South African institutional investors' perceptions of integrated reporting

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This report outlines the reactions of the South African institutional investment community to the production of integrated reports by South African listed companies, as well as their suggestions for the future development of integrated reporting.

South African Institutional Investors' Perceptions of Integrated Reporting

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Executive summary

Interviews with 20 members of the South African institutional investment community have yielded a series of key findings for policymakers; these will inform the integrated reporting agenda, which may be summarised as follows.

- The South African institutional investment community welcomes the introduction of integrated reporting and, despite identifying concerns and obstacles, its participants look forward to its development and progress, viewing integrated reporting as an improvement in disclosures for investment decision making.

- The introduction of (effectively) mandatory integrated reporting in South Africa is seen as enhancing significantly South Africa's reputation in global financial markets and its competitiveness.

- The institutional investors among the interviewees argued that integrated reports require assurance and that a framework should be developed for the necessary assurance process.

- South African institutional investors identified several areas where they believed that integrated reporting should be improved:

  - reports should be shorter and less complex; they need to be decluttered
  - repetition should be avoided
  - a box-ticking, compliance approach should be avoided.

- Several obstacles to the development of integrated reporting were identified including:

  - the need to avoid domination of the agenda by auditors and reporting consultants
  - the need to avoid 'impression management', ie the introduction of misleading bias, by corporate preparers, and
  - the need to address a lack of financial literacy among trustees of pension funds.

- Important recommendations for improving integrated reporting were identified including that:

  - companies should engage more with their institutional investors on the content of their integrated reports
  - there should be a drive to raise the awareness of South African asset owners and pension fund trustees about the materiality of environmental, social and governance (ESG) issues to their investment portfolios' performance
  - companies should engage more effectively with their non-financial stakeholders
  - corporate boards of directors should be more involved in the process of producing integrated reports
  - an explicit integrated reporting framework should be developed to assist preparers
  - integrated reporting should focus more on broader accountability to all stakeholders not just shareholders, so reflecting a more holistic approach to reporting
  - companies should facilitate continuing financial education for their employees
  - integrated reports should preferably be presented in electronic form.

1. Introduction

The aim of this report is to discuss the reactions of the South African institutional investment community to the production of integrated reports by South African listed companies.[1] Interviews with South African institutional investors have revealed their views on the decision-usefulness of integrated reports as well as their suggestions for the future development of integrated reporting.

The evolution of responsible investment at a global level has, in part, driven the development of sustainability reporting and is likely to have led to the evolution of integrated reporting. Responsible investment is investment by institutional shareholders that takes ESG issues into account in the investment decision-making process. The power of the institutional investment community to influence and impel changes in corporate reporting and corporate accountability is generally accepted and has been the focus of many studies arising from the both the academic and practitioner communities. Further, the evolution of governance, especially within the South African context, has engendered a stakeholder-inclusive approach based on the need for corporations to focus on a broad range of stakeholder interests as well as those of the institutional investment community.

The successive King Reports have highlighted a stakeholder accountability approach to governance and have led international corporate governance developments. The third King Report led to the introduction of a stock exchange listing requirement for all companies listed primarily on the Johannesburg Stock Exchange (JSE) to prepare integrated reports. As a result, since 2010, integrated reports have been developed and published by all companies on the JSE. In a global context, the survey of corporate responsibility reporting by KPMG in 2011 recognised the beginnings of a shift from separate corporate responsibility and sustainability reporting towards integrated reporting and concluded, 'While our research has included a number of very basic forms of integrated reporting, we believe the ultimate "end state" would combine financial and CR [corporate responsibility] reporting as part of a comprehensive approach to reflect the company's full business performance for its key value drivers against the company strategy in an integrated way' (KPMG 2011: 24).

1. It is not intended to summarise the development of integrated reporting or to discuss in detail its evolution: section two provides a brief summary of these issues, which were covered in an earlier ACCA report (Solomon and Maroun 2012

2. Research method

For this study, 20 members of the South African institutional investment community were interviewed; most of them were involved directly with responsible investment. Table 2.1 summarises the positions of each interviewee within their institutions. One interviewee was a standard setter, who helped to provide a slightly different perspective.[2] All the interviews were conducted in the first half of 2013. They took place at the interviewees' offices in Johannesburg, except for one, conducted in the interviewee's office in Pretoria. Each interview lasted for about one and a half hours and followed a semi-structured format with a series of general questions relating to the usefulness of integrated reporting, with interviewees being encouraged to talk broadly about their perceptions and reactions to the new reports. Several of the investors expressed a wish to be interviewed again the following year to discuss further developments.

