Contents and Determinants of Integrated Reporting: Evidence from Japan and the United Kingdom -Towards an Improved Reporting Agenda

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Declaration

I, Taslima AKHTER hereby declare that I am the author of this thesis and that this thesis has not been submitted previously to qualify for an academic degree.

Signature of Student ……………………………………..

Certificate

I hereby certify that Taslima AKHTER has fulfilled the requirements of PhD candidate at Institute of Business & Accounting, Kwansei Gakuin University and that the candidate is qualified to submit this thesis in application for that degree.

Signature of Supervisor…………………………………..

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Abstract

Integrated reporting (IR) practice is still in an evolving stage. Research related with this practice is also limited. Specifically, research on real practice is scarce. In addition, most of the existing researches have focused on the South African context where preparation of integrated report is a legal requirement for the listed companies. This reporting practice in other parts of the world is still largely unknown. The present study, therefore, takes the opportunity to investigate this reporting practice in a voluntary regulatory setting, namely in Japan and in the United Kingdom (UK). Although socio-political context is different in these two countries, both of them are already in an advanced stage of sustainability reporting and therefore, could give interesting insights regarding IR practice. In this regard, this thesis has two broad objectives to accomplish. The first broad objective is to examine the practice of integrated reporting and the second broad objective is to understand the factors influencing the adoption of integrated reporting. These two broad objectives lead to the three specific research objectives of this thesis, which are: (i) to understand the extent and quality of integrated reporting of selected listed companies of Japan; (ii) to understand the extent and quality of integrated reporting of selected listed companies of the UK; (iii) to expand this understanding by examining the influence of corporate level determinants in integrated reporting adoption in Japan.

This thesis offers three distinct but related empirical studies (in Chapter 4, 5, and 7) to accomplish these three specific objectives and uses the perspective of legitimacy theory to explain the findings from these studies. To achieve the first two specific objectives, that is, to understand the practice of integrated reporting in Japan and the United Kingdom (UK), the first two empirical studies are conducted (in Chapters 4 and 5). These chapters have examined the contents of integrated reports of leading listed companies in Japan and the UK. Without any direct regulatory directives, it would be interesting to know whether there is any influence of integrated reporting propositions in the corporate reporting practices of these two countries. Although preparation of integrated report is not mandatory in any of these countries, they are in an advanced stage of voluntary reporting practice. These chapters have used content analysis method and proposed a comprehensive disclosure checklist which is one of the important contributions of the present study. In this study, the coding instrument or disclosure checklist is developed based on the

Content Elements of the IIRC (International Integrated Reporting Council) Framework of 2013 and consultation from extant literature. The findings of these studies show average compliance rate is 64.73% and 71.01% for the sampled corporate reports of Japan and the UK respectively. Findings from these studies reveal that Governance is the highest disclosed Content Element by the sampled annual reports of both of the countries, followed by Organizational Overview and External Environment. On the other hand, the lowest disclosed category is Basis of Preparation and Presentation followed by Business Model. This finding is also similar for both of the countries.

Similar findings from the fore mentioned studies raise the question of whether there is any statistically significant difference between the disclosure practices of the sampled annual reports of the two countries. Chapter 6 of this thesis investigates this issue and therefore, in this thesis Chapter 6 is considered as a continuation of the previous two studies (in Chapters 4 and 5) rather than a new study. In this chapter, the Overall Disclosure Scores by company for all Content Elements in the disclosure checklists of Japan and UK are compared first. Then, the average scores for individual Content Element are compared between these two countries. Results show that there is no significant difference between Japan and UK in Overall Disclosure scores of integrated reporting, and in Content Elements namely, Business Model, Strategy and Resource Allocation, Performance, Outlook, and Basis of Preparation and Presentation. There are significant differences in disclosure qualities of Organizational Overview and External Environment (at 1% significance level), Governance (at 1% significance level), and Risks and Opportunities (at 5% significance level) between Japan and UK. These findings may have implications on developing policies and practices of integrated reporting both for the management of companies and for regulators. The regulators or standard setting bodies can also introduce guidelines or frameworks to ensure consistency and comparability in IR practice among companies. To the best of the author's knowledge, this is the first study to compare disclosure contents of integrated reports of two countries namely, Japan and the UK.

After documenting the results of content analysis, Chapters 4 and 5 tries to explain the findings through the lens of legitimacy theory. Legitimacy theory is widely used in sustainability related literature. However, this thesis extends the application of legitimacy theory in a new reporting context. It attempts to analyze the empirical findings from the aspect of Ashforth and Gibbs's (1990) legitimation strategies of substantive and symbolic management. With the empirical evidence obtained in Chapters 4 and 5, this thesis has argued that the sampled companies use a mix of substantive and symbolic disclosure to maintain their legitimacy. Substantive management requires real and concrete changes in organizational activities to be in congruent with social expectations. In symbolic management, organizations do not change their actual operations rather symbolically manage their operations to avoid unfavorable stakeholder attention.

The sampled reports include substantive disclosure on certain Elements such as, Governance, Outlook or Strategy and Resource Allocation. On the other hand, in certain aspects, such as, Materiality or Business Model, many of these reports have provided generic or minimal disclosure. In general, these reports are usually biased for communicating positive information to the stakeholders with occasional acceptances of failure or negative information. However, the disclosure practice of leading listed companies of both countries evidence that the introduction of integrated reporting is shaping the corporate reporting practices and these reports have great potentiality to align with the basic principles of integrated reporting. As early evidence of IR, these findings are meaningful and thought-provoking. Future research can also investigate into the reporting practices of different parts of the world to comprehend whether the findings from the present studies are common to the reporting practice of other countries as well.

The findings of the first study (in Chapter 4) of this thesis show that the corporate reports of Japanese companies follow the guidelines of the IIRC Framework to a modest level. Recently, Japanese corporate reporting practice gets attention from the IR standard setting bodies and professional as the number of Japanese companies which are following the IIRC guidelines voluntarily, is increasing. But, academic research in this area is almost non-evident. In this connection, this study aims to understand the possible determinants of IR adoption by Japanese listed firms. Chapter 7 serves this third specific objective of this thesis, that is, to understand the factors influencing the adoption of integrated reporting in Japan. This chapter investigates the effects of some selected company-level features upon IR adoption in Japan. The influence of these factors on IR adoption is tested by developing nine related hypotheses and using logit regression analyses. In developing the hypotheses, extant literature and legitimacy theory perspective are considered. Legitimacy theory states that the level of legitimacy pressure is not the same for all organizations. The concept of 'public visibility' may explain the level of legitimacy pressure under this theory. Highly visible organizations in any social and political environment have more pressure to maintain the social expectations. Existing literature utilizes different proxies to measure the public visibility of organizations and debates that highly visible firms tend to publish more information to ensure legitimacy. The present study follows this stream of existing literature and the concept of "public visibility" and "powerful stakeholders" to formulate the relevant hypotheses. Specifically, the study examines the influence of board size, independent directors, creditors, institutional investors, cross-shareholders, foreign shareholders, company size, industry affiliation, and profitability on the IR practice in Japan. The sample of this study is the Nikkei 225 companies listed in the Tokyo Stock Exchange. The constituents of this index are the most actively traded companies in the stock exchange, with balanced representation of a wide range of Japanese industries. Understanding that IR is in an early stage of development, this cross-sectional study focused on integrated reporting practice in the latest available year, 2017.

This study has some interesting findings and important insights for the academia and the regulators. The descriptive statistics show that the average adoption rate of integrated reporting is 56.8%. It also reveals high dependence on debt of these firms and significant stakes of foreign owners in these companies. The regression analysis of this study finds that greater independence of the board of directors favorably influences the integration of corporate information. The findings also suggest that firm size has a significant positive influence on IR adoption whereas profitability has a negatively influence on it. Industry classification has no significant influence upon the integration of financial and non-financial information. It means that firms operating in environmentally non-sensitive industries are also making improvement in integrated reporting practice. This paper also finds that institutional investment, cross shareholding, and foreign shareholding have negative associations with the adoption of IR in Japan. These powerful investors might have access to other private and public sources of information. Japanese corporate boards are usually large and dominated by insiders. This analysis fails to prove any significant relation between board size and integrated reporting adoption.

Considering the above studies and related findings, this thesis has some important contributions to the literature. The findings on the contents and quality of the reports against the IIRC Framework will have implications for development of practice and policies on IR both for the management of companies and the regulators of these countries. This study highlights the areas of IR that need more clear and specific disclosures. Companies can improve their IR practice by taking these into consideration. Similarly, the regulators or standard setting bodies can also think to introduce guidelines or frameworks to ensure consistency and comparability in IR practice among companies.

This thesis also finds important insights on IR adoption in Japan. While the current study finds that institutional shareholding, cross shareholding, and foreign shareholding have an insignificant association with IR adoption in Japan, it has some other implications. It implies that these investors do not think that IR is important for their decision making. Some possible reasons could be for example, lack of familiarity of IR at the operational level, lack of consistency in practice. Otherwise, these powerful investors might have other efficient means of communicating with the firms' management. As IIRC (2013) considers investors as the primary user of integrated reports, the regulators, standard setting bodies should take necessary measures to prove the quality of integrated reports to make the reports useful for investors. For example, considering the qualitative nature of non-financial information, issuance of regulatory standards or guidelines would be helpful to clarify certain matters and to minimize the variations in IR practice that will ensure comparability and consistency in IR. Similarly, companies also need to design their integrated reports bearing in mind the audience of such reports.

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Chapter One

Introduction and Outline of the Study

1.1 Background of the Research

The traditional financial reporting model was developed for an industrial world (IIRC, 2011). Since then, there have been major changes in economic, social, political, and natural environment. These have impacted the way how business operates and how business creates value in the long run. To cope with this environment, corporate reporting has also improved substantially especially, in the last twenty years (KPMG, 2013). National and international standard setting bodies are working to develop high-quality accounting standards and to standardize the financial reporting practice (Deegan and Unerrman, 2011). This has increased the length and complexity of financial statement, requiring a high level of financial expertise to interpret (Main and Hespenheide, 2012). Again, current financial statements are criticized for their narrow focus only on financial capital while the demand for broader information set has increased. It is seen that financial and physical asset included in financial statements account for only 19 percent of the shareholder value with remaining 81 percent depending on intangible factors, many of which are not explained in financial statements (IIRC, 2011).

To meet the increased demand for information, leading companies in the world have been disclosing non-financial information voluntarily since 1990s (Buhr, 2007). In 2017, 93% of the world's largest 250 companies have issued some kinds of sustainability reports (KPMG, 2017). The extent, nature, and format of such reporting vary significantly not only across the countries, but also within companies in the same country. In general, non-financial reporting includes disclosure on corporate governance, human rights, labor practices, natural environment, fair operating practices, consumer issues, and community issues and development (ISO, 2010). Although initially companies published such information in the annual reports, recently stand-alone non-financial reporting has increased. These reports are titled in different names including Sustainability Report, Social & Environmental Report, Environmental Report, Triple Bottom Line (TBL) Report, and Environment, Social & Governance Report (ESG).

However, these so called sustainability reports are found to be disconnected from organization's financial reports. It is argued that management is more concerned about their business opportunities from such reporting rather than ensuring transparency and accountability to external stakeholders (O'Dwyer and Owen, 2005). Under these circumstances, the concept of integrated reporting (IR) has developed. Based on the existing financial reporting model, integrated reporting incorporates nonfinancial information that can help stakeholders understand how a company creates and sustains value over the long-term (IIRC, 2013).

According to the IIRC "an integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term" (IIRC, 2013). Business organizations have been trying for a long period of time to integrate non-financial information into their annual reports. But the concept of integrated reporting gets momentum after the formation of the International Integrated Reporting Council (IIRC) in 2010. The Accounting for Sustainability Project under the patronage of the HRH Prince of Wales and the Global Reporting Initiative (GRI) launched the IIRC. It is a global coalition of regulators, investors, companies, standard setters, the accounting professionals and non-governmental organizations.

It is argued that IR existed even before the existence of the IIRC. Titled as 'one report' some corporations adopted integrated reporting even before the emergence of the IIRC and even before any literature existed on the topic, demonstrating how practice often leads theory in new management ideas (Eccles and Saltzman, 2011). The Danish company Novozymes was the first to issue an integrated report in 2002. Although integrated reporting is a relatively new practice, both public policy and organizational practices in this area have developed rapidly. In 2011, South Africa became the first country in the world to mandate integrated reporting practice for the listed companies. At present, 1,700 companies in 72 countries are practicing integrated reporting. It is the leading practice in South Africa and Japan and growing fast in Brazil and Europe (IIRC, 2019). KPMG (2017) also finds big rises in this practice in Japan, Brazil, Mexico and Spain.

Academic observers have also started to investigate this innovative reporting practice. However, research on IR is still in the "embryonic" stage (de Villiers et al., 2014). Initial studies are largely normative in nature examining concepts, benefits, and challenges of IR rather than empirically examining the various aspects of IR (Eccles and Saltzman, 2011; Dumay et al., 2016). Recently, empirical research in this field has grown (Velte and Stawinoga, 2016) and these studies have used different methodologies to investigate into the issues on integrated reporting (Dumay et al., 2016). Main research methods adopted in extant literature include case study, interviews, surveys, field study, content analysis, and archival studies (Ahmed Haji and Anifowose, 2016; 2017). The empirical studies cover the following key areas: (a) contents of integrated reports, (b) determinants for the adoption of integrated reporting, (c) capital market reaction to integrated reporting adoption, and (d) stakeholders' perceptions on integrated reporting.

Extant literature has largely investigated on the first strand of literature, that is, contents of integrated reports (Solomon and Maroun, 2012; Wild and van Staden, 2013; Ahmed Haji and Anifowose, 2016; Setia et al., 2015). Based on content analysis, these researches indicate that integrated reporting practice is still in an early stage of development (Van Zyl, 2013); and despite increase in the quantity of social, environmental and other disclosures, the contents are largely generic (Wild and van Staden, 2013). The level of integration between content elements and interdependencies of various types of capitals is limited (Ahmed Haji and Anifowose, 2016). The reports lack quantitative and forward looking disclosure and sometimes used as impression management strategy (Melloni et al., 2017).

A wide variation in the integrated reporting practice leads to the second strand of literature, that is, factors for adopting IR (Frias-Aceituno et al., 2013; Frias-Aceutno et al., 2014; Sierra-García et al., 2015; Vaz et al., 2016). Empirical studies show that company size and its management bodies, assurance of CSR reports, GRI application level are important factors for integrating information (Frias-Aceituno et al., 2014; Sierra-García et al., 2015). Vaz et al. (2016) finds that both coercive and normative institutional mechanism exercise pressure to adopt IR and companies in less individualistic countries are more likely to practice this reporting. Firms located in collectivist countries and specifically in feminist countries, also show a great interest in disclosing integrated information (Garcia-sanchez et al., 2013).

Several studies have investigated on capital market reactions to IR adoption (Lee and Yeo, 2016; Bernardi and Stark, 2018; Zhou et al., 2017; Barth et al., 2017). Results show that IR adoption provides competitive benefits to firms, particularly firms with complex operational activities through reducing information asymmetry between management and investors, lowering cost of capital, etc.

The fourth strand of research on stakeholders' perceptions of integrated reporting finds mixed results (Steyn, 2014; Rensburg and Botha, 2014; Adhariani and De Villiers, 2019; Hsiao and Kelly, 2018).While some studies find IR as useful document in stakeholders' decision making process (Steyn, 2014), other studies find that very few stakeholders use IR as their main source of financial and investment information (Rensburg and Botha, 2014). There are expectation gaps between preparers and stakeholders regarding the contents of integrated reports (Naynar et al., 2018), limited knowledge of stakeholders on IR, and preferences for private information (Adhariani and De Villiers, 2018; Hsiao and Kelly, 2018).

Discussions on the various strands of literature in IR, examination of the samples used in these researches, it seems that there has been significant interest to investigate the South African context, given the mandatory requirement to publish integrated reports for the companies listed in JSE since 2011. In addition, several authors have examined the integrated reports of companies participated in IIRC Pilot Programme Business Network or companies listed in IIRC data base. Within this context, this thesis contributes to the literature by providing insights about contents and determinants of IR in Japan and UK. Although these countries have different socio-political and regulatory environments, both the countries are in a leading position in sustainability reporting for a long period of time (KPMG, 2008; 2011; 2013). On the one hand, integrated reporting is rapidly increasing in Japan (KPMG, 2017; IIRC, 2019). On the other hand, the UK regulatory initiatives are conducive to integrate financial and non-financial information (Deloitte, 2015). In spite of that, academic studies are scarce on these countries.

This thesis uses the perspective of legitimacy theory in analyzing the findings of the studies conducted in this thesis. Legitimacy theory is the most widely used theoretical lens in sustainability accounting (Deegan, 2002; Parker, 2005; Owen, 2008; Gray et al., 2010). Researchers have used this theory to explain different aspects of sustainability reporting including extent and quality of sustainability reporting, managerial motivation to engage in this form of reporting, and determinants of adoption of sustainability reporting. Recent studies (Ahmed Haji and Anifowose, 2016; Setia et al., 2015) have used this theory in examining the IR practice of South Africa. Now, the present thesis has extended the application of this theoretical lens in examining the IR practice of Japan and the UK. More precisely, this thesis uses the lens of 'substantive management' and 'symbolic management' legitimation strategies by Ashforth and Gibbs (1990). Substantive management "involves real, material change in organizational goals, structures, and processes or (adopts) socially institutionalized practices" to meet the expectations of those stakeholders who control critical resources necessary for survival of the organization (Ashforth and Gibbs, 1990, p. 178). In short, substantive management requires real and concrete changes in organizational activities to be in congruent with social expectations. On the other hand, in symbolic management, organizations do not change their actual operations rather "simply portray-or symbolically manage them so as to appear consistent with social values and expectations" (Ashforth and Gibbs, 1990, p.180). In this case, organizations emphasis on "form" rather than "substance" of conformity with social expectations and use different impression management strategies to gain, maintain, or regain their legitimacy (Ahmed Haji and Anifowose, 2016). From symbolic management point of view, information disclosed in integrated reports would be insignificant, generic, declarative and rhetorical in nature and emphasize mainly positive information about the organization. In contrast, if management employs substantive management, an IR would include information that is company specific, detailed, quantitative and comprehensive. Recently, Ahmed Haji and Anifowose (2016) and Setia et al. (2015) use similar approach to explain the early evidence of IR adoption in South Africa. In line with these studies, the present thesis also argues that organizations include both symbolic and substantive disclosure in their annual reports to legitimatize their operations in the society. Chapters 4 and 5 of this thesis document results of content analysis of integrated reports of sampled Japanese and UK companies and tries to explain the findings through the lens of substantive and symbolic legitimation strategies.

Legitimacy theory states that the level of legitimacy pressure is not same for all organizations. The concept of 'public visibility' may explain the level of legitimacy pressure under this theory. Highly visible organizations in any social and political environment are under more pressure to maintain the social expectations. Existing literature use different proxies to measure the public visibility of organization and opines that highly visible firms tend to publish more information to ensure legitimacy. These proxies include Company size, Industry affiliation, Profitability, Media exposure, Environmental accidents, and Membership of pressure groups (Patten, 1991; 1992; Deegan and Gordon, 1996; Brown and Deegan, 1998; Branco and Rodrigues, 2008; Branco and Rodrigues, 2006). This aspect of research has also extended to integrated reporting literature (Frias-Aceituno et al., 2014; Garcia-sanchez et al. (2013); Kilic and Kuzey, 2018). Chapter 7 of this thesis investigates the corporate-level determinants of adoption of IR in Japan. The concept of "public visibility" and "powerful stakeholders" are used to formulate the relevant hypotheses. Particularly, the study examines the influence of board size, independent directors, creditors, institutional investors, cross-shareholders, foreign shareholders, company size, industry affiliation, and profitability of the business on the IR adoption in Japan.

1.2 Research Objectives

Most of the existing researches in integrated reporting contain normative arguments for this practice and stand-alone case studies; research examining real practice is scarce (Eccles and Krzus, 2010; Dumay et al., 2016). While traditional sustainability reporting has been widely examined in respect of practice, determinants and motivations of its adoption, it remains unclear why firms adopt integrated reporting (Jensen and Berg, 2012). While most of the existing studies have researched on South Africa, few studies have scrutinized the practices from any theoretical point of view. This thesis, therefore, takes the opportunity to fill these gaps in the literature and to investigate this reporting practice in a voluntary regulatory setting for IR, namely in Japan and in the UK. In this regard, this thesis has two broad objectives. Firstly, to examine the practice of integrated reporting in a voluntary regulatory setting and secondly, to understand the factors influencing the adoption of integrated reporting. To provide an understanding on the practice, this thesis examines the contents of selected integrated reports of Japan and the UK in terms of extent and quality. Then, to expand this understanding it examines the factors influencing integrated reporting adoption in Japan. Findings of these studies are explained through the lens of legitimacy theory.

The research objectives of the thesis are therefore, as follows:

i. To understand the extent and quality of integrated reporting in selected listed companies of Japan

ii. To understand the extent and quality of integrated reporting in selected listed companies of the UK

iii. To expand this understanding by examining the influence of corporate level determinants in integrated reporting adoption in Japan.

In this thesis, Chapter 4 and Chapter 5 deal with the first and second objectives respectively and Chapter 7 deals with the third objective.

1.3 Research Methodology

While Chapter 3 of this thesis explains the research design for the current study in details, this section provides an overview of the research methodology used to achieve the three specific objectives discussed in the previous section. This thesis has three empirical studies in chapter 4, 5 and 7. Chapter 4 and 5 use the content analysis method to understand the application of IR Framework in selected corporate reports. This study has developed the coding instrument or a disclosure checklist based on the Content Elements of the IIRC Framework (2013). In Chapter 4, a sample of 20 companies is chosen on a random basis from the first 100 companies (based on market capitalization) of the Nikkei 225 companies of Tokyo Stock Exchange (TSE). In a similar manner, in Chapter 5, a random sample of 20 companies is chosen from the FTSE 100 companies. FTSE 100 index consist of top 100 companies based on market capitalization listed in London Stock Exchange. The findings obtained through the disclosure checklists are further analyzed. Chapter 6 of the thesis offers results of statistical analysis of the difference between these two countries' disclosure performances that are found in Chapter 4 and 5.

In Chapter 7, this study examines the corporate level determinants of IR adoption in Japan. The logit regression analysis is used based on a sample of Nikkei 225 companies of TSE. The effects of some selected company-level characteristics upon IR adoption have been examined, namely company size, profitability, investors, industry and board characteristics including board size, and board independence. The influence of these factors on IR adoption is tested through developing nine related hypotheses. The findings are then analyzed.

1.4 Research Contributions

This thesis provides a number of contributions to existing corporate reporting literature or more precisely, to the integrated reporting literature. The extant integrated reporting literature is evolving (de Villiers et al., 2014). Most of the existing literature is in the context of South Africa because of the country's regulatory initiatives and mandatory requirement for listed companies to prepare integrated reports (Velte and Stawinoga, 2016). Integrated reporting practice of other parts of the world is still largely unknown. In this regard, researchers around the world have urged for studies to reveal this reporting practice in different institutional and cultural environments (Feng et al., 2017). Hence, this study takes the opportunity to investigate the contents and determinants of integrated reporting practice in Japan and in the UK, where the practice is largely voluntary.

Although the regulatory environment differs substantially, Japan and the UK are already in an advanced stage of corporate non-financial reporting (KPMG, 2008, 2011). But, academic literature regarding integrated reporting practice in these two countries is scarce. As far as the author is aware of, this is the first study to compare contents of IR between these two countries. To fulfill this objective, this study develops a comprehensive disclosure checklist to evaluate the current reporting practice. This checklist is prepared based on the understandings of the IIRC Framework (2013) and consultation with extant literature in this area. Therefore, this checklist can be a useful tool for future research to examine the application of IR Framework in corporate reports.

Most of the existing empirical researches in this specific area have observed the change in disclosure practice following the adoption of integrated reporting practice (Solomon and Maroun, 2012; Setia et al., 2015). To complement these studies, the present thesis has examined the application of integrated reporting Framework in existing reporting practice. Thus, it can inform stakeholders and regulators 'whether' and 'to what extent' the current reporting practice is influenced by the IR Framework. Legitimacy theory has been widely used in sustainability reporting literature. This study extends its application in a new reporting context. This thesis tries to contribute theoretically by using Ashforth and Gibbs's (1990) legitimation strategies of substantive and symbolic management perspectives in explaining integrated reporting practice of sampled firms. It shows empirical evidence that organizations use both substantive and symbolic disclosure to maintain their legitimacy.

In addition, while previous studies have investigated country level and corporate level determinants of IR adoption for other countries, the context of Japan is largely unknown. Given the recent increase of integrated reporting practice in Japan (KPMG, 2017), it is important to understand the corporate characteristics that influence corporate decision to adopt this voluntary reporting practice. This study fulfills this research gap by showing empirical evidence on corporate level determinants for integrated reporting adoption by taking a sample of Nikkei 225 companies.

1.5 Organization of the Remaining Chapters

This thesis consists of 8 chapters including this introductory one. Chapter 2 provides a comprehensive overview of IR practice and related academic literature. The objective of this chapter is achieved through discussing four key issues (a) historical background of IR, (b) discussion on International Integrated Reporting Council (IIRC) Framework, (c) context of IR in South Africa, Japan, and UK, and (d) review of academic literature on IR. At first, a broad overview of current corporate reporting is given with its limitations. The chapter then discusses the emergence of IR practice and development of the IIRC. It elaborates the main components of IIRC's Integrated Reporting Framework. Discussions on the socio-political and regulatory context of IR in South Africa, Japan, and UK would help to understand the empirical findings of this study. Then, the chapter reviews the previous academic studies. For this purpose, extant literature is divided into four groups: (a) contents of integrated reports, (b) determinants for the adoption of integrated reporting, (c) capital market reaction to integrated reporting adoption, and (d) stakeholders' perceptions on integrated reporting. Finally, the chapter identifies the research gap in extant literature and proposes the current study.

Chapter 3 contains the theoretical explanations of integrated reporting and research methodology used in this study. This chapter is broadly divided into two sections: (a) elaboration of related theories of sustainability reporting, and (b) description of the research design. At first, the main theoretical lenses of sustainability reporting including decision usefulness theories, economic based theories, and socio-political theories are elaborated. This thesis adopts legitimacy theory that is extensively used in sustainability reporting literature. Precisely, the study uses substantive and symbolic legitimation strategies (Ashforth and Gibbs, 1990) to explain the nature, extent, and quality of integrated reports in

Japan and UK. Then, the chapter elaborates research design. For this purpose, it explains research sample, data collection, research method, developing research instrument, and data analysis.

Chapters 4 and 5 investigate the contents of annual /integrated reports of leading listed companies in Japan and in the UK. Preparation of integrated report is not mandatory in these countries. Still, it would be interesting to investigate the current reporting practice and the extent to which their reporting practice meet the suggestions of the IIRC Framework. While it is very difficult to determine the compliance levels of these reports against the Framework, this study has prepared a disclosure checklist to codify the data for analysis. Drawing from legitimacy theory, this research assumes that the current reporting practice of Japanese and UK companies may be a combination of symbolic and substantive management policies. According to Ashforth and Gibbs (1990), organization can use a mix of legitimation strategies depending on its intention to extend, maintain, or defend legitimacy.

After discussing the extent and quality of annual/integrated reports in Japan (Chapter 4) and in UK (Chapter 5), Chapter 6 provides the results of statistical analysis of the difference between these two countries in their disclosure practice. At first, the overall disclosure scores of the content elements of integrated reports from Japan and the UK are compared. Then, the average scores for individual Content Elements for two countries are also compared and the findings are concluded.

Chapter 7 analyses the possible determinants of IR adoption by Japanese listed firms. The findings in Chapter 4 show that the corporate reports of sampled Japanese companies follow the guidelines of the IIRC Framework to a reasonable level. In addition, recent survey shows that the number of Japanese companies adopting the IIRC guidelines is also increasing (KPMG in Japan, 2018). Chapter 7 therefore, investigates the effects of some selected company-level features upon IR adoption, namely company size, profitability, investors, industry and board characteristics including board size, and board independence. Hypotheses are developed based on existing literature and logit regression model is used for this study. This study has some interesting findings and important insights for the academia and the regulators.

Chapter 8 provides a conclusion to the thesis by reaffirming the objectives and findings of different chapters. It contains an overall summary of the findings of the empirical studies conducted in the thesis.

This Chapter also discusses the key contributions of this thesis to the literature and implications of the findings from this study to the professionals, companies and regulatory bodies. This chapter then mentions the major limitations of this thesis and a number of suggestions for future research regarding private sectors organizations. Future research suggestions for public sector organizations are also given in the last section of this chapter.

Chapter Two

Integrated Reporting: Background, Practice, and Literature Review

2.1 Introduction

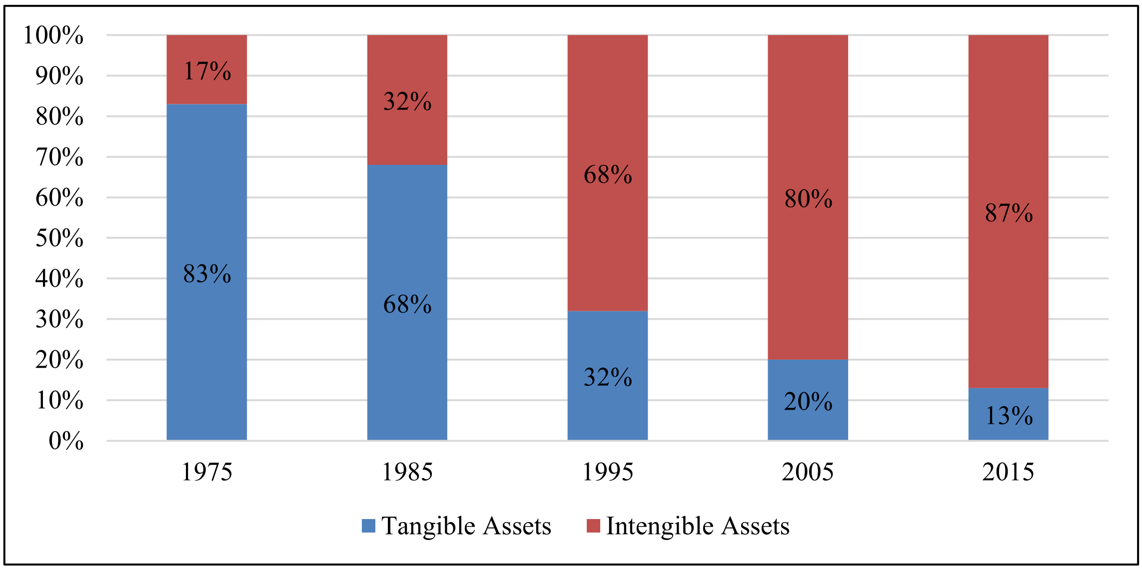
The purpose of this chapter is to provide a comprehensive overview of integrated reporting (IR). This is done through focusing on four issues: (a) historical background of IR (b) discussion on International Integrated Reporting Council (IIRC) Framework (c) context of IR in South Africa, Japan, and the UK, and (d) review of academic literature on IR. At first, the context of development IR is discussed based on the limitations of traditional corporate reporting and comparative advantages of IR practice. Then the three main components of IIRC Framework, namely Fundamental Concepts, Content Principles, and Content Elements are elaborated. After that, socio-political context of IR in South Africa, Japan, and the UK is explained that would help to understand the findings of this study. Finally, academic literature on IR is reviewed with the objective to find the gaps in literature that will be addressed in this study.

2.2 Historical Background of Integrated Reporting

In its discussion paper IIRC (2011) argues that "the world has changed-reporting must too" (p.4). Indeed, there have been significant changes in the global environment in the last 100 years (Zadek, 2007). Important changes that affect the business include globalization, explosion of population, environmental degradation, technological development, and expectations of stakeholders (Lawrence and Weber, 2017). Since the end of the World War II, the process of globalization is so pervasive that it affects every sphere of our life. The world's population is growing exponentially. Unequal distribution of population growth between industrialized countries and less developed countries has put increasing strain on the Earth's resources including water, fossil fuels, and arable land. Massive industrialization to meet the demands of increased population has also caused significant environmental pollution. Currently greenhouse gas concentrations in the atmosphere are at the highest level (Bebbington and Larrinaga-González, 2008). The resulting negative impacts of climate change such as increasing the global temperature, adverse weather, changing the precipitation level, and changing in seasons are now much more visible. The climate change has become a major policy issue both at national and international level. In the last three decades, explosion of technology and innovation, especially the information technology has also changed the focus from traditional industrial economy to knowledge-based economy (Schneider and Samkin, 2008). Above all, the society's expectation of the business has changed.

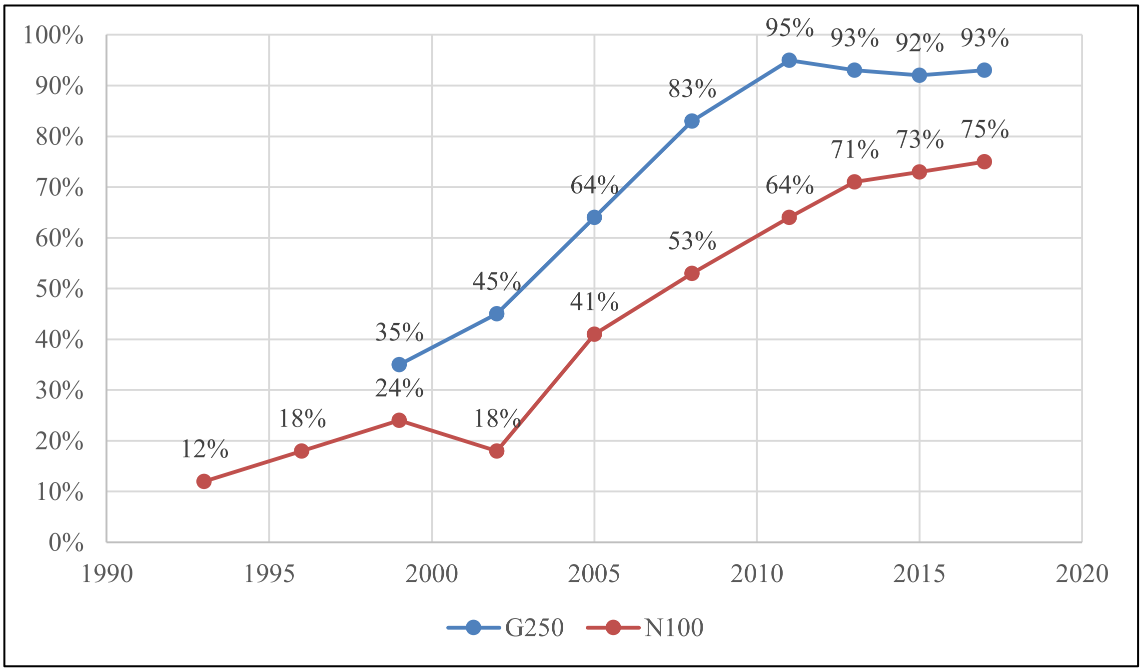
Demand for accountability and transparency has increased after several corporate failures earlier in this century including Enron, WorldCom, and Tyco (Flegm, 2005). Global financial crisis of 2008/2009 has also raised question about the role of business in the society. Society increasingly expects business to operate ethically and fulfill its responsibility as good corporate citizen (Lawrence and Weber, 2017). The above-mentioned changes in social, political, and natural environment have significant impact on the way business operates and creates value for itself and others. The traditional financial reporting model was developed for an industrial world (IIRC, 2011). To cope with changed environment, corporate reporting has also improved substantially especially in the last 30 years (KPMG, 2013; 2015; 2017). National and international standard setting bodies are working to develop high-quality accounting standards and to standardize the financial reporting practice (Deegan and Unerrman, 2011). These have increased the length and complexity of financial statement, requiring a high level of financial expertise to interpret and use in decision making (Main and Hespenheide, 2012). ACCA (2012) conducted a survey on 500 users of financial statements in UK, USA, and Canada. The respondents of the survey included investors, creditors, and other stakeholders. Although the respondents considered annual reports as the main source of company information, they have identified several weaknesses in current form of annual reports: reports are too long (47% of respondents), too backward looking (35% of respondents), too complex (35% of respondents), too general purpose (40% of respondents). The survey also showed that reporting standards (68% of respondents) and legal requirements (61% of respondents) are the two main reasons for complexity in annual reports. In addition, current financial statements are criticized for narrow focus only on financial capital while the demand for broader information set has increased. For example, Ocean Tomo (2019) studied the market value of intangibles assets on a sample of components of S&P 500. The findings are shown in Figure 2.1. It shows that over the years the value of intangible assets increased significantly as the importance of tangible assets declined. Tangible assets such as financial and physical assets that are included in financial statements account for only 13% of the shareholder value with remaining 87% percent depends on intangible factors, many of which are not explained in traditional financial statements (IIRC, 2011; Main and Hespenheide, 2012).

Figure 2. 1: Components of S&P 500 market value



Source: Ocean Tomo (2019, online)

Figure 2. 2: Trend of Corporate Responsibility Reporting



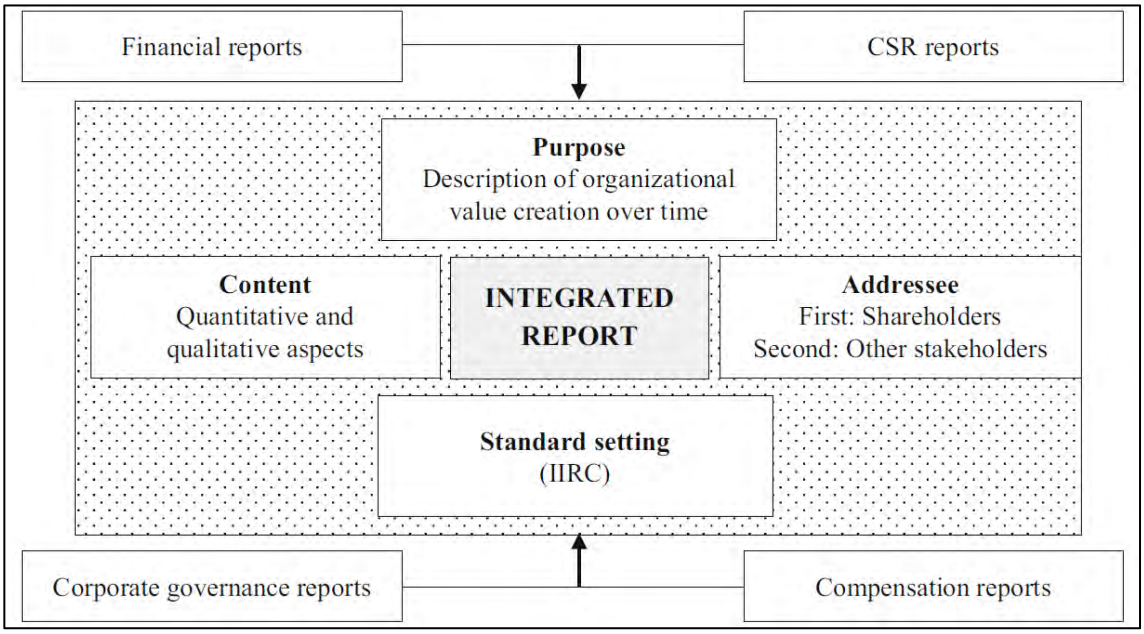
Source: KPMG (2017, p.9)

To meet the increased demand for information, other forms of reports also have developed in the last three decades such as Corporate Governance and Remuneration Report, Intellectual Capital Report, and

Sustainability Report (Katsikas et al., 2017). Arguably, sustainability reporting is the most encompassing and gets wider attention from stakeholders at all levels including companies, investors, customers, regulators, and NGOs (Gray et al., 2014). Although the origin of sustainability reporting can be traced with the inception of modern corporation, current form of sustainability reporting started its journey in 1980s (Mathews, 1997). In 1980s, several proactive multinational companies started to disclose environmental information in a separate section of their annual reports. While some companies wanted to have progressive environmental practice, others were concerned about environmental pollution and resulting governmental regulations (Main and Hespenheide, 2012). With the changed focus on sustainable development in the new millennium, companies around the world have also increased scope of their sustainability reporting by including social, environmental and economic issues (Fifka, 2013). Figure 2.2 shows that KPMG (2017) reported the trend of sustainability reporting from 1993 to 2017. This Figure shows that while only 35% of the global leading companies (Fortune top 250 companies (G250)) had disclosure on sustainability issues in 1998, almost all of these companies now regularly publish such information in their corporate reports. Similar trends have also been observed from N100 companies (top 100 companies in the countries surveyed). However, the extent, nature, and format of such reporting vary significantly not only across the countries but also in companies within the same country (Gray et al., 2014). In general, sustainability reporting includes disclosure on corporate governance, human rights, labor practices, natural environment, fair operating practices, consumer issues, and community issues and development (Deegan and Unerman, 2011; ISO, 2010). Although initially companies published such information in their annual reports, recently stand-alone sustainability reporting has become common. These reports are titled in different names including Sustainability Report, Corporate Social Responsibility Report (CSR), Social & Environmental Report, Environmental Report, Triple Bottom Line Report, Corporate Citizenship Report, and Environment, Social & Governance Report (ESG) (Buhr, 2007).

However, these so-called sustainability reports are found to be disconnected from organization's financial reports (Velte and Stawinoga, 2016). Academic observers (Walker and Wan, 2012; Laufer, 2003) have also raised the question of "green washing". They argued that current sustainability reporting is mainly used to enhance company image and make business opportunities rather than ensuring transparency and accountability to external stakeholders (O'Dwyer and Owen, 2005). Under these circumstances, the concept of integrated reporting (IR) has developed. Based on the existing financial reporting model, IR incorporates nonfinancial information that can help stakeholders understand how a company creates and sustains value over the short, medium and long-term (IIRC, 2013). Although business organizations have been trying for a long period of time to integrate non-financial information into their annual reports, IR has rapidly gained considerable prominence since the formation of the International Integrated Reporting Council (IIRC) in 2010. The Accounting for Sustainability Project and the Global Reporting Initiative (GRI) that are working to develop sustainability reporting launched the IIRC. In a recent review study, Velte and Stawinoga (2016) usefully showed the relationship between financial reports, non-financial reports, and integrated reports in a diagram which is reproduced in Figure 2.3.

Figure 2. 3: Relationship between Financial Reports, Non-Financial Reports and Integrated Report



Source: Adopted from Velte and Stawinoga (2016, p. 279)

Although the IIRC has become a dominant body globally in developing the practice of IR, it was not the first mover in this area. Titled as "one report" some corporations adopted IR even before any literature existed on the topic, showing how practice often leads theory in new management ideas (Eccles and Saltzman, 2011). The Danish company Novozymes was the first to issue an integrated report in 2002. Some other innovative reporting companies including United Technologies, Sainsburys, Philips, Natura, BT, HSBC, Aviva, Novo Nordisk, and American Electrical Power have been practicing IR even before

IIRC. In 2011, South Africa became the first country in the world to mandate the IR for companies listed in Johannesburg Stock Exchange (JSE) as "apply or explain" basis. According to the GRI's Sustainability Reporting Database more than 500 companies around the world have started to engage with a form of integrated reporting. However, there are great diversity exists in the nature, size, motivation and intended audience of such reporting (Rowbottom and Locke, 2013).

During the early stage of IR, Eccles and his colleagues (Eccles and Saltzman, 2011; Eccles and Armbrester, 2011) have predicted that IR can accrue three classes of benefits to the companies. Firstly, an organization can get internal benefits by adopting IR. Such internal benefits include better internal resource allocation decisions, efficient management of organizational risks, understand the holistic view of organizational strategies and performance, greater engagement with shareholders and other stakeholders, and lower reputational risk. Secondly, the organization can get several external benefits including fulfilling the needs of investors especially socially responsible investors who want ESG information, appearing on sustainability indices such as Dow Jones Sustainability Index, providing better information for business analysts, customers, and suppliers who are increasingly using non-financial information, enhancing company's reputation and brand value. Finally, IR can help the organization to manage its regulatory risk including mandatory requirement for non-financial information in corporate reporting and fulfill listing requirement of stock exchanges.

