relate to the accepting of IRF.

70% of the companies participated in the pilot programme is represented by entities in Europe and South Africa. 93% represents listed enterprises and 52% of them has total assets above 10 billions of pounds (Wild & van Staden, 2013). Information that are important to include into the reports relate to environment, safety, employees, community and corporate governance. The greatest benefits from IR get rather large corporations than small and midsize companies and it should be mandatory to listed entities (James, 2014).

Stubbs and Higgins (2014) studied 15 organizations in Australia in order to examine the internal mechanisms and processes employed by early adopters of integrated reporting. They found out that IR in Australia is in the beginning and the corporations are changing their processes and structures related to the disclosures. Other studies relate to the emergent factors of IR adoption. One of those researches are Dragu and Tiron-Tudor (The Integrated Reporting Initiative from an Institutional Perspective: Emergent Factors, 2013). They found out that political and economic factors indicate the use of integration reporting while National Corporate Responsibility Index shows lower interest in this topic. Study from Frías-Aceituno, Rodríguez-Ariza, and García-Sánchez (2013) relates to the legal system that determines the integrated reporting. According to this research, Anglo-Saxon countries have lower tendency to prepare integrated reports than the countries with legal system oriented to the protection of stakeholders. Another researchers are de Villiers, Rinaldi, and Unerman (2014) who provided overall analysis of IR in order to set the areas for future research. They found more than 30 unanswered questions that should be covered by researchers in the future. This proves that this topic is just in the beginning.

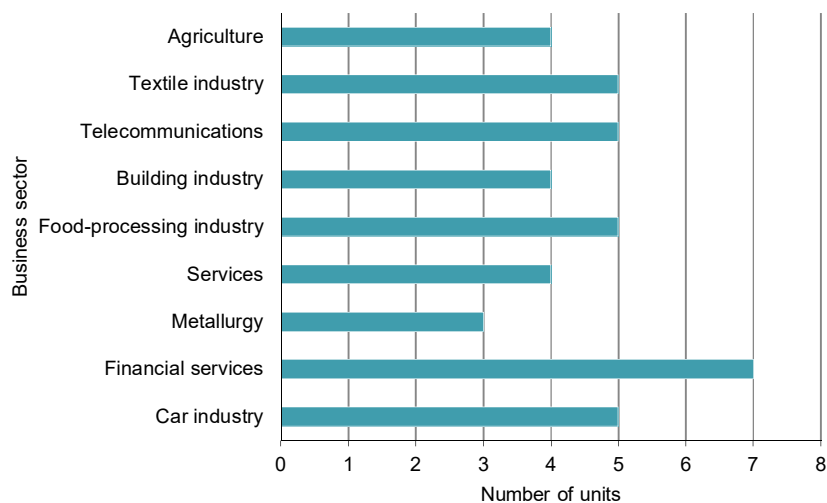
In our research we will focus on the space for IR in the Czech Republic, its content and the possible form that corresponds with world-wide IR trends.

2 Methodology

The research methodology involves empirical analysis of the content and structure of the published reports. We analysed the reports gathered mainly from the companies' websites – we used annual reports, CSR reports, product reports etc. All of the reports relate to years 2012 – 2014. The crucial condition was that the report had to be in the Czech language. The reason for this condition is the fact that in this case the report is dedicated to the stakeholders in the Czech Republic.

We used sample of 42 enterprises from the Czech Republic across variety of business sectors. We selected the sample based on the field of business and the size of the organization. We preferred larger entities that have considerable share in the industry. As can be seen in Fig. 1, we analysed seven financial institutions, five companies from telecommunication sector, food-processing industry, textile industry and car industry, four entities were from agriculture, building industry and services and three companies operated in metallurgy.

Fig. 1: Business sector structure



Source: Author

The purpose of this paper is to identify what are the most often figures dedicated to stakeholders and how many of the reports the entities publish. In order to follow this purpose, we examined the structure of data. We believe that those information are the key indicators for preparing a proposal of an integrated report.