Table 2.1: Interviewee roles

Interviewee	Role
1	Investment banker
2	Standard setter
3	Analyst
4	Consultant
5	Investment analyst
6	Asset manager
7	Investment analyst
8	Investment analyst
9	Investment analyst
10	CSR analyst
11	CSR analyst
12	ESG Analyst
13	ESG Analyst
14	ESG Analyst
15	ESG Analyst
16	Consultant
17	Asset manager
18	Analyst
19	Asset manager
20	ESG Analyst

2. All interviews were tape-recorded and transcribed. Only in one case was this not allowed and notes were taken instead. The interviews were semi-structured in format and the interviewees were encouraged to talk at length about their perceptions of integrated reporting. The interview data was analysed in an interpretative manner, drawing out themes from the interviewees' comments in order to present a series of models summarising their views and perceptions.

3. The interview findings

The interviews provided a rich source of information and this allowed the construction of a clear picture of South African institutional investors' perceptions of integrated reporting and their views about its future development. The interviews have resulted in a series of policy recommendations that are introduced within the discussion then summarised at the end of the report. The findings fall into a number of areas including: evidence of a shift in attitude towards ESG issues; perceived differences in investment practice between South Africa and other economies; the drivers of integrated reporting; institutional investors' understanding of integrated reporting; institutional investors' reactions to integrated reporting; perceived obstacles to the future development of integrated reporting; and recommendations for improvements to integrated reports.

3.1 IS THERE A SHIFT IN ATTITUDE TOWARDS ESG ISSUES WITHIN THE SOUTH AFRICAN INSTITUTIONAL INVESTMENT COMMUNITY?

Recent years have witnessed a substantial shift in attitude among the global institutional investment community, with investors increasingly appreciating the materiality of ESG factors and recognising these issues as relevant to performance rather than 'soft' or qualitative.[3] Interviewees perceived that this transformation in attitudes is occurring in South Africa but is still at an early stage because of a continued reliance on purely financial information. An investment banker claimed that the 'pendulum has started to swing' – change is in progress but nonetheless this evolution is slow within the South African context. An asset manager stated that the majority of people in the investment community are still trying to understand the value of social and environmental metrics in the business. Nevertheless, the interviewees provided substantial evidence that the South African institutional investment community is beginning to understand more clearly how ESG issues can be material. One investment analyst explained that examining ESG issues provided additional insights into macroeconomic forces. Indeed, an asset manager perceived that the South African institutional investment community is beginning to appreciate that issues hitherto viewed as 'soft', or 'non-financial' are instead highly material, hard, financial issues.

He illustrated this shift by discussing problems with water in South Africa, particularly in the old mined-out areas where there is acid drainage. He emphasised that water is definitely not a 'soft' issue: investors need to know what costs are carried by a mine with respect to environmental rehabilitation, as such costs tend to be highly relevant in mines where cash flow is no longer being generated and the costs need to be spread across other active operations.

3.2 DOES INVESTMENT PRACTICE DIFFER BETWEEN SOUTH AFRICA AND OTHER ECONOMIES?

The South African institutional investment community has begun a transformational process towards ESG integration later than institutional investors in more developed economies. There has been very little international comparative research into institutional investor engagement and activism.[4] The interviewees referred to international differences in institutional investment practice, especially with respect to ESG issues and investors' use of integrated reporting. Specifically, investors alluded to an international difference in support for the United Nations-backed Principles of Responsible Investment (PRI). A CSR analyst interviewed explained that, in South Africa, the majority of people who have signed up to PRI are asset managers, whereas in other countries signatories tend to be asset owners. Asset managers are less empowered than asset owners since they can act only in accordance with their clients' wishes. The interviewee implied that in South Africa not only asset managers but also, critically, asset owners and trustees need to be persuaded to incorporate ESG issues into the heart of their investment decision making in order to further the change in approach. Indeed, the crucial role of trustees in driving the integration of ESG issues into institutional investment was highlighted by two earlier ACCA reports into trustees' attitudes towards climate change risks and opportunities in investment.[5] This leads to the recommendation that there should be a drive to raise the awareness of South African asset owners and pension fund trustees towards the materiality of ESG issues for their investment portfolios.

3. see eg Solomon and Solomon 2006; Solomon et al. 2011; Solomon et al. 2013

4. An isolated example of such comparative work is Stapledon's comparison (1996) of Australian and UK institutional investor activism.

5. These reports (Solomon, 2009a; 2009b) highlighted the general ignorance at the time among pension fund trustees in the UK about the potential material impacts of climate change-related events and issues on their investment portfolios.