Later, Black Sun (2012) conducted survey research on participants of IIRC Pilot Program Business Network to explain the business case for integrated reporting. The most important benefit, according to the respondents, is that IR enhances coordination among the departments within an organization. A cross-functional team including members from CSR/Sustainability, Finance, Investor Relation, Legal, Corporate Communication, and External Affairs is fundamental for preparing an IR. Such internal communication across the organization ensures "integrated thinking" by linking financial performance with non-financial performance including Environment, social, and governance issues. The survey also showed that IR improves organizational internal process through identifying material issues, efficient data collection system, better internal understanding of holistic view of organization value creation process. IR also changes the focus from traditional measurement and reporting to management and action. Therefore, the support of the top-level management is fundamental for the success in this journey. On the other hand, Black Sun survey also showed that 87% of the respondents believe that IR benefits their Board by identifying KPIs, material sustainability issues, and better strategic decisions. The study reported that advantages to the external stakeholders include providing better ESG information, understanding stakeholders' requirements through engagement, and differentiating companies from competitors.

2.3 International Integrated Reporting Council (IIRC) Framework

The Accounting for Sustainability (A4S) Project under the patronage of the HRH Prince of Wales and the Global Reporting Initiative (GRI) formally launched the IIRC in August 2010 (Slack and Campbell, 2016). IIRC defines itself as "a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs". Currently its strategic partners include Association of Chartered Certified Accountants (ACCA), Chartered Institute of Management Accountants (CIMA), Carbon Disclosure Project (CDP), Global Reporting Initiative (GRI), International Financial Reporting Standard (IFRS) Foundation, Sustainability Accounting Standards Board (SASB), International Federation of Accountants (IFAC), and World Business Council for Sustainable Development (WBCSD). Working together with these high-profile organizations in financial and non-financial reporting, IIRC aims "to establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors" (IIRC, 2019).

According to IIRC "an integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term" (IIRC, 2013, p.7). Following extensive consultation and testing by businesses and investors around the world, IIRC published the Integrated Reporting Framework in December 2013. This international guidance is principles based and "does not prescribe specific key performance indicators, measurement methods, or the disclosure of individual matters" (IIRC, 2013, p.4). The IR Framework consists of three main sections: Fundamental Concepts, Guiding Principles, and Content Elements of IR.

2.3.1 IIRC Framework: Fundamental Concepts

According to IIRC (2013) three Fundamental Concepts guide the development of IR. These include (a) Value creation for the organization and for others, (b) The capitals, and (c) The value creation process. These Fundamental Concepts are explained below.

(a) Value creation for the organization and for others: IR explains to the investors and other stakeholders how an organization creates value over short, medium, and long term. Therefore, IIRC's Framework details about two interrelated types of values: (i) value creation for the organizations which ensures financial return to the owners of the organizations such as investors (ii) value creation for the other stakeholders including society at large. The first form of value as mentioned in IIRC's Framework is similar to the traditional value concept used in business and finance literature known as "shareholder value" (Haller, 2016). This form of value is measured in monetary terms and has been dominant globally over the decades. Different valuation approaches are used to measure shareholder value (Wahlen et al., 2017): Cash flow based approach (e.g., present value of expected free cash flows), Earnings based approach (e.g., residual income), and Market based approach (e.g., market-to-book ratio, price-to-earnings ratio).

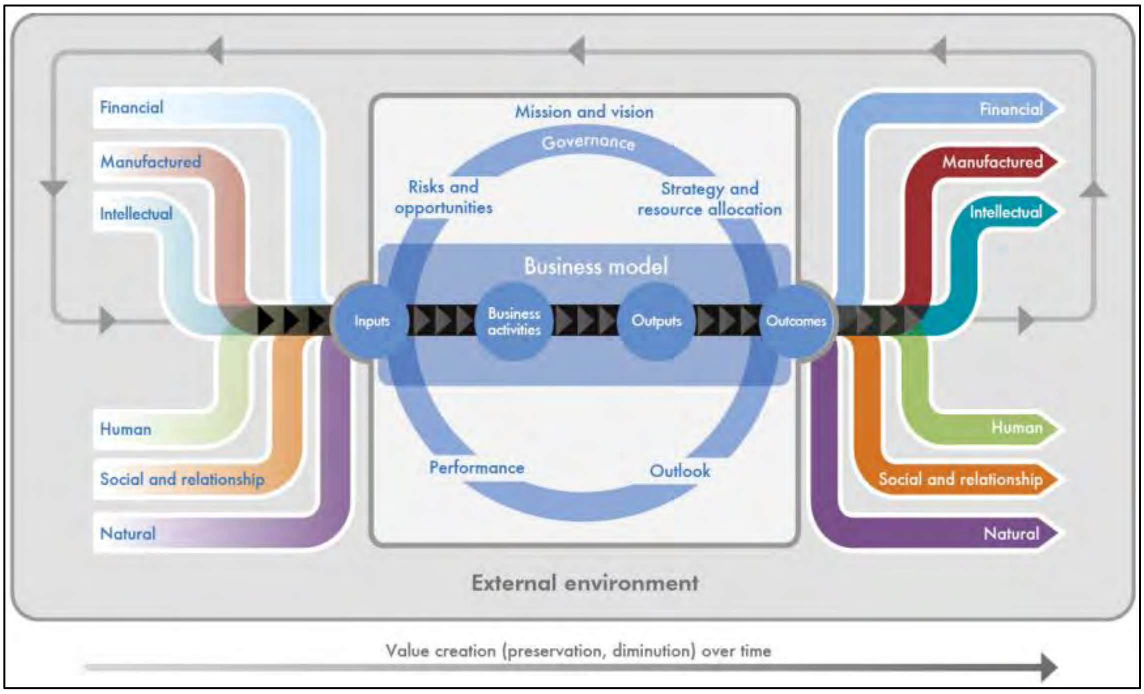
On the other hand, "value creation for others" is based on the stakeholder theory of the firm. In this case, the term "stakeholders" is defined from wider point of view as the persons and groups that affect, or are affected by an organization's decisions, policies, and operations. These stakeholders are classified in different ways: Primary and Secondary, Market and Non-market (Lawrence and Weber, 2017). Stakeholder theory assumes that there is a complex and multidimensional relationship between the organization and its stakeholders.

An organization cannot create value in isolation. Value is created through wide range of activities, interactions, and relationships with other stakeholders. Therefore, the two types of value, value created for organization and value created for others are highly interdependent. Recently several concepts are used to explain these stakeholders' relationship including Corporate Social Responsibility (CSR), Corporate Citizenship, Triple Bottom Line, and Corporate Sustainability. Porter and Kramer (2011) further coined the term "Creating Shared Value". They define creating shared value as "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates" (p.6). The authors have identified three different ways to create shared value: by reconceiving products and markets, redefining productivity in the value chain, and building supportive industry clusters at the company's locations. For example, entering the market with eco-friendly products or products or services specifically developed to cater social problems (Micro Credit Program) could benefits the organization financially as well as solves social and environmental problems. Similarly, companies like Marks & Spencer, Walmart, Unilever, and Nestlé have significantly reduced energy and resource uses in their supply chain and improve the procurement practices. While these initiatives could save millions of dollars for energy and material uses; these also reduce negative environmental externalities. Potter and Kramer also showed that investment in employee health and safety and working condition can create value both for the organization and employees in the long run. Although investors are primarily interested in value created for the organization, they are also interested in value created for others if these affect the value created for the organization. According to IIRC (2013), such value creation interactions, activities, and relationship should be included in an organization's integrated report.

(b) The Capitals: IIRC (2013) defines capitals as stocks of value that are increased, decreased or transformed through business activities and outputs. For IR purpose organizational capitals are classified into six groups namely, financial, manufactured, intellectual, human, social and relationship, and natural capital. It is evident that IIRC's two types of value as discussed above have reflected in its definition of capitals. Rather than focusing on financial capital only, IIRC recommends using multiple capitals framework to measure organizational performance. However, the Framework does not require that every organization has to adopt these six categories of Capital in preparing the IR. Depending on the organizational stakeholders, timing, and industries; particular capitals may be more or less relevant than others. For example, stakeholders in environmental sensitive industries such as mining, utilities, chemical, metal, and manufacturing industries are more interested in organizational impact on natural capital. On the other hand, knowledge-based industries such as information technology, telecommunications, software, business services, medical equipment, and pharmaceuticals have to emphasize intellectual and human capital. Although capitals are fundamental to IIRC's value creation concept, the Framework does not mention how to measure and report these capitals in IR (Haller, 2016). The measurement and reporting aspect are left to the judgment of managers who should determine based on individual circumstances of the organizations. However, IIRC requires the companies to include explanation of significant frameworks and methods that are used to measure and report capitals in the integrated reports. Similarly, companies are also required to include the same measurement method and basis or easily reconcilable method, if capitals (such as financial capital) are included in both integrated reports and other reports (such as financial statements) published by the organizations.

(c) The value creation process: IIRC develops a comprehensive model to depict the value creation process which is reproduced in Figure 2.4. It shows that organizations and their stakeholders do not interact in vacuum. They operate in an external environment which is dynamic and ever changing (Lawrence and Weber, 2017). This external environment includes economic condition, technology and innovation, socio-cultural expectation, governmental regulation, natural ecosystem, and globalization. Interacting with stakeholders in this dynamic external environment stimulates risks and opportunities for the organizations. An important function of the organizational management is to minimize the risks and maximize the opportunities in order to create value in the short, medium, and long run.

Figure 2. 4: Value Creation Process



Source: Adopted from IIRC (2013, p.13)

Value creation process is also influenced by the organizational internal environment. Within internal environment, the Framework highlights the importance of Mission and Vision, and Corporate Governance. Developing the organizational vision and mission is fundamental in strategic management. A vision represents the big picture of the business by articulating the "desired future" and destination of the business (Mirvis et al., 2010). It usually answers the question "where the business wants to go". A vision must be supported by mission that provides the broad guidelines of "how the business wants to go to the destination". Vision and mission reflect the top management philosophies about the future direction of the business. For example, if an organization wants to create value for itself and for others, it must set the vision and mission by integrating financial and non-financial aspects of the company.

Corporate governance means the process by which an organization is controlled or governed. Tokyo Stock Exchange (2018) provides a comprehensive definition of corporate governance. It states corporate governance as "a structure for transparent, fair, timely and decisive decision-making by companies, with due attention to the needs and perspectives of shareholders and also customers, employees and local communities" (p.1). Corporate governance including leadership structure, skills and diversity in governance system plays a significant role to oversee the organizational ability to create value. Organization with effective corporate governance also ensures the participation of those charged with governance in assessing the risks and opportunities and setting the long-term strategy and resource allocation decision.

At the center of the organization value creation process is the Business Model. However, in the academic literature, there is a lack of single definition of the term "Business Model". In general, the definition that Business Model "refers to the process of value creation" is widely accepted by the researchers (Melloni et al., 2016). IIRC (2013) explains Business Model consisting of four elements: Inputs, Business activities, Outputs, and Outcomes. As the Figure 2.4 shows Inputs for the IR purpose are measured in terms of six capitals on which the organization depends (such as financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital). Business activities refer to the processes through which organization transform inputs into outputs. The success of an organization largely depends on its ability to bring innovation in business activities and differentiate itself in the market. Outputs are measured in terms of products, services, waste, and other by-products that are produced by the organization and that generate revenues for the same. The final component of the Business Model is "Outcomes". Outcomes refer to the internal and external consequences of the business activities and outputs that are measured in terms of increase, decrease or transformation of different capitals used as inputs. Outcomes can be classified as (NIBR, 2019) (a) internal (e.g., profit/loss, employee development and engagement), (b) external (e.g., customer satisfaction, contribution to local community through taxes), (c) positive (e.g., increase in financial capital through profit), and (d) negative (e.g., negative environmental impact) IIRC's value creation process also emphasis on measuring and monitoring organizational "performance" against stated objectives, goals and targets. Finally, the organization needs to review the value creation process on regular basis. In an ever-changing business environment, the organization must foresee the future challenges and opportunities ("Outlook") in order to keep its business model in close alignment with the environment.

2.3.2 IIRC Framework: Guiding Principles

IIRC Framework stipulates seven Guiding Principles that need to be applied individually and collectively to prepare an integrated report. These guiding principles are explained below:

(a) Strategic focus and future orientation: To follow this principle "an integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term, and to its use of and effects on the capitals" (IIRC, 2013, p. 5). Over the years traditional financial reporting has been highly criticized for its exclusive focus on historical information (Mio, 2016). Such reports are rarely seen to include information about organizational strategies and forecasting future performance. Accordingly, IIRC adopts the innovative principle of "strategic focus and future orientation" to overcome the limitation of traditional financial reporting.

(b) Connectivity of information: This principle requires that "an integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time" (IIRC, 2013, p. 5). Although in the last three decades different forms of corporate reporting have emerged (such as Sustainability report, Corporate Governance report, Intellectual Capital report), these were seen to be disconnected from corporate financial report and failed to provide a holistic view of organizational performance. By adopting principle of connectivity, IR should overcome such limitation of current corporate reporting. IIRC (2013) recommends different forms of connectivity of information: connectivity among the Content Elements of an integrated report; connectivity in past, present, and future information; connectivity between financial and non-financial information; connectivity between qualitative and quantitative information; connectivity between management information, Board information and information reported externally; and connectivity with other forms of corporate report.

(c) Stakeholder relationships: This principle states that "an integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests" (IIRC, 2013, p.5). As noted earlier an organizational value cannot be created in isolation rather it depends on the interaction with range of internal and external stakeholders such as investors, employees, customers, suppliers, regulators, and NGOs. Stakeholder engagement can provide important perspectives to the management. For example, it helps to understand the stakeholders' perception about corporate values, identify material issues, forecast risks and opportunities, and select appropriate strategies and allocate resources. Accordingly, stakeholder engagement is fundamental in IR process. However, IIRC (2013) notes that integrated reporting is not required to satisfy information requirements of all stakeholders. An organization needs to consider legitimate needs and interests of only those stakeholders that are material to its value creation process (Mio, 2016).

(d) Materiality: Based on this principle "an integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term" (IIRC, 2013, p.5). Materiality is a fundamental principle both in financial reporting and non-financial reporting such as sustainability reporting. However, the principle is one of the most challenging principles to apply in practice, especially in case of non-financial information. For example, a misstatement in financial reporting is material if it affects the decision of reasonable users of the financial reporting (Arens et al., 2017). The amount materiality in this case can be measured using some common bases such as net income, total assets, current assets, and working capital. However, in the case of non-financial performance such as sustainability performance identification of material social, environmental, and economic issues and their impacts are challenging. IIRC has already published a background paper on materiality (IIRC, 2013a). It defines materiality by incorporating the materiality concept in financial reporting, sustainability reporting and other forms of reporting. For IR "a matter is material if it is of such relevance and importance that it could substantively influence the assessments of providers of financial capital with regard to the organization's ability to create value over the short, medium and long term" (IIRC, 2013a, p.2). Because of the centrality of materiality for IR process, IIRC requires involvement of top-level management in materiality determination process. It also encourages engagement with providers of financial capital and other stakeholders to identify the material issues.

(e) Conciseness: This is another fundamental principle of IIRC Framework which requires that "an integrated report should be concise". One of the basic premises of the emergence of IR is that traditional corporate reporting is too long to get the required information for decision making. In contrast, IIRC prefers that integrated report will concisely communicate an organizational strategies, risks and opportunities, business models, performance and prospects to providers of financial capital and other interested users. Principles of materiality can play a central role to ensure conciseness of integrated report by identifying the important and relevant matters. IIRC (2013) also mentions other mechanisms to make the integrated report concise: follow logical structure, internal cross-referencing among other forms of corporate reporting, use of plain language rather than highly technical terminology, avoid generic disclosures that are not specifically relevant to the company.

(f) Reliability and completeness: These two principles are also applied in financial and sustainability reporting. These principles require "an integrated report should include all material matters, both positive and negative, in a balanced way and without material error" (IIRC 2013, p. 5). Two factors determine the reliability of the report: balance representation of information and free from material error. In this case, a report is considered as "balanced" if it does not have any biasness in disclosing the information, either favorable or unfavorable. IIRC emphasizes on the development of robust internal control and reporting systems, internal audit, stakeholder engagement, and third-party independent assurance to ensure the reliability of information disclosed in integrated report. According to principle of completeness an integrated report should disclose of all material information required by the users to understand how an organization creates value in the short, medium, and long term. To determine completeness of information, preparers should apply judgment regarding cost-benefit analysis of gathering information, possibility of disclosing strategic information and loss of competitive advantage, and uncertainty about future oriented information. Additionally, preparers of integrated report also need to ensure a balance between the conflicting principles of conciseness and completeness.

(g) Consistency and comparability: Based on these principles "information in an integrated report should be presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time" (IIRC, 2013, p. 5). These two principles are also applied in financial reporting and GRI based sustainability reporting. Consistency of the reports can be ensured by following similar reporting policies over the years. For example, disclosing the same KPIs over the years help to understand an organizational performance in a consistent manner. Similarly, although each organization has its own value creation story, preparers of integrated report should take appropriate measures to ensure comparison of performance between organizations. For this purpose, IIRC recommends considering the key questions in Content Elements of IIRC Framework, including benchmark data, disclosing data in ratios, and use KPIs that are commonly used the industry.

2.3.3 IIRC Framework: Content Elements

IIRC Framework has taken principle-based approach. It gives the flexibility regarding what should be included in an integrated report. The preparers of integrated report need to exercise their judgments based on individual circumstances regarding the content of the report. Accordingly, IIRC does not prescribe any checklist of disclosure content. However, IIRC (2013) recommends that an integrated report should include eight Content Elements that are presented in the form of questions. The Content Elements and related questions are reproduced in Figure 2.5. Although Content Elements are highly interdependent, an integrated report does not need to follow the sequence mentioned in the Framework.

Figure 2. 5: Content Elements of IIRC Framework

1. Organizational overview and external environment: What does the organization do and what are the circumstances under which it operates?
2. Governance: How does the organization's governance structure support its ability to create value in the short, medium and long term?
3. Business model: What is the organization's business model?
4. Risks and opportunities: What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term and how is the organization dealing with them?
5. Strategy and resource allocation: Where does the organization want to go and how does it intend to get there?
6. Performance: To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
7. Outlook: What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
8. Basis of presentation: How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?

Source: Adopted from IIRC (2013, p.5)

2.4 Pioneering Role of South Africa in Integrated Reporting

Over the past two decades South Africa has gained much international recognition for its achievements in corporate governance due to its prominent and innovative roles towards sustainability and integrated reporting movement (Rensburg and Botha, 2014). Because of the various political, social and environmental challenges, South Africa has taken a lead, through its stakeholder-oriented corporate governance reports, in making businesses to embed social, environmental and governance considerations into the core of their operations (Solomon & Maroun, 2012).

South Africa's challenging role in corporate reporting movement is partly linked with the country's political history and transition from apartheid to multi-racial democracy in 1990's (Visser, 2005). The threat of disinvestment and sanctions during the apartheid period caused many local and international companies to respond to measurement and reporting initiatives on social transformation issues (e.g., black economic empowerment and employment equity, environmental and health and safety reporting practices in mining and other heavy industries). One of the prominent initiatives was the Sullivan Principles, set up for United States multinationals with affiliates in South Africa (KPMG et. al., 2013). The Sullivan Principles were a code of conduct against desegregation of races in the workplace, equal and fair employment practices, and improving the quality of life of employees' lives outside of the workplace. Some other influential factors were corporate governance requirements and the Johannesburg Stock Exchange (JSE) Socially Responsible Investment Index (SRI Index). Another important driver was the Public Investment Corporation (PIC) Corporate Governance Rating Matrix, which focused on the disclosure of environmental, social and governance performance and developed jointly by the PIC and the Centre for Corporate Governance in Africa at the University of Stellenbosch Business School. The PIC is the single biggest investor on the JSE and one of the largest investment managers in Africa (KPMG et. al., 2013).

According to Ackers and Eccles (2015), the Treadway Commission in the USA (in 1987), the Cadbury Report in the UK (in 1992) and the initial King Code (King I) on Governance for South Africa (in 1994), provided pioneering corporate governance initiatives that extended beyond the financial and regulatory dimensions conventionally associated with corporate governance.

Prior to 1990s most of the businesses in South Africa were family oriented and corporate governance were almost non- existent. The 1990s was a period of great political and social transition for South Africa and the first democratic election was held in 1994. During this time, various social actors began to debate on South Africa's future developmental trajectory and potential roles for the state and private sector to address the legacy issues of apartheid. Although South Africa's participations to United Nations activities was still suspended, it is argued that the outcomes of the United Nations Conference on Environment and Development held in Rio de Janeiro in 1992, had a great impact on stimulating environmental and social initiatives in South Africa (Clayton, 2015). Since 1994, measurement and reporting on social transformation issues (e.g., black economic empowerment and employment equity) have become rooted in legislation. The focus on mining and other heavy industries has also had a positive effect on environmental and health and safety reporting practices (KPMG et. al., 2013).

The King Committee was commissioned in 1993 by the Institute of Directors in Southern Africa (IoDSA) in the midst of huge political and economic turmoil. Its directive was to promote the image of corporate governance in South Africa as the economy was re-entering global markets. Professor Mervyn King, a former corporate attorney and judge to the Supreme Court of South Africa, was the Chairman of the committee. The King Committee issued the first King Report on Corporate Governance (King Code I) in 1994. The King Code I placed emphasis on inclusivity and importance of stakeholders as well as financial and regulatory aspects of corporate governance (Rossouw et al., 2002). While King Code I was a principles-based voluntary requirement, in 1995 Johannesburg Stock Exchange (JSE) made the core principles of King Code I as part of their listing requirements on a “comply or explain” basis. This worked as a critical step in the evolution of corporate governance in South Africa (Eccles et al., 2012).

Since King Code I, significant changes that have been occurred in both domestic socio-political and international context prompted the revision of corporate governance code in South Africa (Rossouw et al., 2002). Accordingly, King Code II was published in March 2002 based on the principle that “there is a move away from the single bottom line (that is, profit for shareholders) to a triple bottom line, which embraces the economic, environmental and social aspects of a company's activities” (Collier, 2009, p.17). Following the World Summit on Sustainable Development in 2002 held in Johannesburg and other contemporary developments in the arena, King II included some new areas of consideration like risk management, internal auditing, and integrated sustainability reporting. The code brought significant progeess in corporate reporting in South Africa. In 2003, 85% of the leading companies had included sustainability issues in their annual reports which was almost absent during 1990s (Visser, 2005). KPMG (2004) further concluded that non-financial reporting in South Africa reached to its peak in 2004.

The Companies Act for South Africa was revised in 2008 replacing the earlier 1973 Act. Accordingly, King Code III was released in 2009 with much stronger emphasis on leadership, sustainability, and corporate citizenship (IoDSA, 2009). Unlike the previous two, King III was applicable to public, private, and non- profit entities, and was based on an "apply or explain" approach, rather than "comply or explain". While the latter required companies to adhere to principles outlined in King I and King II, the former approach allowed companies to adapt the code to their specific situation and then explain the ways in which they adapted it and why.

King III discussed all the key issues from King I and King II, including ethical leadership and corporate citizenship, boards and directors, auditing, risk management, compliance with codes and standards, and governing stakeholder relationships. However, King III placed renewed emphasis on the importance of ethical values and leadership, and introduced new topics and concepts such as shareholder approval of remuneration policies, directors' performance evaluation, business rescue, and alternative dispute resolution as a crucial element of good governance.

Integrated sustainability reporting was a noticeable component of King II, where companies were advised to combine both financial and non-financial considerations into a single, integrated annual report. The understanding of integrated reporting was further emphasized in King III. The publication of the King III Code of Governance in 2009 has changed the concentration of listed companies in South Africa to integrated reporting, although the early attempts of such reporting was merely combining financial and non-financial information in one report.

To develop a framework for IR, The Integrated Reporting Committee (IRC) of South Africa was formed in May 2010 under the chairmanship of Professor Mervyn King. The organizational members of the IRC are: Association for Savings & Investment South Africa (ASISA); Banking Association South Africa, Business Unity South Africa (BUSA), Chartered Secretaries Southern Africa, Institute of Directors in Southern Africa (IoDSA), Institute of Internal Auditors; Government Employees Pension Fund, Johannesburg Stock Exchange Ltd, Principal Officers Association, and The South African Institute of Chartered Accountants or SAICA. In 2011, IRC of South Africa (2011) published the Discussion Paper on “Framework for Integrated Reporting and the Integrated Report”. Among other issues, the report explained the principles for preparing IR in terms of report scope, report content, and report quality. It also suggested eight content elements to be addressed in the integrated report. In 2010, International Integrated Reporting Council (IIRC) was initiated and Professor Mervyn King was selected as the IIRC's

Deputy Chairman, evidencing South Africa's obvious role in persuasion of integrated reporting globally. Later in March 2014, IRC of South Africa endorsed the International Framework of IR developed by IIRC.

All companies listed on the Johannesburg Stock Exchange (JSE) have been required to produce an integrated report for financial years starting on or after 1 March 2010, in line with the requirements of King III. Being among the first countries requiring integrated reports with their listing requirements based on the King Report on Governance for South Africa (2009), companies started applying their corporate thinking to this concern. With little guidance from King III, the discussion paper on the Framework for Integrated Reporting and the Integrated Report issued by the Integrated Reporting Committee of South Africa was a very useful document for preparers.

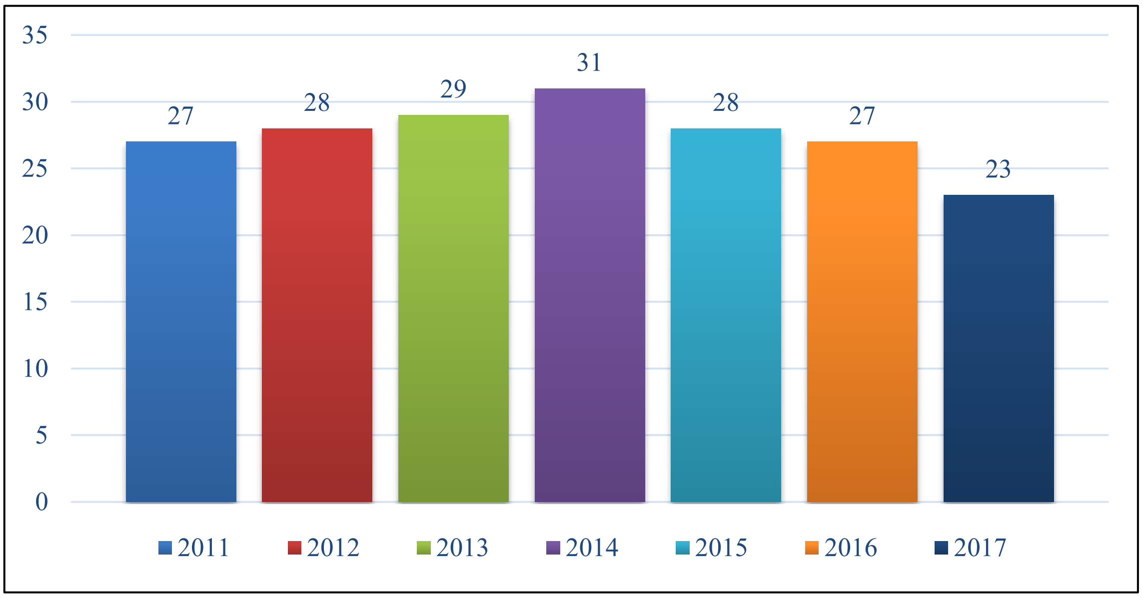
In 2011, Ernst & Young (E&Y) published its first "Integrated Reporting Survey Results," which surveyed 25 companies (64% of which responded) listed on the JSE and included companies operating in the financial services, mining and metals, retail, healthcare, telecommunications and transport sectors to depict their understanding of IR. The value of IR, both from an internal and a stakeholder perspective were widely understood. 100% of respondents were of the opinion that IR is a good idea, while 86% of respondents believed that stakeholders would obtain more value from an integrated report than the traditional annual and sustainability report and 85% indicated that there were internal benefits associated with business. The respondents were in opinion that main value is that it focuses companies on their material issues and impacts relevant to stakeholders. The respondents exhibited a good understanding of what an integrated report is; none of them thought that an integrated report is simply the product of integrating and cross referencing between the annual and sustainability reports, rather it is a great way to challenge the company strategy to ensure that sustainability is reflected (93%). Whilst 36% of respondents agreed that a separate integrated report will be published along with other separate reports e.g. Annual Financial Statements and detailed Sustainability Report, 43% disagreed and 21% were uncertain or neutral.

The Ernst & Young’s Excellence in Integrated Reporting Awards 2012 was their first survey of integrated reports from South Africa’s top 100 companies and top 10 state-owned entities to encourage excellence in

the quality of integrated reporting to investors and other stakeholders. It was understood that preparers of 2011 integrated reports had to face a challenging environment, particularly those with March and June financial year ends with limited guidance, and few published examples to draw ideas from. It was evident that many companies involved in the process and consequently produced integrated reports that provide a clear message of the value adding potential of the company. Many companies appeared to have a "wait and see approach", with few changes to the existing reporting practices to comply with the requirements.
The latest initiative of King Committee, King IV report on corporate governance for South Africa was published in November 2016. Based on the philosophical underpinnings of King III, the report emphasized on integrated thinking and IR as a key principle of corporate governance. The new code has moved from "apply or explain" to "apply and explain" basis. It implies that organizations are now required to apply 17 principles of corporate governance set out by the code and explain how these principles are applied (Dumay et al., 2017). The report also advocated the International Framework of Integrated Reporting developed by IIRC. Johannesburg Stock Exchange (JSE) also requires companies to prepare and publish reports based on King IV from October 2017.

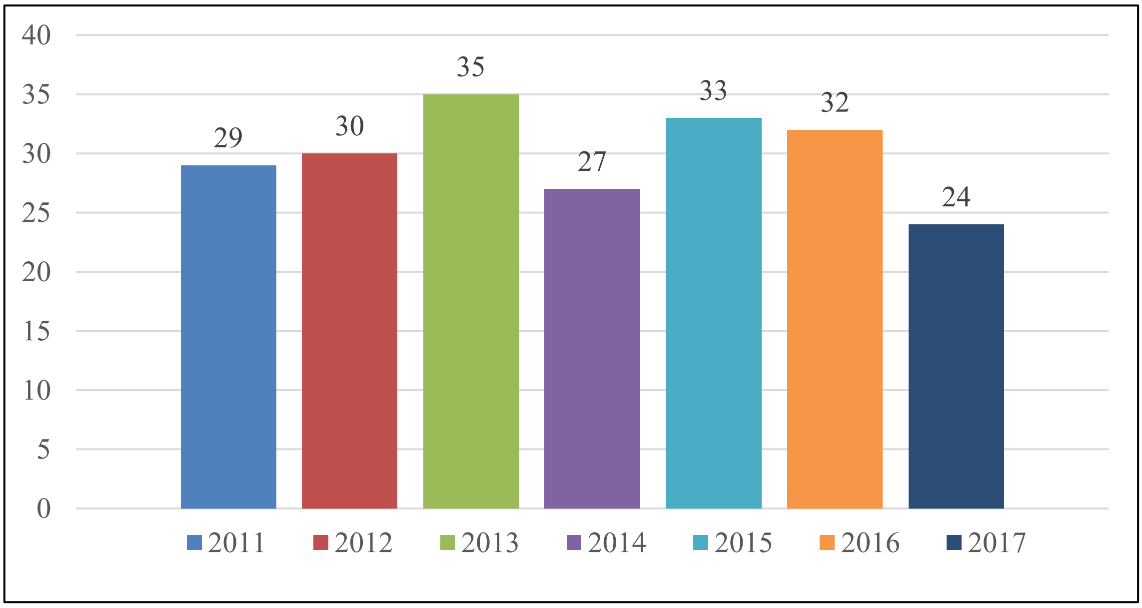
Ernst & Young's (2018) latest report "EY's Excellence in Integrated Reporting Awards 2018" observed the current practice of integrated reporting in South Africa. Based on top 100 companies listed in JSE, the survey showed that 47 companies published "excellent" or "good" integrated reports. Figures 2.6, 2.7, and 2.8 show the trend of quality of integrated reports in South Africa based on three categories: "excellent", "good", and "average and progress to be made". Ernst & Young's (2018) survey found significant improvement in several aspects of integrated reports including narrative disclosure on value creation, strategy to create value, increased disclosure on organizational opportunities, and better understanding on the difference between outputs and outcomes. The survey also identified the areas of weaknesses in current reporting practice such as defining value creation only from financial point of view, disclosure on corporate governance are boilerplate and compliance driven, lack of trade-off between different forms of capitals, insufficient emphasis on balanced reporting, poor connectivity between various content elements of IR.

Figure 2. 6: Trend in "Excellent" Integrated Reports in South Africa



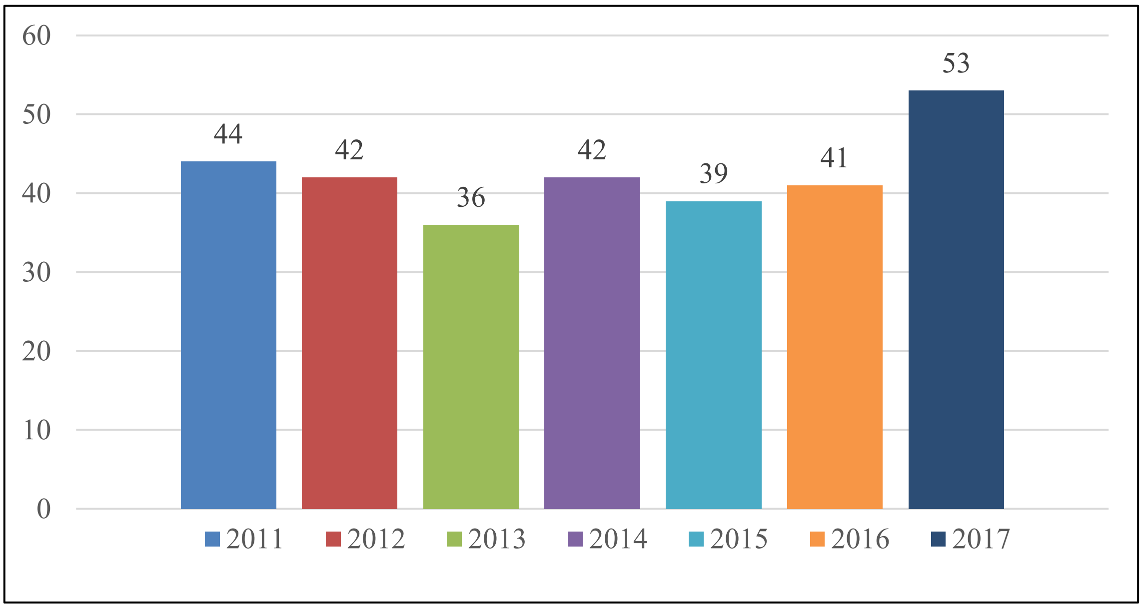
Source: Ernst & Young's (2018, p.14)

Figure 2. 7: Trend in "Good" Integrated Reports in South Africa



Source: Ernst & Young's (2018, p.14)

Figure 2. 8: Trend in "Average and Progress to be made" Integrated Reports in South Africa



Source: Ernst & Young's (2018, p.14)

2.5 The Context of Integrated Reporting in Japan

The conventional view of Japanese business model is characterized as relationship based, highly dependent on bank financing, long-term employment and seniority system, and harmonizing with communities in which they operate. This unique system is sometimes called an insider-oriented system, compared to an outsider-oriented system prioritizing the benefits of outside shareholders. In this context, lending institutions and employees are the major players of the governance system, rather than the shareholders or investors (Suto and Takehara, 2017). Japanese firms are also characterized as a model of organization-based, stakeholder-oriented corporate governance. It means employee-oriented management on one hand, and organizational ownership or shareholding, on the other hand (Aoki, 1988 cited in Miyamoto, 2018). The organizational human resource management consists of long-term employment, in-house training, and competence-based seniority wages which has created competitiveness for Japanese firms. This Japanese system was first established in large scale firms to overcome the short-term fluctuations in profits and gradually spread to the smaller firms during the high economic growth of 1960s. Employees could have confidence in long term employment and such employment has a priority over dividends (Miyamoto, 2018). On the other hand, organized ownership structure based on cross-shareholdings not only protected the employee-oriented management from stock market pressure to pursue short-term shareholder interests but also protected managerial autonomy from the intervention by the outside shareholders (Aoki, 1994 cited in Miyamoto, 2018).

The features of Japanese businesses including relationship banking, cross-shareholdings, and long-term employment have significant influence in corporate governance and accounting and reporting practice. For example, in most of the cases Board of Directors of companies were composed of members from banks, affiliated companies, and internally promoted managers. The demand for external reporting was also low as the stable investors such as banks and affiliated companies usually have direct access to private accounting information (Gordon, 1999). Although external auditing was introduced after the World War II, auditors are expected to cooperate with management to achieve its own objectives rather than ensuring accountability to shareholders (McKinnon, 1984).

Following several decades of economic prosperity, Japan experienced a prolonged economic recession during 1990s. The insider-oriented business system of the country that put less emphasize on outside monitoring was proved ineffective. Around this time, Japanese firms started to adopt globalized nature of business and ownership structures. Gradually, cross-shareholdings among business corporations and financial intermediaries dissolved and foreign investors became key stakeholders for Japanese firms. These changing dynamics led Japanese firms to revise and adjust their understanding regarding shareholders and their roles (Suto and Takehara, 2017). The important players of corporate governance and elements of Japanese governance structure continued to change since then.

In November 1996, Japanese Government announced series of financial system reforms collectively known as Japanese "Big Bang" with the aim to make the financial market "free, fair, and global" (Gordon, 1999). Part of this reform included improvement in accounting, reporting, and auditing practice. In 2001, an independent and private sector entity, Accounting Standard Board Japan (ASBJ) was established to develop accounting standards in Japan. Previously, the Ministry of Finance (MOF) had considerable influence on this process. MOF was seen to allow "questionable accounting procedures" to protect the interest of banks (JICPA, 2019). Initiatives were taken to harmonize the local accounting and auditing standards with international standards. In 2005, ASBJ and IASB (International Accounting Standards Board) launched a joint project to ensure convergence between Japanese Accounting Standards and

International Financial Reporting Standards (IFRSs) (ASBJ, 2005). Later in 2008, European Commission (EC) of European Union (EU) recognized Japanese GAAP (Generally Accepted Accounting Principles) as equivalent to IFRSs adopted in Europe (FSA, 2019). To improve the quality of auditing practice, CPA Act was revised in 2003. Largely influenced by the US Sarbanes-Oxley Act of 2002, the amended Act emphasized on auditor independence, monitoring and oversight of CPAs and JICPA quality control review, and reform of CPA examination (JICPA, 2019).

The new Millennium came with a changed business environment in Japan. On one hand, financial liberalization, change in corporate ownership structure, and series of reforms as discussed above put increased challenges for Japanese businesses. On the other hand, international environment has also changed with a renewed push for sustainable development. Key initiatives of this movement included United Nations World Summit on Sustainable Development in Johannesburg in 2002 and the Millennium Development Goals set out in 2000. Companies were also expected to contribute in this journey. Western styled CSR (Corporate Social Responsibility) was introduced in Japan at around this time.

However, the notion of CSR was an inbuilt feature of traditional Japanese business through sharing benefits with communities, strong corporate commitment to employees and building trust of customers and business partners by ensuring high quality goods and services (Wokutch 1990; Lewin et al. 1995; Wokutch and Shepard 1999; Fukukawa and Moon, 2004). Recognizing 2003 as the inaugural year of CSR management in Japan, Kawamura (2003) also opines that the concept of socially responsible actually started appearing in Japan in the 1980s, and widely discussed in the early 1990s following the events of high-profile bankruptcies such as Yamaichi Securities and Hokkaido Takushoku Bank. Thus, it is assumed that the concept of CSR, though it might have slightly different aspects, existed in Japan prior to its introduction from abroad.

Japanese understanding of CSR is linked with the country's history of industrial pollution and the resulting environmental movement. During 1960s and 1970s, the main political goal was high economic growth through industrial development which resulted into massive environmental pollution, emissions and waste, and diseases like Yokkaichi asthma, and Minamata or Itai-Itai. The Minamata movement and the resulting court actions enabled the victims to demand compensation from the responsible companies and the corporations realized that proactive measures would be more cost effective than high compensation payments. Finally, the government was forced to make regulations and requirements for industrial sites (Yamada, 2006). The environmental movement in Japan, thus, has to be understood as the one of main driving force for making companies aware of the needs of social stakeholders beyond their employees and shareholders. (Brucksch and Grunschlos, 2009). The Government has also played a significant role in institutionalizing CSR practice, especially reporting on CSR (Kokubu and Kurasaka, 2002; Kokubu et al., 2003; and Kokubu and Nashioka, 2005). In 2000, Ministry of Environment published Environmental Reporting Guideline, a voluntary initiative for reporting on companies' environmental issues. Later in 2002, Ministry of Economy, Trade, and Industry (METI) issued Environmental Management Accounting Workbook to improve the role of environmental accounting for internal management. Although voluntary, these two guidelines shape the early development of environmental accounting in Japan.

In addition, business associations also led by example to promote the CSR in Japan (Fukukawa and Moon, 2004). Several corporate scandals including bribery, food poisoning and deceptive labeling by food makers, concealed damage to nuclear reactors and false records of annual reports during the late 1990s have further deteriorated the public confidence in corporate practices (Kawamura, 2003). In the face of such criticisms, Nippon Keidanren (Japan Business Federation) revised its Charter of Corporate Behavior in October 2002 advocating corporate inspection and evaluation. In response to Keidanren's charter revision, several industry associations had taken independent measures to prevent corporate scandals. On the other hand, leading business association like Keizai Doyukai (Japan Association of Corporate Executives) issued corporate evaluation standards for CSR and corporate governance in its annual Corporate White Paper released in March 2003.

From the international point of view, CSR first gained recognition in Japan due to the emergence of eco funds and SRI surveys conducted by U.S. and European groups to screen Japanese companies. Eco-fund that particularly targets the environment as a concern of finance first appeared in Japan in 1999 (Kawamura, 2003). Tanimoto and Suzuki (2005) also showed that globalization of ownership and expansions of business to international market are the main driving force to adopt sustainability reporting guidelines in Japan. Introduction of ISO standards was another important driver for CSR implementation.

Since its introduction in early 2000s, companies in Japan have made significant improvement in CSR reporting within a decade. KPMG's international survey in 2008 showed that 99 of the top 100 companies have disclosed CSR information in either stand-alone reports or in annual reports (KPMG, 2008). KPMG's subsequent surveys (KPMG, 2011; 2013; 2015; 2017) also found Japan as one of the leading countries in the world in CSR reporting. In 2005, Government enacted Environmental Consideration Law to encourage the businesses to focus on environmental issues and publish environmental reports regularly. Since published the first environmental reporting Guidelines in 2000, Ministry of Environment has revised the guidelines on regular interval by considering local and international developments. The latest version of this guideline was issued in 2012 by considering the international trend in sustainability reporting such as GRI guidelines, ISO 26000, and Carbon Disclosure Project (CDP). The guidelines have emphasized on 5 material issues for environmental reporting (MOE, 2012): (1) Leadership of Chairman/CEO, (2) Relationship between environment management and business strategies, (c) Organizational system and governance, (4) Responsiveness to stakeholder issues, (5) Focusing value chain.

Tokyo Stock Exchange (TSE) also took several initiatives to enhance the effectiveness of corporate governance and related reporting practice. In 2004, it published "Principles of Corporate Governance for Listed Companies". The "principles" emphasized on establishing corporate culture to ensure smooth relationship with wide range of stakeholders for the long-term success of the companies. Companies were also encouraged to enhance their transparency through disclosure on financial conditions, operating results, and qualitative information (TSE, 2004). In response to increasing expectation, TSE requires the listed companies to prepare report on Corporate Governance since 2006. It has developed a "standardized format" for such report to ensure consistency in disclosure (TSE, 2007).