3 Findings

3.1 Companies' reports

In our research we studied 42 companies from the Czech Republic. All of them published several reports that related to financial figures, environmental and social issues, quality management, ethics, products etc. Maximum number of statements was eight and average number counted was three. Considering only annual reports, the average number of pages was 64 and maximum was 242. We were not able to compare number of pages by other reports as they were mostly situated on websites and did not have a comparable form. Higher average number of pages (102 pages) had enterprises that operate in the regulated field of business, such as financial or telecommunication institutions. There was also high dependence of average length of the reports with IFRS – the average was 132 pages while Czech Accounting Standards counted average of 43 pages. The most statements published entities in telecommunications, building industry and banking sector. The reason for that can be the fact that those organizations are regulated therefore they provide higher number of reports.

In order to assess the form of the reports, most of them was in PDF format and they were on the company's websites. Only seven of those companies had synoptic websites and it was clear where to find those reports. Other entities had figures in different sections that were accessible from dissimilar hypertext links. None of the enterprise used the modern technology in order to publish all reports on one place.

3.2 Report content

We also provided a content analysis in order to find out what are the most common published issues. As we said above, the companies disclose not only financial, but also nonfinancial data. Specification about published information are in

Tab. 1.

Tab. 1: Content of reports

Type of information	Number of companies
Products	41
CSR	26
Strategy	21
Environment	21
Awards	18
Investment strategy	17
Corporate value	14
Risks	13
Ethics	10
Targets and the way to reach the target	10
Opportunities	9
Negative issues	9

Source: Author

We identified that the most of the corporations brings disclosures about their products, charity and other social activities. Only nine entities disclosed opportunities and negative issues. The lowest number of figures published enterprises operating in services. This can be connected with the fact that the organizations in this business sector have a lot of competitors and the costs for starting the business are lower than in financial services or telecommunications. Publishing those disclosures could lead to losing the competitive advantage.

3.3 Integrated report in background of the Czech Republic

We believe that there is still space for integrated report in the Czech Republic. According to International Integrated Reporting Council (2013), the report should contain both past and future information and describe organization's activities, performance and strategy. The

disclosures should also consist of negative development and risks related to company's business.

Based on the figures we obtained from our research, we identified key elements that are regularly disclosed in the Czech Republic and that should be also included into the integrated report. According to us, the statement should consist of four basic sections:

- Products – basic information about products, way of their production, structure or ingredients, number of customers, number of sales, suppliers etc.,
- Social responsibility –social and environmental activities, the way how it could influence the future development, corporate values, code of ethics etc.,
- Goals and strategy –strategy of the company including investment intentions, risk and opportunities connected with the business and its surroundings, goals and the way to reach those targets,
- Financial development – development of the field of business, financial results, basic financial indicators, prediction of future financial development.

Each of the group can be also divided into subgroups with specified information. Each of the sections should shortly summarize the issues that are described in. In order to keep the report in line with IRF, all data should include specification how it can influence the company's future development and sustainability, it should not represent only all information on one place. The enterprise should use modern technology and prepare the report in “user-friendly” form that would open closer data after clicking on the section. User can easily choose only relevant sections that he is interested in.

Conclusion

Although the need of integrated reporting is discussed on the world level, this paper demonstrated that the companies in the Czech Republic does not follow this trend yet. There is still high number of reports that the companies publish each year and the extent broadens. The research showed that the place for IR is opening in the background of the Czech Republic. The most frequent information that are currently disclosed except of financial results are products, social responsibility and goals and strategy and those topics should not be omitted from the report. Those topics need to be divided into lucid sections that would make user easier to orient in them. IR also brings opportunities to IT companies whose software solutions can make the report more “user-friendly”.

We believe that the findings will help to Czech companies be aware of the trend of integration. In addition, the sample can be further extended and followed in longer period. It can also be discussed in world context and the best practice of the early adopters.

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