3.3 WHAT ARE THE DRIVERS OF INTEGRATED REPORTING AND RESPONSIBLE INVESTMENT IN SOUTH AFRICA?

The institutional investors gave their views about the factors driving integrated reporting. They perceived credibility in international financial markets to be so crucial that a desire to enhance South Africa's credibility was driving the development of integrated reporting. One asset manager interviewed had an extremely positive perception of governance in South Africa and endorsed the quality of governance and securities regulation, as well as the quality of disclosure by South African listed companies. He asserted that they were far above those in the rest of the world. Indeed, all the interviewees claimed that South Africa was a global thought leader, paving the way first in governance and stakeholder accountability (via the successive King Reports) and now in reporting, via integrated reporting. Further, the interviewees hinted at a legitimacy-driven rationale for the development of integrated reporting, as they argued that integrated reporting represented a means for South Africa to legitimise its corporations within the global community. The standard setter interviewed believed that the use of the listing requirements to drive integrated reporting represents a crucial step to providing the listed market with a greater degree of credibility. He emphasised that more comprehensive disclosures (ie integrated reporting) enhanced investors and other stakeholders' confidence in corporations.

(i) Is Regulation 28 a key driver of responsible investment and integrated reporting?

One investment analyst emphasised the importance of regulation 28 as a significant driver of adoption of integrated reporting. He asserted that the release of the recently revised Regulation 28 necessitates integrated reporting, as investors have to be informed of ESG issues in order to comply with Regulation 28. The amended Regulation 28 places a legal responsibility on trustees to articulate clearly how they are addressing sustainability. Consequently, as the asset manager explained, the mandate they award to their asset managers will be increasingly tailored to meet the new legal requirement. Indeed, the interviewees suggested that the growth in responsible investment was logically accompanied by an increased demand and need for material ESG disclosures and that this was consequently, in part, driving integrated reporting. The investment analyst interviewed confirmed this by suggesting that the regulators, in seeking ways to avoid the destruction of value, have looked at the global moves towards responsible investment, questioned what responsible investors need to invest responsibly, and decided that integrated reporting is the answer. There is, however, one gap in the current practice of responsible investment in South Africa. One ESG analyst (a leader in responsible investment) interviewed confirmed that all the asset managers working for his fund were given an ESG mandate. In further discussion he was asked how he monitored the ways in which his firm was operationalising the ESG mandate. There was clearly no formal reporting mechanism of, for example, ESG engagement processes conducted by the fund managers with investee companies. The interviewee commented that he could, '…pick up the phone any time and ask them', but it was evident that he had no other means of monitoring these processes. Indeed, he promised us by the end of the discussion that within a year he would have a reporting framework in place. Clearly this lack of oversight may not apply to other interviewees or institutions.

WHAT IS REGULATION 28?

New regulations have been introduced which insist that the institutional investment community take ESG issues into account. The revised Regulation 28 to the Pension Fund Act was recently introduced and mandates that South African pension funds take account of ESG issues in their investment decision making.

(ii) How is CRISA driving responsible investment and integrated reporting?
The interviewees identified CRISA as a driver of integrated reporting in South Africa. One asset manager commented that CRISA had been developed in part to assist pension fund trustees in establishing their fund's mandate. He explained that CRISA provides a step-by-step policy framework within which trustees can start to think about disclosure, engagement and the expectations of asset managers. Nonetheless, the interviews indicated that the responsible investment industry in South Africa has not evolved uniformly. The Government Employee Pension Fund (GEPF) seems to be a clear leader in responsible investment. One CSR analyst explained that GEPF, being the largest pension fund in the country, is actively interested in integrated reporting and leads the rest of the market by example. The interviewees indicated that there was a great diversity in responsible investment practice among South African institutional investors. When asked where they would rank investor activism on a scale from 1 to 10, one investment analyst suggested a score of five but qualified this as an average arguing that some would score 1 or 2, whereas others, 9 or 10.

It is probably reasonable to conclude from this empirical evidence that South Africa has gained a substantial reputation in the global arena for high standards of governance and stakeholder accountability owing to corporate governance codes of practice as well as corporate efforts to practise good governance. Further, it seems that integrated reporting, born in South Africa, is adding to this international reputation for best practice in governance and accountability. There was a general consensus among the interviewees that the country was benefiting substantially from the introduction of mandatory integrated reporting.

WHAT IS CRISA?

South Africa is the second country in the world to develop a set of guidelines for responsible investment and institutional investor activism. The UK's Stewardship Code was introduced in 2010 in the wake of the financial crisis. The Code for Responsible Investing in South Africa (CRISA) was published in 2011 by the Institute of Directors in Southern Africa. The principles of the Code are supported by the Financial Services Board and the Johannesburg Stock Exchange. At the heart of the Code is an acknowledgment that sustainability and ESG issues are material and should be incorporated into institutional investment.

3.4 INSTITUTIONAL INVESTORS' UNDERSTANDING OF INTEGRATED REPORTING

The interviewees were asked to explain what they understood by integrated reporting.