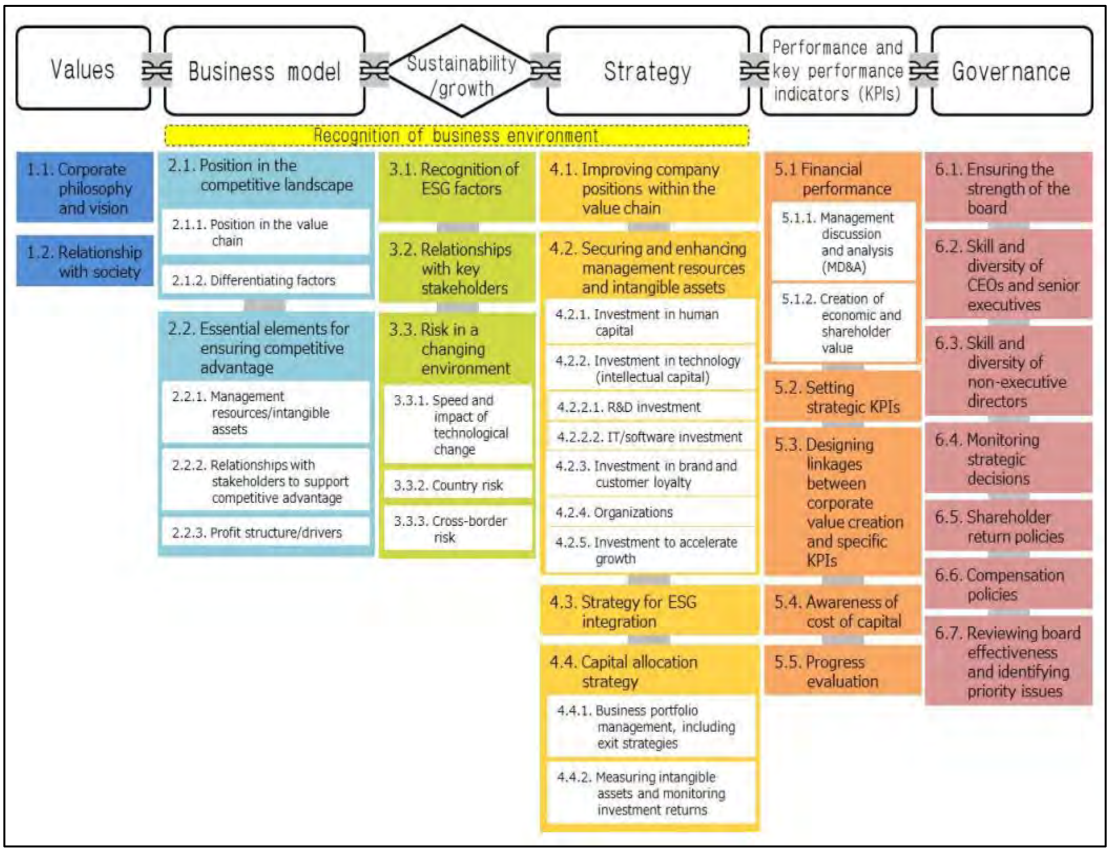
In December 2012, Prime Minister Shinzo Abe unveiled series of economic reform policies known collectively as "Abenomics" with the objective to revitalize Japanese economy from two decades of deflation. Initially Abenomics has three arrows including Monetary Policy, Fiscal Policy, and Growth Strategy. Over the years it has widen its scope and becomes the "blueprint for pro-growth socio-economic changes" with the aim to tackle current and future economic challenges (JapanGov, 2019). Currently, these reforms are categories into four sections: Productive Individuals & Society, Smart Regulations & Laws, Attractive International Opportunities, and More Competitive Business. Corporate governance and related accounting reforms are included in fourth section of more competitive business. Last few years have seen announcement of three main pillars of corporate governance reforms: Japan’s Stewardship Code, The Ito Review, and The Corporate Governance Code.

Due to the population shrinkage, and rapidly aging of the Japanese society, it is important to enhance its national resources and capital efficiency in the long term through the optimum utilization of the country`s investment chain. In this investment chain, companies should deliver sustained value creation cycle and generate returns on long-term investments by enhancing their earning power. To fulfill these objectives, ensuring appropriate governance system and encouraging constructive dialogue between companies and their investors is crucial. The reforms are done bearing these broad objectives in mind. In February 2014, Financial Services Agencies published the final version of “Principles for Responsible Institutional Investors-Japan’s Stewardship Code-To Promote Sustainable Growth of Companies Through Investment and Dialogue”. The principle-based code adopts “apply or explain” approach and recommends seven principles that institutional investors should follow to ensure the investee companies’ corporate value and sustainable growth. The code emphasizes that institutional investors can play significant role in corporate governance and oversee the management through constructive engagement and purposeful dialogue. This will ensure the medium to long term return for their clients and beneficiaries. In supervising the management activities, their role is complementary to the Board. The Code also requires institutional investors to publicly disclose their intension to accept the Code and explain how they comply with the principles. International initiatives in the post financial crisis of 2008/2009 have also influenced Japan to examine the role of investors and companies in capital market. Motivated by the Kay Review in the UK, growing prominence of “Activists” or “Shareholders with a Voice” in the USA, streamlining financial reporting in the US and the EU, and Integrated Reporting project of IIRC; Japan Ministry of Economy, Trade and Industry (METI) launched “Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors” in July 2013. The project comprised members from company executives, long-term investors, security analysts, market participants, and scholars and was chaired by Professor Kunio Ito (widely known as “Ito Review”). Among other issues, the project discussed the role of capital market, Japanese style corporate management, corporate disclosure practice, and dialogue and engagement between companies and investors. The project has made several recommendations to ensure the sustainable growth of Japanese companies. Ito Review has significant implication for the IR practice in Japan. The project observed that corporate value is understood differently by companies, investors and others such as value created for the shareholders and value created for the other stakeholders. However, it argued that shareholder value cannot be created in isolation. From long-term perspective, value created for others such as customer value, employee value, business partner value, or community value can also lead to value creation for the shareholders. Given the recent labor shortage and declining household financial assets, the Review argued that companies should strive to increase the "capital efficiency" for the future economic prosperity of Japan. In this case, similar to IIRC (2013), capital is defined with wide range of capital stocks including financial capital, human capital, intellectual capital, social/relationship, and natural capital. The project also recommended adoption of IR to explain the mid/long term corporate value creation story and avoid over-emphasis on short-term performance. According to Ito Review, an integrated report should include company's mid/long-term strategy, business model, risk disclosures, ESG information by linking them with financial KPIs. The Review also emphasized that mid/long-term engagement and dialogue with investors is fundamental for mid/long-term economic growth of corporations and these engagements should be reflected in an integrated report.

In June 2014, Financial Services Agency and Tokyo Stock Exchange jointly established the Council of Experts Concerning the Corporate Governance Code to further improve the corporate governance practice. In 2015, the Council published its final proposal "Japan's Corporate Governance Code-Seeking Sustainable Corporate Growth and Increased Corporate Value over the Mid-to-Long-Term". The principle-based Code is largely influenced by OECD Principles of Corporate Governance. The Code recognized the importance of cooperation not only with shareholders but with wide range of stakeholders including employees, customers, business partners, creditors, and local communities to ensure the sustainable growth of the company. Regarding the information disclosure and transparency, the Code also required the company to go beyond the applicable laws and regulation and appropriately disclose both financial and non-financial information including business plans and strategies, risks, and corporate governance. It also recommended taking measures such as appropriate internal control system, effective external audit to ensure that information disclosed is "accurate, clear, and useful" particularly qualitative and non-financial information. The Code also stipulated principles for appropriately fulfill the responsibilities of the Board. In this regard, the Code emphasized on the inclusion of "independence directors" and "outside kansayaku" to fulfill board responsibility from independent and objective point of view. It required companies to include at least two "independent directors" and half of the kansayaku also must be outside kansayaku. Companies listed in the Tokyo Stock Exchange have responded quickly in adopting the Code (TSE, 2017). For example, the Code significantly improves the disclosure of corporate governance information. Consistent with its full disclosure principles, all the listed companies now disclose information such as company objectives, business strategies and business plans; basic views and guidelines on corporate governance, and policies and procedures for deciding on remuneration. In addition, more than two-third of TSE companies have provision in their internal regulation on respect for the positions of stakeholders and carry out environmental preservation activities and CSR activities (65.9%).

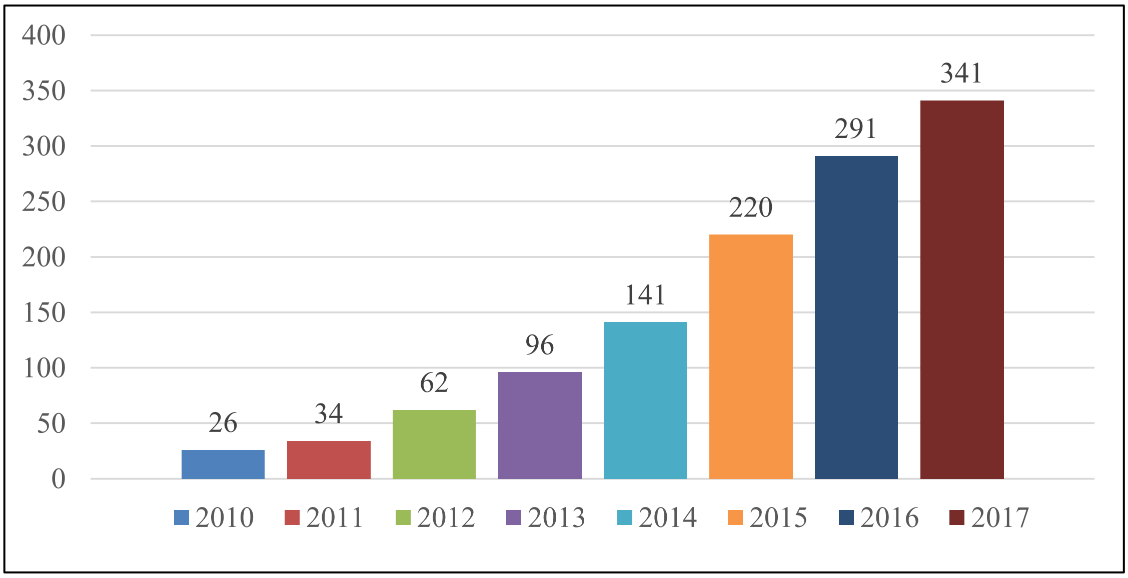
To promote the IR practice, in May 2017 METI further published the "Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation: ESG integration, non-financial Information disclosure and Intangible Assets into Investment (Guidance for Collaborative Value Creation". The overview of the guidance is given in Figure 2.9. According to METI (2017) the guidance serves purposes of both company and investors. From the company perspective, it will ensure comprehensive communication of key information to the investors including management philosophies, business models, strategies and governance systems. Such disclosure will also fulfill the increasing demand for non-financial information by investors. Therefore, the Guidance also benefits the investors to assess the company performance from long-term perspective and make investment decision. METI expects the guidance to serve as "shared language" that will promote effective dialogue between companies and investors to ensure value creation in the long-term and sustainable business growth.

Figure 2. 9: Overview of Guidance for Collaborative Value Creation



Source: Adopted from METI (2017, p.6)

Figure 2. 10: Trends of Integrated Reporting in Japan



Source: KPMG in Japan (2018, p.3)

KPMG in Japan (2015; 2016; 2017; 2018) has been observing development of IR over the years. The surveys showed a gradual increase of adoption of IR by the Japanese companies (Figure 2.10). While only 26 companies had published “self-declared” IR in 2010, the number has increased to 341 in 2017. KPMG International (2017) also observed that during the period of 2015 to 2017, Japan has highest growth in IR around the world. KPMG in Japan (2018) also found that larger companies, companies listed in first section of Tokyo Stock Exchange, and components of Nikkei 225 and JPX Nikkei 400 are more likely to publish integrated reports. While all the industries have taken up IR, top five industries (by number of IR) to produce IR include electric equipment, chemicals, construction, machinery, and wholesale. However, in terms of percentage of companies by industry to publish IR, air transport, marine transport, insurance, and pharmaceuticals are most active in Japan. Companies in Japan have adopted different titles such as “Integrated Report”, “Company Name + Report”, “Annual Report” and “Corporate Report” to publish their “self-declared” IR (KPMG in Japan, 2018). 75% of the surveyed companies have integrated reports between 31 to 90 pages in length. Regarding the contents of integrated reports, KPMG in Japan (2018) observed improvement in disclosure of value creation process, multiple capitals, corporate governance, and risks and opportunities. The survey also identified weaknesses in the current IR practices. For example, many companies explained the value creation process in generic terms rather than their specific value creation stories. Similarly, while the principle of “materiality” and non-financial key performance indicators (KPIs) are fundamental to understand the long-term value creation of the organizations, disclosure on these two aspects were weak in integrated reports of Japanese companies.

2.6 The Context of Integrated Reporting in UK

In response to criticism of traditional financial reporting, companies in UK have been using “narrative reporting” for a long period of time. In 1993, Accounting Standard Board (ASB) had published voluntary guidance for narrative disclosure in the form of Operating and Financial Review (OFR). The guidance provided a framework for the directors to discuss the main factors underlying the company’s performance and financial position to assist users to assess the future potentials of the business. Later in 1998, International Organization of Securities Commissions (IOSCO) also recommended the provision of narrative disclosure in its International Equity Disclosure Standards. These have significant influence on corporate reporting practice, and by 2000, OFR has become an integral part of the corporate reporting practice in UK. During this period, the UK government also undertook a comprehensive review of its Company Law. Company Law Review (CLR) Steering Group took an "enlighten shareholder value" and emphasized accountability beyond providers of financial capital. CLR Steering Group proposed several mechanisms to ensure corporate accountability beyond the providers of financial capital. An important recommendation was made in 2000 to make the OFR mandatory for listed companies. EU Accounts Modernization Directive of 2003 also required the companies to publish an enhanced business review in the director's report. Under this directive, large and medium sized companies were required to provide a balanced and comprehensive analysis of the development and performance of the business of the company. According to the Directive, such analysis should include both financial and non-financial performance of the companies including issues related with natural environment and employees. Upon extensive consultation, in March 2005, the law was enacted requiring large companies to include OFR in the annual reports. ASB also issued the Reporting Standard (RS1) for preparing OFR in May 2005.

However, within a short period of time, in December 2005, the Government removed the provision of statutory OFR on the ground that it overlapped EU Directive requirements of Business Review. The Government also argued that the decision would reduce the regulatory burden of reporting for private sectors. Stakeholders from different fields including investors, companies, regulatory bodies, accounting professions and NGOs have criticized the government decision. They consider the withdrawal of statutory OFR as "missed opportunity for the upgrading of the quality of narrative reporting" (Yeoh, 2010, p. 223). Consistent with EU Directives, companies were then only required to provide a "narrower business review" in the directors' report. However, Companies Act 2006 incorporated several provisions enhancing the scope of business review. The extended directors' business review must contain a fair, balanced, and comprehensive review of company's business, principal risk and opportunities, prospects including social and environmental information.

In 2013, the Government further amended the Companies Act to include a requirement for larger companies to prepare a "Strategic Report" as part of their annual report. Accordingly, the regulatory body Financial Reporting Council (FRC) launched "clear and concise initiative" to ensure that annual reports provide relevant information for the investors. The first outcome of the initiative was "Guidance on the Strategic Report" published in June 2014. According to FRC, the strategic report "provides shareholders with a holistic and meaningful picture of an entity's business model, strategy, development, performance, position and future prospects" (FRC, 2014, p.3). The strategic report is also required to include disclosure about environment, employees, social, community and human rights issues. Based on the UK implementation of the EU Directive on disclosure of non-financial information and diversity information, Public Interest Entities of more than 500 employees are also required include "non-financial information (NFI) statement" in their strategic reports. A non-financial information statement must include companies' impact on the natural environment, matters related with employees, respect for human rights, social performance, and anti-corruption and anti-bribery matters (PWC, 2017). There are many similarities between NFI statement and strategic report and NFI statement can be built from the existing requirement of strategic report with additional disclosure (Deloitte, 2018).

As part of corporate governance reform initiatives, the government further announced the UK Corporate Governance Code in July 2018 effective from financial year commencing on or after January 1, 2019. The principles-based code emphasized on the relationship between companies, shareholders, and other stakeholders for the long-term sustainable growth of the UK economy (FRC, 2018 Web). The Code further focused on the application of Principles in the particular context to make the governance reporting clear and meaningful and avoid boilerplate reporting. At the same time, Department for Business, Energy, & Industrial Strategy, on its part also published "The Companies (Miscellaneous Reporting) Regulations 2018" with new reporting requirements for both public and private companies. As per this regulation, in the strategic report companies are required to include explanation of how directors have fulfilled their duty under section 172 of the Companies Act 2006 (these matters include several non-financial considerations) to promote success of the company. In the directors' report companies are required to include explanation about engagements and results of such engagements with suppliers, customers, employees, and others (Deloitte, 2018; DBEIS, 2018). Incorporating the recent changes in corporate reporting regulation, FRC published an updated version of the "Guidance on Strategic Report" in July 2018. The principle-based Guidance serves as a best practice statement and is a persuasive document rather than mandatory requirement. According to the Guidance, information reported in the strategic report should have the following qualitative characteristics: a) fair, balance, and understandable, b) comprehensive but concise, c) forward-looking orientation, d) entity specific information, e) link related information in strategic report and annual report, f) meet the objective efficient and effective manner, and

g) relevance. While the specific content elements of strategic report depend of the size and type of the entity, a strategic report in general should include the following elements (FRC, 2018): a) strategies, objectives and business models, b) trends and factors affecting the entity, c) principal risks and uncertainties, d) analysis of the development and performance of the business, including key performance indicators, e) environment, employees, social, community, human rights, and anti-corruption and anti-bribery matters, f) disclosures on gender diversity. Deloitte (2015, 2016, 2017, 2018) have been observing annual report insights of FTSE companies over the years including the impact of changes in UK regulatory environment. In their 2015 survey, they argued that there is a significant crossover between the IIRC Framework and the Strategic Reporting Guidance (Deloitte, 2015). For example, in 2018, 94 of the 100 companies surveyed clearly disclosed Business Model, a fundamental concept of IR that shows relationship between organizational purpose, its strategies, outputs, and outcomes. It is encouraging that more than half (64%) of these companies are using combination of narrative and diagrams to explain their business model. Deloitte also found that 92% of the FTSE companies have identified key inputs in the form of off-balance sheet resources, relationships, and other dependencies either in their business model or elsewhere in the annual report. The disclosure of "inputs" is similar to the multiple capital framework of IIRC. According to the Section 172 of the UK Companies Act 2006, directors are required to explain the impact of their decisions on a broad range of stakeholders. Accordingly, increasing number of companies (94 companies) are found to recognize their engagement and impact with important stakeholders including employees, customers, suppliers, and the environment. These relationships, according to IIRC are at the heart of the integrated thinking and integrated reporting. In this regard, Deloitte noted that requirement of Section 172 is akin to integrated thinking under the IR framework. Other important aspects of IR include long-term value creation and disclosure of risks and opportunities. Over three quarters of FTSE companies were found to have disclosure on these issues. Inclusion of Key Performance Indicators (KPIs) including Alternative Performance Measures (such as non-GAAP measure) within an up-front financial highlight section has become a common feature within UK annual reports. Similarly, 71 companies were found to identify their non-financial KPIs. Encouragingly, approximately half of these companies were moving in right direction by linking KPIs with their strategies. In short, although IR is not mandatory in the UK, the regulatory environment encourages companies to adopt this innovative reporting practice.

2.7 Review of Academic Literature

As integrated reporting is still in its early stage of development, academic study has just started to grow (de Villiers et al., 2014). In conducting the structured literature review of integrated reporting studies, Dumay et al. (2016) consider that "much <IR> research is still in its first stage when efforts typically focus on raising awareness of a specific research field's potential" (p.168). Initial studies were largely normative in nature examining concepts, benefits, and challenges of IR rather than empirically examine the various aspects of IR (Adams and Simnett, 2011; Eccles and Saltzman, 2011; Eccles and Armbrester, K., 2011; Adams, C., 2015; Dumay et al., 2016). These studies in general welcome the adoption of IR. Researchers argue that IR can have both internal and external benefits (Eccles and Saltzman, 2011). IR ensures better resource allocation decisions through integrated thinking, greater engagement with stakeholders, and lower reputational risk. It also fulfills the stakeholders' demand for greater information, enhances organizational legitimacy, and managing regulatory risks. Some academic observers, on the other hand, criticize the current practice of IR (Brown and Dillard, 2014; Flower, 2015). Their main concern is IIRC's narrow focus on providers of financial capital as the user of IR. In addition, lack of globally accepted framework and voluntary nature of IR (lack of enforcement) also make the actual implementation of IR difficult.

Recently the subject has received significant attention from academic researchers. Leading accounting journal Accounting, Auditing & Accountability Journal has already published a special issue on IR in 2014. Journal of Intellectual Capital and Sustainability Accounting, Management and Public Policy have also announced special issue on IR. The growing empirical studies have used different methodologies to investigate the issues on integrated reporting (Dumay et al., 2016). Main research methods adopted in extant literature include case study, interviews, surveys, field study, content analysis, and archival studies (Ahmed Haji and Anifowose, 2016; 2017). The empirical studies cover the following key areas of integrated reporting: (a) contents of integrated reports, (b) determinants of adoption of integrated reporting, (c) capital market reaction to integrated reporting adoption, and (d) stakeholders' perceptions on integrated reporting. The following section reviews the extant literature from these four perspectives.

2.7.1 Contents of Integrated Reports

In one of the earliest studies based on content analysis of annual reports, Solomon and Maroun (2012) compared the disclosure practice before (2009) and after (2011) the introduction of IR in South Africa. Analysis of reports of 10 major listed companies revealed a significant improvement in social, environment, and ethical information after the regulatory changes in 2011. Despite increase in quantity of disclosure, the authors concluded that IR is an evolutionary process and “companies are (still) unclear as to exactly what an integrated report ‘should’ look like and what it ‘should’ include” (p. 51). Marx and Mohammadali-Haji (2014) expanded the scope of analysis by examining annual reports, integrated reports and web-based reporting of largest 40 Johannesburg Stock Exchange (JSE) listed companies. The authors found mixed result with some companies prepared excellent integrated reports, while several companies “merely renamed their annual report to an integrated annual report” to ensure regulatory compliance (p. 244). Similar types of variation in content and structure of integrated reports may be seen in other countries. Wild and van Staden (2013) examined early evidence of IR of 58 international companies listed in International Integrated Reporting Council Emerging Examples Database. The study specifically focused on how the early reporters adhere to the Guiding Principles, Content Elements and the Multiple Capital model of IIRC Framework. Integrated reports were found to include more on soft (general) disclosure such as company Strategy, Operating Context and Organizational Overview rather than hard (specific) information like Performance and Future Outlook. The result also showed significant lack in adherence to IR Guiding Principles. Particularly reports were seen to be lengthy rather than concise and lacked stakeholder inclusiveness.

In an empirical study Van Zyl (2013) examined whether adoption of IR by leading South African companies has led to an improvement in the quality of sustainability-related information disclosed. The study developed an evaluation matrix based on the extant literature to conduct content analysis of integrated reports published by the best performers according to the Johannesburg Stock Exchange (JSE) Sustainability Index. It observed that integrated reporting is still in the early stage of development in South Africa. The researcher concluded that “although many companies are attempting or claiming to be creating Integrated Reports, the level of integration is still very low” (p. 38). The evaluation matrix develops in this study can be valuable for future research.

Ahmed Haji and his co-authors in a series of research (Ahmed Haji and Anifowose, 2016; Ahmed Haji and Hossain, 2016; Ahmed Haji and Anifowose, 2017) investigated the initial trends of IR in South Africa. Based on content analysis, they examined 246 integrated reports of large companies over a period of three years. In one study, Ahmed Haji and Anifowose (2016) used ceremonial and substantive legitimation strategies to explain their finding of significant improvement in extent and quality of IR practice. Among other individual IR characteristics, improvement was seen in connectivity of information, materiality determination process, and reliability and completeness of integrated reports. Most of the disclosures, however, were seen to be generic in nature rather than company specific and "exaggerate positive information whilst underplaying, or dismissing, negative outcomes" (p. 213). Other limitations of IR include inconsistent application of IR guidelines and narrow focus on traditional financial performance. Finally, although both symbolic and substantive IR practices have increased over the period, the authors concluded that IR in South Africa is largely ceremonial in nature used to acquire organizational legitimacy.

The concept of IR has developed based on multiple capitals framework. IIRC (2013) requires an integrated report to include organizational value creation process in terms of financial, manufactured, intellectual, human, social and relational, and natural capital. The importance of "capitals", therefore, encouraged several researchers to investigate this element of integrated report instead of full report. Setia et al. (2015) analyzed corporate reports of top 25 companies listed on the JSE to understand changes in disclosure of four capitals immediately before (2009-2010) and after (2011-2012) the mandatory requirement of integrated report. Their content analysis, in general, revealed an increase in the extent of disclosure of all forms of capitals including human, social and relational, natural, and intellectual capital information. Statistical analysis, however, found significant increase in disclosure of only on social and relational capital. As significant improvements were not seen in all forms of capital, the authors concluded that companies are adopting IR just to fulfill regulatory requirement rather than any "substantive" changes in corporate behavior.

Ahmed Haji and Anifowose (2017) also conducted a similar study with relatively large sample of 246 integrated reports of large South African companies. The study also found that corporate disclosure has increased substantially after the adoption IR in 2011. However, they observed variations in disclosure of different types of capital. While reporting on intellectual capital and human capital have increased and institutionalized over the years, information on relational capital have decreased and varies across industries. Melloni (2015) further extended this research on international companies by examining all the integrated reports available in the IIRC database. The findings, however, are largely consistent with companies in South Africa. The reports lacked quantitative and forward-looking information. Observing the statistical relationship between intellectual capital disclosure (ICD) and corporate characteristics such as declining profitability, firm size, and high level of intangibles; the author concluded that "firms use ICD opportunistically to advance their corporate image" rather than "substantially changing their current IC reporting practices" (p. 676).

According to IIRC (2013), an integrated report should be "concise" while at the same time it should be "complete and balance". Melloni et al. (2017) investigated the quality of integrated reports in terms of these three guiding principles of IIRC Framework- conciseness, completeness and balance. Using the textual analysis methodology, findings of the study was explained through impression management strategies. The result showed that firms with poor financial performance are more likely to publish lengthy, complex, and optimistic reports. These reports also include more disclosure on their sustainability performance. The authors argued that companies with weaker financial performance are using disclosure manipulation strategy by changing the focus from objective measure of performance to subjective measurement of sustainability performance. On the other hand, consistent with impression management strategy firms with worse social performance are found to prepare reports that are foggier (i.e., less concise) and provide less information on their sustainability performance (i.e., less complete). Finally, the authors concluded that corporate reporting when used as impression management strategy depends on both financial and non-financial performance (e.g., sustainability) of the companies.

Pistoni at al., (2018) further investigated the quality of integrated reports published in 2013 and 2014 by companies listed in IIRC's integrated reporting examples database. They developed a disclosure scoreboard consisting of 23 individual items that are divided into four groups: Background information on IR (e.g., motivation, objectives, beneficiaries of IR, CEO's commitment to IR), Assurance and reliability of IR (e.g., internal audit and external verification of IR), Contents of IR (e.g., eight Content Elements of IIRC framework), and Form of IR (e.g., readability and clarity, conciseness, accessibility).

The study found that sample companies are better in disclosing business overview and external environment, risks and opportunities, performance, and corporate governance. However, disclosure on other important aspects of IR such as business model and value creation process, outlook, and basis of presentation were found to be scarce. Overall, the study concluded that the quality of integrated reports is still very low.

Du Toit (2017) also raised the question about the value of integrated reporting to the stakeholders. The study examined integrated reports of South Africa using “readability measures” and found that current reports are prepared in complex language which is difficult to understand to general stakeholders. The author, therefore, raised the question on the role of integrated reporting in bringing organizational legitimacy and impression management of organizational stakeholders.

In addition to mandatory regulatory environment of IR in South Africa, recently few studies have investigated the integrated reporting practice of other countries. Kılıc and Kuzey (2018a) examined the annual reports and sustainability reports of largest 100 companies listed in Turkish Stock Exchange to understand the adherence level of current reporting practice to the IIRC Framework. The study also focused on the impact of sustainability characteristics on the content of integrated reports. The authors prepared a disclosure index of 50 items based on seven content elements of IIRC Framework. The result of the content analysis showed several limitations of current reporting practice. Current annual reports and sustainability reports were found to provide generic, positive, and historical information rather than company specific, balance, and future orientated disclosure. In addition, the reports also lacked strategic focus and poor integration between financial and non-financial initiatives. The study also documented that publishing stand-alone sustainability report, adoption of GRI guidelines, presence of sustainability committee, and listing in sustainability index have significant influence to improve the integrated reporting practice.

In a longitudinal study, Zinsou (2018) investigated the state of integrated reporting practice in France using the “national system of business” framework. Like other studies, the study used content analysis methodology. To assess the quantity and quality of disclosure, a disclosure check list was prepared based on applicable laws in France. The check list consists of 41 items that are grouped into three broad headlines: Environmental, Social, and Societal. The study analyzed the Reference Documents (annual reports) of 31 largest non-financial listed companies published during the periods of 2006-2014. The finding showed that over the years both extent and quality of non-financial disclosure by French listed companies have increased significantly. The author argued that national institutional environment, particularly the governmental regulations regarding the corporate sustainability has played a pivotal role in such improvement. The study also documented increasing level of integration between corporate strategy and sustainable development issues, implying that companies have recognized the benefits of such integration to create values for the shareholders as well as other relevant stakeholders. The study evaluated the "integration" of financial and non-financial information based on two criteria: balance presentation of financial and non-financial information reported in annual reports and level of their "connectivity". The study reported that annual reports' space devoted to non-financial information has been double over the period (balance presentation). However, companies were facing challenge regarding "connectivity" of information. Finally, the author considered the current annual reports in France as "moderately integrated report" instead of "perfectly integrated reports" (Paternostro, 2013).

Robertson and Samy (2015) contributed in the literature through examining adoption of integrated reporting in the UK. They focused on the limitations of the current reporting practice, competitive advantage of IR, and challenges for widespread adoption of IR. Their empirical finding was based on content analysis of annual reports and sustainability reports of 22 FTSE 100 companies and semi-structured interviews with senior managers. At first, they evaluated the linkage between annual reports and sustainability reports of companies based on the cross-references between two reports and extent of disclosure of key issues in each report. Using "qualitative approach" the authors found that currently UK companies are providing "medium to low" level of linkage between annual reports and sustainability reports. The study measured the adherence of current annual reports to IIRC Framework based on four content elements: Strategy, Governance, Performance, and Prospects. More than half of the sampled companies' annual reports were seen to meet all the four criteria. According to the broad definition of "integrated reports" set by IIRC, these annual reports can be considered as integrated reports. Interview results showed that senior managers are supportive of integrated reporting and want to include sustainability issues into corporate strategies. The interviewees have identified several challenges for the widespread adoption of integrated reporting: lack of coordination among the cross-functional units which results in "silo approach" instead of integrated thinking, uncertainties about the relationship between IIRC and other standard setting bodies, and complexities about the measurement of 6 types of capital and lack of clear guidance from IIRC. As the study was conducted before the publication of IIRC Framework, the authors call for additional studies to explore the recent development of in integrated reporting.

2.7.2 Determinants for the Adoption of Integrated Reporting

Given the wide variation in IR practice around the world, it is important to understand the factors that affect the decision to adopt IR in companies. Accordingly, a strand research has examined the relationship between country level or corporate level characteristics and IR practice. Frias-Aceituno et al. (2013) investigated the influence of certain features of the Board of Directors (BOD) in the degree of information integration in corporate disclosure by some leading non-financial multinational firms. The study examined a non-balanced sample of 568 companies from 15 countries for the period 2008-2010. The corporate governance variables tested in this study include Board size, Board independence, Board activity, and Board diversity. It was found that growth opportunities, the size of a company and its management bodies, together with gender diversity, are the most important factors for integrating information. The study also revealed that larger companies produce more objective and comparable information as they have greater resources to produce comprehensive information and this helps to create added social and environmental impact. It was also found that larger Boards, containing directors with greater experience and a broader diversity of backgrounds, positively promote the integration of the various reports made by the companies, whether mandatory or voluntary.

In another study, Frias-Aceutno et al. (2014) analyzed the effects of industry concentration and other firm characteristics in the adoption of IR using signaling theory and agency theory. The study used an unbalanced sample of 1,590 companies (3,042 observations) from 20 countries over the period of 2008-2010 drawn from Forbes Global 2,000 largest international companies. The analysis was conducted using Tobit regression model with consideration of the extremes of the rating scale (1 and 3), at 1 those companies expressing the lowest preference for disclosing corporate information over and above the legal minimum, and at 3 those opting to supply integrated information. The result showed that a 68.1% of the sample firms issued only a financial statement, 29.8% produced both a financial report and a sustainability report and 2.1% of the companies published an integrated report. One of the findings was that companies enjoying monopolistic situations are less likely to publish IR and the authors thought that one possible reason for this non-disclosure is to obscure the current abnormal profit of those companies. The study also found that company size and profitability have a positive impact on reporting while business growth opportunities and industry competition are not significant in this respect; GRI application level has positive and significant relation with IR adoption meaning that companies with a tradition of producing sustainability information in accordance with G3 guidelines are more likely to produce IR. The authors called for additional studies to examine the effect of IIRC's framework especially by developing qualitative case studies on companies that publish this new form of business information.

Sierra-García et al. (2015) in their study comprehend why companies are producing integrated reports with special attention on the assurance of CSR. Based on 7,144 worldwide observations from the GRI (Global Reporting Initiatives) database during a period of 2009-2011, this study identified the determinants of integrated reporting through a logistic regression model. The results showed that the likelihood of producing IR is positively associated to having CSR report assured, the year, and company size.

Vaz et al. (2016) also analyzed the determinants associated with IR from both the country level and company level perspectives. The study used a 1-year (2012) sample consisting of 1,449 companies registered in the GRI database to analyze a double level structure (country, company). The study confirmed that both coercive and normative institutional mechanism exercise pressure to adopt IR whereas mimetic mechanism appeared to be ineffective in this respect. Significant differences were found among countries in practicing IR which may be explained by the existence of specific rules or regulations and individualistic or collectivistic society dimension. Companies in countries with a 'comply or explain' basis of IR regulation and companies in less individualistic countries are more likely to practice integrated reporting.

Frias-Aceituno et al. (2013a) further examined the influence of country`s legal system in the development of integrated reporting practice from the institutional theory perspective. Using logit model on a non-balanced sample of 750 international companies for the year 2008-2010, the study revealed significant impact of this institutional factor on IR. Findings showed that companies located in civil law countries with strong law and order situation, are more likely to publish IR to facilitate decision making by different stakeholders.

Garcia-sanchez et al. (2013), on the other hand, examined the impact of Hofstede national cultural system on integrated reporting. From the viewpoint of stakeholder theory, the study analyzed a non-balanced sample of 1590 companies from 20 countries over the period of 2008-2010. The most numerous contributions were from the USA, with 42.6% of units, followed by Japan with 18.1% of units. This study suggested that stakeholder influence is significant for adopting integrated reporting at the country level. At the firm level, firm size and profitability are important. Companies operating in countries with similar cultural system follows homogeneous pattern of behavior regarding integrated reporting. The results also found that firms located in collectivist countries and specifically in feminist countries, show a great interest in disclosing integrated information. It is because these societies are characterized by having more concern for public goods, sustainability issues, ethics and good governance. In contrast, larger and more profitable companies are carrying more objective and comparable disclosure practices. Among other factors, the sector in which the business operates is important for disclosure. Firms in the capital goods and utilities sector are more interested in integrated reporting and corporate transparency.

Based on institutional theory and using a sample of 309 companies, Jensen and Berg (2012) investigated the underlying reasons why companies choose IR as opposed to CSR. The study confirmed that there are significant differences between IR companies and CSR companies in institutional setting under which they operate. The study showed that IR is mainly influenced by the financial, educational, labor, cultural and economic system of a country, while political factors has no significant effect. In other words, IR is significantly more likely to publish in countries with stronger investor protection laws and with weaker employment protection laws. IR companies are more likely to originate from countries with higher investor protection law, higher trade union density, and countries where private expenditures for tertiary education are higher. Countries with a stronger market orientation and dispersed ownership structures significantly influence IR. It is more common in highly developed economies where environmental and social development is notable.

From institutional theory perspective, Dragu and Tiron-Tudor (2013) also examined the correlation between voluntary adoption of IR and the external political, cultural and economic factors. Content analysis of the annual integrated reports of the 58 companies from IIRC Pilot Program is conducted for this purpose. Although political and economic factors were found to be positively related, surprisingly culture as represented by National Corporate Responsibility Index couldn't explain the adoption of IR. The researchers argued that small sample size can be a reason for this inconsistent result.

Materiality is one of the guiding principles in IIRC Framework and plays a central role in integrated reporting by identifying the important and relevant issues for concise communication with the stakeholders (IIRC, 2013a). Accordingly, Fasan and Mio (2016) in their study focused on the disclosure and determinants of materiality based on a sample of IIRC Pilot Program Companies. The study showed that industry affiliation of companies and board characteristics such as board size and diversity can explain the variation in materiality disclosure. In contrast to previous studies, it found that high environmental impact companies such as oil and gas, basic materials have less disclosure than other industries. It also documented that country level legal environment is not significant in materiality disclosure. The authors argued that globalization of business environment have reduced the impact of country level legal differences in materiality disclosure. In a recent international study, Gerwanski et al., (2019) further examine the determinants of materiality disclosure quality (MDQ) in integrated reports. They construct a unique MDQ index based on IIRC Framework. Based on a sample of 359 firm-year observations from 117 companies in Europe and South Africa, the study shows that experience in publishing integrated reports, female directors, and assurance of non-financial disclosure have significant influence in MDQ in integrated reports.

2.7.3 Stakeholders' Perceptions on Integrated Reporting

Steyn (2014) conducted a questionnaire survey on the top executives of the listed companies in Johannesburg Stock Exchange (JSE) regarding the organizational changes perceived because of implementing IR requirements. Respondents in this study believe that IR can advance the incorporation of financial, social, environmental and economic dimensions into strategic objectives and strategic planning processes and can serve to advance decision-making aimed at longer-term sustainable wealth creation.

The results of the study suggest clear changes in organizational behavior and business practices through explicit consideration by managers of interdependencies between financial, social and environmental matters, as well as incorporating these into strategic objectives, strategic planning and decision-making, because of the integrated reporting compliance regime.

However, in another study Rensburg and Botha (2014) found that very few stakeholders use the integrated reports as their main source of financial and investment information, and that these reports are seen as additional information. Their national online survey in South Africa revealed that annual and interim financial reports by companies are still the mainstay for corporate financial information.

One of the key challenges of current practice is to determine the content, format and structure of the integrated reports. Given the lack of authoritative guidelines, at present companies are following "trial and error" approaches to advance the practice. However, to be effective an integrated report should include the material information that are also valued by stakeholders. It means that both preparers and users of reports have consensus regarding the contents, format and structure of the reports. Using mixed research method including analysis of integrated reports and questionnaire survey, Naynar et al., (2018) examined the expectation gap between preparers and stakeholders regarding the contents of integrated reports in South Africa. The study found that certain disclosure themes are reported by companies, however, are not found to be equally important to the stakeholders. It also showed that users' perceptions about material information are affected by the level of their sophistication. Sophisticated users with their high level of educational and professional experience in IR preferred "complex" disclosure on management performance and role of auditor in ensuring accountability to the stakeholders. Unsophisticated respondents, on the other hand, considered current IR as overly complicated and argued for "simplified disclosures, explanations and illustrations" to make the report useful for their decision making.

While the above studies examined the South African context, recent studies also informed stakeholders' perception of other countries. Adhariani and De Villiers (2019) conducted a questionnaire survey to understand the perception of preparers and other stakeholders about IR in Indonesia. The study reported that stakeholders have limited knowledge on IR. The respondents, however, perceived that IR can accrue several benefits including promoting integrated thinking, better communication with stakeholders, and improving transparency and governance in corporate reporting. Interestingly, although IR is assumed to provide information primarily to investors, benefits related to capital market were perceived to be low in Indonesia. The respondents identified several challenges of implementation of IR including costs of preparation, lack of appropriate information system, and fear of divulging market and/or price sensitive information. Finally, the preparers were inconsistent in their opinion. Although they perceived IR is beneficial but are reluctant to implement in practice.

Slack and Tsalavoutas (2018) investigated the decision usefulness of IR to mainstream equity market participants. The study was based on 22 interviews of equity analysts and fund managers based in London and are working for international companies. The participants have raised significant questions about the usefulness of IR. Majority of them considered that statutory annual report can provide the required information necessary for their decision making. The study also identified several limitations of integrated reporting: lack of familiarity of integrated reporting at the operational level, absence of measurement criteria and qualitative nature of reporting, difficulties to ensure comparability and consistency in reporting, lack of relevance of multiple-capitals of IIRC Framework in investment decision, and lack of regulatory requirement of integrated reporting and associated assurance practice. The interviewees finally argued that short termism culture of capital market is another main reason for lack of interest in IR.

Although “integrated thinking” is fundamental for publishing an integrated report, Feng et al., (2017) argue that concept of integrated thinking is not clearly defined in IIRC Framework. They conducted a study based on semi-structured interviews with key IR stakeholders in Australia to explore how the concept is operationalizing in practice. Given the lack of guidance by IIRC, there was no consensus among the interviewees in the meaning of IR. The study identified several aspects that need to address to operationalize the integrated thinking: commitment of board in integrated thinking agenda, mid-level management role to communicate integrated thinking at the operational level, setting up cross-functional teams to involve the organizational functional units in integrated reporting, using of materiality determination process and multiple-forms of capital, and connectivity among integrated thinking, strategy, and capitals. Finally, the authors call for more additional studies to investigate the key concepts of IR and the impacts of those on organization. Given the different socio-political context and higher adoption of IR, the authors particularly urge to investigate the practice in Japan.

McNally et al. (2017) also conducted interview survey to explore challenges of implementing IR in South Africa. The study showed that in most of the organizations IR is imposed by the top-level management without making required changes in accounting system, sustainability management, and necessary infrastructure. Given IIRC Framework adopts a principles-based approach, companies are uncertain about the contents of an integrated report. The interviewees have identified several challenges of current IR practice including doubt about the usefulness of IR, lack of coordination among the organizational units, insufficient stakeholder engagement, lack of systematic approach of determining material issues, difficulties in quantifying sustainability information, weak integration between corporate strategies, sustainability initiatives, and integrated reporting.

Hsiao and Kelly (2018) also documented Taiwanese investors' reluctance to include sustainability information in their investment decision. Interview results also showed that investors prefer private sources of information and are not aware about integrated reporting. The investors have identified several concerns regarding integrated reporting: difficulties in quantifying non-financial performance and assess the impact of non-financial performance on financial performance, uncertainty about reliability of non-financial and future oriented information, and biasness in information disclosed to use integrated reporting as impression management tool.

Stubbs and Higgins (2018) fill-up the gap in IR research by examining the users' perception on the regulatory reforms in integrating reporting. The study conducted 22 interviews with key IR stakeholders including regulators, standard setters, industry organizations, accounting firms, and financial investment stakeholders. Majority of the participants were in favor of voluntary nature of IR rather than mandatory regulation. They argued that IR is now in an evolving stage and insufficiently develop to have mandatory regulation. They also noted that regulation will increase the reporting burden on companies and develops a 'tick-the box' culture to make integrated report a compliance-oriented report. Proponents of voluntary approach believe that voluntary IR would ensure the flexibility necessary to experiment innovative reporting practice that would make the integrated reporting future reporting norm. However, the respondents welcomed regulations on certain aspects including determination of 'materiality' and assurance of non-financial information. On the other hand, interview participants, especially financial stakeholders preferred mandatory regulation for IR. They argued that in the absence of regulation, companies would not the interested to adopt IR. Based on the experience with sustainability reporting, they noted that regulations can ensure extensive disclosure and accountability of companies for their financial, social, and environmental impacts.

2.7.4 Integrated Reporting and Market Value

Lee and Yeo (2016) observed positive relationship between quality of integrated reports and firm valuation in South Africa. They further showed that capital market benefits of IR are higher in complex firms characterized by high intangible assets and multinational operations. They argued that complex organizational environment creates substantial information asymmetry, and IR can better mitigate this problem by providing financial and non-financial information to the providers of financial capital. Observing further that firms with better integrated reports have higher stock market return and Return on Equity, they concluded that integrated reports provide competitive advantage to the adopting firms.