(i) Risk information is a core element of integrated reporting
The interviewees acknowledged the disclosure of risk information as being one of the core elements of integrated reporting. One consultant considered that integrated reporting is designed to disclose all the risks to which the company is exposed, providing a broader understanding of the company and a deeper understanding of all the issues the company is facing, than earlier forms of reporting. Previous research has shown that institutional investors within the responsible investment community required detailed risk information on social and environmental issues when they engaged in one-to-one discussions with investee companies on climate change and other social/environmental issues.[6] Indeed, the interviewees defined integrated reporting primarily in terms of risks and opportunities.

One asset manager argued that integrated reporting was intended to develop as a vehicle for communication with stakeholders, encouraging reflection on the real risks and opportunities that the company faces on a day-to-day, month-to-month and year-to-year basis. Similarly, an investment analyst considered that integrated reporting is designed to indicate the sustainability of the company as well as whether the company is succeeding in responding to risks appropriately and putting in place strategies to manage significant risks.

6. see Solomon et al. 2011 for full discussion

(ii) Integrated reporting encourages holistic governance and broader stakeholder accountability

The interviewees perceived that the aim of integrated reporting was for companies to act, think and report in a more holistic way. One investment banker argued that the key focus of integrated reporting was to demonstrate the extent to which the company is thinking in an integrated fashion and not focusing only on financial return. An analyst sought to explain in some detail the way in which corporate decision making, strategy and reporting should be linked in order to produce a successful integrated report. He suggested that it represents a process that begins with thinking about and gathering the information provided to key decision-makers. This should be not only financial information, which most boards get at the moment, but also the probable social and environmental impacts of the decisions that are about to be made. The analyst explained that reporting should take a holistic view of any decisions being made. Further, he linked decision making to strategy and explained integrated reporting as just a way of reporting that allows the company to make an informed decision in a holistic way.

An insightful definition of integrated reporting was given by the standard setter interviewed. 'For me, integrated reporting means you report what you do – so, what the company focuses on; what's important; how we measure ourselves; what our strategy is; the risks we consider. That's what we report – it's about balanced and holistic reporting.' Indeed, elements of broader stakeholder accountability inherent in integrated reporting were also perceived as belonging to integrated reporting, with one ESG analyst suggesting that it is about seeing the company in the eyes of different stakeholders and reporting faithfully on what that reveals.

Investors argued that 'good' integrated reports represent the reality of genuinely integrated corporate activity, with one commenting that the reporting is, '… actually very high level, in reading it, you actually see a lot of depth underneath. You see it's real stuff. It's not just things that they report. There is something tangible happening underneath and I think that builds confidence in a company.' An investment analyst emphasised the need for integrated reporting to represent the reality of an organisation's activities and the way in which a company is genuinely integrated in behaviour and action, not just in its reporting. A holistic approach to governance and accountability now appears to be embedded within the South African investment community, manifesting itself in patterns of holistic accountability.

Although the primary focus of the IIRC has been on prioritising the needs of financial stakeholders, the interviewees emphasised that integrated reporting is aimed at satisfying the needs of diverse stakeholders and reporting on risks, opportunities and other issues relevant to the broader stakeholder community. One of the corporate social responsibility (CSR) analysts claimed that integrated reporting is about making people's lives easier, as he argued that before the appearance of integrated reporting, users had to 'scratch around' to gather sustainability information whereas integrated reporting presents sustainability issues alongside the financial issues. He believed that this provides better information for those shareholders who need to make investment decisions as well as for stakeholders in general.

An investment analyst commented that integrated reporting represents a mechanism for greater stakeholder accountability, describing it as a 'real tool for interaction between the board of directors as a whole and the different stakeholders'.

(iii) Materiality of ESG issues recognised by integrated reporting

The link between social, ethical, environmental and governance issues and financial materiality was also viewed as a core element in integrated reporting, emphasising a business case motivation underlying both sustainability management and integrated reporting. One investment banker suggested that integrated reporting brings together the impact of both sustainability and financial reporting. Further, he stated that it deals with sustainability in relation not only to the sustainable resources of the planet but also to the sustainability of future profitability and value. The interviewees were clearly aware of the financial significance and materiality of ESG issues. An ESG analyst also commented that integrated reporting involves providing a balanced reflection of the company's financial and (hitherto) 'non-financial' performance and is intended to tell diverse stakeholders about the short-, medium- and long-term profitability and sustainability of the company.

The links between financial materiality, sustainable business and integrated reporting were elucidated by one interviewee, who explained that integrated reporting is about the overall long-term sustainability of the company, which is fundamentally an economic issue. If a business is not run economically, then it is not sustainable and cannot continue to exist. He argued that because the business is worth the discounted value of future cash flows, integrated reporting tells stakeholders whether those cash flows are available. Integrated reporting is about the availability of future cash flows or the potential of material issues to affect those future cash flows and that, when these cash flows are discounted back, decision makers can gain a more informed picture of whether they are dealing with an asset that is appropriately priced. An asset manager stressed the importance of judgement, subjectivity and intellect in assessing the materiality of ESG issues for producing integrated reports. He emphasised that the value of subjectivity and judgement should not be undermined and highlighted the need to appreciate that very intelligent and creative people are essential to interpreting information appropriately. He argued that the human element was crucial to the process of integrated reporting because the highly dynamic nature of each company means that each integrated report has to be based on judgement.