Bernardi and Stark (2018) further looked at the relationship between IR and accuracy of analyst forecast in South Africa. Results showed that integrated reports provide useful information to the analysists to accurately forecast the future earnings. The authors also concluded that effects of integrated reports will be higher when there is higher disclosure about ESG information as such ESG disclosure is mediating variable in determining the effectiveness of IR.

Zhou et al., (2017) also provided empirical evidence on the benefits of integrated reports to the capital market. Based on a sample of companies listed in JSE, the study investigated the relationship between quality of integrated reports of 2009 to 2012 and analysts earning forecast error, forecast dispersion, and firms' implied cost of equity capital. The findings showed that integrated reports provide additional information to the analysts in predicting the future earnings. The study also reported negative relationship between quality of integrated reports and cost of equity capital. It implies that disclosure in integrated reports reduces information asymmetry between management and investors. Because of reduce information risk, investors are willing to accept lower rate of return.

Barth et al. (2017) further extended the valuation research by decomposing firm value into three components: liquidity, cost of capital, and expected future cash flows. Based on data of the top 100 companies listed in JSE, the study found that integrated reporting affects the firm market value through higher liquidity and expected future cash flows. The relationship between integrated reporting quality and cost of capital, however, found to be insignificant. Finally, the authors concluded that integrated reporting affects firm value both by reducing information asymmetry in the market (capital market channel) and assisting management in internal decision making that ensures realized future cash flows (real effects channel). Based on a sample of 995 international companies, Garcia-Sánchez and Noguera-Gámez (2017) also documented that information disclosed in integrated reports can reduce information asymmetry and provide additional information to the investors. Other studies in this strand include Baboukardos and Rimmel (2016), Mervelskemper and Streit (2017). These studies also confirmed the positive impacts of IR on firm value.

2.7. 5 The gap in current Literature and focus of the current study

The literature review shows that recently integrated reporting has got significant attention from academic researchers. Main findings of the review can be summarized as follows. There has been significant interest to investigate the South African context, given the mandatory requirement to publish integrated reports for the companies listed in JSE since 2011. In addition, several authors examine the integrated reports of companies participated in IIRC Pilot Programme Business Network or companies listed in IIRC data base. As noted above, extant empirical studies have focused on four key issues of IR. A strand of literature has used content analysis of corporate reports to understand the nature, extent, and quality of integrated reports. In these studies, the authors have developed content check list to evaluate the current IR practice. Several of these studies have used IIRC Framework to prepare the check list. In general, these studies showed wide variations and inconsistencies in IR practice around the world and even in companies within the same country. Second type of studies, therefore, extended the literature by investigating the factors that determine the adoption and quality of IR practice. These studies mainly used regression analysis to examine the impact of country level cultural and legal environment, and organizational level corporate characteristics including company size, industry affiliation, profitability, corporate governance variables on IR adoption decision. The third strand of studies used interview and questionnaire survey to report the perception of preparers and users of about the IR practice. Among other issues, these studies focused on the benefits, uses, and challenges of implementing IR in the organizations. The findings showed mixed results with some authors documented IR useful for internal and external decision making, while other studies seen IR is not useful for decision making. Another strand of literature examined the relationship between adoption of IR and firm value. These archival studies mainly investigated the companies listed in JSE. In general, these studies showed the IR provides value relevant information to the investors and have positive impact on firm value. This thesis is related to the first and second strand of literature. The IR context of Japan and UK is still less explored in the extant literature. Although these countries have different socio-political and regulatory environment, both the countries are in a leading position in sustainability reporting for a long period of time. Recent regulatory environment in both the countries have encouraged the companies to adopt IR. IIRC further note that IR adoption in Japan is higher in than any other country. This thesis, therefore, contributes to the literature by providing insights about contents and determinants of IR in Japan and UK.

Chapter Three

Theory and Research Design

3.1 Introduction

This chapter discusses the theoretical explanations of integrated reporting practice and research design adopted in this study. As such, the chapter is broadly divided into two sections: (a) explanation of relevant theories of sustainability reporting, and (b) explanation of proposed research design. At first, the main theoretical lenses of sustainability reporting including decision usefulness theories, economic based theories, and socio-political theories are elaborated. This thesis adopts legitimacy theory which is widely used in sustainability reporting literature. Specifically, this study uses substantive and symbolic legitimation strategies (Ashforth and Gibbs, 1990) to explain the nature, extent, and quality of integrated reports in Japan and UK. After discussion of the theory, the chapter elaborates research design. For this purpose, it explains research sample, data collection, research method, development of the research instrument, and data analysis.

3.2 Theories in Sustainability Reporting

The practice of sustainability reporting is complex, diverse, unstructured and constantly changing (Gray et al., 2010). As a result, extant literature fails to agree on any specific theoretical framework to explain this practice (Gray et al., 1995). Researchers have embraced considerable array of theoretical perspectives to explain their empirical findings. Although each of these theories provide important insights and understanding of sustainability reporting practice, individually, any of these theories fails to explain the entire diversity in sustainability reporting. As there has been a lack of "all-embracing theory", Parker (2005) argues that multiple theoretical perspectives have enriched our understanding of sustainability reporting practice. From organization-society information flows point of view, Gray et al. (1995) divide the theories applied in sustainability reporting into three groups: decision usefulness theory, economic theory, and social and political theory.

Decision usefulness theory states that organization will disclose sustainability information as long as users find this information useful in their decision making. Two types of studies are conducted based on this approach: (a) studies that have asked the users to rank the perceived importance of sustainability information; (b) studies that have observed the impact of sustainability disclosure on share prices. While these studies show that the users such as, financial community finds the sustainability information "moderately important", the relationship between sustainability information and market value is inconclusive. Decision usefulness studies mainly focused on the financial stakeholders such as investors and creditors, which is according to academic observers (Gray et al., 1995; Parker, 2005), the main limitation of these studies. Although growing number of studies have seen the importance of social and environmental information for financial decision, financial stakeholders "are invariably not the drivers of nor primary beneficiaries of corporate SEA (social and environmental accounting) and its disclosure" (Parker, 2005, p.846). It is now widely accepted that sustainability reporting affects and is affected by a wide range of stakeholders. Accordingly, decision usefulness studies add little value to enhance our standing of sustainability accounting practice.

Studies on economic theory have applied "principal-agent theory" and "positive accounting theory" to explain the sustainability reporting practice. These theories are "based on central economic-based assumption that the actions of all individuals are driven by self-interest, and that individuals will always act in an opportunistic manner to the extent that their actions will increase their wealth" (Deegan and Unerman, 2011, p. 256). According to these theories, management will disclose sustainability information as long as such information will increase their personal benefits such as increasing shareholder value. However, Gray et al., (1995) highly criticize the central assumption of these studies that all actions are driven by individuals' self-interest. Accordingly, they argue that economic based theories have "little or nothing to offer as a basis for the development of CSR" (p. 51).

Extant literature has largely adopted social and political theories as these theories provide interesting insights about sustainability reporting practice. Two important theories under this category include legitimacy theory and stakeholder theory. These theories have derived from the broader political economy theory. Political economy theory assumes that society, politics, and economics are inseparable, and economic issues cannot be studied in isolation without considering social, political, and institutional frameworks in which the economic activities take place (Gray at al., 1995; Deegan and Unerman, 2011).

Deegan and Unerman (2011) further consider legitimacy and stakeholder theory as "system oriented theories". System oriented perspective assumes that being a part of a broader social system, an organization maintains a reciprocal relationship with the society. It implies that an organization is "influenced by, and in turn to have influence upon, the society in which it operates (p. 321).

Stakeholder theory recognizes that an organization needs to fulfill the expectations of powerful stakeholders in order to ensure its legitimacy. In this case, a stakeholder is defined from wider viewpoint as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p.46). Clarkson (1995) further divides the stakeholders into two groups: primary and secondary stakeholders. Primary stakeholders are those, without whose support, the organization cannot continue as a going concern. This group includes stakeholders like stockholders, customers, suppliers, employees, government, and communities. Secondary stakeholders, on the other hand, affect or are affected by the organization, however, are not engaged in transactions with the organization. The support of secondary stakeholders is not required for the survival of the organization. However, they have the capacity to mobilize other stakeholders and threaten the legitimacy of the organization. For example, media and social and environmental activist groups play significant role to form public opinion against or in favor of the organization. Several studies have adopted stakeholder theory and documented that organization are using sustainability reporting to manage the expectation of stakeholders regarding corporate social and environmental performance. There are two branches of stakeholder theory (Deegan and Unerman (2011): ethical or normative branch and positive or managerial branch. Ethical branch of stakeholder theory ignores the difference of (economic) power among the stakeholders and "argues that all stakeholders have the right to be treated fairly by an organization" (p. 349). According to this perspective, sustainability reporting is responsibility driven rather than demand driven. It implies that an organization is responsible to disclose complete set of information about how it affects the stakeholders, even if some stakeholders choose not to use the information. Managerial branch of stakeholder theory, on the other hand, differentiates stakeholders based on power possessed by them. It is assumed that continued existence of the organization depends on the support of the powerful stakeholders. Therefore, management will work strategically to fulfill the expectations of the powerful stakeholders to further the interests of the organization. In this process, the organization can ignore the expectation and demand of less powerful stakeholders and still can manage its legitimacy. Here, stakeholder power refers to the ability of the stakeholder to exert influence on the organization. Stakeholders can have five different types of power: voting power, economic power, political power, legal power, and informational power (Lawrence and Weber, 2017). Economic power can be measured in terms of stakeholder's degree of control over resources required for the organization's survival. Stakeholders like stockholders, customers, suppliers, and employees have economic exchange with the organization and have economic power. According to managerial branch of stakeholder theory, when the powerful stakeholders have preference for organization's social and environmental information then organization will disclose information to manage or manipulate the stakeholders in order to gain their support and approval. Extant literature has examined the influence of wide range of stakeholders on sustainability reporting. Although the studies have showed inconsistent results, important stakeholders for sustainability reporting include shareholders, investors, customers, suppliers, regulators, governments, foreign buyers, NGOs, and media (Roberts, 1992; Neu et al., 1998; Brown and Deegan, 1998; Kokubu and Nashioka, 2005; De Villiers & Van Staden, 2006; Islam and Deegan, 2008; Liu and Anbumozhi, 2009).

Legitimacy theory is the most widely used theoretical lens in sustainability accounting (Deegan, 2002; Parker, 2005; Owen, 2008; Gray et al., 2010). Researchers have embraced this theory to explain different aspects of sustainability reporting including extent and quality of sustainability reporting, managerial motivation to engage in this form of reporting, and determinants for the adoption of sustainability reporting. Legitimacy theory is based on the concept of "organizational legitimacy" which dates back to the dawn of organization theory (Deephouse and Suchman, 2008). Over the years researchers have defined legitimacy from different perspectives. However, frequently used definitions as summarized by Deephouse and Carter (2005) include 'acceptability or acceptance', 'taken-for-grantedness', 'reasonableness', 'appropriateness', or 'congruence'. Studies in sustainability reporting have widely used the definition provided by Lindblom (1994). According to this definition, legitimacy is "a condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy" (Lindblom, 1994, p. 2). It implies that an organization will be "desirable, proper, or appropriate" as long as it operates within the "norms, values, beliefs, and definitions" of the broader social system (Suchman, 1995, p. 574). Legitimacy theory depends on the notion of "social contract". Social contract is an implied agreement between the organization and society by which the organization agrees to perform according to the implicit and explicit expectations of the society. If the organization does anything which is not commensurate with social expectations then the legitimacy of the entity would be in question. For example, serious accidents, major pollution leakages, or financial scandals may threat the legitimacy of the organizations (Gray et al., 2010). An organization always needs to monitor current and potential social expectations to maintain its legitimacy (Deegan and Unerman, 2011). Even if activities of the organization do not change, legitimacy of the entity can be in threat because of the change in social expectations. For example, traditionally profit maximization was the main objective of the companies. However, public expectations have changed significantly in the last few decades. Now, the society expects companies to engage in activities that will ensure financial, environmental, and social sustainability. Accordingly, organizations must also adapt and change in order to maintain their "license to operate".

The difference between social expectations of how an organization should operate and how it has actually operated is known as "legitimacy gap" (Deegan and Unerman, 2011). According to Sethi (1977) legitimacy gap may arise from two sources. Firstly, legitimacy gap due to change in expectations of the society, although organizational activities or practices remain the same. Secondly, legitimacy gap also arises when previously unknown information about the organization is revealed in the market through news media. Organization can take several strategies to minimize the legitimacy gap (Dowling and Pfeffer, 1975). In this regard, Lindblom (1994) has identified four strategies to gain, maintain, and repair organizational legitimacy. For example, an organization can (a) inform and educate its 'relevant publics' about changes in organizational performance and activities, (b) try to change the perception of 'relevant publics' about the organizational performance and activities, (c) deflect the attention of 'relevant publics' from the issue of concern to other issues, and (d) try to change the external expectations of organizational performance by arguing that expectations are unrealistic or incorrect. Sustainability reporting can be applied as part of any of these strategies (Gray et al., 1995; Parker, 2005; Deegan, 2002). For example, organizations can use sustainability reporting to inform the relevant publics about the social and environmental performance that were previously unknown. Large number of studies have also documented that sustainability reporting are used to manage or manipulate the expectations of 'relevant publics' by providing only positive information of organizational performance rather than balanced presentation of performance.

Ashforth and Gibbs (1990) classify the organizational legitimation strategies into two groups: ‘substantive management’ and ‘symbolic management’. Substantive management “involves real, material change in organizational goals, structures, and processes or (adopts) socially institutionalized practices” to meet the expectations of those stakeholders who control critical resources necessary for survival of the organization (Ashforth and Gibbs, 1990, p.178). For example, from environmental management perspective, substantive management requires significant investment in cleaner technologies or environmental innovation that will ultimately increase organizational environmental performance (Berrone et al., 2009; Rodrigue et al., 2013). Sustainability reporting can also be used as substantive legitimation strategy when such reports are prepared based on internationally accepted guidelines such as GRI (Global Reporting Initiatives) and provide complete and balanced representation of organizational performance including specific and quantitative information (Soobaroyen and Ntim, 2013). In short, substantive management requires real and concrete changes in organizational activities to be in congruent with social expectations. Organizations will employ such approach when they are under real and pressing legitimacy threat (Rodrigue et al., 2013; Ahmed Haji and Anifowose, 2016).

On the other hand, in symbolic management, organizations do not change their actual operations rather “simply portray or symbolically manage them so as to appear consistent with social values and expectations” (Ashforth and Gibbs, 1990, p.180). In this case, organizations emphasis on “form” rather than “substance” of conformity with social expectations and use different impression management strategies to gain, maintain, regain their legitimacy (Ahmed Haji and Anifowose, 2016). In a complex business environment, where organizations need to balance between external pressures and internal flexibility, organizations usually prefer symbolic strategies that ensure “flexibility and economy” as opposed to substantive initiatives (Suchman, 1995). Several studies have empirically examined the symbolic legitimation strategy. These studies have observed that companies superficially adopt different initiatives such as participation in government sponsor environmental program, environmental governance system without having substantial impact on subsequent organizational performance (Rodrigue et al., 2013; Soobaroyen and Ntim, 2013). Most of the previous studies also found that organizations use sustainability reporting symbolically to manage their legitimacy. In this context, sustainability reports contain predominantly general, declarative, positive organizational performance and are used to manage/manipulate social expectations and build a favorable image in the society.

Ashforth and Gibbs (1990) explain several strategies for symbolic management: (a) organizations will espouse socially acceptable goals while actually will pursue less acceptable ones, (b) deny and conceal organizations' involvement in legitimacy threating activities, (c) redefine means and ends based on organizations' performance and changes in social expectations (d) offer excuses, justifications, apologies for organizational involvement in unfavorable activities; (e) ceremonial conformity whereby organizations demonstrate adoption of highly visible and salient practices in appearance without substantive change in real operations.

Organizations can employ either substantive or symbolic or combination of substantive and symbolic strategies. The choice of strategies depends on institutional environment, stakeholders demand, and organizational need to gain, maintain, or regain the legitimacy (Soobaroyen and Ntim, 2013). For example, given the regulatory requirement and stakeholders' awareness, environmental pollution can be considered as a strong institutional field (Berrone et al., 2009). Objective measures of environmental performance are available and organizations need to publish performance to the stakeholders including the regulatory authority. In this context, it would be difficult for organizations to maintain their legitimacy exclusively with symbolic strategies. On the other hand, since sustainability reporting is largely voluntary and there is lack of agreed measurement techniques for sustainability particularly social performance, organizations are seen to use such reports symbolically to manage the expectations of the society. However, substantive strategies are more effective and have long-term impact on organizational legitimacy than symbolic actions (Kim et al., 2007 cited in Setia et al., 2015). Examining impact of substantive, symbolic, and combined strategies on environmental legitimacy, Berrone et al. (2009) concluded that substantive and symbolic strategies "are actually complementary instead of supplementary, and they have a greater impact on legitimacy when combined" (pp.18-19).

Soobaroyen and Ntim (2013) explain Ashforth and Gibbs's (1990) legitimation strategies in the context of sustainability reporting. When organization uses sustainability reports as symbolic strategy, then these reports will be "general, declarative, rhetorical and ritualistic" in nature (p. 95). In contrast, substantive approach requires sustainability reports to include "specific, detailed, quantitative and comprehensive" disclosure on organizational performance (p. 95).

In two recent studies, Ahmed Haji and Anifowose (2016) and Setia et al. (2015) have utilized the legitimation strategies of substantive management and symbolic management to explain the early evidence of IR adoption in South Africa. Through content analysis of 246 reports of large companies published during the period of 2011-2013, Ahmed Haji and Anifowose (2016) examined "whether the IR practice is ceremonial or substantive in nature" (p. 192). Although the study has observed significant improvement in nature and quality of disclosure, it documented several limitations of current IR practice: generic nature of disclosure using selected IR terminologies rather than company specific and contextual information, overwhelming preference for positive information instead of balanced presentation of both positive and negative performance, emphasis on financial performance to measure organizational "value creation", lack of trade-off between different forms of capitals, and absence of application of materiality principle of integrated reporting. Notwithstanding, the authors have observed several "emerging features" of IR which they considered as "substantive" change from conventional reporting practice. For example, a number of companies were seen to disclose balanced information including negative and disappointing information. Growing number of companies also showed interrelatedness between multiple forms of capitals and adopted external assurance in non-financial information and recognized the difficulties and challenges in IR process. Finally, they concluded "that the current IR practice is largely ceremonial in nature, aimed to acquire organizational legitimacy" (p. 216).

In another study, Setia et al. (2015) has focused on changes in disclosure of capitals before (2009-2010) and after (2011-2012) the adoption of IR in South Africa. They tested two propositions based on legitimation strategies of symbolic management and substantive management. For example, if the companies consider IR as symbolic management strategy, then disclosure on social and relational capital and natural capital will be increased significantly after mandatory requirement of IR. On the other hand, substantive management strategy will significantly increase disclosure on all forms of capitals namely human, social and relational, natural, and intellectual capital. Content analysis of annual/integrated reports of top 25 companies showed increase in all types of capitals after the introduction of integrated reports in 2011. However, only increase in disclosure on social and relational capital is statistically significant than increase in other forms of capitals. The study also raised question about quality of current practice of IR and concluded that companies are using IR as strategic legitimation strategy without having substantive changes in current reporting practice.

Figure 3. 1: Integrated Reporting as a Means of Legitimation

Integrated Reporting as a Means of Legitimation (Ashforth and Gibbs,1990)	
Features of IR if used as Symbolic Management	Features of IR if used Substantive Management
▪ Deny and/or conceal ▪ Deflect attention ▪ To be declarative in nature ▪ Be general/minimal in nature ▪ Emphasize good news ▪ Be rhetorical in nature ▪ Offer incomplete accounts ▪ Offer accounts of excuses to justify a lack of action ▪ Redefine ends and means after event ▪ Project ceremonial conformity with accepted models of reporting	▪ Provide complete and comprehensive information ▪ Incorporate detailed communications of social actions and activities ▪ Provide quantitative measures of social performance to enable comparisons ▪ Provide complete and updated information, even if it is less favorable to the organization ▪ Comprehensively adopt accepted models of social disclosure ▪ Provide financial evaluations of social actions

Source: Adapted from Soobaroyen and Ntim (2013, p. 96)

3.3 Theoretical Framework of this Study

This study adopts the similar approach of Ahmed Haji and Anifowose (2016) and Setia et al. (2015). Chapter 4 and 5 of this thesis document results of content analysis of integrated reports of sampled Japanese and UK companies. The findings are explained through substantive and symbolic legitimation strategies of Ashforth and Gibbs (1990). Specifically, the study adapts the Soobaroyen and Ntim's (2013) explanations of social and environmental accounting as substantive and symbolic legitimation strategies which are shown in Figure 3.1. Integrated reporting is voluntary and still in an emerging stage. Unlike financial reporting, there is a lack of generally accepted framework for IR. Extant literature shows wide variations in current integrated reporting practice (Van Zyl, 2013; Wild and van Staden, 2013; Solomon and Maroun, 2012; Marx and Mohammadali-Haji, 2014; Melloni et al., 2017; Ahmed Haji and Anifowose, 2017). Majority of the studies find integrated reports are generic in nature that explains predominantly positive outcomes of organizational performance. Recent studies also provide inconsistent results about stakeholders' demand, benefits, and impacts of integrated reports (Rensburg and Botha, 2014; Feng et al., 2017; Naynar et al., 2018; Adhariani and De Villiers, 2018; Slack and Tsalavoutas, 2018; Hsiao and Kelly, 2018). Under this institutional environment, this study examines the nature, extent and quality of integrated/annual reports of selected Japanese and UK companies. It aims to understand whether disclosures in integrated reports/annual reports are symbolic in nature which is used by management to maintain/enhance organizational legitimacy or not.

Legitimacy theory argues that organizations face different levels of legitimacy pressure within the institutional environment (O'Donovan, 2002; Branco and Rodrigues, 2008). Studies in legitimacy theory utilize the concept of "public visibility" to measure the pressure of organizational legitimacy requirement (Branco and Rodrigues, 2008; Branco and Rodrigues, 2006; Campbell and Slack, 2006; Oliveira et al., 2011). In this case, public visibility refers to the visibility or exposure of the organizations in the social and political environment. Highly visible organizations are usually under more public scrutiny to ensure that their activities are congruent with social expectations. In other words, highly visible organizations because of higher social and political pressure need to be more concern about their legitimacy then less visible organizations. These pressures may come in different forms ranging from general concerns of the society to enactment of specific rules and regulations (Patten, 1992). The research shows that sustainability reporting can be used to minimize the public pressures for organizational sustainability. This can be done through showing organizational commitment to sustainability, building favorable image in the society, or influencing the regulatory process of sustainability reporting (Parker, 1986). Extant literature has measured the public visibility of organization by using different proxies. These include Company size, Industry affiliation, Profitability, Media exposure, Environmental accidents, and Membership of pressure groups (Patten, 1991; 1992; Deegan and Gordon, 1996; Brown and Deegan, 1998; Branco and Rodrigues, 2008; Branco and Rodrigues, 2006). Among these variables company size and industry affiliation are extensively investigated in sustainability reporting (Fifka, 2013). Majority of these studies have showed positive relationship between company size and industry affiliation and sustainability reporting. Researchers argued that larger companies and environmental sensitive industries (such as utilities, mining, chemicals, metal, and manufacturing) have more public visibility and they are more likely to disclose social and environmental information as a way to reduce their social and political pressures (Branco and Rodrigues, 2008; Fifka, 2013). Some authors also consider firm profitability as a public visibility variable. Highly profitable firms receive intense public scrutiny and need to be more careful about their legitimacy (Bewley and Li, 2000; Gamerschlag et al., 2010; Branco and Rodrigues, 2008; Haniffa and Cooke, 2005). These firms need to show that they are operating within the norms of society and that their profits are not at the expense of society. Accordingly, sustainability reporting should be positively related with firm profitability. However, Neu et al. (1998) provide alternative explanation. They argue that unprofitable firms are more likely “to use environmental disclosures either to indicate that environmental investments will result in long-term competitive advantages or to distract attention from the financial results” (p. 275).

Regarding the sources of legitimacy, from the broader perspective, the theory discusses about the society-at-large (Deephouse and Suchman, 2008). However, at the micro or empirical level, legitimacy theory brings the concept of “relevant publics”, “powerful stakeholders”, and “conferring publics” (Lindblom, 1994; Buhr, 1998; O’Donovan, 2002; Moerman and Van der Laan, 2005; Deegan, 2002; Gray et al., 1995; Neu et al., 1998). Therefore, the organization will carefully analyze power difference of stakeholders and legitimation strategies will be targeted to the powerful stakeholders. In this context, legitimacy theory is similar to the managerial branch of stakeholder theory discussed above (Gray et al., 2010). Extant literature has identified the influence of several stakeholders on the sustainability reporting practice including general stockholders, foreign stockholders, customers, suppliers, employees, international buyers, government, media, and NGOs (Roberts, 1992; Neu et al., 1998; Brown and Deegan, 1998; Kokubu and Nashioka, 2005; De Villiers & Van Staden, 2006; Islam and Deegan, 2008; Liu and Anbumozhi, 2009).

This strand of research has also extended in integrated reporting literature. Kilic and Kuzey (2018) examined the relationship between different corporate characteristics and forward-looking disclosure in integrated reports. The study is based on the 55 non-financial companies taken from Integrated Reporting Examples Database. Result shows that gender diversity, firm size, and leverage are significant in explaining the quality and quantity of forward looking disclosure in integrated reports. On the other hand, board size, independent directors, profitability, and industry affiliation are found to be insignificant for forward-looking disclosures. In an international study based on 3,042 observations from 20 countries, Frias-Aceituno et al. (2014) has also found that firm size and profitability can explain the variation in IR, while industry classification is not significant in IR adoption decision. In another study, Garcia-sanchez et al. (2013) have further documented the influence of firm size and profitability on integrated reporting. In two recent studies, Fasan and Mio (2016) and Gerwanski et al. (2019) have examined the relationship between company characteristics and disclosure on materiality in integrated reports.

In line with the above studies, Chapter 7 of this thesis investigates the corporate-level determinants of adoption of IR in Japan. The concept of "public visibility" and "powerful stakeholders" are used to formulate the relevant hypotheses. Particularly, the study examines the influence of board size, independent directors, creditors, institutional investors, cross-shareholders, foreign shareholders, company size, industry affiliation, and profitability on the IR adoption in Japan.

3.4 Data Collection Methods

3.4.1 Sample Selection

Previous studies in sustainability reporting have adopted different approaches to choose the sample. For example, Gray et al. (1995a) identified four sources from which extant literature have chosen the sample companies: (a) examining the largest companies, (b) sample taken from large, medium, and small companies, (c) investigating companies included in external ranking or index such as *The Times 1000* and *Fortune* 500 (d) examining best practicing companies recognized by external awards. A large number of these studies have focused on the reporting practice of largest companies. While larger companies are better in sustainability reporting (Fifka, 2013); availability of data for larger companies is another important reason for choosing these companies. In this context, company size is measured using different proxies including total asset, total sales revenue, market capitalization, number of employees, and recognized index (e.g., *Fortune* 500) (Patten 1991, Roberts 1992, Hackston and Milne, 1996, Branco and Rodrigues, 2008). This study follows the similar approach and investigates the integrated reporting practice of largest companies in Japan and UK.

The samples in Chapters 4 and 5 are chosen from the top 100 companies of Japan and the UK listed in Tokyo Stock Exchange and London Stock Exchange respectively. For the sample of Japanese companies, at first the Nikkei 225 companies are identified. The Nikkei stock index known as the Nikkei 225 companies is the most widely watched index of Tokyo Stock Exchange. From these 225 companies, the top 100 companies are then selected based on market capitalization. Similarly, for the sample of UK companies, at first the FTSE 100 companies are identified. FTSE 100 index consist of top 100 companies based on market capitalization listed in London Stock Exchange. Finally, a sample of 20 companies of each country or a list of 40 companies is selected based on random sampling method. Random sampling is a popular method of choosing a sample where "every member of the population has an equal chance of being selected" in the study (Leedy and Ormrod, 2016, p.161). Random sampling has several advantages: (a) it is easy to apply when population is small and known, (b) it reduces the biasness in sample selection, and (c) characteristics of sample selected based on random sampling approximate the characteristics of total population. Final samples of these studies (for Chapter 4 and 5) consist of companies from diverse industries. According to Robertson & Sami (2015), selecting company reports from diverse industries can give a balanced view of reporting practices. Robertson & Sami (2015) have conducted a content analysis of 22 UK FTSE 100 companies to understand the adoption of IR. In another study, Setia et al. (2015) has taken a sample of 25 JSE listed companies to observe the change in disclosure practice of capitals while Stent and Dowler (2015) has chosen 4 New Zealand companies to examine the contents and quality of their annual reports. The present study follows these prior researches in its sampling technique for Chapter 4 and 5.

In Chapter 7, this study examines the corporate level determinants of IR adoption in Japan. The regression analysis is based on a larger sample of Nikkei 225 companies.

3.4.2 Collection of Corporate Reports

Consistent with many other studies (Gray et al., 1995a; Guthrie and Petty, 2000; Robertson & Sami, 2015), the present study solely concentrates on published annual reports of the companies. The annual reports of selected companies are examined after downloading from their official websites. Companies can communicate information through various means including websites, newspaper, standalone sustainability reports, press releases or other reports. All publicly available information is part of accountability discharging activities of the organizations, but it is essentially challenging to identify all publicly available communications by an organization (Gray et al., 1995a). Therefore, annual reports can be a very useful proxy for reducing the focus. A good number of studies related with social and environmental disclosure have focused on the annual reports published by the organizations “either as a proxy for social and environmental responsibility activity, or as an item of more direct interest” (Milne & Adler, 1999, p. 237). Annual report is a very useful reporting vehicle for listed companies to provide all the material financial and non-financial information that the management wants to communicate with internal and external stakeholders (Guthrie and Petty, 2000). Annual reports are advantageous as these are regularly produced and enable comparison of management attitudes and policies across reporting periods (Niemark, 1992). For the present thesis, the 40 annual reports for the year 2016 have been collected from the respective websites of the companies to examine their contents in Chapters 4 and 5.

3.4.3 Collection of Corporate Data

In Chapter 7, this study examines the corporate level determinants of IR adoption in Japan. The cross-sectional study is based on the integrated reports of Nikkei 225 companies for the year 2017, the latest available year. For this purpose, corporate governance data such as number of board of directors, independent directors, institutional investors, and cross-shareholding data are collected from NEEDS Corporate Governance Evaluation System (NEEDS-Cges). It is a powerful database with detailed data and well defined criteria that enables researchers to evaluate the corporate governance of listed Japanese companies (Nikkei America, 2019). Corporate financial data such as debt to equity ratio, foreign shareholding, total sales, and industry classification are collected from NEEDS Financial QUEST. It is also a comprehensive database that stored data on companies’ financial results, stock price, bond price, macroeconomic, and industrial statistic (Nikkei America, 2019). These two databases are widely used in academic literature in Japan (Motta and Uchida, 2018; Saka and Noda, 2013; Hatakeda et al., 2013).

3.5 Research Instruments: Content analysis and Disclosure Checklist

3.5.1 Definition of Content Analysis

This study uses content analysis of annual reports for collecting and codifying the data in Chapters 4 and 5. Weber (1990) defined content analysis as a method of codifying a given text or content into various categories based on some selected criteria. Weber further established it as a research technique using a set of procedures to make valid inferences from text where the rules of the inferential process differ with the theoretical and substantive interests of the investigator. According to Krippendorff (1989), content analysis is indigenous to communication research and one of the most important research tools in social sciences. Emphasizing the relationship between the content of texts and their institutional, societal, or cultural contexts, (Krippendorff, 1989) defined content analysis as follows: “Content analysis is a research technique for making replicative and valid inferences from data to their context” (p.403).

In relation to the present study, content analysis is a method that involves codifying the contents of corporate reports based on the selected criteria that the researcher wants to analyze. Following coding, quantitative measures are developed for further analysis. Content analysis is the most commonly used method of studying annual reports and has widely been used in corporate social and environmental reporting fields of accounting research (Gray et al., 1995; Guthrie and Parker, 1990, Milne & Adler, 1999). In these fields, content analysis involves two activities: developing a classification scheme and creating a set of rules about ‘what’ and ‘how’ to code, measure and record the data to be classified (Milne & Adler, 1999). The most critical function in content analysis is to develop an objective coding instrument against which extent and quality of disclosure will be assessed. A well specified coding instrument significantly enhances the reliability of content analysis (Guthrie and Abeysekera, 2006). In this study, the coding instrument or disclosure checklist is developed based on the Content Elements of the Integrated Reporting Framework of the IIRC (2013).

3.5.2 Preparation of the Disclosure Checklist

This study mainly focuses on the Content Elements of the IIRC Framework while developing the checklist. The Guiding Principles of the Framework are not taken into account explicitly in deciding the disclosure items. Instead, this study assumes that the Guiding Principles work as the foundation for deciding the contents of each report (IIRC, 2013). Moreover, studies found that the Content Elements of the reports are highly correlated with the Guiding Principles prescribed by the IIRC Framework (Wild and van Staden, 2013). The IIRC Framework has taken a principle based approach and does not prescribe disclosure of specific Key Performance Indicators or individual matters. The individual disclosure items are chosen, after carefully reading the narratives of the “Content Elements” sections of the Framework.

The sampled corporate reports are evaluated through a process of reading and re-reading. The IIRC provides a detailed blueprint of 'what' companies should disclose through the eight Content Elements of its Framework, and directed on 'how' to disclose that information through the seven Guiding Principles therein (Ahmed Haji and Anifowose, 2016). Based on normative understanding of the eight Content Elements of the IIRC Framework, the current study has developed a disclosure checklist to comprehend what companies are reporting in reality; whether these disclosures are complying with the Framework. This study has considered almost all the important requirements or propositions in the Content Elements sections of the IIRC Framework that seem to be objectively measurable to a great extent. The content elements are fundamentally linked to each other and not mutually exclusive (IIRC, 2013).

In addition, this study has also consulted with extant literature to make the disclosure checklist comprehensive. For example, our coding structure is highly influenced by related studies of Ahmed Haji and Anifowose (2017, 2016), Wild and van Staden (2013), and Stent and Dowler (2015). Most of the existing empirical studies explore IR practice of early adopting companies through content analyses of both conventional as well as integrated reports (Wild and van Staden, 2013; Stent and Dowler, 2015; Setia et al., 2015). A study is conducted by Marx and Mohammadali-Haji (2014) through a content analysis of integrated reports, annual reports and website reporting of top 40 listed companies of Johannesburg Stock Exchange. The study has developed the disclosure checklist based on the Content Elements of IIRC Framework. However, the authors, recognized that the checklist has a limitation of capturing an incomplete picture of the reporting practice as it contains fewer than 20 disclosure items in total from six Content Elements categories. This limitation can be attributed to the fact that it was done at a very early stage of integrated reporting having very little research and evidence on this practice. Setia et al. (2015) provides us with an understanding of the extent of disclosure of different forms of capital of top JSE-listed companies. It has examined the extent of disclosure of organizational value drivers in the form of four capitals (human, social and relational, natural and intellectual capital) in pre (2009/2010) and post (2011/2012) introduction of IR in South Africa. The coding scheme used in that study comprises 37 disclosure items classified into four capital categories mentioned above. Following the above research trend, this study has also used content analysis method and prepared a disclosure checklist to codify and analyze the data.

3.6 Scoring the Corporate Reports

The final disclosure checklist contains 43 items under eight Content Elements of IIRC Framework. To measure the extent and quality of disclosure, it adopts multiple coding rules depending on nature of the disclosure items. For example, items such as ‘Principal Activities and Markets’ and ‘Ownership and Operating Structure’ are coded using dichotomous variable where 0 represent non-disclosure and 1 represents disclosure of that particular item irrespective of quality or amount of disclosure. This type of dichotomous approach is thought to be more objective as it can largely avoid the subjectivity of content analysis method (Ahmed Haji and Anifowose, 2016). For some disclosure items, scoring systems of either 0-2 or 0-3 have been incorporated. Necessary assumptions for scoring each item are clearly written along with the items in the disclosure checklist. In summary, this thesis has designed its disclosure checklist based on 3 types of scoring systems, 0-1, 0-2, and 0-3. The sampled reports are coded against each item in the disclosure checklist in the above manner.

3.7 Analysis of the Data

In order to fulfill the objective of the study and ease of understanding, the data collected through the disclosure checklist is presented in two tables/formats. A sample of these two formats is demonstrated through disclosure checklists (I) and (II) and attached in the Appendix 3A and 3B respectively. In this thesis, disclosure checklists (III) and (V) use the format of disclosure checklist (I); and disclosure checklists (IV) and (VI) use the format of disclosure checklist (II) to collect information.

The disclosure checklist (I) shows information based on sampled companies, such as: (1) the average disclosure scores for each Content Element by the sampled companies (2) disclosure score by individual company for each item and for each Content Element (3) the total disclosure score for each company for all Content Elements. To obtain total disclosure score by each company, the scores for all items of that company are added and the total is divided by the maximum possible scores, and then multiplied by 100 to get the % of disclosure. In the disclosure checklist, there are 43 items and the maximum possible disclosure score is 74 as because the checklist uses multiple coding rules. In this thesis, disclosure checklists (III) and (V) present information in the above manner, that is, based on the sampled companies for Japan (in Chapter 4) and UK (in Chapter 5) respectively.

On the other hand, the disclosure checklist (II) presents information on the basis of a specific item rather than the sampled companies. There are three columns that require clarifications in this regard. These three columns are titled as 'Average Disclosure Quality: per Item', 'Average Disclosure Quality: per Item (%)' and '% of companies disclosed the Item'. The first one, 'Average Disclosure Quality: per Item' is the mean value of sampled companies' disclosure scores on any specific item. There are 43 items in the checklist and average disclosure scores for all of these items are shown in this column. The next column 'Average Disclosure Quality: per Item (%)' is obtained as follows: the values in the column 'Average Disclosure Quality: per Item' is divided 'Maximum possible score' for each item (cell D in the checklist) and then multiplied by 100 to get the % form. The value in this column shows the average disclosure quality of any particular item by the sampled firms. The third column '% of companies disclosed the Item' is obtained as follows: number of companies in the sample disclosed on this item is divided the number of sample companies (20 companies in each case for Japan and the UK) and that multiplied by 100 to get % form. The values in this column represent the 'extent' of disclosure by the sampled companies for each item. Disclosure checklists (IV) and (VI) respectively represent this information for Japan (in Chapter 4) and UK (in Chapter 5) in the current thesis.

Chapter Four

Contents of Integrated Reporting: Evidence from Selected Companies of Japan

4.1 Introduction

The corporations of Japan are in a leading position to publish sustainability reports and in 2017 the corporate responsibility reporting rate is 99% for top Japanese companies (KPMG, 2011; KPMG, 2017). For the last two decades, a number of institutional and regulatory reforms have been taken place to improve the corporate governance systems of the country and related reporting practices. The objective of this chapter is to investigate the contents of annual reports of leading listed companies in Japan. Although preparation of IR is not mandatory in this country, it would be interesting to observe how companies are responding to this new system of reporting. Companies are innovating new ways to integrate non-financial information into their annual reports. For this reason, it would be meaningful to investigate 'what' the companies are actually reporting to their stakeholders and to 'what' extent their reporting practices meet the terms of the IIRC Framework. To fulfill this objective, contents of annual reports of 20 companies have been evaluated. Although it is very difficult to conclude very objectively on the level of compliance of these reports against the IIRC Framework, this study has prepared a disclosure checklist to codify the data for analysis. The disclosure checklist contains 43 items under the eight Content Elements of the IIRC Framework. As discussed in Chapter 3 (section 3.7), disclosure checklists (III) and (IV) pertain to this chapter. The checklists are attached in Appendix 5A and 5B respectively.

In this study, the sample companies have been chosen on a random basis from the top 100 list (based on market capitalization) of the Nikkei 225 companies. Table 4.1 summarizes the companies analyzed in this study and their industry classifications which show that these 20 companies are operating in different types of industries. Selecting companies from different industries has given an opportunity to observe the practice and applicability of integrated reporting to different types of businesses and the innovativeness in preparing those reports (Robertson and Samy, 2015). Annual reports of the companies for the year 2016 have been collected from their respective websites. This study considers the important requirements or propositions in the 'Content Elements' sections of the IIRC Framework and tried to measure those as objectively as possible. However, references to the fundamental and related Guiding principles have also been made, though these principles are not directly included in the checklist.

Table 4. 1: List of Sampled Companies of Japan

Name of the Company	Affiliated Industry	Title of the Report
1. NSK Ltd	Bearings	NSK Report 2016
2. MS&AD Insurance Group Holdings, Inc.	Insurance	MS & AD Integrated Report 2016
3. Itochu Corporation	General Trading	Annual Report 2016
4. Omron Corporation	Electric Industrial Controls	Integrated Report 2016
5. Hitachi Chemical Company, Ltd.	Plastics	Annual Report 2016
6. Mitsubishi UFJ Financial Group	Bank	MUFG Report 2016
7. KDDI Corporation	Communication services	Integrated Report 2016
8. Seven & I Holdings Co. Ltd.	Supermarket chain	Integrated Report 2016
9. Asahi Group Holdings, Ltd.	Breweries & Distilleries	Integrated Report 2016
10. Chugai Pharmaceutical Co., Ltd.	Ethical drugs	Annual Report 2016
11. Bridgestone Corporation	Tires	Annual Report 2016
12. Recruit Holdings Co., Ltd.	Miscellaneous services	Annual Report 216
13. Sumitomo Corporation	General Trading	Annual Report 2016
14. Denso Corporation	Electric Auto Parts	Annual Report 2016
15. Nippon Telegraph and Telephone Corporation	Communication services	Annual Report 2016
16. Mitsubishi Heavy Industries Group	Machinery NEC	MHI Report 2016
17. Dentsu Incorporation	Miscellaneous services	Dentsu Integrated Report 2016
18. Chubu Electric Power Company Group	Utilities	Annual Report 2016
19. Panasonic Corporation	Household appliances	Annual Report 2016
20. Daiichi Sankyo Company, Ltd	Drugs	Value Report 2016

Source: Compiled by the author (from the individual companies' websites)

The next section of this chapter presents the findings of this study followed by related discussion and conclusion.

4.2 Findings of the Study

The findings of this study are discussed in the following subsections. At the beginning, a general overview on the disclosure practice is given and then, findings on each of the Content Elements are discussed separately. To structure the discussion, disclosure practice of each Content Element in the checklist has been discussed in light with the IR propositions. It is found that 19 out of 20 sampled companies in this study, are referencing to the IIRC Framework in preparation of their annual reports and it seems that they are in different stages of IR adoption. Thus, this study could give insights on the adoption and practice of integrated reporting in Japan.

The disclosure checklist (III) shows that the overall disclosure scores of the 20 sampled companies range from 75.68% to 36.49% approximately. The NSK Report 2016 and MS & AD Integrated Report 2016 rank top with 75.68% overall disclosure score for all Content Elements in the disclosure checklist of this study, while Bridgestone Corporation's Annual Report 2016 has the lowest 36.49% among the sampled reports. Both NSK Ltd. and MS&AD Insurance Group have prepared well-structured integrated reports giving identical emphasize on all the segments of the report. NSK Report 2016 provides a clear picture of the company's underlying strengths, strategies and value creation story to its stakeholders. The Integrated Report of MS & AD Insurance Group also gives information on value creation, strategies, performance, and frameworks and systems that supports their value creation process.

The disclosure checklist (III) of this study also reveals that Governance is the highest disclosed category with 80% average disclosure by the sampled reports followed by Organizational Overview and External Environment with 76% average disclosure. Outlook is the third disclosed category with 75.63% average disclosure by these reports. The lowest disclosed Content Element is Basis of Preparation and presentation followed by Business Model with 47.5% and 48.18% average disclosure respectively by the sampled companies' reports.

There are some similarities in the overall structure and organization of these reports. Most of these reports start with an introduction of the company/group as a whole, its vision, mission and value propositions. The reports continue with management viewpoints on group's performance from the past into the future as well as its short-term, medium term and long-term business strategies, investment plan, financial strategy. Description of the company's business domains occupies a significant portion of the report in most cases. The story of value creation from business activities is also included. The other sections consist of company's sustainability related information, risk management and corporate governance disclosure. The last section usually contains financial statements and related disclosure.

4.2.1 Content Element 1: Organizational Overview and External Environment

The Content Element Organizational Overview and External Environment provides information on what does the organization do and what are the circumstances under which it operates its business (IIRC, 2013). The average disclosure rate for Organizational Overview and External Environment is 76% by the 20 sampled companies. Reports of 5 companies namely, NSK Ltd., MS&AD Insurance Group, Hitachi Chemical Company, Chugai Pharmaceuticals and Chubu Electric Power have scored the highest (90%) disclosure whereas Bridgestone Corporation and Denso Corporation have scored the lowest (50%) under this Content Element. All the companies disclose on their mission, vision, values and culture along with principal activities and markets, 65% companies disclosed about their competitive landscape and market positioning. All 20 sampled companies disclose on their various KPIs and average disclosure quality of KPIs is 66.67%. 16 companies out of 20 (80%) provide with both financial and non-financial indicators and some qualitative information regarding capital and value creation, whereas only 4 companies (20%) provide with at least, some capital related quantitative information or indicators along with financial, non-financial indicators. Under the item 'Significant factors affecting the external environment and the organization's response', only 2 companies make detailed disclosure on different types of external environment applicable to the organizations. Most of the reports have made a moderate or partial disclosure on this point and discuss mainly on commercial and political context out of five types of external environments.

Many annual reports of Japanese companies begin with a message from the management, followed by the vision, mission, and core values of the organizations whereas many other reports start with illustrating the value creation process. Few reports begin in an innovative way: highlighting the most useful segments of information to the readers with necessary navigation to that information. One such example is MS&AD Integrated Report 2016 where the three key concepts of the report are displayed to the interested readers at the beginning of the report. Innovative ways are also seen in the description of the mission/vision statement of the reports.

For example, the Asahi Group's vision statement shows the Group's visions for all its stakeholders.

[Future Vision for Our Business]

As a comprehensive beverage and food business group whose core business is alcohol beverages, we aim to be an industry leader in Japan with high added value as a key area of focus and establish a unique position as a global player that leverages strengths originating in Japan

Seek sustained corporate value enhancement by pursuing satisfaction for all stakeholders

[Our Vision for Our Stakeholders]

Customers	Continue to create new value based on strengths nurtured in Japan and achieve the No. 1 ranking for customer satisfaction in Japan and each region of the world.
Business partners	Develop relationships with our business and alliance partners that support mutual growth and create new value for all parties.
Society	Contribute to the resolution of social problems through the Group's businesses in areas such as development of a wholesome food culture.
Employees	Develop an environment in which employees can work vigorously and experience personal growth together with corporate growth.
Shareholders	Enhance corporate value (stock value) through sustainable profit creation and shareholder returns.

Source: Asahi Group, Annual Report 2016, p.5

In another example, Chugai Pharmaceuticals details its vision for a 'Top Pharmaceuticals Company' in specific quantitative and qualitative terms which is very clear and understandable (shown in Figure 4.2).

The IIRC Framework does not prescribe specific KPIs, measurement methods or the disclosure of individual matters. Those who are responsible for the preparation and presentation of the report should exercise judgment depending on the specific circumstances of the organization (IIRC, 2013). KPIs should be relevant to the circumstances of the organization, connected between financial and other information, and presented against previously reported targets. KPIs should be presented for multiple periods and consistent with generally accepted industry or regional benchmarks to increase comparability (p. 31). According to third General Principle (Section 3: Ensuring Appropriate Information Disclosure and Transparency) of the Corporate Governance Code of Japan, it is advised that "Companies should appropriately make information disclosure in compliance with the relevant laws and regulations, but should also strive to actively provide information beyond that required by law. This includes both financial information, such as financial standing and operating results, and non-financial information, such as business strategies and business issues, risk and governance" (TSE, 2015, p.13).

Definition of a "Top Pharmaceutical Company"

(The company Chugai aims to become by the late 2010s)

Corporate Vision

A company that focuses on first-in-class[1] and best-in-class[2] products and services, and continuously provides new solutions to patients and medical communities around the world.

— Innovation all for the patients —

1. An original drug that is highly novel and useful, and will significantly change the therapeutic system
2. A drug that offers clear advantages over other existing drugs in the same category, such as those with the same molecular target

Quantitative Aspects

1. **Among the top three Japanese pharmaceutical companies in the following:**
   - Domestic market share
   - Ratio of consolidated operating profit to revenues
   - Consolidated operating profit per employee
   - Domestic sales per medical representative
2. **No. 1 presence in strategic disease areas**
   - Oncology/Renal/Bone & Joint/RA: Top-class sales share and stakeholder satisfaction
   - Establishment of top brand in hospital market by supporting medical liaison networks between medical professionals
3. **Expansion of global presence**
   - Higher overseas sales ratio
   - Number of large global products in lineup
   - Number of global projects in late-stage development
   - Continuous addition of first-in-class and best-in-class in-house projects to the portfolio

Qualitative Aspects

1. **A company that satisfies all its stakeholders and receives their active support and trust**
2. **A company that works proactively on a global level**
   - Continuous creation, development, and domestic and overseas launches of products with a competitive advantage in clinical results
   - Contribution to the Roche Group's results through product-appropriate fostering and sales
   - Leadership in pharmaceutical industry activities
   - Activities in which all employees have an awareness, sense of responsibility and pride as part of a top pharmaceutical company

Source: Chugai Pharmaceutical Co., Ltd., Annual Report 2016, p.6

The board is responsible for ensuring the usefulness and accuracy of the disclosed information including non-financial information. The guidelines of Corporate Governance Code and other initiatives by the government have greatly stimulated the disclosure of non-financial information in the annual reports of Japanese companies. In a survey on integrated reporting practice of Japan, KPMG in Japan (2018) finds that 62% of Japanese companies include a detailed explanation of non-financial KPIs in a separate section.

The current study also finds that the annual reports of 16 companies (80%) include non-financial indicators with trends and in a separate section, although the extent and quality of disclosure varies among these reports. For example, Chugai Pharmaceutical Co. Ltd. has exhibited much attention and care in preparing the section ‘Financial and Non-Financial Highlights’. The KPIs are prepared based on internationally accepted standards and in relation to organization`s strategies; presented for a five years period and with measurement methods and underlying assumptions. The NSK Report 2016 provides an eleven years summary of its financial and non-financial indicators. In another example, Annual Report 2016 of Hitachi Chemical Co. Ltd. discloses KPIs for six years period. The sampled annual reports in this study usually contain both financial and non-financial KPIs, but in most cases the connections between those indicators and strategies, material matters and value creation process of the organizations are not clearly stated. The IIRC Framework requires that KPIs should be linked to the strategic objectives and value creation process of the organization and measure the degree of achievement to those objectives. KPMG in Japan (2018) concludes that among the sampled Japanese companies in their survey, few companies have described their KPIs in connection with their background strategies and objectives, and only a few companies’ management has clarified those KPIs. Consistent with this finding, the current study finds that only 20% of the sampled companies try to make some linkages of between KPIs and their strategic objectives or value creation processes.

4.2.2 Content Element 2: Governance

This study finds that Governance is the highest disclosed element with 80% average disclosure by the sampled Japanese firms. 8 reports have scored the highest (88.89%) disclosure in Governance. The higher performance on governance related disclosure can be the effects of various initiatives taken by different regulatory bodies of Japan to improve governance system of the companies. For example, the reforms in the Companies Act in 2014 (which was effective from May, 2015), Japan’s Stewardship Code (2014), and introduction of Corporate Governance Code (2015) have highly influenced the initiatives taken by the companies to systemize their corporate governance system in recent years. Various initiatives by the companies in recent years are evident in the Corporate Governance sections of the sampled reports. Japanese listed Companies can choose one of the three main forms of organizational structure under the: Company with Kansayaku Board, Company with Three Committees (Nomination, Audit and

Remuneration), or Company with Supervisory Committee (TSE, 2015). Usually the Corporate Governance section of the annual report mentions about the organizational structure it has adopted out of the above three. For example, the annual report of MUFG states:

> *"Having shifted its governance structure from a conventional Japanese system to a "company with committees" system in June 2015, MUFG has until now been striving to build an even more sophisticated governance system. When it comes to governance systems, I adhere to the principle of substance over form"* (MUFG Report 2016, p.18).

Most of the reports stated the standard information related with corporate governance effectiveness, such as: list of directors and their skills and experiences, reasons for appointing internal and external directors, CG framework and composition of committees, changes in the CG framework, the commitment to address the board evaluation results, compliance with related disclosures, Risk management and internal control, disclosure on remuneration and incentives. But these reports rarely made any linkage with the information given in a corporate governance report and organizational medium to long term strategies and value creation process. Among the 6 items that were analyzed under the Content Element Governance, the item titled 'How remuneration and incentives are linked to value creation?' has the lowest 37.5% average disclosure. Out of 20 companies, 5 reports (25%) did not focus on this issue and other reports essentially made inadequate, generic disclosure.

4.2.3 Content Element 3: Business Model

An integrated report aims to provide an understanding about the "resources and relationships used and affected by an organization" – which are collectively referred to as the capitals of the organization. The report aims to explain the interactions of the organization with its external environment and its capitals to create value over the short, medium and long term (IIRC, 2013, p.4). The Framework permits that organizations can categorize the capitals in a different way as stated in the Framework. The categorization in the Framework basically, serves as a guideline for ensuring that an organization considers all the forms of capital it uses (p. 12). The recent Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation by the Ministry of Economy, Trade and Industry (METI) also emphasizes on communicating information on value creation and business model. Understanding that corporate value creation processes are specific to individual companies, the above Guidance expects that companies should flexibly incorporate specific items relevant to their business models (METI, 2017). The Guidance defines Business Models as "the sequence of processes whereby a company creates products and services using tangible and intangible resources as inputs and provides them to customers at prices commensurate with the added value" (METI, 2017, p.9). According to the IIRC Framework, an integrated report should provide information on organization's business model. "An organization's business model is its system of transforming inputs, through its business activities, into outputs and outcomes that aims to fulfill the organization's strategic purposes and create value over the short, medium and long term" (IIRC, 2013, p.25). The introduction of the IIRC Framework and its worldwide use along with recent initiatives by the Government of Japan and important regulatory bodies such as, Tokyo Stock Exchange has increased the use of value creation process in the annual reports. KPMG in Japan (2018) also confirms this finding.

The current study finds that out of 20 sampled annual reports, 7 reports (35%) have discussed their value creation processes in separate sections and 10 reports (50%) as sub-sections. The remaining 3 annual reports (Bridgestone Corporation, Seven & I Holdings Co., Ltd. and Chubu Electric Power Company Group) have not clearly identified the key elements of their business model. The annual report 2016 of Chubu Electric Power mentions about their new business model to create value and fulfill their strategic goals in different discussions in the annual report, but there is no diagrammatical presentation or narratives on it. These 3 reports have given some general comments only on their value creation models in other sections in the annual reports. In its recent survey of 341 listed Japanese companies, KPMG in Japan (2018) finds that 57% of the companies have disclosed their value creation processes in separate sections. The survey also reveals that only few companies have disclosed both quantitative and qualitative information to explain the relationships between capitals that are used in value creation and capitals that they create.

In the present study, it is found that Business Model is the second lowest disclosed of all the Content Elements with 48.18% of average disclosure by the sampled annual reports. Out of the 17 reports that have identified the key elements of their business models, 9 reports explain the relevance of those elements to the organizations. The important item under this Content Element titled 'Relating and disclosing capitals with business model' has 33.33% average disclosure quality on item basis implying that these reports fail to make any substantial disclosure as per the IIRC Framework. Only 4 reports have made some quantitative disclosure along with narratives whereas another 4 reports have not mentioned about capitals in their business models. The remaining 12 reports only provide a narrative disclosure. Another item 'The interdependencies and trade-offs between the capitals: financial, manufactured, intellectual, human, social and relationship' has an average disclosure quality of 15% on item basis where only 3 companies discuss some interdependencies among the various types of capitals. Disclosing the various types of capitals related with any specific business and explaining their interdependencies is one of the main propositions of the IIRC Framework related with capitals. 13 companies (65% of the sample companies) have disclosed their business model and its 'Connections to information covered by other Content Elements, such as strategy, risks and opportunities, and performance' of the organization. The 19 other annual reports except Bridgestone's annual report 2016 have disclosed information on 'Changes in organization's strategy when, for instance, new risks and opportunities are identified or past performance is not as expected/Aligning business model with changes in its external environment', where the companies made a moderate disclosure on this item achieving an average disclosure quality of 60% by all companies.

4.2.4 Content Element 4: Risks and opportunities

Business faces both risks and opportunities in the course of their operations. Management should understand, analyze and explain the associated risks and opportunities in the organizational value creation process over the medium to long term and should define their strategies accordingly. According to the IIRC (2013), IR should disclose on the specific sources of risks and opportunities, that can be internal, external or, commonly, a mix of both. IR should also include organization's assessment on the probability of occurrence of that risk or opportunity. The most important information to disclose is the countermeasures taken "to mitigate or manage key risks or to create value from key opportunities, including the identification of the associated strategic objectives, strategies, policies, targets and KPIs" (IIRC, 2013, p. 27).

In its recent survey on 341 listed Japanese companies, KPMG in Japan (2018) finds that 79% reports provide risk information while only 23% of reports provide some sort of information regarding opportunities. This survey also exposes an interesting insight about the most important risks for Japanese business. Based on another study namely, KPMG Global CEO Survey 2017, KPMG prepared a list of the top risks for business perceived as important by the 100 Japanese companies' CEOs. In the opinions of CEOs the top risks were: reputational/brand, emerging technology, cyber security, regulatory, and strategic risk. But the KPMG in Japan (2018) survey finds that the top risks cited in the integrated reports of Japanese firms are: operational, regulatory, cyber security, geopolitical and environmental risk. The survey, therefore, observes a gap between the risks perceived as important by management and the risks explained in the integrated reports of Japanese companies (KPMG in Japan, 2018).

On the other hand, the current study finds that the average disclosure for Content Element: Risks and Opportunities is 64.29% where the sampled companies' reports disclose mainly on the risks of their business and measures taken for mitigating those risks. Although the disclosure checklist is showing that the 100% of the reports have disclosed on their sources of risks, some of these reports only mentioned about the name of the risks in their Corporate Governance sections without discussing much on their nature or impacts. 70% of companies disclose on the sources of both risks and opportunities. 85% of the sampled companies provided information about the 'Possible impacts of risks' only, whereas 45% of them discussed about the 'Possible impacts of opportunities' as well. Among the companies, MS&AD Integrated Report 2016 and Itochu Corporation's Annual Report 2016 have made a very good disclosure on its business risks, countermeasures, and also on opportunities for individual business. On the other hand, annual report of Recruit Holdings scored the lowest 14.29% among the sampled companies under this Content Element followed by KDDI and Denso Corporation with 28.57% disclosure.

4.2.5 Content Element 5: Strategy and Resource Allocation

An integrated report should provide its readers with information about the strategic objectives of the organization that it wants to achieve and clearly describe the direction to achieve those objectives. Organizational strategy should be linked to resource allocation plans, changes that are necessary to the business model and possible risks and opportunities (IIRC, 2013).

In this study, there are six items in the disclosure checklist under the Content Element: Strategy & Resource Allocation. The average disclosure is 72% of the sampled reports. The first item under this Content Element is 'The organization's short, medium, and long term strategic objectives', which has an average disclosure quality of 90%. The companies have made good amount of disclosure on their strategic objectives and plans to achieve those objectives. Now-a-days, Japanese companies are trying to embed social and environmental consideration into the organizational strategies which is reflected in the checklist. The Item titled 'Resource allocation plans every organization has to implement its strategy' achieves an average disclosure quality of 65% implying a moderate disclosure on this issue. The item 'Stakeholders engagement in formulating strategies and resource plans' has an average disclosure quality of 70% for all the sampled companies. Half of the annual reports have disclosed some specific details on their stakeholders' engagement while 8 reports have only identified their stakeholders. 'Linkage between the organization's strategy and resource allocation plans, and organization's business model' is one of the important indicators for understanding the integrated thinking of the organization. In the checklist, this item has achieved an average disclosure quality of 35%, implying low levels of integration with these factors. The disclosure checklist is showing that 60% of the companies have discussed about the co-ordination of these factors, but the discussions are not so clear and connected.

4.2.6 Content Element 6: Performance

Quantitative indicators or KPIs increase comparability and are helpful in understanding and expressing against targets. To achieve these purposes, KPIs should be relevant, consistent with some benchmarks, connected to other financial and qualitative information and presented with trends (IIRC, 2013). In this study, the average disclosure for Content Element: Performance is 56.82% by the sampled annual reports. In these reports, KPIs are usually presented for multiple periods, and in many cases presented against previously computed targets. However, the disclosures are usually partial where risks and opportunities are not considered much. The item 'KPIs that combine financial measures with other components or monetizing certain effects on the capitals' has scored a poor 17.5% average disclosure quality where only 35% of the sample companies have made some disclosure and that are mainly narrative in nature. This item mainly explains the connectivity of financial performance with improvement or use of other capitals or financial consequences of certain effects on the organization such as, carbon emissions and water use.

The item titled 'The Organization's effects (both positive and negative) on the capitals' shows a score of 52.5% average disclosure quality. These reports usually disclose the positive outcomes of the organizations. However, some occasional revelations of negative information are also evident in some reports. For example, in the management message section the President and Chief Executive Officer of Itochu Corporation acknowledges that:

> "*We also place importance on dialogue with shareholders and other investors, and we are always aware of ITOCHU's stock price, which could be considered a performance result card for management. The most important thing is to get our shareholders to trust the managements by delivering good results. That is the reason why I remain committed to the achievement of plans. However, in FYE 2016 we did not keep this commitment. For the first time since I became president, we failed to achieve our initial plans*" (Itochu Corporation, Annual Report 2016, p.12).

All the reports under study have disclosed information on past and current performance and link their future outlook with that. However, disclosure of quantitative indicators for non-financial performance calls for improvement.

4.2.7 Content Element 7: Outlook

Reporting on Outlook is to make the stakeholders aware of the challenges and uncertainties that the organization may encounter in future in pursuing its strategies, the changes needed in the organization`s business model to cope with strategies and the possible implications on its financial performance (IIRC, 2013). This study finds a moderate disclosure average, 75.63% of the sampled annual reports under the seventh Content Element that is Outlook. All of these annual reports have discussed about their 'Expectations about the external environment' and the average disclosure quality for this item is 85%. The next item 'Organization's preparedness for the future uncertainties' is discussed by 85% companies. It is found that the discussion on 'Potential implications of future uncertainties on future financial and other capitals' is usually limited to financial capital; implications on all types of capitals are not considered in most of these reports. Although 18 companies (90% of the sample companies) have discussed about some implications, the average disclosure quality is 45% implying that the discussions are not comprehensive enough.

4.2.8 Content Element 8: Basis of Preparation and Presentation

An integrated report should define its reporting boundary and the process how it has been determined. It should also describe the matters to be included in it and how such matters are quantified (IIRC, 2013). In the current study, this Content Element has the lowest average disclosure, 47.5% of the annual reports under study. Annual reports of 4 companies namely, Hitachi Chemical Company Ltd., Asahi Group Holdings Ltd., Seven & I Holdings, and Daiichi Sankyo score the highest 87.5% disclosure among the sampled reports whereas 7 companies have the lowest 12.5% disclosure. 60% of the sampled reports have mentioned about the framework or methods used to evaluate material matters. 55% companies have provided a 'Brief description of the process used to identify relevant matters, evaluate their importance and narrow them down to material matters'. In most cases, materiality is defined with reference to the ESG issues. In terms of quality, the average disclosure for this item is 40% only implying that these reports do not provide sufficient information on it. Another important item is 'Impact of material matters on the organization's value creation processes' where 45% of the companies have discussed on it and the average disclosure quality is 25% only. The picture is almost similar for 'Stakeholder engagement in materiality determination' where only 7 reports have disclosed some information and the average disclosure quality is 35% only.

4.3 Discussion on the Findings of the Study

Apart from many other studies (Solomon and Maroun, 2012; Wild and van Staden, 2013; Setia et al., 2015), the present study contributes to the literature by analyzing the contents and quality of annual reports/integrated reports of some listed companies in Japan against the IIRC Framework. This study is consistent with few other empirical studies (Robertson and Samy, 2015; Stent and Dowler, 2015), that also examined the integrated reporting practice in voluntary reporting settings. By developing and applying a disclosure checklist based on the IIRC Framework and its Content Elements, this study wants to give insights on the corporate reporting practice of selected Japanese companies against the IIRC Framework. This study has found mixed results. On one hand, there are evidences that the introduction of integrated reporting is shaping the corporate reporting practices in Japan and companies are gradually aligning their reporting practices to the principles of IR. On the other hand, there are still many drawbacks in the current practice.

The results in the disclosure checklist (III) show that the disclosure scores of the 20 sampled companies of Japan range from 75.68% to 36.49% approximately. This finding is consistent with many other studies in this research area who also observe that reporting quality varies from excellent to poor (Marx and Mohhammadali- Haji, 2014). Governance is the highest disclosed category with 80% average disclosure followed by Organizational Overview and External Environment with 76% average disclosure and Outlook with 75.63% average disclosure by the sampled corporate reports. The lowest disclosed Content Element is Basis of Preparation and presentation followed by Business Model with 47.5% and 48.18% average disclosure respectively. These findings have some similarities and also dissimilarities with other studies. For example, Wild and Van Staden (2013) finds that the early integrated reports are in general lengthy rather than concise, and fail to comply with all the Guiding Principles. The authors opine that the early integrated reports mainly emphasizes on ‘soft’ or general measures like Strategy, Operating Context and Organizational Overview rather than ‘hard’ or specific measures like Performance and Future Outlook. In addition, the authors also find that the reports mainly disclose four capitals rather than six capitals recommended by the IIRC, namely financial, human, natural and social capitals. In contrast, the current study finds superior disclosure on Governance and Outlook in sampled corporate reports of Japan than other Elements.

Consistent with recent empirical studies in this area (Wild and van Staden, 2013; Setia et al., 2015; Ahmed Haji and Anifowose, 2016), this study has also incorporated notions from legitimacy theory to understand the nature of reporting practices of the sampled organizations. Although legitimacy theory is not always useful to explain corporate reporting practice, it can be useful to explain organization’s reactions to any changes in business environment (Deegan et al., 2000). Organizational legitimacy seeking behavior can take three forms, substantive, symbolic and a combination of these two. Depending on the changes in contextual events, stakeholders’ salience, and the organization’s present condition of legitimacy, an organization can adopt a combination of substantive and symbolic disclosures (Soobaroyen and Ntim, 2013). Drawing out from legitimacy theory, this study thinks that the current reporting practices of Japanese companies might be a combination of symbolic and substantive disclosure.

The findings of this study have determined that the reporting practice of the sampled Japanese companies is, to some extent ceremonial against the IIRC Framework. Here are some main observations. For an example, 19 out of 20 sampled reports declare their annual reports 2016 as integrated report and reference to the IIRC Framework as one of the guidelines that they have followed. The following extract is from editorial policy statement of Asahi Group Holdings Ltd.:

> *"Since 2014, we have issued the Integrated Report combining the conventional Annual Report and CSR Communication Report into one. In compiling Integrated Report 2016, we have referred to the Integrated Reporting Framework issued by the International Integrated Reporting Council. In doing so, we have created a communication tool that systematically combines financial and non-financial information as part of our value creation story, aiming to further develop management for corporate value enhancement"* (Asahi Group Holdings Ltd., Annual Report 2016, p.6).

To cite from Chugai's editorial policy statement:

> "*Chugai has adopted integrated reporting to communicate both the financial and non-financial aspects of its corporate value by combining the traditional annual report with the print version of the corporate social responsibility (CSR) report*"(Chugai Pharmaceuticals Co. Ltd., Annual Report 2016, p.17).

Even the editorial policy statement of Bridgestone group mentioned about the IIRC Framework where this study finds only 36.49% compliance against the Framework and the disclosures are very limited and mostly generic in nature.

> "*To communicate initiatives intended to increase corporate value over the medium to long term, the Group reports financial and non-financial information in accordance with the following reporting framework. In preparing these reports, the Group referred to the International Integrated Reporting Framework proposed by the International Integrated Reporting Council (IIRC)"* (Bridgestone Group,

Annual Report 2016, p.13)

A form of uniformity is seen in the narratives of the first two editorial policy extracts. Moreover, combining two separate reports under one cover is not what an integrated report is intended for, “rather, it makes explicit the connectivity of information to communicate how value is created over time” (IIRC, 2013, p.8). Although referenced to the IIRC Framework, some of the sampled reports largely fail to comply with the core requirements of the Framework. For those reports, this declaration is ceremonial in nature in order to avoid unfavorable stakeholder attention. Compliance with generally accepted models of reporting can constitute a substantive approach as it reflects a decision to follow an external standard of disclosure (Soobaroyen and Ntim, 2013). In this case, the key consideration of substantive management that is, ‘concrete action’ is essential, which is not evidenced much by some corporate reports included in the sample of this study. Moreover, having no regulatory burden, symbolic adherence to the IIRC Framework might be considered enough by the management of these companies to maintain legitimacy.

Usually, the top management describes their long term vision in their messages to stakeholders. In many cases, the message from the top management also discusses the medium-term management plan and strategic investment, but not all of these reports explain it together with the financial strategy of the organization. KPMG in Japan (2018) also confirms this finding where long term vision and financial strategy are absent in many reports. Even if the financial strategy is discussed, linkages are not made to the organizational value creation process. As a result, it is expected that the message from the top management should include the organization’s long term vision, and their medium to long term value creation strategies should be linked to the financial strategy. This could help to fulfill the Guiding Principle Strategic Focus and Future Orientation by assuring the stakeholders how the continued availability of capital helps to achieve the organizational strategic objectives in the future and create value (IIRC, 2013).

It seems that companies have selected certain aspects to disclose in their reports that are mostly emphasized in the IIRC Framework to give a symbolic gesture to the audience. But in most cases, the discussion is declarative in nature without quantitative and/or monetary information. For example, the presentation of business models in the sampled reports under the current study.

The current study finds that out of 20 sampled annual reports, 7 reports (35%) discuss their value creation processes in separate sections and 10 reports (50%) discuss as sub-sections and 3 reports (15%) do not have any clear discussion on it. The disclosure on the Content Element: Business Model ranges from 81.82% to a low of 9.09% by the sampled reports. The disclosure score for 13 companies (65% of the sample) is less than 50% for their business models. 'The interdependencies and trade-offs between the capitals: financial, manufactured, intellectual, human, social and relationship, and natural' has an average disclosure quality of 15% only, whereas 'Relating and disclosing capitals with business model' has an average disclosure quality of 33.33% although 80% companies discussed on it. It implies that the corporate disclosures on multiple capitals are "general/ minimal in nature" and "offer incomplete accounts" without specific discussions on how a certain capital is changing in relation to another and what relation these capitals have with material issues of the business and its medium to long term strategies (Soobaroyen and Ntim, 2013: Ahmed Haji and Anifowose, 2017). Nevertheless, the introduction of the IIRC Framework have initiated some innovative disclosure practices (Ahmed Haji and Anifowose, 2017), which are incremental in nature, rather than radical (Stubbs and Higgins, 2014). KPMG in Japan (2018) found that the sampled Japanese reports in their study have showed a general tendency of using similar terminologies and similar pattern of illustrating the value creation processes as illustrated in the IIRC Framework (2013). Referencing to the IIRC Framework might be logical on the ground of uniformity, but companies could make their unique value creation stories based on their own resources and operations. In spite of these drawbacks, studies find an increasing trend of disclosure on multiple capitals framework (Ahmed Haji and Anifowose, 2017; Setia et al., 2015).

According to IIRC (2013), an organization should disclose all its effects (both positive and negative) on the capitals in its performance disclosure. The principle of Reliability and completeness also states that an integrated report should include "all material matters, both positive and negative, in a balanced way and without material error" (p.5). Most of studies using legitimacy theory conclude that organizations usually emphasize on positive information to manage and manipulate the expectations of the society (Ahmed Haji and Anifowose, 2016). Under legitimacy theory, this is seen as a sign of symbolic management. Consistent with these findings, the current study also observed that disclosing negative information is a rare practice for these companies.

Materiality is one of the most fundamental principles of the IIRC Framework. An integrated report should include all the material matters that affect the organization's value creation process and a summary of the materiality determination process. All material matters, positive and negative, risks and opportunities, favorable and unfavorable performance and prospects should be included (IIRC, 2013). But, the current study finds a very limited disclosure on material matters as well as materiality determination process. In most cases, materiality is defined with reference to the ESG issues of the organization. Although 60% of the companies discussed about the 'frameworks or methods used to evaluate material matters', in most reports the description was general and minimum in nature. 55% reports have provided a 'Brief description of the process used to identify relevant matters, evaluate their importance and narrow them down to material matters'. In terms of quality, the average disclosure for this item is 40% only, implying that these reports have not provided sufficient information on it. Only 35% companies have disclosed some information on 'Stakeholder engagement in materiality determination'. Similar findings are confirmed by other recent studies (Ahmed Haji and Anifowose, 2016; Ahmed Haji and Anifowose, 2017). In their recent survey on Japanese companies, KPMG in Japan (2018) also finds that only 35% companies of their sample disclosed on materiality. Among these companies, 50% have discussed on the materiality determination process as well. 62% of the companies who disclosed on materiality have done the analysis to select their CSR activities. Assessing materiality from CSR aspect could be helpful for integrating materiality in the business activities. However, materiality should be assessed from overall management of the business and its value creation process (KPMG in Japan, 2018).

Apart from the signs of symbolic management, there are many instances as well, evidencing the potential of a new, substantive form of corporate reporting. Some observations of this kind are illustrated here. In contrast to some earlier research (Wild and van Staden, 2013), the current study has found good disclosure on the Content Element Governance and Future Outlook. In this study, Governance is the highest disclosed category with 80% average disclosure and Outlook is the third disclosed category with 75.63% average disclosure by the sampled companies. From the corporate governance sections of the reports, it appears that awareness and initiatives for governance reforms are reinforced in Japanese listed companies since 2015, the year in which Corporate Governance Code was introduced (KPMG in Japan, 2018). The following excerpt is taken from the corporate governance section (Message from the Board of Directors) of an annual report:

"To clarify our corporate governance initiatives and policies and fulfill our obligation to explain them to shareholders and investors, in November 2015 the Board of Directors approved and instituted the Chugai Pharmaceutical Co., Ltd. Basic Corporate Governance Policy. Guided by this policy, we intend to review the status of our corporate governance and improve it on an ongoing basis. We are also implementing all principles of the Corporate Governance Code of the Tokyo Stock Exchange, and will periodically conduct verification to enhance our corporate governance" (Chugai Pharmaceuticals, Annual Report 2016, p.41).

For example, the initiatives and commitment of the MS&AD Insurance Group is reflected in the following figure taken from the company's integrated report:

Measures taken up to now to strengthen Group governance

Fiscal 2010 to fiscal 2014	· Introduction of executive officer system · Appointment of multiple Outside Directors · Establishment of Nomination Committee and Remuneration Committee · Introduction of performance-based remuneration
Fiscal 2015	· Establishment and announcement of the "MS&AD Insurance Group Basic Policies on Corporate Governance" · Establishment of "Governance Committee" mainly composed of Outside Directors · Elevation of the ratio of independent Outside Directors to one-third · Announcement of criteria for the selection of Director candidates and Corporate Auditor Candidates (including criteria for determining independence of Outside Corporate Officers) · Introduction of stock options as stock-based compensation system for Directors (excluding Outside Directors) and executive officers
Fiscal 2016	· Reduction of total number of directors from 12 (4 Outside Directors) to 11 (4 Outside Directors) · Establishment of new titles: Group CFO, Group CRO, etc. · Analysis and evaluation of overall effectiveness of the Board of Directors and announcement of a summary of the results

Improving the Effectiveness of the Board of Directors

Establishment of Committees Comprised Mainly of Outside Directors and the Providing of Opportunities for Opinion Exchanges

The committees and meetings shown below have been established since fiscal 2015, and Outside Directors have freely engaged in constructive discussions and opinion exchanges.

Source: Annual report 2016, MS & AD Insurance Group Ltd., p.38

The following is another example that is taken from the annual report of Mitsubishi Heavy Industries:

Recent Corporate Governance Reforms

Year	Reforms
2005	• Shortened the term of office for directors from two years to one • Introduced an executive officer system • Increased the number of outside directors from one to two and outside statutory auditors from two to three • Reduced the number of directors from 28 to 17
2006	• Abolished the system of director retirement allowances and bonuses, switching to system of monthly remuneration and performance-linked remuneration • Introduced a stock option system for directors, except outside directors
2007	• Increased the number of outside directors from two to three
2011	• Integrated a matrix structure of Business Headquarters and Works into the Business Headquarters Structure
2013	• Consolidated and restructured the nine Business Headquarters, transitioning to the Business Domain Structure (full transition by April 2014)
2014	• Introduced the Chief Officer System • Reduced the number of representative directors from 12 to six • Decreased the number of directors from 17 to 12
2015	• MHI transitioned to a company with an Audit and Supervisory Committee. The number of directors was reduced to 14, including five Audit and Supervisory Committee members. (Prior to the transition, the Board of Directors comprised 17 members, including the statutory auditors.) The number of outside directors was set at five, including three Audit and Supervisory Committee members. • Abolished stock options and introduced a new stock remuneration system for directors (excluding outside directors and directors who are serving as Audit and Supervisory Committee members) and executive officers. (Directors who are Audit and Supervisory Committee members receive base remuneration only.) • Formulated the Corporate Governance Guidelines of Mitsubishi Heavy Industries, Ltd.
2016	• Established the Nomination and Remuneration Meeting • Reduced the number of directors from 14 to 11 (with the number of outside directors remaining constant at five)

Source: Annual Report 2016, Mitsubishi Heavy Industries Ltd., p.47

The above figures show the formulation of corporate governance guidelines/policies by the companies in 2015. The introduction of Corporate Governance Code might stimulate the business to provide substantive disclosure in the annual reports. In addition to Governance, significant disclosure is found in the sampled annual reports regarding the Content Element Outlook in terms of extent and disclosure quality.

Consistent with many other studies (Wild and van Staden, 2013), the two Content Elements: Organizational overview and External Environment, Strategy and Resource Allocation have evidenced significant disclosure by the sampled reports. Among the various items under Organizational overview and External Environment, the item titled ‘Key Quantitative Information’ (financial and non-financial KPIs) shows a promising disclosure. The sampled reports present many financial and non-financial KPIs. The present study finds that all the sampled reports published financial indicators and 80% of these reports included non-financial indicators as well, with trends and in a separate section, although the extent and quality of disclosure varies among the reports. While KPMG in Japan (2016) found that 27% of the total KPIs disclosed in sampled integrated reports for the year 2015 was non-financial, it increased to 29% for the year 2016 and further increased to 36% for the year 2017. This is a reflection of trends that the companies are trying to improve their reporting to adhere to the basic principles of IR.

In this study, the average disclosure is 72% by the sampled reports under the Content Element: Strategy & Resource Allocation. Most of the companies have made substantive amount of disclosure on their strategic objectives and plans to achieve those objectives. Among the 20 annual reports, 19 have explained their strategies with timeline, 6 reports have taken into account risks and opportunities in considering strategies, and 7 reports have mentioned about specific KPIs to measure the organization's achievements in the short, medium and long term. Although these reports fail to make clear linkages between their strategies and resource allocation plans and/or business model, it appears that the companies are putting their endeavors to make improvements. The current study also finds that companies are acknowledging the interrelatedness of various capitals and connections of business model to other content elements, such as strategy and risk and opportunities.

In summary, this study aims to observe the way these companies are reporting and the extent to which these reports comply with the IIRC Framework (2013). As per the Framework, it is not necessary for an IR to include all matters referred to in the guidance (IIRC, 2013). What is more essential to produce a good IR is implementing the process of integrated thinking and connectivity of information. As a principle based approach, it allows the preparers of integrated reports with guidance as well as enough flexibility and innovativeness to recognize "the wide variation in individual circumstances of different organizations while enabling a sufficient degree of comparability across organizations to meet relevant information need" (IIRC, 2013; p.7). From the above analysis (section 4.2 and the current section), it can be concluded that there are evidences of both symbolic and substantive disclosure in the sampled corporate reports of Japan against the IIRC Framework. It is understandable that the transition from one form of reporting to another needs a significant period of time, efforts and initiatives by organizations, regulatory bodies and other related parties.

4.4 Conclusion

This study examines the extent and quality of annual reports of 20 companies selected from the first 100 companies of the Nikkei 225 index for the year 2016 against the IIRC Framework. Though it is difficult to measure objectively the level of compliance of reports against the Framework, this study has proposed a disclosure checklist and codified the data for analysis. The disclosure checklist (III) shows that the disclosure level varies from 75.68% to 36.49%: a varied level of compliance in a regulatory environment where preparation of integrated reports as per the IIRC Framework is not mandatory. The average compliance rate for the selected reports is 64.73%. According to average disclosure rates by all sampled reports, the order of the highly disclosed Elements is as follows: Governance (80%), Organizational Overview and External Environment (76%), Outlook (75.63%), Strategy and Resource Allocation (72%), Risks and Opportunities (64.29%), Performance (56.82%), Business Model (48.18%), Basis of Preparation and Presentation (47.5%).

On one hand, the sampled reports have made substantive disclosure on certain Elements such as, Governance, Outlook or Strategy and Resource Allocation. On the other hand, current reporting practice of these companies seems to be symbolic, to some extent. Though 19 reports reference to the IIRC Framework out of a sample of 20, some of these reports essentially fail to comply with the core requirements of the Framework. In that case, this declaration is rather ceremonial in nature to avoid unfavorable stakeholder attention. Compliance with any generally accepted framework of reporting can constitute a substantive approach if there are actual actions by the company to comply with that framework. However, without any regulatory burden, symbolic adherence to the IIRC Framework might be considered enough by the management of these companies to maintain legitimacy. Moreover, in certain aspects, such as, Materiality or Business Model, many of these reports have generic or minimal disclosure. In conclusion, there are evidences of both symbolic and substantive disclosure in the sampled corporate reports of Japan against the IIRC Framework. However, it is also evident that the introduction of integrated reporting is shaping the corporate reporting practices of listed companies in Japan. In addition, these reports show much potential for making better disclosure regarding the new reporting practice. It is also understandable that transitioning from one form of reporting to another needs a significant period of time for preparation, efforts and initiatives by organizations, regulatory bodies and other related parties who have interest in the reporting practice of the organizations.

Chapter Five

Contents of Integrated Reporting: Evidence from Selected Companies of the UK

5.1 Introduction

The existing literature on integrated reporting has largely explored the context of South Africa where publication of integrated reports is a regulatory requirement. In South Africa, all public listed companies require to produce an annual integrated report (or otherwise explain the reason for not complying with) for the financial year-ending on or after 1 March 2010. There is an urge from the academia for more academic documentation from diverse geo-political environments to enhance the knowledge base on the impact of IR on corporate reporting (Ahmed Haji and Hossain, 2016). In response to this call, this thesis examines the reporting practice in Japan and in the UK where publication of IR is voluntary. Chapter 4 of this thesis has discussed on the reporting practices of selected Japanese companies. In continuation to that, the present chapter will focus on the reporting practice of the UK. This study aims to evaluate the contents of annual reports of some selected companies of the London Stock Exchange. Although preparation of integrated reports, as per the IIRC Framework, is not mandatory in the UK, it would be interesting to observe whether this latest reporting form has exerted any influence on the corporate reporting practice of this country.

The UK context is important, as the country has a long history of practicing non-financial information reporting. In 1993, the Accounting Standard Board (ASB) had published voluntary guidance for narrative disclosure in the form of "Operating and Financial Review (OFR)." The Companies Act (2006) also requires a company's Directors to prepare a "Business Review" report including the company's business, principal risk and opportunities, future prospects, and social and environmental information. In 2013, the government further amended the Companies Act to include a requirement for larger companies to prepare a "Strategic Report" as part of their annual report. Accordingly, the regulatory body, the Financial Reporting Council (FRC), issued Guidance on the Strategic Report in 2014. This report "provides shareholders with a holistic and meaningful picture of an entity's business model, strategy, development, performance, position and future prospects" (FRC, 2014). There is a significant crossover between the IIRC Framework and the Strategic Reporting Guidance (Deloitte, 2015).

In short, although IR is not mandatory in the UK, the regulatory environment encourages companies to adopt such practice. In this context, the current study aims to evaluate annual reports of twenty companies in the UK. The contents are assessed against a disclosure checklist that is proposed in this study and prepared based on the IIRC Framework. The Disclosure Checklist contains 43 items under eight Content Elements of the IIRC Framework. The disclosure checklists (V) and (VI) pertain to this chapter and are shown in Appendix 6A and 6B respectively. The details on the preparation of these disclosure checklists are provided in Chapter 3 of this thesis. The sample for this study is chosen from the Financial Times Stock Exchange (FTSE) 100 list. 20 companies are selected in random and the annual reports of these companies for the year 2016 are collected from their respective websites. As shown in Table 5.1, the 20 companies are representing a variety of industries, thereby giving an opportunity to observe the applicability of integrated reporting to different types of businesses and the innovativeness in preparing those reports (Robertson and Samy, 2015).

Table 5. 1: List of Selected Companies (UK)

Name of the Company	Affiliated Industry	Title of the Report
1. Ashtead group Plc	Support Services	Annual Report & Accounts 2016
2. AstraZeneca Plc	Pharmaceutical & Biotechnology	Annual Report & Form 20F Information 2016
3. Associated British Foods Plc	Food Producer	Annual Report & Accounts 2016
4. BT Group Plc.	Fixed Line Telecommunication	Annual Report 2016
5. Easy Jet Plc	Travel & Leisure	Annual Reports & Accounts 2016
6. Marks and Spencer Group Plc	General Retailers	Annual Report & Financial Statements 2016
7. Coca-Cola HBC	Beverages	2016 Integrated Annual Report
8. Diageo Plc.	Beverages	Annual Report 2016
9. United Utilities Group Plc.	Utilities	Annual Report and Financial Statements 2016
10. Rentokil Initial	Support Services	Annual report 2016
11. BAE Systems	Aerospace & Defence	Annual Report 2016
12. Rightmove Plc	Media	Annual Report 2016
13. British Land	Real Estate Investment Trust	Annual Reports & Accounts 2016
14. Bunzl Plc	Support Services	Annual Report 2016
15. Just Eat Plc	Food and Drink	Annual Report & Accounts 2016
16. Smith & Nephew	Health Care Equipment & Services	Annual Report 2016
17. Intertek Group Plc	Support Services	Annual Report & Accounts 2016
18. Severn Trent Plc	Gas, Water & Multi-Utilities	Annual Report & Accounts 2016

19. Melrose Industries Plc	Automobiles & Parts	Annual Report 2016
20. SAGE Group Plc	Software & Computer Services	Annual Report & Accounts 2016

Source: Compiled by the author (from the individual companies' websites).

The next sections present the findings of the study followed by related discussion and conclusion.

5.2 Findings of the Study

This section describes the research findings of the present study. A general overview, as well as, detailed analysis on disclosures of each Content Element in the checklist is given.

Disclosure checklist (V) finds that the overall disclosure rates vary from 54.05% to 87.84% for the sampled companies of the UK. The average of overall disclosure scores by the sampled firms in the study is 71.01% which represents a moderate level of compliance in a voluntary regulatory environment like the UK. The annual report of Coca cola HBC ranks top with 87.84% overall disclosure against the checklist of this study, while the annual report of Rightmove Plc. scores the lowest 54.05% among the sampled reports. The checklist also reveals that Governance is the highest disclosed category with 97.78% average disclosure followed by Organizational Overview and External Environment with 85.5% average disclosure. Risks and Opportunities is the third disclosed category with 83.57% average disclosure by all 20 companies. The lowest disclosed Content Element is Basis of Preparation and presentation with 37.5% average disclosure only by the sampled reports. Outlook is the fourth disclosed content element with 82.5% average disclosure by companies. Interestingly, the findings of this study have some similarities with that of Japan (conducted in Chapter 4 of this thesis) Governance and Organizational Overview and External Environment are the two highest disclosed categories.