(iv) Integrated reporting contributes to forward-looking reporting

The interviewees claimed that integrated reports provide a basis for investors to dig deeper into companies' activities. An investment analyst perceived integrated reports as starting to move away from one-dimensional reporting. Further, for the institutional investors, integrated reporting was an opportunity to move towards more forward-looking reporting. This reflects earlier attempts to shift financial reporting from historic to forward-looking. For example, one investment analyst commented that if integrated reporting is 'done properly' it will provide a better picture of a company's business model and the risks inherent in that company. It should consequently help companies to create value in the short, medium and long term, in future.

(v) Integrated reporting should focus on substance over form

The interviewees also argued that integrated reporting involves focusing on substance over form and that it aims to avoid a tick-box approach. One interviewee suggested that integrated reporting was explicitly designed to avoid a prescriptive approach and instead to set clear principles that allow individual interpretation, 'We haven't said that we need to tick the following three boxes in order to have a good integrated report. What we are trying to do is say that it is imperative to discuss the material issues, ie the issues of significant judgement and sustainability with the context of your own business.'

(vi) Integrated reporting as a journey

The interviews also confirmed Mervyn King's comments (IRCSA 2011) that integrated reporting is by no means 'finished' but is on a journey: one CSR analyst stated that reporting has not 'changed overnight' but is gradually changing over time to encompass ESG factors.

3.5 INSTITUTIONAL INVESTORS' REACTIONS TO INTEGRATED REPORTS

Reactions to integrated reporting among the interviewees were mixed, with institutional investors generally interpreting the integrated report as an improvement on previous reporting vehicles while also identifying room for improvement and areas for policy focus.

(i) Unanimous endorsement of integrated reporting: raising reporting quality

Overall, the interviewees endorsed integrated reporting, perceiving it to represent an improvement in reporting. An ESG analyst believed that integrated reporting adds accountability and value for companies. He argued that integrated reporting is a step closer to a more holistic framework for reporting that incorporates financial and non-financial information – in other words, a basis for incorporating environmental, social and governance factors together with the financial issues in a single document. The standard setter commented that 'integrated reporting is not a gimmick. If you do it properly it adds a lot of value.' The interviewees were of the view that the aim of integrated reporting was to increase the quality of reporting so that companies provide better information about their activities.

(ii) Integrated reports considered decision-useful

The interviewees were in no doubt about the decision-usefulness of integrated reports for investing. One CSR analyst claimed that it was becoming increasingly clear that people want a high-quality integrated report, that they find the information useful and are actively demanding it.

(iii) Integrated reporting enhances the international competitiveness of South Africa

Interviewees believed that the introduction and development of integrated reporting was enhancing the credibility of the South African market in an international context. The standard setter suggested that because South Africa is a developing country, which is competing with other developing countries, many of which are stronger, integrated reporting is important for boosting confidence. He claimed that it gives South Africa a competitive edge.

(iv) A need for substance over form

Despite a generally positive response to the introduction of integrated reporting, there were still worries that egoistic interests, financial opportunists and too much rule-following/box-ticking could potentially stifle integrated reporting. The standard setter suggested that the South African Integrated Reporting Committee had pushed too quickly to put a framework in place. He believed that the framework had been imposed before companies had had the chance to accept the concept. This approach, he believed, ran the risk of pushing integrated reporting into a a tick-box, compliance-driven exercise.

The interviewees' impression of the integrated reports they had analysed was that they were lacking in consistency. Some were sharp and succinct whereas others were too long and did not provide a crisp picture of the real issues. Indeed, one ESG analyst suggested that companies were falling into two schools of thought: some reporters were adopting a very active response, believing there to be actual value in integrated reporting, but others were merely adopting a compliance-focused, box-ticking approach. The same analyst believed that most companies were approaching integrated reporting from this predominantly compliance perspective. This diversity in practice resonates with the academic literature interpreting changes in governance structures and mechanisms through an institutional theoretical lens. In many cases, when new mechanisms of governance and accountability are introduced, responses can be superficial, 'tick-box' in nature and defy genuine change in practice.

There were concerns that integrated reporting could lose its intended focus on substance over form. The standard setter suggested that the most significant risk with integrated reporting was that it may become rules-based and that, in his view, the spirit of integrated reporting should not be rules-based. An asset manager also commented that it was essential to avoid a box-ticking approach and to ensure that integrated reporting does not become dominated by an accounting rules-based mindset. He insisted that it must be driven by a principles-based authority.