There are some similarities in the overall structure of these reports, as they are operating under the common regulatory environment. These annual reports have three broad segments in general: Strategic Report, Governance Report or Director's Report, and Financial Statements with supplementary information. Out of 20 sampled corporate reports, only 6 of them declared their report as IR and mention the IIRC Framework as one of the guidelines followed. In such a declaration, BT Group Plc reveals an interesting insight:

> *"This is the second year that we've applied an Integrated Reporting (IR) approach to how we structure and present our Annual Report. IR is an initiative led by the International Integrated Reporting Council (IIRC). Its principles and aims are consistent with UK regulatory developments in financial and corporate reporting."* (BT Group Plc, Annual Report 2016, p.1)

FRC's Communication Principles (included in the FRC's Guidance on Strategic Report) have many similarities with the IR Framework's Guiding Principles and both of these offer guidance for preparation and presentation of annual reports (Deloitte, 2016). However, this discussion is beyond the scope of this study. The current study analyzes the reports to understand what information they are providing about the company to their stakeholders, and to what extent these contents adhere to the IIRC's guidelines. The next segments of this chapter discuss on each Content Element and the findings of this study.

5. 2.1 Content Element One: Organizational Overview and External Environment

Every report in this study response to the basic question of the IIRC Framework for this Element: "What does the organization do and what are the circumstances in which it operates?" (IIRC, 2013). Each report describes the company's objectives, strategies and how to achieve those objectives, strengths and competitive advantages, threats from external environments. The average disclosure rate for Organizational Overview and External Environment is 85.5% by the sampled corporate reports. All the companies disclose about their mission, vision, values and culture along with principal activities and markets, 85% companies disclose about their competitive landscape and market positioning. All the sampled reports disclose on their various KPIs and average disclosure quality of KPIs is as high as 88.33%. All the companies present their financial and non-financial indicators and 65% companies disclose KPIs linking with strategic objectives and capitals. The item 'Significant factors affecting the external environment and the organization's response' scores the lowest average disclosure quality of 68.33%. Although few companies make adequate disclosure on different types of external environment applicable to their organizations, some of them have made a limited or partial disclosure on this point.

KPIs are important measures in understanding the performance and position of the business and for ensuring connectivity and value creation. The IIRC Framework does not prescribe any specific KPIs. It instead relies on the judgment of the preparers of IR and the organizational context (IIRC, 2013). All the sampled reports in this study present their KPIs in the summary sections, mainly highlighting the financial KPIs to attract the readers' and investors' attentions. About the KPIs, the important thing is to understand the reasons for choosing them. According to the IIRC (2013), the context in which KPIs are provided is helpful to understand how an organization creates value and how it uses and affects various capitals (p.8). An extract from the United Utilities Group's (UUG) annual report would be interesting to observe in this regard:

> *"These KPIs are set for the five-year period of our short-term planning horizon and encompass the important areas of customer service and environmental performance, as well as financial indicators, taking into consideration the interests of all of our stakeholders."* (United Utilities Group Plc, Annual Report and Financial Statements 2016, p. 28)

BT Group discusses the definitions of its 4 KPIs, linkages between these KPIs and strategy and remuneration, five-year comparatives, and target results for the next two years. In contrast, UUG selects 5 financial KPIs with five years comparative changes, and ten operational KPIs from three strategic themes of the group: the best service to customers, at the lowest sustainable cost, and in a responsible manner. The annual report of Marks and Spencer (M&S) Group Plc segments its KPIs under three categories: financial, non-financial, and strategic objectives, showing four years comparative changes. The KPIs are connected with objectives and various types of capitals, and have demonstrated each company's concern for financial success, as well as for their employees, suppliers, customers, and the environment. Out of the 12 KPIs of Coca Cola HBC, two greenhouse gas emissions-related KPIs are chosen as part of the legal requirements to disclose. Three KPIs are chosen under two titles namely "key people in key positions" and "women in our Company." The remaining are financial and operational KPIs. The purpose and definition of KPIs are provided with three years comparative changes. However, future targets or target-related narratives are not provided. Diageo Plc has used 11 KPIs with five years comparative changes to measure their financial and non-financial performance against four specific strategic objectives. Out of 11 KPIs, 6 financial indicators are linked with remuneration. The above discussion shows some examples of how the sampled reports of this study are trying to create linkages between KPIs and other Elements such as strategies, or performance.

5.2.2 Content Element Two: Governance

This study finds that Governance is the highest disclosed Element with 97.78% average disclosure by the sampled companies of the UK. The reports, in general, have made excellent disclosure on governance related issues. The IR Framework requires an integrated report to disclose "How does the organization's governance structure support its ability to create value in the short, medium and long term?"(IIRC, 2013) According to the IIRC Framework, information on the leadership structure, skills, and expertise of leaders, and the influence of any applicable law on the governance structure of the business should be disclosed. The UK listed companies are required to disclose how they have applied the main principles of the UK Corporate Governance Code (The Code). The corporate governance sections of all these reports, thus, include a statement of compliance with the Corporate Governance Code (the Code) 2014. The following extract is taken from the CG section of Rightmove Plc.:

> *"The following sections explain how the Company applies the main provisions set out in the 2014 UK Corporate Governance Code, (the Code) issued by the Financial Reporting Council (FRC), as required by the Listing Rules of the Financial Conduct Authority (FCA) and meets the relevant information provisions of the Disclosure and Transparency Rules of the FCA"* (Rightmove plc., Annual Report 2016, p.30).

The UK company reports are also required to identify provisions that have not been complied with and provide good reasons for the non-compliance. The following extract is from the Chairman's statement in the CG section of Just Eat:

> *"In my report last year, I noted that we would become fully compliant with all of the provisions of the UK Corporate Governance Code 2014 (the "Code") during the year. This was achieved on 1 March 2016"* (Just Eat Plc, Annual Reports and Accounts 2016, p.40).

The leadership structures, diversity, and skills are discussed in all reports. For example, M&S Group has produced a well-integrated, cross-referenced Governance Report discussing its Board's focus areas, such as strategy, governance and risk, stakeholder engagement, and the progresses that were made. The Board of Directors` skills and experience are discussed and their full biographies are cross-referenced with links. It also provides details about succession planning for executive, non-executive, and senior leadership. Another IR requirement is whether the report has disclosed the processes used by the company to make strategic decisions and to establish and monitor the company's culture, especially with regard to risk management. An extract from M&S Group's annual report states:

> *"The Board agrees, and has collective responsibility for, the strategy of the Company. The Board is responsible for ensuring that appropriate values, ethics and behaviours for the conduct of the Company are agreed and that appropriate procedures and training are in place to ensure that these are observed throughout the Company. Protecting the business from operational, financial and reputational risk is an essential part of the Board's role"* (Marks and Spencer Group Plc, Annual Report & Financial Statements 2016, p. 34).

In another example, Severn Trent Plc's Governance report states:

> *"The Board is responsible to all stakeholders, including its shareholders, for the approval and delivery of the Group's strategic objectives. It ensures that the necessary financial, technical and human resources are in place for the Company to meet its objectives. The Board leads the Group within a framework of prudent and effective controls which enable risk to be assessed and managed"* (Severn Trent Plc, Annual Report & Accounts, p.69).

The sampled reports discuss about the importance of nurturing culture and values. The narratives of these reports provide information on actions taken to monitor strategic direction and risk management. All reports provide information on Directors` and employees' remuneration policies and other details necessary to fulfill the legal requirements. M&S Group's annual report provides a table showing linkages between the KPIs (including non-financial KPIs) and Directors' incentive schemes, and how Director's remuneration is aligned and motivated to deliver the strategy. An extract from the Remuneration report of

M&S Group states:

"There is a strong linkage between the key performance indicators which are integrated in to the directors' incentive schemes. This ensures that directors are clearly aligned and motivated to deliver the strategy" (Marks and Spencer Group Plc, Annual Report 2016, p. 58)

UUG also provides a summary of the table showing how the incentive framework aligned with different business strategies creating long-term values. Almost all the reports link their remuneration policies to their business strategies and financial achievements, only few reports have included some non-financial metrics as well.

5.2.3 Content Element Three: Business Model

An integrated report should incorporate a business model that is defined as the "system of transforming inputs, through its business activities, into outputs and outcomes that aims to fulfill the organization's strategic purposes and create value over the short, medium and long term" (IIRC, 2013, p.25). The Companies Act (2006) and the Corporate Governance Code (2014) of UK also require the Strategic Report to include a description of the company's business model as a key component. The organizations studied here, therefore, attempt to portrait their business models and value creation processes depending on the nature, size, and complexity of their businesses. Key elements of the Business Model: input, business activities, outputs, and outcomes are discussed through diagrams and/or narratives.

This study finds that Business Model is one of the lowest disclosed Elements with 59.09% average disclosure by the sampled reports. Out of the 20 reports, 2 reports (Diageo plc. and Rightmove plc.) do not clearly identify the key elements of their business models, although these reports provided with some narrative disclosure on it. 13 reports try to clarify the relevance of the key elements to the organizations. The important item under this Content Element titles 'Relating and disclosing capitals with business model' has 46.67% average disclosure quality on item basis implying that these reports fail to make any considerable disclosure as per the IIRC Framework. Half of the reports have given some quantitative information along with narrative discussion. Another item 'The interdependencies and trade-offs between the capitals: financial, manufactured, intellectual, human, social and relationship' has an average disclosure quality of 35% on item basis where only 7 reports disclose some interrelationships among the various types of capital. This finding is in line with Ahmed Haji and Anifowose (2017). Disclosing on the capitals that a business uses and their interdependencies is one of the main propositions of the IIRC Framework related with capitals. The six types of capitals as per the IIRC Framework include: financial, manufactured, intellectual, human, natural, and social and relationship. Annual reports of some companies, for example, BT Group Plc, M&S Group Plc, or Coca Cola HBC Ltd. disclose on the six types of capitals. In another example, UUG disclose only four key resources or capitals: natural, people, assets, and financing. However, all six types of capitals might not be relevant enough for each organization to include in its business model. "Not all capitals are equally relevant or applicable to all organizations" (IIRC, 2013, p. 12).

Although 90% of the sample companies have disclosed about 'Connections of their business models to information covered by other Content Elements, such as strategy, risks and opportunities, and performance' of the organization, the average disclosure quality is 55%. In a similar manner, while all the sampled companies have disclosed information on the item titled 'Changes in organization's strategy when, for instance, new risks and opportunities are identified or past performance is not as expected/Aligning business model with changes in its external environment', an average disclosure quality of 55% was found.

M&S Group's effort in this respect is highly commendable. In one comprehensive chart, it clearly links strategic objectives, risks, KPIs, and other factors together. Few reports provide generic explanations on the adaptability of their business models with the changing business environment, risks, and opportunities. For example, BT Group mentions:

> *"We have a flexible and sustainable business model, enabling us to anticipate and respond to changes in our markets. It underpins our assessment of the future prospects and viability of the Group"* (BT Group Plc, Annual Report 2016, p. 30)

But this aspect has not explained further. But, there are examples where the annual reports want to make their readers aware of any vital changes in their operations or strategies. For example, the Severn Trent Plc states in the 'Market and industry overview' section about a recent change in their regulatory environment:

> *"We have suggested some improvements to the proposed package of reforms, particularly around sludge, direct procurement and the proposed transition to CPI. The most significant immediate change to the framework within which we operate is the introduction of retail competition for non-household customers in April 2017"* (Severn Trent Plc, Annual Report & Accounts 2016, p.15).

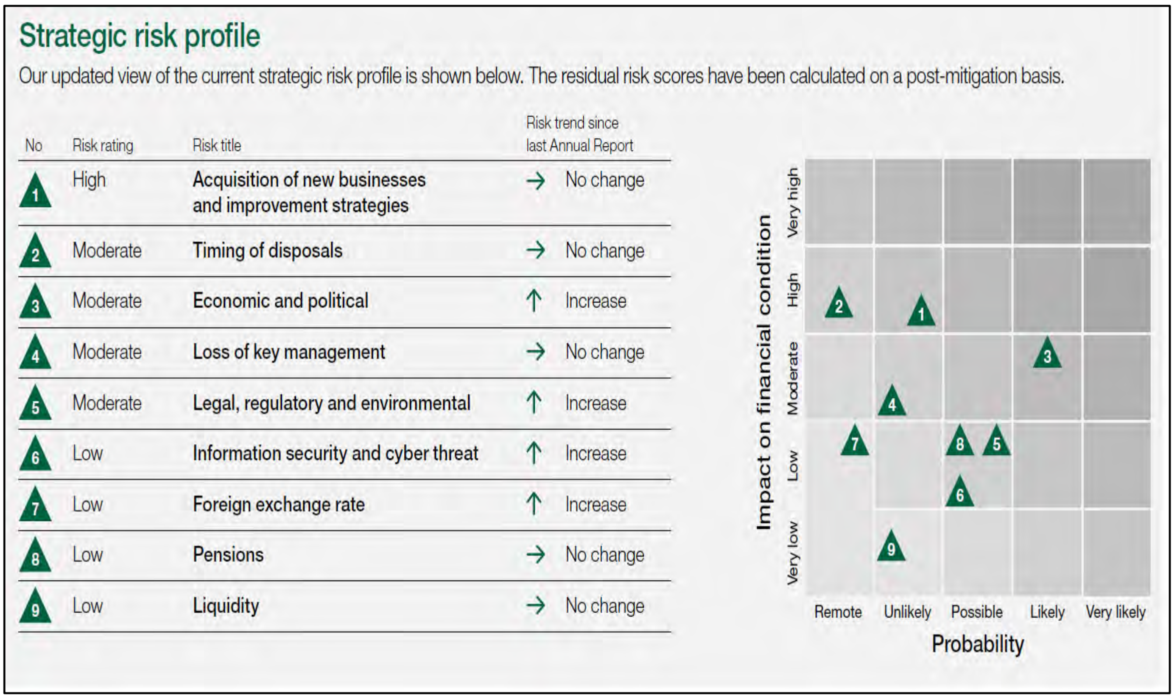
However, in comparison to in other Elements, the disclosure quality of the sampled reports' Business Models is unsatisfying. In general, there are still a lot of rooms for further improvement. Moreover, there are considerable variations in the disclosure percentages among the companies.

5.2.4 Content Element Four: Risk and Opportunities

As per the IIRC Framework, an integrated report should include key risks and opportunities, specific to the organization and those that may affect the value creation process. Specific sources of risks and opportunities, the organization's assessment of their likelihood, possible effects, mitigation procedures, and ways to exploit opportunities should also be mentioned. It is more important to create linkages between key risks and opportunities, and strategic objectives or KPIs (IIRC, 2013). FRC suggests that the description of risks should be entity-specific, the material ones, and might include a risk likelihood description, an indication of the circumstances in which the risk might be the most relevant to the entity, and its possible impacts. Risk mitigation procedures and significant changes from the prior year should also be disclosed (FRC, 2014).

Risks and Opportunities is the third most disclosed Content Element in terms of average disclosure by companies. The current study finds that the average disclosure for Content Element: Risks and Opportunities is 83.57%, where most of the reports have made good disclosure. The gap in the disclosure percentages of the companies is not as high as that of Business Model. One possible reason can be the legal requirements for listed companies. Many reports in this study display innovativeness in providing information on risk management process and principal risks of the businesses.

The following diagram is taken from Melrose Industries PLC:



Strategic risk profile

Our updated view of the current strategic risk profile is shown below. The residual risk scores have been calculated on a post-mitigation basis.

No	Risk rating	Risk title	Risk trend since last Annual Report
1	High	Acquisition of new businesses and improvement strategies	→ No change
2	Moderate	Timing of disposals	→ No change
3	Moderate	Economic and political	↑ Increase
4	Moderate	Loss of key management	→ No change
5	Moderate	Legal, regulatory and environmental	↑ Increase
6	Low	Information security and cyber threat	↑ Increase
7	Low	Foreign exchange rate	↑ Increase
8	Low	Pensions	→ No change
9	Low	Liquidity	→ No change

Source: Melrose Industries PLC, Annual Report 2016, p.41

Efforts to create linkages between other Elements or business models are also evident along with cross-referencing to the Long-term Viability Statements of the company. For example, BT Group discusses principal risks, narratively linking them with strategy and the business model. Diageo Plc links their 11 key risks with strategies, while UUG links their risks with principal objectives. Although information is given mainly on key risks and their mitigation policies, discussions related to future opportunities are also seen. The disclosure on opportunities is lesser than that of risks in terms of both extent and quality. Still, some interesting examples are found in many reports under study. The CEO's review of Intertek Group has identified four specific areas for growth opportunities and estimated the total market opportunities, in general.

> *"The total value of the global ATIC market is, we estimate, $250 billion of which 'only' $50 billion is currently outsourced. That means there is a total $200 billion in-house opportunity"* (Intertek Group, Annual Report 2016, p. 19)

To cite from the Chairman`s Statement of Diageo Plc's annual report:

"Our investment in United Spirits Limited (USL) in India offers Diageo a transformational growth opportunity in one of the most attractive spirits markets in the world. India is set to become the second country after China with a population of more than one billion consumers of legal purchase age, with the expected growth of 18–19 million legal purchase age consumers per year." (Diageo Plc, Annual Report 2016, p. 11)

For another example, the following extract is taken from the annual report Astead Group Plc:

"Canada is a long-term growth opportunity for us. There is plenty of scope to develop market share in Canada in the same way as in the US. The business there is now twice the size of the previous year but it is still very small. We are focusing first on the southwest corner of Canada where, following our acquisition of GWG Rentals last year, we have opened a series of greenfields and made a number of small bolt-on acquisitions to expand the business" (Ashtead Group Plc, Annual Report 2016, p.14).

Nevertheless, the disclosure on how to create value from opportunities is lesser than that of risks mitigation policies in general. Marx and Mohammadali-Haji (2014) also confirmed similar findings. The possible reason can be, however, the uncertainties involved in estimating the future and/or loss of competitive information.

5.2.5 Content Element Five: Strategy and Resources Allocation

This element mainly discusses about the organization's short, medium and long-term strategic objectives, the strategies it has or intends to implement, the methods to achieve those strategic objectives, and the resource allocation plans needed to implement the strategies (IIRC, 2013). The average disclosure for Content Element: Strategy & Resource Allocation is 68% by the sampled reports. As per disclosure checklist (VI), the first item under this Content Element titled 'The organization's short, medium, and long term strategic objectives' which has an average disclosure quality of 72.5%. The Item titled

‘Resource allocation plans every organization has to implement its strategy’ achieved an average disclosure quality of 55% implying a moderate disclosure on this issue. The item ‘Stakeholders engagement in formulating strategies and resource plans’ has an average disclosure quality of 67.5% for all the sample companies. 65% companies have made limited disclosure on this item. ‘Linkage between the organization`s strategy and resource allocation plans, and organization’s business model’ is a very important way to increase connectivity. Disclosure checklist (VI) shows that 70% of the companies have discussed about this item, achieving an average disclosure quality of 45% that implies a low level of integration between/ among those factors.

The selected reports in this study discuss their strategies differently. For example, UUG Plc structures its business into four distinct business areas and each area has short, medium, and longer-term planning, ranging from 1 year to 25 years. In another example, BT Group Plc describes its three pillars strategy in a comprehensive diagram linking with the organization`s purpose, goal, culture, and business activities. In a similar way, Coca Cola HBC presents its strategy, linking it with objectives, KPIs, values, and specific initiatives to respond to local demographics, while working for the same company objectives in all 28 countries. Diageo Plc structures their strategy into a 21-market business model with country specific strategies for each market. If a company has specific strategies for each of its business segments like Diageo, it should ensure that there is some links between the specific strategies for any market and the overall company strategies. In these reports, there are moderate disclosures on sustainability issues and stakeholder engagement. Stakeholder engagement is either in a separate section in the Strategic Report or in the Governance Report. The annual report of Coca Cola HBC has good disclosure in stakeholder engagement. The BT Group’s annual report identifies their stakeholders as:

> *“As well as our people, our main stakeholders are: our customers; communities; shareholders; lenders; our pension schemes; suppliers; government; and regulatory authorities.”* (BT Group Plc, Annual Report 2016, p.38)

On the other hand, M&S Group’s Chief Executive’s Strategic update is very straightforward in this regard. The company set its strategies by classifying customers into three different groups based on their shopping habits. An extract from the annual report of M&S Group states:

"We are at our best when we are completely focused on our customers. Our actions are driven by listening to what customers tell us, not by what we think is right for them"…..Our Customer Insight Unit (CIU) analyses responses from 60,000 customers per month. By combining their views with detailed market research and customer analytics, we can identify what is influencing shopping behavior and ensure we stay relevant to our customers." (Marks and Spencer Group Plc, Annual Report & Financial Statements 2016, pp. 6, 14)

In summary, the disclosure checklist reveals that companies have specific strategic objectives, but these are not adequately linked with resource allocation plans and their business models.

5.2.6 Content Element Six: Performance

An integrated report should provide information on the extent the organization has achieved its strategic objectives for the period and the resulting effects on the capitals (IIRC, 2013). In this study, the average disclosure for Content Element: Performance is 60.45% by the sampled corporate reports of the UK.

All reports in this study used KPIs to measure the organization's performance against strategic objectives. The item titled 'Quantitative indicators with respect to targets and risks and opportunities' has an average disclosure quality of 76.67%. The sampled reports usually include financial and non-financial KPIs and with trends. Information on positive effects of capitals are disclosed mainly to improve the company's impression. For this reason, the item 'The Organization's effects (both positive and negative) on the capitals' has an average disclosure quality of 52.5%. Disclosure on negative information is not so common. However, recently companies trying to accept some failures as well. For example, the annual report of Smith & Nephew mentions:

"However, whilst we delivered growth in 2016, it was not at the level we had wanted. Market conditions in China and the Gulf States together shaved more than a percentage point of growth off the Group in the year (p.4). Whilst we grew in 2016, we did not grow as fast as we wanted and underperformed the market" (Smith & Nephew, Annual report, 2016, p.11)

To have another example, the following extract is taken from BT Group's annual report:

> *"We've performed well against our three financial KPIs. But our customer service performance was down 3.0%, and we want to do much better."* (BT Group Plc., Annual Report 2016, p. 96)

In their study, Ahmed Haji and Anifowose (2016) also confirm very low disclosure on negative information by firms. However, efforts are evident in creating linkages between past and current performances and few reports have done well in this regard, such as the annual reports 2016 of Coca Cola HBC or BT Group Plc. An area that is nearly absent in all these reports is 'KPIs that combine financial measures with other components or monetizing certain effects on the capitals'. For example, the ratio of greenhouse gases emissions to sales or the impact of employee training on capital (IIRC, 2013). Some non-financial KPIs are given in every report, but those are not linked with any related financial measures. Only 30% of the sampled reports made a very limited disclosure on this issue leading an average disclosure quality of 15%.

5.2.7 Content Element Seven: Outlook

Providing forward-looking information is a requirement of the UK Companies Act and one of the communication principles of the FRC. "Where appropriate, information in the strategic report should have a forward-looking orientation" (FRC, 2014, p.17). The IIRC (2013) also suggests that an integrated report should include challenges and uncertainties the organization is likely to face while pursuing its strategy, and the potential implications for its business model, and future performance (IIRC, 2013). The IIRC Framework "goes beyond the Companies Act's requirement to include the main trends and factors likely to affect the future development, performance and position of the company's business" (Deloitte, 2016, p.74). As per the IIRC (2013), Future Outlook generally discusses an organization`s expectations on external environments in the short, medium, and long term, how these may affect, and how the organization will respond to these. The Framework is flexible, in the way that Outlook disclosure may take into account the applicable laws under which the company is operating.

The companies in the current study show a reasonable level of concern on Outlook disclosure. Disclosure checklist (V) reports an average score of 82.5% by the 20 sampled reports for the Content Element Outlook. All of these corporate reports have discussed on their ‘Expectations about the external environment’ and the average disclosure quality on this item is 75%. At least half of the reports have given detailed, entity specific information on this issue. The discussion on ‘Potential implications of future uncertainties on future financial and other capitals’ is usually limited to financial capital in most of these reports. All reports have discussed about some implications and the average disclosure quality is 60%. For an example, BT Group`s Strategic Report contains a subsection named “Outlook.” The ‘Group Finance Director’s Introduction’ summarizes the organization’s outlook and actual performance against the outlook. In a later section, outlooks for 2016/17 and 2017/18 are discussed against BT Group’s KPIs. Throughout the report, comparisons of actual performance to previously identified targets and also with previous years’ results are found. Every company produces an analysis of the market or industry trends with some factual information. For example, the annual reports of M&S Group, Coca Cola HBC, and Diageo Plc include sections titled ‘Market Place’, ‘Market Review’ or ‘Market Dynamics’ that discuss future economic trends of national and international markets. No discussion is found titled as Future Outlook or similar. However, how that information will affect their future outlooks or targets, and how the company is planning to respond to the trends are not discussed. What is expected from an integrated report is that through market analysis, a company should identify both potential risks to manage and possible opportunities to explore. In addition, these should be reflected in its future outlook of performance.

5.2.8 Content Element Eight: Basis of Preparation and Presentation

The IR Framework requires an integrated report to disclose information on material issues along with the materiality determination process. It is important to determine what matters to include in an integrated report and how such matters to be quantified (IIRC, 2013). The current study finds that this Content Element has the lowest average disclosure of 35% by all the companies. Disclosure checklist (V) shows that 8 reports out of 20, have mentioned about the framework or methods used to evaluate material matters. 6 reports have provided a ‘Brief description of the process used to identify relevant matters, evaluate their importance and narrow them down to material matters’. In terms of quality, the average disclosure for this item is 17.5% only which is shown in disclosure checklist (VI). Another important item is 'Impact of material matters on the organization's value creation processes' where 40% companies have given some information and the average disclosure quality is 25% only. The picture is even poorer for 'Stakeholder engagement in materiality determination' where only 15% reports have disclosed some information.

Coca Cola HBC has created a good example of materiality disclosure by discussing its Materiality Matrix and the materiality determination process. It identifies and discusses its principal risks and material issues including market, environmental, and economic factors that may affect the company's value creation process. A detailed description has been given on determining material issues and stakeholders' engagement in the process, along with the role of those responsible for analyzing, reviewing, and endorsing the Materiality Matrix. Coca cola HBC considers materiality from the view point of company as whole. In some cases, management considers materiality from the aspect of corporate responsibility activities. An extract from Bunzl Plc shows such an example:

> *"Understanding our material issues is important to enable us to manage our CR related impacts and stakeholder relationships effectively. These issues are governed by a policy framework, which is approved and monitored by the Board, with implementation at a business area level"* (Bunzl Plc., Annual Report 2016, p.40).

The Severn Trent Plc does the same. The following extract clarifies their attitude towards materiality:

> *"Our Corporate Responsibility framework is centred around the issues that are most important to our customers and the most material issues underpinning our performance as a sustainable business"* (Severn Trent Plc, Annual Report & Accounts 2016, p.56).

Sometimes, annual report shows mere indications of materiality determination process or such without any further discussion on the issue. The BT Group's annual report has mentioned about materiality for non-financial and social matters only once, with no further details.

"Our Enterprise Risk Management framework (see page 46) helps us identify and mitigate the challenges and risks we face. And we do an annual materiality review to understand the societal and environmental issues that are important to our stakeholders" (BT Group Plc, Annual Report 2016, p. 30).

It seems that the preparers of corporate reports are confused about 'what' actually constitute the material issues. Some reports discuss materiality from the view point of company; some reports consider corporate responsibility as the platform to identify material issues. Moreover, principal risks and opportunities could be confused with materiality of an organization. These findings are very much consistent with Ahmed Haji and Anifowose (2016). "The confusion on what constitutes "material" issues results in rhetorical disclosures and generic statements, rather than company-specific material matters" (Ahmed Haji and Anifowose, 2016, p.29). Material issues should be discussed from the viewpoint of the company as a whole, and the top management should actively involve in this process (KPMG, 2018).

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5.3 Discussion on the Findings of the Study

This study has offered some interesting findings. Firstly, the sampled annual reports of the UK listed companies have made substantive disclosure on many contents such as, Governance, Risks and Opportunities, Organizational Overview and External Environment or Outlook. However, these reports have also made incomplete, minimal and mainly qualitative disclosure on Elements such as, Business Model or Materiality. Prior researches show that the magnitude and mix of organization's legitimation strategies depend on its intention to extend, maintain, or defend legitimacy (Ashforth and Gibbs, 1990). Considering the voluntary nature of integrated reporting practice, the current study assumes that the situation for listed companies of the UK might be a kind of maintaining legitimacy where non-adoption of IR would not damage their legitimacy in general. This study finds that out of FTSE 100 companies, only 6 companies' annual reports have referenced to the IIRC Framework for the year 2016. This finding is in line with Deloitte (2016). In a survey on the annual reports of 100 UK listed companies, Deloitte (2016) found only 8 companies have described their reports as an integrated report.

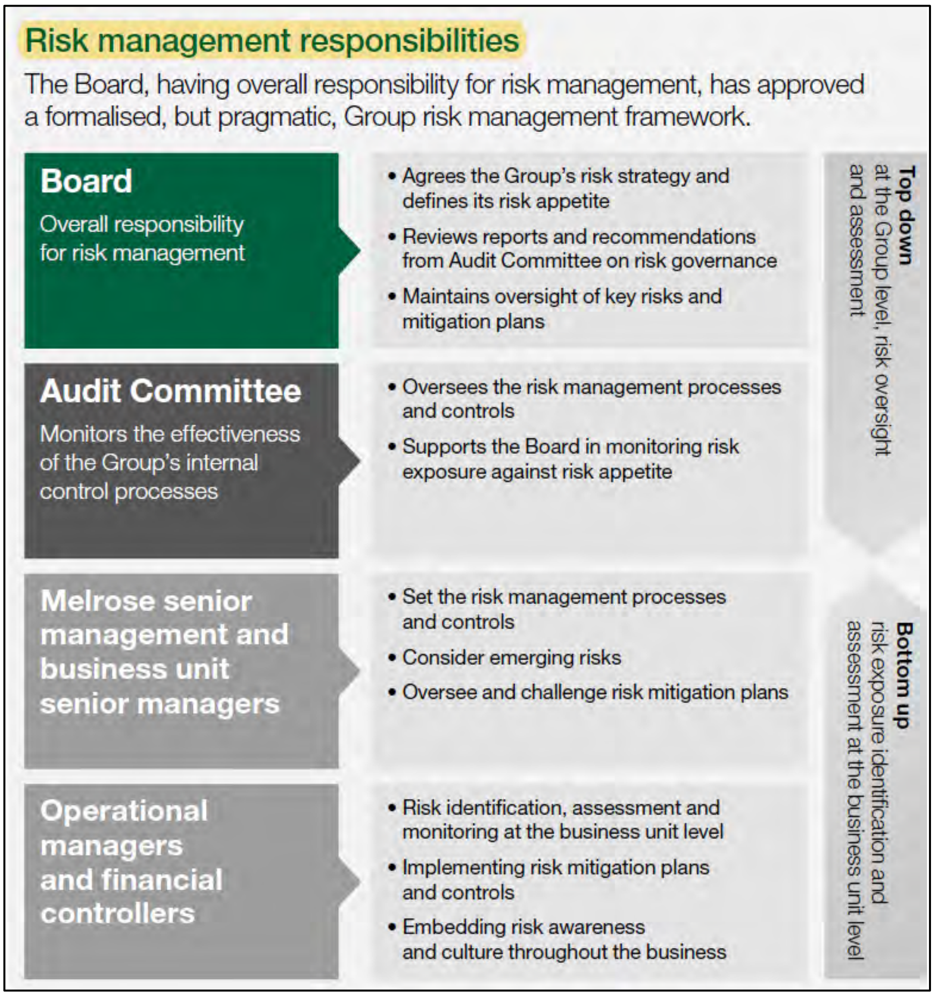
Secondly, it seems that the UK's regulatory requirements for presentation or contents of the annual reports for listed companies are influenced by the basic principles of the IIRC Framework. “When developing the guidance, the FRC was mindful of developments in Integrated Reporting. In contrast to an integrated report, the strategic report is required as part of the annual report in the UK, with its purpose and contents largely determined by legislation. This fact notwithstanding, the International Integrated Reporting Framework and the Guidance on the Strategic Report encourage similar qualitative characteristics and content” (FRC, 2014, p.34). A significant level of compliance is found against the IIRC Framework for the 20 UK listed companies’ reports that are sampled in this study. Whether certain types of performance expectations are determined by market, normative, legal, or political forces, most of the firms need to fulfill those expectations to ensure their legitimacy and maintain support from its important constituents. Organizations pursue their legitimacy through various substantive and symbolic practices (Ashforth and Gibbs, 1990).

In contrast to other related studies (Wild and Van Staden, 2013), the present study finds substantial disclosure on Governance, Risks and opportunities, and Outlook. To a great extent, this could be attributed to the regulatory requirements of the country. The UK listed companies have to follow many requirements and guidance while preparing their annual reports. For example, the Corporate Governance Code (2014) is a principles based Code and follows ‘comply or explain’ approach. The Listing Rules require companies to apply the Main Principles of the Code. In addition to the listing rules, the Code requires that the annual reports of listed companies should have specific disclosures on how it has complied with the Code, operation and effectiveness of the board, reports from various board committees. The Code (2014) requires an annual report to include a statement on performance evaluation of the board, its committees and its directors, a statement from the directors explaining how they have assessed the prospects of the company considering company’s current position and principal risks. The Code also requires explanation from the directors about the business model and the strategy for delivering the objectives of the company (FRC, 2014a). In addition, Guidance on the Strategic Report proposes that an annual report should include all material information that fulfills the needs of stakeholders. For example, it should include information on organization’s development, performance and position; future prospects; strategy for achieving its objectives; business model; governance; and directors’ remuneration (FRC, 2014).To maintain legitimacy in the eye of the regulators, the UK listed companies make various disclosures. Maintaining legitimacy can be achieved through ongoing role performance and symbolic assurances that ‘all is well’ and to anticipate, or prevent any future challenges to legitimacy (Ashforth and Gibbs, 1990). It means that while maintaining legitimacy, ‘scrutiny by the constituents’ is low, and therefore the ‘intensity of the legitimation’ activities are also low (Ashforth and Gibbs, 1990). In the present study, the UK listed companies are maintaining legitimacy through role performances; disclosing various required information in their annual reports. This disclosure process involves both substantive and symbolic management.

The sampled reports of this study have made substantive disclosure on Governance. The IIRC Framework permits the design of the governance structure of any organization based on its own regulatory requirements (IIRC, 2013). The sampled reports, in general, have given information on organization’s leadership structure including their skills and diversity, the processes it use to make strategic decisions including risk management, and also how remuneration and incentives are determined and linked to value creation.

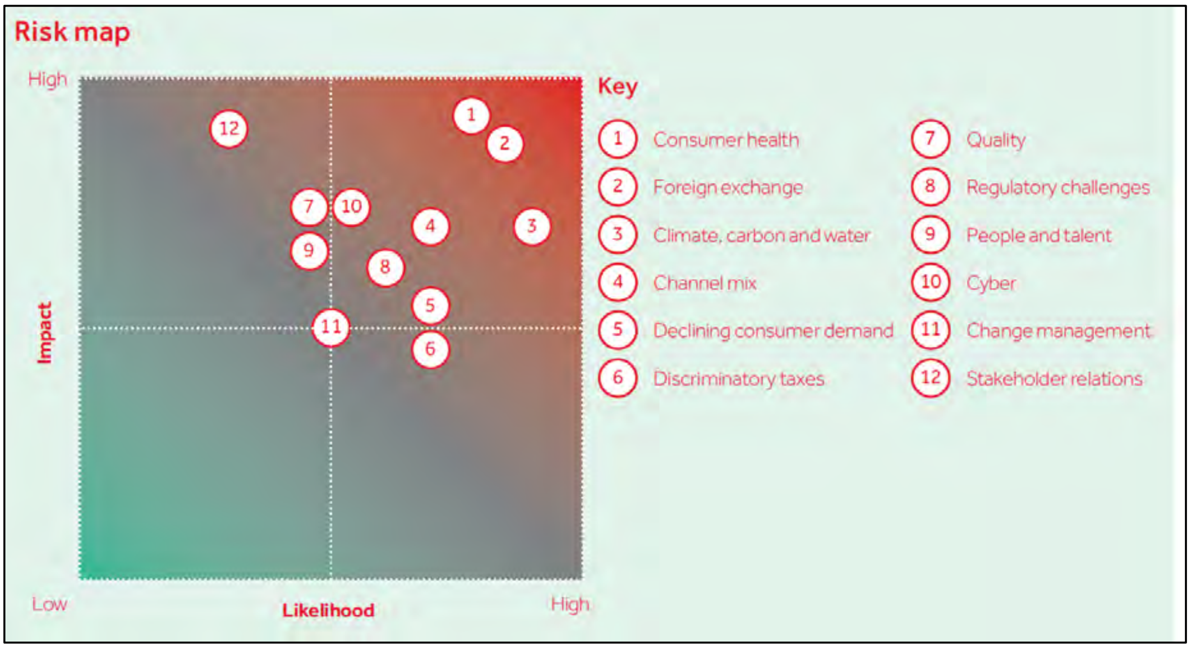
> *“The Board takes overall responsibility for risk management with a particular focus on determining the nature and extent of principal risks it is willing to take in achieving its strategic objectives”* (British Land, Annual Reports and Accounts, p.57).

To have another example, the following diagram is taken from the strategic report section of the Melrose Industries Plc to show an example of describing risk management responsibilities:



Source: Melrose Industries Plc, Anuual Report 2016, p.38

The sampled reports in general, made a considerable disclosure on their risk management approach, principal risks with explanations and updated status, and actions taken for mitigation. In one good example, Coca Cola HBC mapped their 12 key risks using graphs to show their likelihood and impacts.



Source: Coca Cola HBC, 2016 Integrated Annual Report, p.18

In most cases, the principal risks are linked to the strategic objectives of the organization. To cite from the Melrose Industries PLC:

Key risk	Description and impact
Strategic risk	
Acquisition of new businesses and improvement strategies	The success of the Group's acquisition strategy depends on identifying available and suitable targets, obtaining any consents or authorisations required to carry out an acquisition and procuring the necessary financing, be this from equity, debt or a combination of the two. In making acquisitions, there is a risk of unforeseen liabilities being later discovered which were not uncovered or known at the time of the due diligence process. Further, as per the Group's strategy to buy and improve high-quality but underperforming manufacturing businesses, once an acquisition is completed, there are risks that the Group will not succeed. These risks include driving strategic operational improvements to achieve the expected post-acquisition trading results or value as they were originally anticipated, that the acquired products and technologies may not be successful or that the business may require significantly greater resources and investment than anticipated. If anticipated benefits are not realised or trading by acquired businesses falls below expectations, it may be necessary to impair the carrying value of these assets. The Group's return on shareholder investment may fall if acquisition hurdle rates are not met. The Group's financial performance may suffer from goodwill or other acquisition-related impairment charges, or from the identification of additional liabilities not known at the time of the acquisition.

Mitigation	Responsibility	Risk trend	Trend commentary	Strategic priorities
• Structured and focused due diligence undertaken on all acquisitions. • Focus on acquisition targets that have strong headline fundamentals, high-quality products and leading market share but which are underperforming their potential and ability to generate sustainable cash flows and profit growth. • Hands-on role taken by Directors and other senior employees of the Group. • Promptly following completion of an acquisition, executive management work with the business management teams to develop and implement strategic plans, particularly focused on restructuring opportunities, investment, capital expenditure and working capital management that will deliver the anticipated operational improvement.	Executive management(1)	→	Following the acquisition of Nortek, the Group is currently actively searching for its next acquisition.	Buy Improve Sell

Source: Melrose Industries PLC, Anuual Reports 2016, p. 40, 41

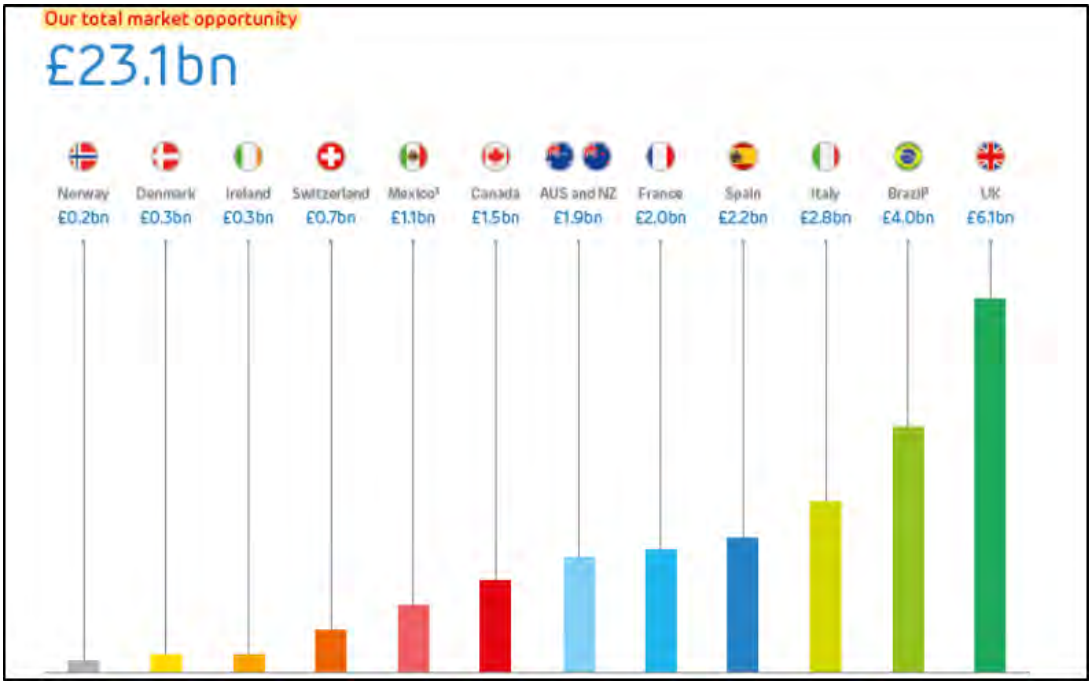
In another interesting example, Bunzl Plc assesses key risks for the Group as a whole, as well as for discharging corporate responsibility:

"The Principal risks and uncertainties section on pages 35 to 37 details the principal risks and uncertainties which could have a material impact on the Group's business, financial condition or results of operations. Although many CR risks are not seen as principal risks to the Group, as part of the Group risk analysis a number of CR risks which could impact the Group's business have been identified and these are set out below together with the steps taken by management to mitigate such risks"(Bunzl plc, Annual Report 2016, p. 47).

Although description on opportunities is not as evident as risks, several reports have displayed interesting examples on this issue. To have one such example, the following quotation and graph are taken from Just Eat Plc's annual report:

"The optimal market for Just Eat is one with a strong culture of delivered takeaway food, with a highly fragmented supply side and where the consumer is comfortable transacting online. This has been key in choosing those territories in which we invest and Just Eat is now market leader in all our markets around the world in which we operate. Those markets were estimated to represent a total addressable market of £23.1 billion1 in 2016, of which the UK is the largest single market at £6.1 billion1" (Just Eat plc, Annual Reports & Accounts, 2016, p.16).

The following graph represents an interesting way to inform the stakeholder on possible opportunity:



Source: Just Eat Plc, Annual Reports & Accounts, 2016, p.17

The IIRC Framework (2013) instructs to assess the likelihood of both risk and opportunity and to take actions for managing key risks or utilizing key opportunities. Along with the disclosure on risks, the sampled reports could have made considerable disclosure on opportunities as well. Organizations might not have disclosed much information on opportunities due to uncertainty or loss of competitive advantages. However, in the opinion of the IIRC (2013), the uncertainty of future-oriented information should not be a reason to exclude any material information. In addition, preparers' judgment is important to offer a trade-off between loss of competitive advantage and materiality.