(v) Strength not length

Another concern raised by an investment analyst was that integrated reports were simply too long. He questioned whether boards of directors had really given the integrated reports due consideration because the reports were as long as 450 pages in some cases. A consultant expressed frustration with the perceived information overload in integrated reports, 'Look at the Group 5 report, for example: They already had an annual report of about 300 pages and I think the latest integrated report was almost 500!...I think that there is just too much information in general…There might be gems of information in there but I have to wade through 50 pages to find it.' In general, the interviewees seemed desperate for more concise and shorter reports, betraying a sense of frustration with the length and complexity of integrated reports in their current form. One consultant commented that companies should be able to summarise the 'big deal' in three pages, highlighting the key risks and how they are being addressed. An investment analyst stated that the new integrated reports contain an enormous amount of information to wade through before readers can glean the 'nuggets' of information that they actually need. Further, the interviewees pointed out that the first attempts to produce integrated reports had in many cases resulted in significant repetition of information.[7] One investment analyst suggested that the significant repetition resulted from companies' attempts to tick every possible box. Another analyst argued that the reports contained a lot of confusing and repeated information that the reader had to pull out, and that the integrated report must be redesigned to make it more readable and understandable.

3.6 PERCEIVED OBSTACLES TO THE FUTURE DEVELOPMENT OF INTEGRATED REPORTING

The interviews identified a series of potential obstacles to the development of integrated reporting. Identifying obstacles can inform the integrated reporting agenda and assist policy makers.

(i) Impression management in integrated reports

There is an extensive body of academic and practitioner literature investigating elements of 'impression management' in corporate reporting. 'Impression management' here means the tendency for companies to exaggerate 'good news' in their reports while downplaying 'bad news'. This bias in reporting towards giving a better impression of the company than is perhaps the 'true' situation has been detected in narrative reporting, graphs in annual reports and in the presentation of numbers, figures and even photographic images selected for the reports (Jones 2011). There was a belief among the interviewees that integrated reports are characterised by elements of impression management. One investment analyst interviewed identified impression management in integrated reports by describing them as marketing documents. He claimed that although directors would not blatantly lie in integrated reports, they would be prepared to 'push the boundaries' and ensure that the disclosures are 'carefully and deliberately worded'. A consultant interviewee talked about the ways in which he believed that impressions were managed and manipulated within these reports. He commented, for example, that it was ironic that within the integrated reports of mining companies, '… they all tell you how much they love their workers and how much their workers love them and here are at least 100 pictures of smiling workers'. He went on to contrast these visual and narrative depictions with the reality of low-paid miners, working under hugely dangerous conditions and living in hostels. It would be useful to research the extent of impression management in integrated reports.

7. The suggestions by interviewees that the new integrated reports were very repetitive mirrored to some extent the findings of Solomon and Maroun (2012), who conducted content analysis on the content of the integrated reports.

(ii) Lack of financial literacy among trustees

Another factor that interviewees suggested could block the development of integrated reporting was a lack of financial literacy among trustees, which could reduce the use of integrated reports by the institutional investment community. As one CSR analyst explained, often half of a pension fund's trustees are appointed from among the workforce and these employees struggle with basic financial concepts such as equity. Therefore, attempting to explain why environmental impact should be considered in relation to the long-term sustainability of a company is difficult. There was a suggestion that continuing financial education was essential for the workforce. This leads to the following policy recommendation: encourage continuing financial education for employees.

(iii) Potential audit capture of integrated reporting

Another factor that the interviewees perceived could hinder the development of integrated reporting was the potential for the audit community to 'capture' the integrated reporting process. One interviewee (the standard setter) believed that the audit firms simply see integrated reporting as a good opportunity to make money. He had a similar opinion of other service providers, such as reporting consultants, who were keen to step into the space and advise companies on how to create their integrated reports. He argued that by the time a company asks a consultant to prepare its integrated report, it has 'missed the boat'.

3.7 INTERVIEWEES' RECOMMENDATIONS FOR IMPROVEMENTS TO INTEGRATED REPORTING

The interviews provided rich data indicating ways in which integrated reporting may be improved. Again, the institutional investors were asked for their views and ideas on potential improvements, as this information can provide a basis for future developments in integrated reporting practice and the development of policy recommendations.

(i) Integrated reports need to be shorter

As indicated above, the people interviewed were concerned about the length of the new integrated reports. In general, they expressed the view that integrated reports should be reduced in length and be more focused. This reflects moves such as the UK initiative to 'declutter' annual reports (see FRC 2011). One CSR analyst said that companies should focus on producing shorter reports, almost akin to a type of newspaper or magazine article, that could be easily read and understood by users other than just the sophisticated investor group. He believed the whole point of integrated reporting was to give a wide range of users something describing the company and its activities in a way that all groups could understand, use and read. Another CSR analyst suggested the development of a mechanism to ensure that the integrated reports could be checked and monitored in order to avoid unnecessary complexity and excessive length: a form of quality control or 'sanity check'. What form this quality-control mechanism could take was not discussed and this comment represents a call for further research and consideration to ascertain how this suggestion could be operationalised. It is therefore recommended that integrated reports should be shorter and more focused.