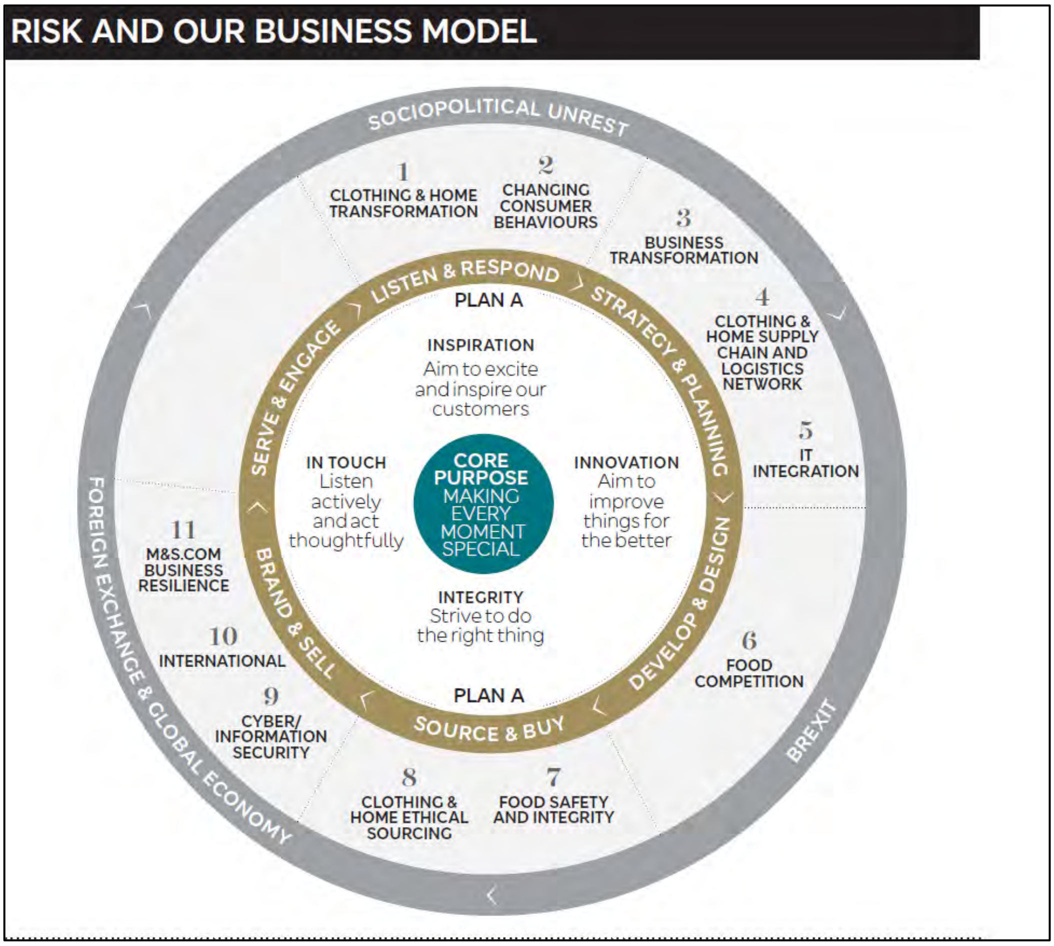
Most of the reports under study have defined their strategic objectives based on their corporate vision or strategic priorities. Few other reports discuss their objectives on the basis of market segments or product lines. The discussion on strategies includes resource allocation plans in many cases. Linkage between strategies, resource allocation plans and business is not well described. However, efforts to create linkages between some other elements are evident in the sampled reports of this study. The principal risks of the organizations are discussed linking to the strategic objectives in most of the reports.

The following extract is from the annual report of Coca Cola HBC:

Principal risks	Risk	Potential impact	Key mitigations	Link to material issues	Status
1. Consumer health	Failure to adapt to changing consumer health trends and address misconceptions about the health impact of soft drinks.	– Failure to achieve our growth plans – Damage to our brand and corporate reputation – Loss of consumer base	– Focus on product innovation – Expand our range of low- and zero-calorie beverages – Introduce smaller entry packs – Reduce the calorie content of products in the portfolio – Clearer labelling on packaging – Promote active lifestyles through consumer engagement programmes focused on health and wellness	Health and nutrition Responsible marketing	↑

Source: Coca Cola HBC, 2016 Integrated Annual Report, p. 19

In the following example, Marks &Spencer Group Plc links the risks with their business model:



Source: Marks &Spencer group PLC, Annual Report and Financial Statements, p.27

In the sampled reports, the KPIs are in general, linked to the strategic objectives of the company. KPI is an important element of an IR. The sampled reports in this study have disclosed substantive information on KPIs of the organization. In most of the reports, the KPIs are presented on the basis of strategic objectives, with explanations and performance of those KPIs over the years. In some reports, KPIs are even linked to the various types of capital of the organization or remuneration policy. The IIRC Framework (2013) requires that KPIs should be linked to the strategic objectives and value creation process of the organization and measures the degree of achievement to those objectives. The reports of the sampled UK companies indicate potentiality for more substantive disclosure in this respect. However, apart from the considerable disclosure in several aspects discussed so far, there are some evidences of symbolic management in preparing these annual reports.

Ashforth and Gibbs (1990, pp. 180-181) identify several examples of symbolic management by the organization: espousing socially acceptable goals but actually not fulfilling those goals; denial and concealment of information that can harm the organizational legitimacy; redefining Means and Ends where organizations provide new rationalization of their work with current social expectations; offering accounts of excuses to deny or minimize the organization's responsibility for any failure; offering apologies by partially acknowledging the responsibility of a negative event; and ceremonial conformity where organizations adopt some highly visible practices consistent with social expectations without making actual change in their operations.

In comparison to some other Content Elements, the disclosures on Business Models, issues of materiality and connectivity are either absent or generic and symbolic in nature. This is consistent with previous studies in this area (Ahmed Haji and Anifowose, 2016; Wild and van Staden, 2013; Setia et al., 2015). The information on materiality, such as the determination process and stakeholder engagement of materiality, describing its impacts on the value creation process is minimal in nature in the sampled reports. Only 40% reports have mentioned about some methods for determining materiality, and 30% reports have discussed on the processes of determination to a very limited extent. The discussions are mostly ambiguous, and generic. What does the company actually mean by 'material issues' is not even clear in some of these reports. Few reports have used strategic priorities and material issues interchangeably. While few reports discuss materiality from the aspect of the company/group as a whole, few others consider corporate responsibility as the policy to identify material issues. It seems that even principal risks and opportunities could be confused with material issues or as substitute for that. Ahmed Haji and Anifowose (2016) also confirm these findings. "The confusion on what constitutes "material" issues results in rhetorical disclosures and generic statements, rather than company-specific material matters" (Ahmed Haji and Anifowose, 2016, p.29). It is expected that the top management should actively involve in materiality determination process and find out the most material issues for the company, as a whole (KPMG in Japan, 2018).

Another area where minimal information is found is, creating linkages between financial and non-financial information. Although, most the sampled reports have well prepared KPI sections, one important proposition of the IIRC Framework is not attained yet. The item 'KPIs that combine financial measures with other components or monetizing certain effects on the capitals' has an average disclosure quality of 15% only. This specific item connects financial KPIs with non-financial information. For example, the relationships between expected revenue growth and research and development policies, or the relationships between expected revenue growth and investment in human resources (IIRC, 2013). This type of connected KPIs is not evident much in these reports.

The Business Model is another area where ceremonial conformity is apparent in these reports. According to the FRC's Guidance on the Strategic Report, an annual report should include a Business Model in its Strategic Report segment. To provide insight into the entity's Business Model is one of the main content related objectives of the Strategic Report (FRC, 2014). All the sampled reports have described their business models and value creation processes and the description is company specific to some extent. But the illustration is mostly qualitative in nature and not comprehensive enough to display the interrelationships between the elements of the business models. For example, the relationships between capitals other Content Elements is not depicted clearly. Moreover, the interdependence between the capitals that the organization uses is not well presented in most cases. This is consistent with (Ahmed Haji and Anifowose, 2017; Setia et al., 2015). In summary, the twenty annual reports for the year 2016 that are sampled from the FTSE 100 companies have evidenced both substantive and ceremonial disclosure. In spite of limited application of some key aspects of IR, such as Materiality, Business Model and linkages between financial and non-financial information, these reports have demonstrated significant compliance against the IIRC Framework and great potentiality to align with other propositions in the future.

5.4 Conclusion

This study has contributed to the literature by investigating into the contents and quality of annual reports of 20 FTSE 100 companies against the IIRC Framework. Consistent with some other empirical studies, this one also gives some insights on the influence of the integrated reporting practice in a voluntary reporting settings (Robertson and Samy, 2015; Stent and Dowler, 2015).The IIRC Framework recommends an integrated report to include eight Content Elements and the linkages between or among these elements are also essential. In the present study, disclosure checklist (V) and (VI) has coded and analyzed the contents of annual reports of 20 companies that are randomly selected from the FTSE 100 list. The disclosure checklist (V) shows that the disclosure level varies from 54.05% to 87.84%: a moderate to significant level of compliance in a regulatory environment where preparation of integrated reports as per the IIRC Framework is not mandatory. The average compliance rate for the selected reports is 71.01%. According to average disclosure rates by all sampled reports, the order of the highly disclosed Elements is as follows: Governance (97.78%), Organizational Overview and External Environment (85.50%), Risks and Opportunities (83.57%), Outlook (82.50%), Strategy and Resource Allocation (68%), Performance (60.45%), Business Model (59.09%), Basis of Preparation and Presentation (35%). The sampled reports are combinations of both substantive and symbolic disclosure. While these corporate reports disclose substantial information on Governance, Outlook or Risks and Opportunities, generic disclosure or non-disclosure are also seen for other important elements such as, Business Models or Materiality.

The current study assumes that the situation for listed companies of the UK might be an example of maintaining legitimacy. Moreover, the regulatory requirements regarding contents of the annual reports for listing companies might be influenced by the basic principles of the IIRC Framework. To maintain legitimacy to the regulators, companies need to make certain disclosures. This could be one possible reason for the sampled reports to achieve a moderate compliance against the IIRC Framework as well as examined in the present study. However, future researchers could extend the sample or conduct longitudinal studies to obtain more comprehensive understanding regarding these issues.

Chapter Six

Contents of Integrated Reporting: Comparison between Japan and UK

6.1 Introduction

Having discussed the extent and quality of integrated reports in Japan (Chapter 4) and UK (Chapter 5), this chapter of the thesis provides the results of statistical analysis of the difference between these two countries. At first, the Overall Disclosure Score of companies for all Content Elements in the disclosure checklists of Japan and UK is compared. Then, the scores of individual Content Elements are compared between these two countries. For this purpose, the study formulates the following nine research hypotheses (alternative form).

6.2 Hypotheses

H1: There is significant difference between Overall disclosure score of integrated reporting between Japan and UK.

H2: There is significant difference in disclosure of Organizational overview and external environment between Japan and UK.

H3: There is significant difference in disclosure of Governance between Japan and UK.

H4: There is significant difference in disclosure of Business model between Japan and UK.

H5: There is significant difference in disclosure of Risks and opportunities between Japan and UK.

H6: There is significant difference in disclosure of Strategy and resource allocation between Japan and UK.

H7: There is significant difference in disclosure of Performance between Japan and UK.

H8: There is significant difference in disclosure of Outlook between Japan and UK.

H9: There is significant difference in disclosure of Basis of preparation and presentation between Japan and UK.

6.3 Findings and Analysis

In a similar study, with a sample of 25 companies, Setia at al. (2015) used *t*-test to compare the difference in integrated reporting practice between 2010 and 2012 in South Africa. Following similar approach, the study also conducts two samples *t*-test to compare the difference in disclosure between Japan and UK. In addition, due to small sample size (20 companies from each country), the present study also performs non-parametric Wilcoxon Rank Sum/Mann-Whitney test. In this regard, Shapiro-Wilk test is also conducted to test the normality of variables. Results of normality test are given in tables 6.1 and 6.2.

Results show that within Japanese sample, disclosure score in Organizational Overview and External Environment, Governance, Business Model, Risks and Opportunities and Performance are normally distributed. However, Overall disclosure score, Strategy and Resource Allocation, Outlook, and Basis of Preparation and Presentation are not normally distributed. On the other hand, in UK sample, Overall disclosure score, Business Model, Risks and Opportunities, Strategy and Resource Allocation, Performance, and Outlook are distributed normally. UK disclosure scores in Organizational Overview and External Environment, Governance, and Basis of Preparation and Presentation are not normally distributed.

Table 6. 1: Shapiro-Wilk Test Result of Normality of Data: Japanese Sample

Variable	Obs.	W	Z	Prob>z
Overall disclosure score	20	0.874	2.198	0.014
Organizational Overview and External Environment	20	0.911	1.504	0.066
Governance	20	0.976	-1.113	0.867
Business Model	20	0.984	-2.01	0.978
Risks and Opportunities	20	0.963	-0.246	0.597
Strategy and Resource Allocation	20	0.896	1.823	0.034
Performance	20	0.985	-2.081	0.981
Outlook	20	0.804	3.09	0.001
Basis of Preparation and Presentation	20	0.898	1.769	0.038

(Note: In this test, Null hypotheses are that the variables are normally distributed. Results reject the hypotheses (5% level of significance) that Overall disclosure score, Strategy and Resource Allocation, Outlook, and Basis of Preparation and Presentation are normally distributed. In contrary, results cannot reject the hypotheses (5% level of significance) that Organizational Overview and External Environment, Governance, Business Model, Risks and Opportunities, Performance are normally distributed).

Table 6.2: Shapiro-Wilk Test Result of Normality of Data: UK Sample

Variable	Obs.	W	Z	Prob>z
Overall disclosure score	20	0.975	-1.093	0.863
Organizational Overview and External Environment	20	0.842	2.660	0.004
Governance	20	0.772	3.397	0.000
Business Model	20	0.990	-2.940	0.998
Risks and Opportunities	20	0.948	0.403	0.343
Strategy and Resource Allocation	20	0.983	-1.791	0.963
Performance	20	0.929	1.038	0.150
Outlook	20	0.996	-4.607	1.000
Basis of Preparation and Presentation	20	0.844	2.636	0.004

(Note: In this test, Null hypotheses are that the variables are normally distributed. Results reject the hypotheses (5% level of significance) that Organizational Overview and External Environment, Governance, and Basis of Preparation and Presentation are normally distributed. In contrary, results cannot reject the hypotheses (5% level of significance) that Overall disclosure score, Business Model, Risks and Opportunities, Strategy and Resource Allocation, Performance, and Outlook are normally distributed).

Results of two samples *t*-test and Wilcoxon Rank Sum test are shown in table 6.3 and 6.4 respectively.

Table 6. 3: Two samples *t*-test for difference in IR score between Japan and UK

Content Elements	Mean Japan	Mean UK	Mean Difference	*t*-value	Degrees of freedom	*p*-value
Overall disclosure	47.9	52.550	-4.650	-1.959	38	0.058
Organizational Overview and External Environment	7.600	8.550	-0.950	-2.937***	38	0.006
Governance	7.200	8.800	-1.600	-8.219***	38	0.000
Business Model	5.300	6.500	-1.200	-1.798	38	0.080
Risks and Opportunities	4.500	5.850	-1.350	-2.702***	38	0.005
Strategy and Resource Allocation	7.200	6.800	0.400	0.859	38	0.396
Performance	6.250	6.650	-0.400	-1.039	38	0.305
Outlook	6.050	6.600	-0.550	-1.621	38	0.113
Basis of Preparation and Presentation	3.800	2.800	1.000	1.279	38	0.209

Note: *** shows significance at 1%

Table 6.4: Wilcoxon Rank Sum test for difference in Overall Disclosure between Japan and UK

Content Elements	Rank Sum Japan	Rank Sum UK	*z*-value	*p*-value
Overall disclosure	351.5	468.5	-1.585	0.113
Organizational Overview and External Environment	315.5	504.5	-2.706^{***}	0.007
Governance	226	594	-5.245^{***}	0.000
Business Model	349.5	470.5	-1.660	0.097
Risks and Opportunities	320	500	-2.530^{**}	0.011
Strategy and Resource Allocation	454	366	1.219	0.223
Performance	375.5	444.5	-0.960	0.337
Outlook	369.5	450.5	-1.167	0.243
Basis of Preparation and Presentation	457	363	1.337	0.181

Note: *** and ** show significance at 1% and 5% level respectively

Tables 6.3 and 6.4 show that both *t*-test and Wilcoxon Rank Sum test give the same results regarding acceptance and rejection of the hypothesis. Results in Table 6.3 show that there are significant difference between Japan and UK in disclosure score of Organizational Overview and External Environment (1% significance level), Governance (1% significance level), and Risks and Opportunities (1% significance level). Therefore, hypotheses H2, H3, and H5 are supported. Statistical results do not provide evidence to support H1, H4, H6, H7, H8, and H9. It implies that there is no significant difference between Japan and UK in Overall disclosure score of integrated reports, Business Model, Strategy and Resource Allocation, Performance, Outlook, and Basis of Preparation and Presentation.

The above results show that there is significant difference between Japanese and UK annual reports in disclosure quality of Organizational overview and external environment. The core reason for this difference could be the difference in disclosure of Key Quantitative Information or KPIs. Based on disclosure checklists (IV) and (VI), the item titled 'Key Quantitative Information' has an average disclosure quality of 66.67% for Japan and 88.33% for UK. Although the sampled reports make good disclosure on financial and non-financial KPIs, the level of creating linkages between KPIs and other elements such as, strategic objectives, materiality or value creation process is not similar for the sampled reports of two countries. The current study finds that while 20% of the Japanese companies try to make some linkages between their KPIs and objectives or value creation processes, 65% of the UK companies try to do that.

Governance is another Content Element where significant difference is evident between disclosure practices of this two countries' listed companies. There are six items that are analyzed under the Content Element Governance in the proposed disclosure checklist of this study. Disclosure checklists (IV) and (VI) show that the item titled 'How remuneration and incentives are linked to value creation?' has an average quality of 37.5% for Japanese companies and 100% for the UK companies. The sampled annual reports of Japanese companies have made very generic and minimum disclosure on this point. The regulatory bodies of Japan should investigate into this issue and can advise listed companies to make improved disclosure on it.

The third Element where significant difference is observed between the two countries' sampled annual reports is Risks and Opportunities. The current study finds that the sampled reports of the UK, in general, have made better disclosure on all items of this Content Element than their Japanese counterparts. Specifically, the sampled UK corporate reports made a considerable disclosure on their risk management approaches, principal risks with explanations and updated status, and actions taken for mitigation. However, regarding opportunities, the sampled reports of two countries have similar quality of disclosure. Therefore, the difference in disclosure quality between these two countries' corporate reports is basically due to disclosure on principal risks, their impacts and management issues and how these risks are linked to the strategic objectives and value creation of the business.

Chapter Seven

Corporate-Level Determinants of Integrated Reporting: Evidence from Japan

7.1 Introduction

The findings of the first study (in Chapter 4) of this thesis demonstrate a moderate level of compliance against the IIRC Framework in the corporate reports of listed Japanese companies. Although the practice of IR is voluntary in Japan, recent survey finds that the number of companies issuing self-declared IR is increasing. While the number of self-declared IR was only 26 in 2010, it has increased to 341 in 2017 (KPMG in Japan, 2018). In this view, it would be of great interest to examine the factors that could explain these firms' decision to employ integrated reporting as their reporting norm.

As the newest form of reporting, very little is known about the practice of integrated reporting and motives for its adoption. A limited number of empirical studies have investigated country-level features such as political and legal systems, economic development, and cultural characteristics, and company-level features like size, profitability, or industry and board characteristics (Vaz et al., 2016). However, none of these studies has examined the possible determinants of integrated reporting adoption for Japanese firms. This study aims to extend the existing integrated reporting literature by focusing on Japan. To fulfill this objective, the effects of some selected company-level features upon IR adoption have been examined, namely company size, profitability, investors, industry and board characteristics including board size, and board independence. The remainder of this chapter is structured as follows. Section 7.2 develops a number of research hypotheses based on existing literature in this field. Section 7.3 discusses the research methods used. Section 7.4 analyses the research findings. Section 7.5 concludes the study.

7.2 Hypothesis Development

The scarce literature on factors determining the adoption of integrated reporting by firms includes investigating the influence of some country-level features (legal system, investor protection, economic development, cultural characteristics) as well as some company-level features (size, industry, verification of the sustainability report). Companies operating in countries with some integrated reporting regulation or from collectivistic societies are more likely to practice integrated reporting (Vaz et al., 2016). Other research show that integrated reporting is determined by the financial system, educational and labor system, and cultural and economic system of a country, whereas political factors has no significant effect (Jensen and Berg, 2012; Garcia- Sanchez et al., 2013). A comprehensive literature review of integrated reporting studies by Velte and Stawinoga (2016) shows that the decision to implement integrated reporting is influenced by firm characteristics (for example, industry, size and profitability), internal corporate governance variables (for example, board size and board diversity) and external corporate governance variables (for example, legal environment and investor base). While IR preparation by firms can be stimulated by a number of factors, the present study investigates the influence of some selected firm characteristics and corporate governance variables on IR adoption by Japanese listed firms.

7.2.1 Board Size

Board size refers to the total number of executive and non-executive directors on the board of directors at the date of the annual meeting in each fiscal year (Wang and Hussainey, 2013). Prior research finds that board size influences the way directors perform their tasks, and smaller board increases the participation of board members and the freedom of communication among them (Zahra et al., 2000). A large board having directors with multifunctional backgrounds and experiences facilitates effective monitoring activities of the board. But an excessively large board might hinder information processing and slow the decision-making process due to rivalry and dysfunctional conflicts among members (Zahra et al., 2000). Based on a cross-sectional study of 113 companies from 12 countries in the Asia-Pacific region, Amran et al. (2013) finds no significant association between sustainability reporting quality and board size. Meanwhile, many studies find that larger boards may reduce information asymmetry and provide more voluntary information than smaller ones (Akhteruddin et al., 2009; Said et al., 2009). The above discussion suggests the following hypothesis:
H1: There is a significant relationship between board size and adoption of integrated reporting.

7.2.2 Board Independence

Inclusion of independent non-executive directors on the corporate board received much attention during the 1980s (Fama, 1980, cited in Chen and Jaggi, 2000). Many studies assume that board independence (measured by the proportion of outside directors) is positively associated with voluntary disclosure (Jizi, 2017; Lim et al., 2007). Outside directors who are less associated with management are more enthusiastic in encouraging firms to disclose more information to investors (Akhtaruddin et al., 2009) as a means to protect their own reputations (Lim et al., 2007). However, based on a sample of 158 Singaporean listed firms, Eng and Mak (2003) find that an increase in outside directors decreases voluntary information. This is in contrast to some prior research. Haniffa and Cooke (2005) find that in Malaysian companies, boards dominated by non-executive directors play a limited role in influencing CSR disclosure, due to the non-executive directors' lack of knowledge and experience and indifferent attitudes towards societal concern. Said et al. (2009), on the other hand, finds no significant relationship between proportion of independent directors and CSR disclosure. Chen and Jaggi (2000) argue that a higher ratio of independent non-executive directors on the board would result in more effective monitoring of managerial decisions and limit managerial opportunism. Their study on 87 large Hong Kong firms suggest a positive association between the proportion of independent non-executive directors on corporate boards of Hong Kong firms and the comprehensiveness of disclosure quality. Based on the above discussion, the following hypothesis is proposed.

H2: There is a significant relationship between board independence and adoption of integrated reporting.

7.2.3 Investors

According to the IIRC (2013), integrated reporting primarily aims to provide information to investors "to enable a more efficient and productive allocation of capital" (p.2). This is consistent with increased demand for non-financial information by investors (Solomon and Solomon, 2006). An increasing number of market-based researches have observed a positive relationship between CSR reporting and firm value (Dhaliwal et al., 2011, Plumlee et al., 2015). Based on a sample of 1094 manufacturing firms in Japan, Saka and Oshika (2014) also document that disclosure of carbon management has positive impact on the market value of equity. In a review study, Richardson et al. (1999) identify three reasons for such a relationship. First, voluntary disclosure reduces information asymmetry between management and investors. This is because improved disclosure regarding environmental initiatives and performance can reduce uncertainties about the firm's future return. This enhances the liquidity of the firm's shares, thereby lowering transaction costs for investors. Second, CSR can have significant cash flow effects. For example, certain CSR initiatives including environmental protections, reductions in material and energy consumption, and improvements to employee health and safety have direct implications on positive cash flow. Companies can also reduce compliance costs by engaging in voluntary CSR activities. In addition, increased demand for socially and environmentally sensitive products can have an indirect impact upon companies' financial performance. Finally, Richardson et al. (1999) argue that socially responsible investors (SRIs) will always value responsible companies above others. These investors are willing to accept lower market returns from investments in firms that reflect their social values. One of the reasons to develop environmental reporting is the increased demand for non-financial disclosure by SRIs. However, empirical studies also document contrasting relationship between CSR reporting and shareholder value. Richardson and Welker (2001) in their study on Canadian firms find significant positive relationship between social disclosures and cost of equity capital, which implies that improved social disclosures increase cost of equity capital. In an international comparative study, Cormier and Magnan (2007) shows moderate positive impact of voluntary environmental disclosures on the stock market valuation of German companies, but the influence is not significant for Canadian and French companies. Researchers argue that market reaction to CSR disclosure is contextual and depends on the socio-political environment of the country, types of CSR disclosures, and country's stakeholder orientation (Brammer et al., 2006; Richardson and Welker, 2001; Dhaliwal et al., 2014). Friedman and Heinle (2016) further argue that the relationship is driven by investors' preferences and related shareholders base effect. The stock market will react positively only when a substantial portion of company's investors prefers CSR.

A number of empirical studies, on the other hand, have considered ownership structure as an explanatory variable for corporate social and environmental performance and related disclosure. Taking debt-to-equity ratio as a proxy for the relative importance of debt holders and stock holders, Belkaoui and Karpik (1989), Cormier and Magnan (1999), Higashida et al. (2005), Prado-Lorenzo et al. (2009), Liu and Anbumozhi (2009) find a negative relationship while Roberts (1992) displays a positive relationship with CSR disclosure. In a recent study on stakeholders' influence on CSR disclosure, Saka and Noda (2013) also find a significant positive relationship between creditors and CSR disclosure in Japan. Extant literature also investigates the effects of institutional investors such as pension funds, mutual funds, and socially responsible investments upon corporate social performance (Johnson and Greening, 1999; Motta and Uchida, 2018). Because investment by institutional investors has increased significantly in recent years, they have assumed more power to change the practices of investee firms. Long-term institutional investors prefer firms with better social performance, as this will result in better financial performance in the long run (Johnson and Greening, 1999).

Using Japanese corporate data, Motta and Uchida (2018) investigate the relationship between institutional investors and firms' corporate social performance (CSP) as measured by the Toyo Keizai CSR ranking. They have studied this relationship in the context of adoption of "soft law" to advance CSP. As an example, in 2006, the United Nations Global Compact launched the Principles for Responsible Investment (PRI), which encourages institutional investors to follow ten principles related to social and environmental issues in their investment decisions. In the same year, the Japanese Ministry of the Environment also emphasized financial mechanisms to promote environmental protection. Motta and Uchida (2018) find that institutional investors, especially domestic institutional investors, have significant influence in improving corporate environmental performance. However, a robust relationship is not seen in social performance such as social engagement, corporate governance, or employee relations. The study concludes that "national government measures play an effective role in diffusing PRI and promoting good business practices" through increased monitoring by institutional investors (p. 3). Foreign investors also play a significant role in institutionalization of CSR practice in Japan (Suzuki et al., 2010). Tanimoto and Suzuki (2005) investigate the GRI adoption of the largest 300 Japanese companies, finding that GRI adoption in Japan is positively associated with foreign ownership. However, influence of ownership by traditional large investors such as big business groups and domestic companies are not significant. They conclude that globalization of business operations including ownership, production and sales could better explain the CSR reporting than the traditional domestic system. In another study, Suzuki et al. (2010) further confirms this finding.

Historically, corporate ownership in Japan has been dominated by cross shareholding among banks, financial institutions and non-financial corporations. However, the ownership structure has changed significantly in the last two decades. Increased investment by foreign investors has dissolved the cross shareholding and reduced the domination of banks and financial institutions. Nishitani (2009) examines the influence of long-term stockholders, including ownership by other companies, upon corporate decisions to adopt ISO 14001 and finds a positive relationship. Tanimoto and Suzuki (2005), however, do not find any significant relationship between GRI adoption and ownership by other listed domestic companies. Based on the above discussion, the following hypotheses are proposed:

H3: There is a significant relationship between corporate debt and adoption of integrated reporting.

H4: There is a significant relationship between institutional investment and adoption of integrated reporting.

H5: There is a significant relationship between the dissolution of cross shareholding and adoption of integrated reporting.

H6: There is a significant relationship between foreign shareholding and adoption of integrated reporting.

7.2.4 Corporate Size

Firm size is the most widely used determinant to measure the extent and quality of sustainability reporting (Dienes et al., 2016). Extant literature uses a number of proxies for firm size, including total assets, sales revenue, number of employees, market capitalization and number of geographical segments. Almost all studies have observed a positive influence of firm size on corporate reporting practice (Fifka, 2013). Legitimacy theory considers firm size as a proxy for public visibility. Due to their high visibility, larger companies and especially those listed on stock exchanges are subject to public scrutiny that may come in the form of concerns of the general public, regulatory burden or political intervention (Patten, 1991). As stakeholders' concern for corporate social and environmental performance has increased significantly in recent years, these larger companies need to publish sustainability reports to show their commitment to sustainability issues. Ho and Taylor (2007) further explain the relationship between firm size and corporate disclosure by using agency theory. They argue that larger firms have higher agency costs because of their larger amounts of outside capital. These companies will be interested in disclosing more information to reduce their agency costs. In addition, Ho and Taylor (2007) also note that the cost of disclosure is relatively low for larger firms because of economies of scale. This understanding suggests the following hypothesis.

H7: There is a significant relationship between corporate size and adoption of integrated reporting.

7.2.5 Industry Affiliation

Previous studies classify industries as environmentally sensitive or environmentally non-sensitive and investigate the relationship between industry classification and environmental disclosure. More than 90% of these studies have found that environmentally sensitive industries have more incentive to disclose environmental information (Fifka, 2013). Because of their high pollution intensity, these industries receive public scrutiny including regulatory pressure, media attention and public criticism (Brammer and Pavelin, 2006). In one of the earliest studies, Patten (1991) considers industry as a public pressure variable and observes a positive relationship between industries and social disclosure in the USA. Patten (1991) concludes that firms in high-profile industries such as petroleum, chemical, forest and paper use social disclosure as a means to address the exposure these firms face in the social environment. Cho and Patten (2007) also study the effect of industry type (environmentally sensitive vs. non-sensitive) upon the relationship between environmental performance and environmental disclosure. They find that environmentally sensitive firms with poorer environmental performance are more likely to disclose monetary information to enhance their legitimacy. In an international comparative study on assurance in CSR reports, Simnett et al. (2009) also debate that industries having greater environmental and social impacts are more likely to adopt assurance in CSR reports to enhance credibility of the reported information. They have categorized the mining, production, utilities and finance industries as environmentally sensitive and found a positive relationship with assurance in CSR reports. The above understanding leads to the following hypothesis.

H8: There is a significant relationship between industry affiliation and adoption of integrated reporting.

7.2.6 Profitability

Existing literature does not show any consistent result regarding the relationship between firm financial performance and social or environmental reporting. Patten (1991) has distinguished between economic legitimacy and social legitimacy. He argues that the profitability of a firm can ensure its economic legitimacy; however, social disclosure should be a function of social legitimation. The study supports the view that "social disclosure is more closely related to public pressure variables than economic ones" (Patten, 1991, p.300). In a study on Canadian firms, Neu et al. (1998) also find a negative relationship between profitability and environmental disclosure. They argue that unprofitable firms are more likely "to use environmental disclosures either to indicate that environmental investments will result in long-term competitive advantages or to distract attention from the financial results" (p. 275). In contrast, other studies consider profitability as a public visibility variable. Highly profitable firms receive intense public scrutiny and need to be more careful about their legitimacy. These firms need to show that they are operating within the norms of society and that their profits are not at the expense of society. This suggests the following hypothesis.

H9: There is a significant relationship between financial performance and adoption of integrated reporting.

7.3 Research Design

7.3.1 Sample Design and Data Collection

This study is based on a sample of the Nikkei 225 companies listed in the Tokyo Stock Exchange (TSE). The sample is taken on March 18, 2018 from the Nikkei NEEDS Financial Quest database. The Nikkei 225 index is Japan's most widely watched index of stock market activity at the TSE. Its constituents are the most actively traded companies in the stock exchange, with balanced representation of a wide range of Japanese industries. Given that IR is in an early stage of development, this cross-sectional study focuses on integrated reporting practice in the latest available year, 2017. Consistent with other studies (Garcia-Sanchez et al., 2013; Frias-Aceituno et al., 2014), banks and other financial institutions are excluded from the sample because of their different accounting and reporting practices. Companies with missing data are also excluded from the sample. Thus, the final sample consists of 169 companies (a list of these 169 companies is attached at Appendix 1). Annual reports and/or sustainability reports of 169 companies are collected from the websites of individual companies. Corporate governance data are collected from the Nikkei NEEDS CGES for the year 2017 and corporate characteristics related data are taken from the NEEDS Financial Quest database.

A broadly agreed upon definition of integrated report does not exist (Hughen et al., 2014). This study, therefore, has used its own criteria to identify an annual report as integrated report. Based on those specific criteria, this study examined whether the sample companies have published integrated reports or not. At first, this study investigated whether the report in each case has integrated financial and non-financial information into a single document or not. This idea is consistent with the definition of IIRC (2013). Then, the contents of all selected reports and editorial policy statements (if it is included in the annual report or on the website of the company) are examined. Each report is evaluated based on the following contents: a) management commentary, b) overview of business operations c) corporate strategies and risks d) the value creation process e) governance and remuneration policies, and f) sustainability related disclosure. After examining the incorporation of all this information into the report, the editorial policy section is read carefully to understand the awareness or viewpoint of the management on integrating financial and non-financial information. An editorial policy perspective can be useful to understand the motive of the management on preparing IR (KPMG in Japan, 2018). Based on the above scrutinizing process, this study considers 96 of the sample companies as integrated reports in the year 2017. The dependent variable IR is a binary variable, taking the value 1 if the company publishes and 0 if it does not.

7.3.2 Regression Model and Measurements of Variables

Table 7.1 summarizes the variables of this study. The following logit model was used to test the relationship between the dependent and independent variables.

$$IR = \beta_0 + \beta_1 BRD\_SIZE + \beta_2 IND\_DIR + \beta_3 DEBT + \beta_4 INST + \beta_5 CROSS + \beta_6 FORG + \beta_7 COM\_SIZE + \beta_8 IND + \beta_9 PROF + \varepsilon$$

Table 7. 1: Measurements of Variables

Variables	Definition of variables	Data Source
IR	Integrated reporting in 2017. A binary dependent variable taking the value 1 if a company publishes IR in 2017, otherwise 0.	Integrated report, Annual report, Sustainability report of companies from companies' website
BRD_SIZE	Number of board of directors	NEEDS-CGES
IND_DIR	Independent outside director ratio. Percentage of independent directors to total directors (based on Corporate Governance Report)	NEEDS-CGES
DEBT	Debt to equity ratio.	NEEDS-Financial QUEST
INST	Ratio of domestic institutional owners. Trust account shareholding ratio+ life insurance special account shareholding ratio	NEEDS-CGES
CROSS	Cross shareholding ratio. Total shareholding ratio by public companies that can hold mutual shares	NEEDS-CGES
FORG	Number of Shares Owned by Foreign Corporations	NEEDS-Financial QUEST

COM_SIZE	Company size. Measured by log of total sales.	NEEDS-Financial QUEST
IND	Industry affiliation. Dummy variable: Environmental Sensitive Industry 1 and Otherwise 0	Environmentally sensitive industries: Mining, Electric appliances, Chemicals, Metal products, Pulp and paper, Pharmaceutical, Iron and steel, Machinery, Nonferrous metal, Electric power and gas.
PROF	Profitability. Return on Investment (ROI)	NEEDS-Financial QUEST

7.4. Results and Analysis

7.4.1 Descriptive Statistics and Correlational Matrix

The descriptive statistics of this study is represented in Table 7.2 followed by the correlation matrix is shown in Table 7.3.

Table 7. 2: Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
IR	169	0.568	0.497	0	1
BRD_SIZE	169	11.112	3.123	5	25
IND_DIR	169	29.161	12.153	8	75
DEBT	169	158.894	122.913	10.090	734.190
INST	169	19.077	6.751	2.580	45.500
CROSS	169	7.791	5.955	0	27.400
FORG	169	29.346	9.947	10.411	68.303
COM_SIZE	169	5.521	0.707	3.552	7.060
IND	169	0.485	0.501	0	1
PROF	169	6.518	6.632	-8.570	42.260

Table 7.2 reports the descriptive statistics for the variables in the study. The final sample consists of 169 companies from the Nikkei 225 index. In the sample, the average adoption rate of integrated reporting was 56.8%. The findings also reveal high dependence on debt of these firms and the significant stakes of foreign owners in these companies. The average of the foreign shareholding ratios of the sample firms is 29.35 %. The average board size is 11 with minimum and maximum sizes of 5 and 25. The average of the ratios of independent outside directors to total directors on the board is 29.16%. The sample contains

48.5% of environmentally sensitive firms.

Table 7. 3: Correlation Matrix

	IR	BRD_SIZE	IND_DIR	DEBT	INST	CROSS	FORG	COM_SIZE	IND	PROF
IR	1									
BRD_SIZE	-0.122	1								
IND_DIR	0.253**	-0.385**	1							
DEBT	0.148	0.078	-0.041	1						
INST	-0.044	-0.097	0.081	-0.167*	1					
CROSS	-0.085	0.141	-0.240**	-0.018	0.001	1				
FORG	0.071	-0.051	0.316**	-0.031	0.052	-0.271**	1			
COM_SIZE	0.194*	0.176*	0.019	0.246**	-0.265**	-0.044	0.348**	1		
IND	0.106	-0.138	0.245**	-0.145	0.161*	-0.177*	0.086	-0.096	1	
PROF	-0.078	-0.063	0.028	-0.356**	0.029	-0.140	0.279**	0.102	-0.041	1

Note: **, and * show that the coefficient is significant at 1% and 5% level respectively

Table 7.3 is a correlation matrix of the variables. In general, the independent variables are not highly correlated. The highest correlation coefficient among independent variables is 0.385, between board size and ratio of independent directors. Therefore, there is no multicollinearity problem among the independent variables. Roberts (1992) notes that bivariate correlation of above 0.80 could indicate a harmful level of multicollinearity.

Table 7.4 lists estimation results of the logit model, showing the relationship between corporate characteristics and integrated reporting. The results indicate that board size has a negative and insignificant relationship with integrated reporting adoption. Hence, H1 is rejected. This finding is consistent with that reported by Kilic and Kuzay (2018) and Amran et al. (2013), who find an insignificant relationship between board size and corporate disclosures. According to Akhteruddin et al. (2009), larger boards can reduce information asymmetry and provide more voluntary information than the smaller ones. However, this benefit might be outweighed by the costs related to ineffective communication and lack of coordination in the decision-making process (Kilic and Kuzay, 2018). Moreover, even a larger board would not direct much effort to sustainability and CSR issues, if their interests are not aligned to those issues (Amran et. al., 2013).

7.4.2 Regression Results and Analysis

Table 7. 4: Regression Results

	Coef.	Std. Err.	z	P>z
BRD_SIZE	-0.044	0.062	-0.720	0.473
IND_DIR	0.046	0.018	2.530**	0.012
DEBT	0.002	0.002	1.150	0.251
INST	-0.002	0.027	-0.080	0.936
CROSS	-0.011	0.030	-0.360	0.717
FORG	-0.016	0.020	-0.770	0.439
COM_SIZE	0.682	0.283	2.410**	0.016
IND	0.343	0.354	0.970	0.333
PROF	-0.019	0.028	-0.680	0.494
_cons	-4.035	1.820	-2.220	0.027
Number of obs.	169			
LR chi2(9)	23.940			
Prob > chi2	0.004			
Pseudo R2	0.104			
Log likelihood	-103.602			

Note: ** shows that the coefficient is significant at 5% level

The coefficient for the ratio of independent directors to total directors is positive at the 5% significance level, showing the influence of independent directors upon IR adoption decision. Therefore, H2 is accepted. This result implies that the greater the board independence, the more likely that firms will emphasize on integrating financial and sustainability information. Some other studies also support that a higher proportion of independent directors is related to higher levels of disclosure (Jizi, 2017; Lim et al., 2007; Wang and Hussainey, 2013) and quality of disclosure (Chen and Jaggi, 2000). This finding may have an important implication, particularly, in the context of Japan. Regulatory authorities should work for improved board independence in Japanese listed companies.

The regression results show that debt to equity ratio is not significantly associated with IR adoption in Japan. Therefore, H3 cannot be supported. It implies that creditors may not have strong preferences for integrating financial and non-financial information. However, this does not mean that they are not interested in sustainability information. Creditors may use other communication tools such as CSR reports or sustainability reports of the firms, as Japan is one of the leading countries of the world in CSR reporting (KPMG, 2017). In accordance with this analysis, institutional shareholding, cross shareholding, and foreign shareholding have a negative association with IR adoption in Japan. H4, H5, and H6 are therefore, rejected. Wang and Hussainey (2013) find an insignificant relationship between institutional ownership and forward-looking disclosure in a study on UK companies. The authors argued that as powerful investors, institutional shareholders might have other efficient means of communicating with the firm's management such as, one-to-one meetings. In a study on Japanese listed companies, Saka and Noda (2013) have demonstrated an insignificant influence of stable shareholders on the firm's CSR disclosure. In Japan, the domestic institutional investors or the so-called 'affiliated investors' have long-term relationships with the firms in which they invest (Miyajima et al., 2016). These investors might have access to the private information of the investing firms.

Finding insignificant relationship between foreign shareholding and IR adoption decision has contrasted with earlier studies on sustainability reporting (Tanimoto and Suzuki, 2005; Suzuki et al., 2010). Foreign investment in Japan mainly consists of institutional investment from western countries such as the USA. It could be possible that some of these investors would prefer short term profit rather than long term sustainability of the investee companies (Suzuki et al., 2010). In a recent study, Motta and Uchida (2018) also fail to document any robust evidence that foreign ownership has affected the improvements in environmental ratings of Japanese companies. In addition, integrated reporting is in an early stage of development. Without any authoritative guideline, investors may not consider this document as a credible source of information. Alternatively, these powerful investors might have access to other private and public sources of information. Our findings also fail to document any significant relationship between cross shareholding ratio and publication of integrated report. This implies that cross shareholding cannot explain the firm's IR adoption decision. This is consistent with Tanimoto and Suzuki (2005), who show that ownership by other listed companies, is not significant in adopting GRI guidelines in Japan.

Consistent with many other quantitative studies on sustainability reporting (Saka and Noda, 2013) and integrated reporting (Frias-Aceituno et al., 2014; Kilic and Kuzay, 2018), in the present study corporate size is found to be positively associated with adoption of IR. The coefficient for company size is positive at the 5% significance level. Therefore, H7 is accepted. Larger companies usually face higher agency costs and problems of information asymmetry. In order to reduce such costs, these companies are likely to disclose a higher level of voluntary information to their stakeholders (Frias-Aceituno et al., 2014). On a different note, Kokubu et al. (2001) confirm that environmental disclosure in Japan is positively influenced by company size, because "the greater the size of a company, the more political visibility and the more positive about information disclosure that a company becomes" (p.17).

The present findings also show that industry affiliation does not have any significant influence upon companies' preferences for IR. So, H8 is not accepted. This finding is consistent with Kilic and Kuzay (2018), who reveal an insignificant relationship between industry affiliation and forward looking disclosure. This implies that the involvement of environmentally sensitive industries in sustainability disclosure, as evidenced in earlier literature, is diminishing. In other words, the gap in the disclosure practices between environmentally sensitive and environmentally non-sensitive industries is reducing. KPMG (2017) observes that all sectors have made significant improvements in CSR reporting, including the lagging ones such as technology, media and telecommunication, transport and leisure. Wild and van Staden (2013) also find that integrated reporting adoption is not dominated by industries with high social and environmental impacts.

The regression results show that ROI has a negative and insignificant effect on the adoption of IR. Thus, H9 is rejected. This is consistent with Al-Najjar and Abed (2014) who document a negative relationship between firm performance and forward-looking disclosure. Siregar and Bachitar (2010) also find that firm performance does not have significant influence on CSR. This means that less profitable companies often attempt to save their reputation in the market by disclosing more voluntary information or to divert the attention of the market from their poor financial performance (Neu et al., 1998).