(ii) Integrated reports should be in electronic form

Another way in which the interviewees suggested that integrated reports could be improved was for electronic formats to replace the paper format, with a CSR analyst commenting that, '90% of people will get a hard copy of the report and throw it straight in the rubbish bin'. Nonetheless, it is worth noting that if they were produced only in electronic format they would become unavailable for many stakeholders (for example, employees) who do not have access to a computer and may not be computer literate. Perhaps financial stakeholders could receive only electronic copies with paper copies available for other stakeholders.

(iii) Boards should be more closely involved in the production of integrated reports

By reporting in an integrated way it is likely that companies will behave in a more integrated manner. If integrated reporting is to affect corporate behaviour there need to be strong links between the various preparers within companies and top management. The investors suggested that the process of producing integrated reports needs to change so that directors are more involved in the production of the reports in order to create more holistic reporting. One investment analyst aired concerns that corporate executives are tending to leave the production of integrated reports to accounting departments or sustainability teams, whereas this reporting vehicle is a very important project that should be driven from board level, in other words, by an executive team that is overseen by the board. He claimed that unless this happens, nothing will actually change. Another investment analyst commented that integrated reporting should be driven by leadership at the very top of the company and should represent, 'an integrated type of thinking that demonstrates that the organisation is working together and thinking about key issues and truly identifying material issues that need to be reported to stakeholders'. This develops the notion that integrated reporting should act as a means of changing corporate reality.8 In other words, by having to produce an integrated report, boards have to assess their practice and the reporting process will then alter the way they view their business. It is therefore recommended that the production of integrated reports should be driven from board level.

(iv) Institutional investors should be actively involved in the development of integrated reporting

The interviewees also highlighted the need for the institutional investment community to engage more actively on the development of integrated reporting. Again, an investment analyst argued strongly that there should be greater engagement between investors and companies in the process of developing integrated reporting, commenting that: 'At the end of the day, if they don't get the important stakeholders asking for the information and giving them feedback, the companies are going to assume that what they are producing is appropriate'. Further, a CSR analyst was concerned that companies were not engaging adequately with financial stakeholders in order to develop integrated reports that satisfy their needs. He believed that this was why users were not reading the reports. He perceived a vicious circle whereby companies were not engaging users, users therefore did not read the reports and consequently the reporting would not improve and become more user-oriented, which meant that, in his view, there was little point in producing the reports. It is fair to say that these comments vindicated the need for the current research project. It is therefore recommended that institutional investors and companies should engage more proactively with each other to ensure that integrated reports are useful for making decisions and satisfy the information needs of companies' financial stakeholders.

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8. Solomon (2013: 289) discusses integrated reporting as representative of a shift in accounting reality, 'it could be [that] integrated reporting is symptomatic of the dawning of a new reality for corporate accountability. At best, integrated reporting could actually signify a shift in reality towards genuine integration of sustainability, climate change, human rights into the heart of corporate practices as well as their disclosures. Integrated reporting may represent a road map which will lead corporations worldwide into this new reality of stakeholder inclusiveness and holistic corporate governance. The process of producing integrated reports may be interpreted as a reality shifting exercise. Companies discover and develop their understanding of what integration means as they construct these reports which in turn drives changes in corporate behaviour and practice. Integrated reporting as a corporate governance mechanism thus represents far more than mere compliance but should ultimately lead to enhanced societal welfare and greater stakeholder accountability'.

(v) Companies should be engaging with their non-financial stakeholders in developing their integrated reports

The interviewees said that companies should not only be engaging with their financial stakeholders but also with broader stakeholder groups, in order to improve their integrated reports and make them more useful to all their external constituencies. One interviewee, an investment analyst, said that integrated reporting required reporters to, 'go and engage different types of stakeholders to find out what information they want and when they want this information provided'. Indeed, the need for integrated reports to focus on stakeholder rather than shareholder accountability was acknowledged by another CSR analyst, who emphasised that integrated reporting should be aimed at a broader group of stakeholders than just investors. It is therefore recommended that companies engage with their non-financial stakeholders in preparing their integrated reports.

(vi) A need for clearer guidelines on the content of integrated reports

The institutional investors claimed that some sort of tighter guidance is necessary to help preparers, because the lack of any prescriptive framework is resulting in some confusion for companies. An investment banker interviewed complained that there are no accepted standards at the moment, which meant that reporters were confused about what they should be reporting. Consequently, it is recommended that specific guidelines, while maintaining a 'comply or explain' approach, should be developed to assist preparers.

(vii) A need for assurance of integrated reports

The interviewees discussed the need for integrated reports to be assured. The assurance of sustainability reports has been a focus of research in recent years. Interviews with assurors have shown that the practice of assuring sustainability information has grown substantially. Nonetheless, to date there has been no research investigating whether users require integrated reports to be assured. Overall, the interviewees argued that integrated reports require assurance and that a framework needs to be developed for this assurance process. One investment analyst emphasised that this is an area where the IRC still has a lot of work to do. He argued that clarification was needed as to how the auditor and reporting entity should work together to ensure that the integrated report receives the necessary attention from the board. He also highlighted the need for the assurance process to interrogate the integration process followed by the board of the company to ensure that the integrated report meets its objectives succinctly and honestly. Another investment analyst commented that auditing firms should see integrated reporting not just as an important source of new revenue but also as a way of going beyond merely presenting an opinion on the financial statements at a particular point in time and the results for the last year. It is therefore recommended that integrated reports require assurance, especially of the integration process within the company.

5. Concluding discussion and recommendations for practice

Although the international agenda for developing integrated reporting has included public consultations, it appears from talking to members of the South African institutional investment community that they have not been overly engaged in the process. As primary users of integrated reports, their views are critical to the future development of this new form of reporting, if it is to be adequate to enable responsible investors to make decisions. Although the investors had many views about what exactly integrated reporting 'is', it seems there is a long way to go before a unanimous and internationally accepted understanding and definition of integrated reporting is established. The present findings do, however, assist in providing an image of how sophisticated users interpret the role and meaning of integrated reporting.

The findings of this interview research complement and add to earlier research into the content of integrated reports. An earlier ACCA-sponsored study analysed the content of a sample of these reports and compared them with previous annual reports (Solomon and Maroun 2012). The study identified a number of trends in the reporting, especially repetition of social, ethical and environmental information as well as more extensive coverage of these issues throughout the report body. The interviews have added rich contextual information to the earlier content analysis and provide key findings to inform policymakers in further developing integrated reporting.

- The South African institutional investment community welcomes the introduction of integrated reporting and, despite identifying concerns and obstacles, its participants look forward to its development and progress, viewing integrated reporting as an improvement in disclosures relevant to investment decisions.

- The introduction of mandatory integrated reporting in South Africa is seen as enhancing significantly South Africa's reputation in global financial markets and its competitiveness.

- The institutional investors among the interviewees argued that integrated reports require assurance and that a framework should be developed for the necessary assurance process.

- South African institutional investors identified several areas where they believed that integrated reporting should be improved:

  - reports should be shorter and less complex; they need to be decluttered

  - repetition should be avoided

  - a box-ticking, compliance approach should be avoided.

- Several obstacles to the development of integrated reporting were identified, including:

  - the need to avoid domination of the agenda by auditors and reporting consultants

  - the need to avoid 'impression management', ie the introduction of misleading bias, by corporate preparers

  - the need to address lack of financial literacy among trustees of pension funds.

- Important recommendations for improving integrated reporting were identified, including that:
  - companies should engage more with their institutional investors on the content of their integrated reports
  - there should be a drive to raise the awareness of South African asset owners and pension fund trustees about the materiality of ESG issues to their investment portfolios' performance
  - companies should engage more effectively with their non-financial stakeholders
  - corporate boards of directors should be more involved in the process of producing integrated reports
  - an explicit integrated reporting framework should be developed to assist preparers
  - integrated reporting should focus more on broader accountability to all stakeholders not just shareholders, reflecting a more holistic approach to reporting
  - companies should facilitate continuing financial education for their employees
  - integrated reports should preferably be presented in electronic form.

Overall, the reactions by South African institutional investors to the relatively new integrated reports were more positive than had been anticipated before this research. The academic accounting community tends to err on the side of criticising developments such as integrated reporting. Indeed, from a critical perspective, some may consider that integrated reporting is ushering in the death of sustainability reporting. In practice, the direct integration of sustainability information into the primary annual reporting vehicle seems to be the best way for institutional investors and other stakeholders to view ESG issues as core financial issues which should be treated with, and inseparable from, the 'traditional' financial reporting items. Certainly, the research indicated that the institutional investment community was effectively 'sold' on integrated reporting as a concept and in practice. Institutions seemed to have generally accepted the idea of integrated reporting and were broadly in favour of assisting its development through consultation and engagement. To conclude, these findings arguably represent a first step to engaging the South African institutional investment community in the process of improving integrated reporting by South African listed companies, as well as informing the international debate on integrated reporting. This study paves the way for further research into users' views and perceptions of the decision-usefulness of integrated reporting and on informing its future direction. Further research is crucial if integrated reporting is to continue developing ultimately provide a more holistic, more decision-useful and more stakeholder-accountable vehicle for corporate reporting.

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