7.5 Conclusions

This study has examined the associations between some selected corporate characteristics and adoption of integrated reporting by Japanese listed firms. The sample was taken from the Nikkei 225 companies listed on the Tokyo Stock Exchange. This study provides some important insights based upon logit regression analyses. It examines the impacts of firm size, board independence, industry affiliation and profitability upon the use of IR as a reporting vehicle. The findings of this study include that firm size has a significant positive influence on IR adoption whereas profitability has a negatively influence on it. Industry classification has no significant influence upon the integration of financial and non-financial information. It means that firms operating in environmentally non-sensitive industries are also making improvements in integrated reporting practice along with the firms in environmentally sensitive industries. This paper also finds that institutional investment, cross shareholding, and foreign shareholding have negative associations with the adoption of IR. Japanese corporate boards are usually large and dominated by insiders. The current study fails to prove any significant relation between board size and integrated reporting adoption. Finally, greater independence of the board favorably influences the integration of corporate information.

This study has a number of limitations. The sample of the study is taken from the Nikkei 225 companies and it is a cross sectional study based on the year 2017 only. So, the results presented and their implications should not be generalized. Future research can focus on the extent and quality of disclosure of these reports. Future research can also extend this study by considering multiple years and larger samples.

Chapter Eight

Conclusions and Future Directions

8.1 Introduction

This thesis has two broad objectives. Firstly, to examine the practice of integrated reporting and secondly, to understand the factors influencing the adoption of integrated reporting. This thesis offers three studies (in Chapters 4, 5, and 7) to accomplish these two broad objectives and uses the perspective of legitimacy theory to explain the findings from these studies. The first two studies (in Chapters 4 and 5) are connected with the first broad objective, that is, to understand the practice of integrated reporting. Chapters 4 and 5 have examined the contents of corporate reports of leading listed companies of Japan and the UK. Without any direct regulatory directives, it would be interesting to know 'whether' there is any influence of integrated reporting propositions in the corporate reporting practice of these two countries. Although preparation of IR is not mandatory in any of these countries, they are in an advanced stage of voluntary reporting practice. To understand the influence of integrated reporting propositions on actual reporting practice of these countries, a sample of 40 companies (a sample of 20 companies from each country's top 100 companies) has been chosen. The extent and quality of annual reports of these companies are examined against a disclosure checklist constructed in the present thesis. The disclosure checklist is based on the Content Elements of the IIRC Framework (2013). This checklist contains 43 items in total, under eight Content Elements of the IIRC Framework. Appendix 2A and 2B have attached the two samples of the disclosure checklist (Disclosure Checklists I and II) presented in two formats that are used in this thesis. This disclosure checklist is one of the contributions of the present thesis to the IR literature.

The studies in Chapters 4 and 5 reveal a moderate disclosure against the proposed contents of the IIRC Framework for Japan and the UK. The average compliance rate is 64.73% for the sampled annual reports of Japan and 71.01% for the sampled annual reports of the UK. After analyzing the quality and extent of two countries separately in two previous chapters, Chapter 6 of this thesis provides results of statistical analysis of the difference between these two countries. At first, the Overall Disclosure Scores by company for all Content Elements in the disclosure checklists of Japan and UK are compared. Then, the average scores for individual Content Element are compared between these two countries. Results show that there is no significant difference between Japan and UK in Overall Disclosure scores of integrated reporting, and in Content Elements namely, Business Model, Strategy and Resource Allocation, Performance, Outlook, and Basis of Preparation and Presentation. However, there are significant differences between Japan and the UK in disclosure quality of the following Content Elements: Organizational Overview and External Environment (1% significance level), Governance (1% significance level), and Risks and Opportunities (5% significance level).

The findings in Chapters 4 and 5 have instigated another research issue: what are the factors that influence the adoption of integrated reporting propositions by these companies in a voluntary regulatory setting? This is related to the second broad objective of this thesis. To seek answer to this question, the study in Chapter 7 is conducted. Chapter 7 has investigated the influence of corporate level determinants in adopting integrated reporting practices in Japanese companies.

During the last few decades, the society's expectations to the business has been changed significantly due to a number of reasons such as, environmental degradation due to massive industrialization, globalization, explosion of technology particularly, information technology. This change in expectation has influenced the reporting practice of the corporation, from a purely financial viewpoint to increasing importance on the incorporation of sustainability related issues in corporate reports through CSR report or sustainability report. However, standalone sustainability report was criticized for not being connected to the financial reporting of the business. The origination of IR was attributed to this limitation and the integration of financial and non-financial information through a process of integrated thinking within the organization. Consequently, the IIRC was formed in 2010 and the council proposed their Framework in 2013. Research show that integrated reporting practice existed even before the formation of the IIRC. But undoubtedly, this practice has received motion after the formation of the IIRC and through various initiatives taken by this Council. As a new reporting innovation, there are many differences exist in the practice of this reporting around the world. As this practice is still in an evolving stage, research relating with it is limited. In addition, most of the existing researches have focused on the South African context where listed companies need to prepare integrated reports on a 'comply or explain' basis. On this ground, research on other parts of the world is important to enrich the knowledge base of IR. This study attempts to investigate the reporting practices of the listed companies of Japan and the UK. Although socio-political context is different in these two countries, both of them are already in an advanced stage of sustainability reporting and therefore, could give interesting insights regarding the issue under study.

This chapter tries to summarize the main ideas of the current thesis. Section 8.2 offers the summaries of findings of the empirical chapters of this thesis. Section 8.3 describes the contributions and implications of the present thesis. Section 8.4 mentions the limitations of the present study and section 8.5 proposes some suggestions for future studies in the private sector. Finally, section 8.6 or the last section of this thesis wants to conclude that there is a possibility of applying IR in public sector as well and future researches can investigate into this issue.

8.2 Summaries of the Empirical Chapters and their Findings

This section provides summaries of the empirical chapters and the main finding therein. These studies offer some interesting insights about the reporting practice of the sampled organizations.

8.2.1 Chapter Four: Contents of Integrated Reporting: Evidence from Selected Companies of Japan

The objective of Chapter 4 is to investigate the contents of annual reports of leading listed companies in Japan which is the first specific objective of this thesis. Although preparation of IR is not mandatory in Japan, it would be interesting to investigate 'what' the companies are actually reporting to their stakeholders and to 'what' extent their reporting practice meet the suggestions of the IIRC Framework. To fulfill this objective, a sample of 20 companies is randomly selected from the first 100 companies of the Nikkei 225 index. This study evaluates the extent and quality of annual reports for the year 2016 against the IIRC Framework. Although it is very difficult to conclude very objectively on the level of compliance of these reports against the Framework, this study has proposed a disclosure checklist to codify the data for analysis. Disclosure checklists (III) and (IV) are related to the analysis of Chapter 4. Disclosure checklist (III) presents information based on sampled listed companies of Japan, such as: (1) the average disclosure scores of each Content Element for the sampled companies of Japan (2) disclosure score by individual company for each item and for each Content Element (3) the total disclosure score for each company based on all Content Elements. On the other hand, Disclosure checklist (IV) shows the disclosure quality of each item (there are 43 items in the checklist) rather than each company. It also shows the percentages of companies in the sample who disclosed a particular item. So, Disclosure checklist (IV) is an item-based analysis of data for twenty Japanese companies in the sample.

Disclosure checklist (III) shows that the disclosure scores of the 20 sampled companies of Japan range from 75.68% to 36.49% approximately. Prior studies also found that the compliance rates vary significantly among companies even in the same country ((Marx and Mohhammadali- Haji, 2014). The checklist (III) also reveals that Governance is the highest disclosed category with 80% average disclosure by the sampled companies followed by Organizational Overview and External Environment with 76% average disclosure. Outlook is the third disclosed category with 75.63% average disclosure. The lowest disclosed Content Element is Basis of Preparation and Presentation followed by Business Model with 47.5% and 48.18% average disclosure respectively by the sampled companies' reports. Earlier studies found that Organizational Overview and External Environment or Strategy and Resources Allocation are the highly disclosed Elements whereas Materiality and Business Model are the lowest disclosed categories (Wild and Van Staden, 2013; Ahmed Haji and Anifowose, 2016). These findings are consistent to the findings of the present study. However, in contrast to the prior studies, the current one has found significant disclosure on Governance and Outlook by the sampled Japanese companies.

Drawing out from legitimacy theory, this study thinks that the current reporting practice of Japanese companies might be a combination of both symbolic and substantive management. The presentation of business models in these reports seems generic, mainly qualitative and symbolic in nature. Interdependencies between various capitals a business uses are not discussed clearly or completely. There is a common tendency of using similar terminologies used in the IIRC Framework's value creation process and Business Model. This could be to demonstrate the company's compliance with the IIRC Framework as these annual reports have acknowledged this reporting Guideline in their editorial policy sections. On the other hand, Materiality has the most ambiguous and minimal disclosure in general, in the sampled Japanese reports. These reports are usually biased for communicating positive information to the stakeholders with occasional acceptances of failure or negative information. From the viewpoints of legitimacy theory, these are signs of symbolic actions by the management. Apart from the above findings, this study finds substantive disclosure on many Elements such as, Governance, Outlook, or

Organizational overview and External Environments. For the sampled Japanese companies, the average of the overall disclosure scores is 64.73%. The disclosure practice, in general, is evidencing that the introduction of integrated reporting is shaping the corporate reporting practices in Japan and the companies are gradually aligning their reporting practices to the basic principles of IR.

8.2.2 Chapter Five: Contents of Integrated Reporting: Evidence from Selected Companies of the UK

This chapter fulfills the second specific objective of this thesis. This thesis aims to examine the reporting practice in Japan and in the UK where publication of IR is voluntary. Chapter 4 has discussed on the contents and quality of annual reports of selected Japanese companies. Consistent with that, Chapter 5 has focused on the reporting practice of the UK, a country having strong background of voluntary reporting since long. Without any legal obligation, it would be interesting to observe whether the latest reporting form, that is IR, has exerted any influence on the corporate reporting practice of this country. The sample for this study is 20 randomly selected companies from the Financial Times Stock Exchange (FTSE) 100 list and the annual reports of these companies for the year 2016 are collected from their respective websites. This study has also used the same disclosure checklist used in Chapter 4 as per Content Elements of the IIRC Framework. Disclosure checklist (V) and (VI) have coded data for the present study.

Disclosure checklist (V) shows that the overall disclosure rates vary from 87.84% to 54.05% for the sampled annual reports of the UK. The average compliance rate for the sampled reports is 71.01%. Checklist (V) also reveals that Governance is the highest disclosed category with 97.78% average disclosure followed by Organizational Overview and External Environment with 85.50% average disclosure. The Content Elements Risks and Opportunities and Outlook have an average disclosure of 83.57% and 82.50% respectively. The lowest disclosed Content Element is Basis of Preparation and presentation with 35% average disclosure only. It is interesting to observe that the findings of this study have some similarities with that of Japan conducted in Chapter 4 of this thesis. Future research, therefore, can investigate the reporting practice of different parts of the world to comprehend whether there is any general trend in the reporting practice of other countries as well.

This study has some interesting findings. Firstly, the sampled annual reports have made substantive disclosures on many aspects such as, Governance, or Risks and Opportunities or presenting KPIs. On the other hand, these reports have also made minimal and mainly qualitative disclosure on Contents such as, Business Model or Materiality. This thesis uses the lens of legitimacy theory to explain such practice by organizations. According to Ashforth and Gibbs (1990), organization can use a mix of legitimation strategies depending on its intention to extend, maintain, or defend legitimacy. The current study thinks that the situation for listed companies of the UK might be an example of maintaining legitimacy where non-adoption of IR would not damage their legitimacy. Secondly, the UK's regulatory requirements regarding disclosure of annual report or contents of the annual reports for listing companies might be influenced by the basic principles of the IIRC Framework. Deloitte (2015) also observed significant similarities between the IIRC Framework and the Strategic Reporting Guidance. To maintain legitimacy in the eye of the regulators, these companies need to make certain disclosures. This could be one possible reason for the sampled companies of the UK to achieve a moderate compliance against the IIRC Framework as well. Whether certain types of performance expectations are determined by market, normative, legal, or political forces, most of the firms need to fulfill those expectations to ensure their legitimacy and maintain support from its important constituents. Organizations pursue their legitimacy through various substantive and symbolic practices (Ashforth and Gibbs, 1990).

In conclusion, in spite of limited application of some key aspects of integrated reporting, such as Business Model, Materiality or linkages between financial and non-financial information, the sampled corporate reports of the UK have demonstrated a modest compliance against the propositions of the Framework. These reports show great potentiality to align more in the future with the propositions in the IIRC Framework.

8.2.3 Chapter Seven: Corporate-Level Determinants of Integrated Reporting: Evidence from Japan

This chapter serves the third specific objective of this thesis, that is, to understand the factors influencing the adoption of integrated reporting. The findings of the first study (in Chapter 4) of this thesis show that the annual reports of Japanese companies follow the guidelines of the IIRC Framework to a modest level. Both the contents and quality of annual reports, as well as the number of Japanese companies which are following IIRC guidelines voluntarily, are increasing (KPMG in Japan, 2018). This study aims to identify determinants of IR adoption by Japanese listed firms. Existing literature have investigated country-level features such as political and legal systems, economic development, cultural characteristics, and company-level features such as size, profitability, or industry and board characteristics (Vaz et al., 2016; Jensen and Berg, 2012; Frias-Aceituno et al., 2014). However, none of these studies have examined the possible determinants of IR adoption for Japanese firms. This study, therefore, extends the existing integrated reporting literature by focusing on Japan. To fulfill this objective, the effects of some selected company-level features upon IR adoption have been examined, namely company size, profitability, investors, industry and board characteristics including board size, and board independence. Using logit regression analyses, the influence of these factors on IR adoption is tested by developing nine related hypotheses. The sample for this study is Nikkei 225 companies listed in the Tokyo Stock Exchange. After excluding banks and other financial institutions, the final sample becomes 169 companies. Annual reports of these companies have been collected from the websites of individual companies. Corporate Governance data are collected from the Nikkei NEEDS CGES of 2017 and corporate characteristics related data are taken from the NEEDS Financial Quest database. In absence of any broadly agreed upon definition of IR (Hughen et al., 2014); the present study sets its own criteria to identify which annual reports can be considered as an IR. Based on those criteria the contents of 169 reports have been examined and finally, a total of 96 companies' annual reports are chosen as IR for the year 2017.

This study finds that the average adoption rate of integrated reporting is 56.80%. The findings show high dependence on debt financing of these firms and significant stakes of foreign owners in these companies. In line with other studies (Jizi, 2017; Lim et al., 2007; Wang and Hussainey, 2013), this study finds that board independence has a significant and positive influence upon IR adoption. Consistent with other empirical studies on sustainability reporting (Saka and Noda, 2013) and integrated reporting (Frias-Aceituno et al., 2014), the present study also finds that corporate size is positively associated with adoption of IR. Larger firms usually disclose more voluntary information to reduce higher agency cost and information asymmetry associated with those firms (Frias-Aceituno et al., 2014). On the other hand, this study finds negative and/or insignificant relationships between IR adoption and some other variables. The results indicate that board size has a negative and insignificant relationship with integrated reporting adoption. Prior studies (Akhteruddin et al., 2009) found that larger boards can reduce information asymmetry and provide more voluntary information than the smaller ones. However, ineffective communication and lack of coordination in the decision-making process may outweigh this benefit (Kilic and Kuzay, 2018). The present study finds that institutional shareholding, cross shareholding, and foreign shareholding have no significant association with IR adoption in Japan. Prior studies (Saka and Noda, 2013; Wang and Hussainey, 2013) also confirm similar findings. These powerful investors might have access to other private and public sources of information. Finding insignificant relationship between foreign shareholding and IR adoption decision is against many earlier studies (Tanimoto and Suzuki, 2005) in sustainability reporting. One possible explanation for such insignificant relationship could be foreign shareholders' preferences for short term profit rather than long term sustainability of the investee companies (Suzuki, et al., 2010). Moreover, being in an evolving stage, IR might not be considered as credible source of information to these stakeholders. In line with some recent studies (Kilic and Kuzay, 2018), this study fails to prove any significant relationship between industry affiliation and IR adoption. It means that the gap in the disclosure practices between environmentally sensitive and environmentally non-sensitive industries is reducing (KPMG, 2017). Finally, ROI has a negative and insignificant effect on the adoption of IR implying that less profitable companies may attempt to save their reputation in the market by disclosing more voluntary information or to divert the attention of the market from their poor financial performance (Neu et al., 1998).

This is a cross sectional study based on the data of one year for the Nikkei 225 companies. Therefore, the findings of this study should be interpreted with caution. Nevertheless, these findings could give useful insights to the academia, the regulators and others concerned on the effects of some selected corporate characteristics on integrated reporting disclosure in Japan.

8.3 Contributions and Implications of the Study

Integrated reporting is still in an emerging stage (De Villiers et al., 2014; Dumay et al., 2016). Extant literature mainly concentrated on the South African practice where IR is mandatory (Velte and Stawinoga, 2016). Some of these studies used content analysis of integrated reports and observed wide variations in current reporting practice (Solomon and Maroun, 2012; Wild and Van Staden, 2013; Setia et al., 2015; Melloni, 2015; Ahmed Haji and Anifowose, 2016; Ahmed Haji and Anifowose, 2017). However, reporting practice of other parts of the world is still largely unknown. In this regard, researchers have called for studies to unveil the IR practice of different institutional and cultural environment (Feng et al., 2017). Therefore, this study takes the opportunity to investigate the contents and determinants of IR in Japan and the UK, where the practice is voluntary. Although the regulatory environment differs substantially, Japan and the UK are already in an advance stage on corporate non-financial reporting (KPMG, 2008, 2011). As far the study is aware, it is the first study to compare contents of IR of two countries. For this purpose, this study develops a comprehensive content checklist or disclosure checklist to evaluate the reporting practice of IR.

Content analysis is a widely used method of studying annual reports and has been widely used in corporate social and environmental reporting fields of accounting research (Gray et al., 1995; Guthrie and Parker, 1990; Milne & Adler, 1999). This method involves designing a research instrument to codify the contents into desired categories of information. After that, quantitative measures are created for further analysis. The present thesis also uses content analysis method to examine the contents of selected annual reports of Japan and UK. While developing the content/disclosure checklist which is the research instrument, this thesis mainly focuses on the Content Elements of the IIRC Framework. The Guiding Principles of the Framework are not taken into account explicitly in defining the disclosure items. Instead, this study assumes that the Guiding Principles work as the foundation for deciding the contents of each report (IIRC, 2013).

Based on normative understanding of the eight Content Elements of the IIRC Framework, the current study has developed the disclosure checklist to comprehend what the companies are actually reporting and whether these are complying with the Framework. All the important requirements or propositions in the Content Elements sections of the IIRC Framework that seem to be objectively measurable to a great extent, are considered in developing the checklist. Moreover, consultation from extant literature (Ahmed Haji and Anifowose, 2016; Wild and van Staden, 2013, Stent and Dowler, 2015; Marx and Mohammadali-Haji, 2014; Setia et al., 2015) is also taken in emphasizing the items, and devising the coding systems of the checklist. The research instrument or disclosure checklist that is prepared in this study has been presented in two formats (attached in Appendix 3A and 3B) for facilitating further analysis. The first format of the checklist (attached in Appendix 3A) gives information based on sampled companies, such as: (1) the average disclosure scores of each Content Element by the sampled companies (2) disclosure score by individual company for each item and for each Content Element (3) the total disclosure score for each company for all Content Elements. The second format of the checklist (attached in Appendix 3B) presents information on the basis of a specific item rather than the sampled companies. It shows the average disclosure quality of each item and percentage of companies that disclose it. Given the lack of generally accepted integrated reporting framework, the checklist can be a useful tool for future research. Future researchers can use this disclosure checklist to examine the IR practice or can even update it to accommodate their specific research objectives. So, this is an important contribution of the present thesis for future researchers.

Legitimacy theory is widely used in sustainability reporting literature (Deegan, 2002; Parker, 2005; Owen, 2008; Gray et al., 2010). This theory implies that an organization will be “desirable, proper, or appropriate” as long as it operates within the “norms, values, beliefs, and definitions” of the broader social system (Suchman, 1995: p. 574). If the organization does anything which is not commensurate with social expectations, then the legitimacy of the entity would be in question. From legitimacy theory point of view, management utilizes sustainability reporting to meet the expectations of the society about corporate social responsibilities, manage the powerful stakeholders, and build favorable image in the society. Researchers have embraced this theory to explain different aspects of sustainability reporting including extent and quality of sustainability reporting, managerial motivation to engage in this form of reporting, and determinants of adoption of sustainability reporting. This present thesis extends the application of legitimacy theory in an emerging reporting context, that is, integrated reporting. The study provides theoretical contribution by examining IR practice from Ashforth and Gibbs’s (1990) legitimation strategies of substantive and symbolic management point of view. Substantive management involves real and material change in organizational activities or operations to meet the expectations of those stakeholders who control critical resources necessary for survival of the organization (Ashforth and Gibbs, 1990). On the other hand, in symbolic management, organizations do not change their actual operations rather “simply portray-or symbolically manage them so as to appear consistent with social values and expectations” (Ashforth and Gibbs, 1990, p.180). Drawing out from legitimacy theory, this study thinks that the current reporting practices of Japanese and UK listed firms might be a combination of symbolic and substantive disclosure.

This thesis finds that on the one hand, the introduction of IR is shaping the corporate reporting practices in Japan and UK and companies are gradually aligning their reporting practices to the principles of IR. On the other hand, there are still many drawbacks in the current practice. For the sampled corporate reports of Japan, substantive disclosures are found on certain Contents Elements such as, Governance, Organizational Overview and External Environment, Outlook and Strategy and Resource Allocation. In case of UK, the sampled reports have made substantive disclosure on many contents such as, Governance, Risks and Opportunities, Organizational Overview and External Environment and Outlook. In comparison to other Content Elements, the disclosure on Business Models, issues of materiality and connectivity are either absent or generic and symbolic in nature in the sampled reports. Interestingly, this finding is similar for both of the countries' samples corporate reports. This is consistent with previous studies in this area (Ahmed Haji and Anifowose, 2016; Wild and van Staden, 2013; Setia et al., 2015). In addition, these reports are usually biased for disclosing positive information of the organization rather than disclosing all the positive and negative effects on the capitals. Under legitimacy theory, these are seen as signs of symbolic management.

Considering the voluntary nature of integrated reporting practice, the current study assumes that the situation for listed companies of Japan and the UK might be a kind of maintaining legitimacy. The UK listed companies make various disclosures to maintain legitimacy in the eye of the regulators. The present study finds that many Japanese companies are referencing to the IIRC Framework in preparing their annual reports without any actual efforts to fulfill the basic requirements of the Framework. Compliance with any generally accepted framework of reporting can be a substantive approach if there are actual actions by the company to comply with that framework. However, without any regulatory burden, symbolic adherence to the IIRC Framework might be considered enough by the management of these companies to maintain legitimacy. This study thus, shows empirical evidence that organizations use both substantive and symbolic disclosure to maintain their legitimacy.

Although previous studies have investigated country level and corporate level determinants of IR adoption, the context of Japan is largely unknown. Given the significant increase of integrated reporting practice in Japan (KPMG, 2017), it is important to understand the corporate characteristics that influence corporate decision to adopt this voluntary reporting practice. This study fulfills this research gap by showing empirical evidence on corporate level determinants for adopting IR of Nikkei 225 companies. The study has several implications:

1. Given the lack of any authoritative guidelines, the practice of IR varies significantly within and across the countries. This study observes these differences in Japan and in the UK regarding the contents and quality of the reports. Interestingly, this study finds no statistically significant difference in disclosure practice between these two countries on the basis of the overall disclosure scores. But, considering the Content Elements separately, substantial variations are found in disclosures on Governance, Risks and Opportunities, and Organizational Overview and External Environment related information. The contents of UK companies' annual reports are better in disclosure quality in these respects. On the other hand, Strategies and Resource Allocation section of Japanese reports are more aligned to the IIRC Framework. However, annual reports of both of the countries lack Materiality and Business Model related information, in general, which are two basic requirements of the IIRC Framework. Materiality is a fundamental principle both in financial reporting and non-financial reporting such as sustainability reporting. However, this principle is one of the most challenging principles to apply in practice, especially in case of non-financial information. In relation to IR, a matter is material if it is relevant and significant to the investors in assessing the organization's ability to create value over the short, medium, and long term. Because of the centrality of materiality for IR process, IIRC (2013) requires involvement of top-level management in materiality determination process. It also encourages engagement with providers of financial capital and other stakeholders to identify the material issues. The present thesis finds that the information on materiality, such as the determination process and stakeholder engagement of materiality, and describing the impacts of material issues on the value creation process, is very less and unclear in the sampled reports. The actual meaning of 'material issues' is not clear in most cases. Disclosure on materiality, therefore, calls for further improvement.

The value creation process is one of the three Fundamental Concepts of IR Framework. Business model is at the center of the organization's value creation process. The Business Model is another area where ceremonial conformity is apparent in these reports. IIRC (2013) explains Business Model consisting of four elements: Inputs, Business activities, Outputs, and Outcomes. In the present study, the illustrations on Business Model are mostly qualitative in nature and not comprehensive enough to display the interrelationships between the elements of the business models. For example, the relationship between capital and other content elements is not depicted clearly. Moreover, the interdependence between the capitals that the organization uses is not well presented in most cases. This is consistent with many current research in this area (Ahmed Haji and Anifowose, 2017; Setia et al., 2015).

The findings will have implications for development of practice and policies on IR. This study highlights the areas of IR that need further clarification, such as Materiality. Companies can improve their IR practice by taking these into consideration. Similarly, the regulators or standard setting bodies can also think to introduce guidelines or frameworks to ensure consistency and comparability in IR practice among companies.

2. Relationship between corporate characteristics and IR adoption in Japan shows that independent directors have significant influence in IR practice. This is consistent with several other prior studies (Chen and Jaggi, 2000; Lim et al., 2007; Wang and Hussainey, 2013; Jizi, 2017). There are several reasons for positive relationship between independent directors and corporate reporting (Wang and Hussainey, 2013). From agency theory perspective (Fama and Jensen, 1983), independent directors can play a significant role in monitoring the performance of management. In this role, independent directors can help to minimize the opportunistic behavior of managers. Independent directors who are less associated with management are more enthusiastic in encouraging firms to disclose more information to investors (Akhtaruddin et al., 2009) as a means to protect their own reputations (Lim et al., 2007). This reduces information asymmetry between management and investors. In addition, as independent directors are usually experts in their respective fields, they can utilize their knowledge, expertise, contacts to bring the external stakeholders' perspective into company decision making. For example, independent directors can emphasis on the importance of integrating financial and non-financial performance for short, medium, and long-term value creation of the company. The Corporate Governance Code of 2018 in Japan also emphasized on the inclusion of independent directors to fulfill board responsibility from independent and objective point of view. The Code requires companies to include at least two independent directors in the corporate board (TSE, 2018). According to the Code, major roles and responsibilities of independent directors include advice on business policies and business improvements based on their knowledge and experience, monitoring important management decisions and conflict of interest between company,

management and shareholders, and representing the external stakeholders in the corporate board. This study provides empirical evidence that recent regulatory initiatives have significant impact on corporate reporting practice in Japan. This finding would be important for the regulators and companies in the process of improving the corporate governance practice and related accounting and reporting practice. The finding would also have global implication. Regulatory bodies and companies in other countries can consider inclusion and effective use of independent directors to ensure better corporate governance system.

3. This research also documents that larger companies have more motivation to adopt IR practice. Legitimacy theory considers company size as a proxy of public visibility. Due to their high visibility, larger companies are subject to public scrutiny that may come in the form of concerns of the general public, regulatory burden or political intervention (Patten, 1991). As stakeholders' concern as well as regulatory requirements for corporate non-financial performance such as social and environmental performance has increased significantly in recent years, larger companies need to show their commitment to sustainability issues. Ho and Taylor (2007) further explained the relationship between firm size and corporate disclosure by using agency theory. They argued that larger firms have higher agency costs because of their larger amounts of outside capital. These companies will be interested in disclosing more information to reduce their agency costs. Consistent with the explanation of legitimacy theory and agency theory, this study also shows that larger companies are more likely to integrate financial and non-financial information in their annual reports. This has implication for companies' decision to adopt IR practice. For example, based on the finding of this study, larger companies would be more benefitted than smaller companies by adopting IR practice.

4. Another important finding of this study is that environmentally-sensitive industries (such as mining, chemical, pharmaceutical, pulp and paper, electric appliances, metal products) do not have significant influence on companies' decision to publish IR. This contrast with several prior studies that showed companies in environmentally sensitive industries have more motivation to disclose social and environmental information (Fifka, 2013). This finding implies that the gap in the disclosure practices between environmentally sensitive and non-sensitive industries (such as information and communication, services, real estate, retail trade, foods) is reducing. In other words, non-environmental sensitive

industries are also making significant improvement in IR practice. This can be considered as a significant contribution of this study. Accordingly, companies in both environmentally-sensitive and environmentally non-sensitive industries can be benefitted by integrating financial and non-financial performance to create value in the short, medium, and long term.

5. This study also finds that institutional shareholding, cross shareholding, and foreign shareholding do not have any significant association with IR adoption in Japan. This means that these stockholders do not find IR important for their decision making. This may be due to the limitations of current IR practice including lack of familiarity of IR at the operational level, absence of measurement criteria and qualitative nature of reporting, and difficulties to ensure comparability and consistency in reporting (Slack and Tsalavoutas, 2018). In addition, these powerful investors might have other efficient means of communicating with the firms' management such as, one-to-one meetings or may have access to their private information (Wang and Hussainey, 2013). This finding has significant importance to the companies, regulators, standard setting bodies, and other voluntary organizations (such as IIRC) in corporate reporting. IIRC (2013) considers investors as the primary user of integrated reports. However, this study shows lack of investors' interest on current IR practice. Therefore, regulators, standard setting bodies, and voluntary organizations should think of necessary measures to improve the quality of integrated reports so that these reports can be useful to the investors. For an example, given the qualitative nature of non-financial information, issuance of regulatory standards or guidelines would be helpful to further clarify the matters and to minimize the variations in IR practice that will ensure comparability and consistency in IR. Similarly, companies also need to design their integrated reports bearing in mind the audience of such reports. For example, if companies believe investors are the main users of IR, then they should improve content of their integrated reports by incorporating the information required for investment decision. On the other hand, if management considers a wide range of users of integrated reports such as consumers, suppliers, and NGOs/NPOs, then they need to redesign the content of their report based on the information requirement of these stakeholders.

8.4 Limitations of the Research

This thesis has a number of limitations. This section discusses on some major limitations followed by their implications in future studies.

Firstly, the empirical findings on extent and quality of integrated reports in Japan and UK (Chapter 4 & 5) are based on a total sample 40 companies. The sample size has been determined to attain the objective of the present thesis which is, to understand the reporting practice in detail, through careful reading of the contents of each report in the sample. In a recent study, Robertson & Sami (2015) has conducted a content analysis of 22 UK FTSE 100 companies to understand the adoption of IR. In another study, Setia et al. (2015) has taken a sample of 25 JSE listed companies to observe the change in disclosure practice of capitals. Stent and Dowler (2015) have chosen 4 New Zealand companies to examine the contents and quality of their annual reports. The present study has followed these researches in determining its sampling technique.

According to Robertson & Sami (2015), selecting companies from diverse industries can give a balanced view of reporting practices. Consistent with this idea, the present study has selected its sampled companies randomly from top 100 companies' list of each country. Final samples of these studies (for Chapter 4 and 5) consist of companies from diverse industries. However, caution is needed to interpret the findings in the above aspects.

Secondly, the studies in this thesis use single year data and provide a snapshot of the practice. This may limit the findings from any kind of generalization.

Thirdly, the content analysis method has some inherent limitations. The data coding process requires judgment of the researcher to infer the meanings from any given text and to categorize the data. This process may involve some subjectivity and therefore could be thought as a general limitation of the content analysis method.

8.5 Implications for Future Research

This study identifies several scopes that future researchers can focus to improve the literature on integrated reporting. Some areas for future research can be as follows:

To get a wider overview of integrated reporting practice in terms of extent and quality in Japan and the UK, future research can be conducted by extending the sample size. The comprehensive checklist developed in this study could be useful for this purpose.

Through analyzing the integrated reports of a single year, this study provides snapshot evidence of integrated reporting practice. Given IR is in an emerging stage, it is also important to understand the evolution of this practice. Researchers can focus on longitudinal studies to provide evidence on historical development of contents of IR.

The regression results in chapter 7 shows that investors in Japan such as institutional shareholders, cross-shareholders, and foreign shareholders are not significant in companies' decision to publish integrated reports. However, IIRC (2013) considers investors as primary user of integrated reports. In depth studies are needed to understand the perception of Japanese investors regarding the IR practice. In this regard, researchers can use qualitative research methods including interview or questionnaire survey. Few studies have already investigated the stakeholder's views of IR from South Africa, UK, Taiwan, and Australia.

The findings of this study have determined that investors are not relevant stakeholders in companies' decision to adopt integrated reporting in Japan. A pertinent question is then "who are the audience for IR?" To answer this research question, future studies can follow two avenues. Firstly, researchers can follow the similar quantitative approach conducted in chapter 7 with larger number of samples. The quantitative model can be extended by including the proxies for other stakeholders. Secondly, survey-based studies engaging with management and other stakeholders can provide empirical evidence on the users and uses of IR. In this context, a wide range of studies is available in sustainability reporting that can be useful (Roberts, 1992; Neu et al., 1998; Brown and Deegan, 1998; Kokubu and Nashioka, 2005; De Villiers & Van Staden, 2006; Islam and Deegan, 2008; Liu and Anbumozhi, 2009).

This study provides empirical evidence based on the integrated reports/annual reports published by the companies. These reports are the output of their reporting process. However, the internal dynamics of organizational IR process is largely unknown. In depth case studies or engagement-based studies can explore the internal management process of integrated reports. For example, this study shows lack of compliance with IIRC Framework in many aspects. Future studies can focus on challenges faced by management in preparing the reports.

To maintain consistency with the studies on Japan, the current thesis initially planned to investigate the corporate level determinants for IR adoption in the UK. Due to lack of comparable data, this study could not achieve that initial plan. Assuming the data availability, future studies can use similar or modified empirical model in chapter 6 to examine relationship between corporate characteristics and IR in UK.

8.6 Possibility of Integrated Reporting in Public Sector: An Area for Future Research

Public sector entities are under continuous pressure to improve the state of their reporting. While policy makers lay more emphasis on annual report as a more useful device for ensuring accountability in the public sector, opinions are there whether annual report can fulfill the need of the various user groups. Governmental report users are diverse in their information requirements, education and level of understanding. The existing form reporting may find it difficult to fulfill all of their information requirements (Cohen and Karatzimas, 2015). There is a debate that an integrated reporting approach can offer some unique advantages to address the needs of public sector organizations. An integrated report is an effective way to communicate to stakeholders that the organization has a sustainable strategy to accomplish its objectives. It can help to promote integrated thinking through more interactions between all organizational sectors of an entity and between the political and managerial realm (Bartocci and Picciaia, 2013).

Although the Framework is developed in the context of private sector, it can be applied in not-for-profit and public sector as well (IIRC, 2013). Although limited in numbers, public sector organizations have already started publishing IR. For example, in South Africa many public sector organizations are preparing IR (Bartocci and Picciaia, 2013). The following paragraphs review integrated reports of two such public sector organizations of South Africa in order to exemplify the reporting structure of early adopters.

The first example is Eskom Holdings SOC Ltd, a state-owned company (SOC) as defined in the Companies Act, 2008 of South Africa. Eskom is the leading electricity company in South Africa which is wholly owned by the government. It actively participated in the IIRC pilot program and has been publishing IR since 2012. Its “Integrated Report 2015” is prepared based on the International IR Framework and other relevant guidelines/standards and aligns with best practice in integrated reporting (Eskom, 2015). The 123 pages concise and relevant report only includes company’s material economic, technical, social and environmental performance information. While the IR includes condensed annual financial statements, the enterprise also publishes full set of annual financial statement separately and it recommends reading both reports together for comprehensive understanding of organization’s performance. Eskom’s 2015 Integrated Report consists of six sections. These include:

i. description of company’s businesses including mandate, vision, values, nature of business, customer base, business model, and operating structure;

ii. disclosure on organizational strategy including Chairman Statement and Board profile, stakeholder engagement and materiality matrix, and management of risk and opportunities

iii. operating performance including safety and security, economic, environmental, and social sustainability

iv. financial review including condensed annual financial statements

v. leadership and governance including corporate governance, risk management and internal control and management compensation

vi. supplementary information including list of fact sheets, glossary, and assurance statement for sustainability information

The second example is Transnet SOC Limited. This is the largest freight transport company in the South Africa, fully owned by the South African Government. In compliance with South Africa’s King Code of Corporate Governance (King III), Transnet has been publishing IR since 2011. The enterprise’s annual reporting consists of three reports: Integrated Report, Annual Financial Statements, and Sustainability Report. It participated in the IIRC Pilot Program and has been following the developments and application of the IR Framework. Transnet's Integrated Report 2015 is based on the Integrated Reporting Framework and King Code of Governance for South Africa. The 204 pages long report is the primary vehicle to communicate to stakeholders. Using necessary cross-referencing, providing with financial and non-financial information, Transnet has stated its 'value creation' story to the readers. Transnet's integrated report 2015 includes:

i. description of company's business activities including vision, values, nature of business, employees, customer base, and operating structure

ii. detailed information on its top level management and their responsibilities, Board composition, governance, remuneration and assurance.

iii. the value creation process of the organization measuring the "inputs" in terms of six capitals, key organizational strategies and the resulting changes in capitals as outputs and outcomes. While financial sustainability is easy to quantify, the IR of Transnet also includes a number of quantitative indicators to measure its social benefits and environmental stewardship.

iv. a time-line analysis showing the relationship between short, and medium to long-term planning of the organization's strategic direction and associated risk and opportunities

v. discussion on Enterprise Risk management (ERM) and material issues

vi. past to present performance of the entity, and future strategic outlook through KPIs and narratives. The report contains comparative key performance indicators on social and environmental performance along with financial indicators.

The experience of South Africa shows that adoption of IR is achievable for the structure and objectives of public entities. As the current study does not attempt to evaluate the reporting practice critically, future research can utilize content analysis method which is widely used in sustainability reporting literature (Gray et al., 1995) to explore this issue. In a similar manner to South Africa, some kind of government initiatives or stock exchange requirements is one of the main reasons for significant IR practices in several other countries, such as, Brazil or Finland (GRI, 2013). The next section describes a test study that is taken as part of this chapter to understand the reporting practice of public sector entities to identify some future research avenues.

8.6.1 A Preliminary Study on Selected Public Sector Organizations of the UK

The objective of this pilot study is to examine the contents of few public sector organizations against the IIRC Framework and draw some directions for future research in integrated reporting. To serve this purpose, reports of three public sector organizations of the UK namely, the Crown Estate, the Home Office (HO) and the Ministry of Defence, are chosen. These organizations have been recognized by Building Public Trust Awards in 2015 for their sustainability reporting. PricewaterhouseCoopers (PWC) and the National Audit Office (NAO) of the UK jointly sponsor this award for 'Excellence in public sector sustainability reporting'. Among these three annual reports and accounts (ARA), Crown Estate has declared their report as IR while HO and MOD do not contain such declaration and they produce separate sustainability reports (SR). This difference may help to discover some interesting insights into these reports. This study has used the content analysis method to understand the contents of the reports of the selected organizations. It has prepared a coding instrument or disclosure checklist based on the eight Content Elements of the IIRC Framework. The disclosure checklist has in total, 36 items and it only measures whether an organization disclose any particular item in its annual report or sustainability report. The checklist is shown in Appendix 2. The remainder of this study is organized as follows: Section 8.6.2 discusses the context of sustainability reporting practice in the UK. Section 8.6.3 describes the research findings and section 8.6.4 discuss on the findings. Section 8.6.5 discusses some implications for future research regarding public sector organizations.

8.6.2 The Context of Sustainability Reporting in the UK Public Sector

In the last two decades, the UK Government has taken a number of initiatives to fulfill its commitments to sustainable developments made at the landmark Rio Summit in 1992 (Ball et al., 2014). In 1999, the Government outlined the national sustainable development strategy with the objectives to achieve social progress which recognizes the needs of everyone; effective protection of the environment; prudent use of natural resources; and maintenance of high and stable levels of economic growth and employment.

As part of this strategy, the Government encouraged reporting on progress of sustainable development issues by all organizations “including reporting by businesses, by local authorities and by individual Government Departments and public bodies”. In addition to such individual reports, the progress by the country as a whole towards sustainable development has been reviewed by the Government against each of the headline indicators since 2000. Although progresses have been seen in many areas especially in economic performance, a review in 2004 also identified twenty key areas where new strategies were required (Environment, Food and Rural Affairs, 2005). At the same time there was a renewed international push for sustainable development from the United Nations World Summit on Sustainable Development in Johannesburg in 2002 and the Millennium Development Goals set out in 2000 (DEFRA, 2005). Accordingly, in March 2005, the Government published new set of strategies titled as “Securing the future-delivering UK sustainable development strategy”. This strategic framework included a new integrated vision with stronger international and societal dimensions, guiding principles, sustainable development priorities, and indicators to monitor the key issues. Emphasis was given on the implementation of strategies with all central Government departments. Their executive agencies are required to develop focused sustainable development action plans based on this strategy and report on their actions regularly in their departmental annual reports. Later, in a new Greening Government Commitments, the Government also focused on the transparency and accountability of sustainability performance. All departments are required to report on sustainability performance in annual reports as well as update more frequently on online against real and measurable indicators (DEFRA, 2011). Further in 2011-2012, HM Treasury of the UK first introduced the requirement to produce annual sustainability report as a discrete section in the annual report by all central government departments, agencies and non-departmental public bodies. This requirement was broadly aligned with the transparency and accountability provision of greening government commitment (GGC) as set out earlier.

House of Commons Environmental Audit Committee (EAC) periodically reviews the sustainability performance and compliance of mandatory sustainability reporting requirement of central government organizations. It observed significant improvement with all departments reported on performance against Greening Government Commitments and explaining how sustainability was embedded in their operations, procurement and development. Further improvement is needed in areas like embedding sustainability into policy making, materiality, long-term targets and benchmarking, governance and assurance (NAO, 2012;

2015).

In addition to the central government, local government organizations being working closely with the people also played a significant role in sustainability by implementing national and sub-national strategies. A number of initiatives have been taken in the UK to encourage sustainability accounting and accountability in the local government. Majority of the local authorities are seen to operationalize "Local Agenda 21"- the main strategy for local action which emerged from the landmark Rio Earth Summit on sustainable development (Ball, 2005). Even before this movement, Friends of the Earth Charter for local authorities, guidance from the Local Government Management Board and Local Government Association encouraged local Organizations State of the Environmental Reporting, and adopted Environmental Management Systems (Tuxworth, 1996). Central government`s national strategy for sustainable development in 1999 had set a target for all local authorities to prepare local sustainable development 'Local Agenda 21' strategies by the year 2000. Local government organizations are also required to use "quality of life" indicators to show progress on sustainability performance.

In March 2015, HM Treasury issued the sustainability reporting guidance for public sector organizations. It outlined the minimum reporting requirements, some best practice guidance, and the underlying principles of preparing sustainability reports. The guidance although did not prescribe any pro forma for reporting, but recommended to include at minimum: Overall strategy for sustainability; Greenhouse Gas Emissions; Waste minimization and management; Finite Resource Consumption; Biodiversity Action Planning; and Sustainable Procurement.

HM Treasury took a project to simplify and streamline the annual reports and accounts of central government organizations in April 2013. The consultation draft published in 2014 argued that "the current reporting framework is onerous and leads to departments focusing on meeting disclosure requirements rather than embedding sustainable development" (HM Treasury, 2014, p.19). Noting that the stand-alone sustainability reporting is not meeting the user needs, the project recommended integrating sustainability with other performance measures. Regarding future reporting vision, HM Treasury is working to make the annual report and accounts a cohesive document that will allow the users to better track financial and non-financial information and performance.

8.6.3 Findings of the Study

This section examines the reports for the year 2014-2015 of three case organizations based on the eight content elements of IIRC Framework. The three UK public sector organizations are: The Crown Estate, Ministry of Defence (MOD), and Home Office (HO) of the UK. The Crown Estate was established in 1961 as an independent commercial business within the ambient of parliamentary scrutiny. The second organization, Home Office plays a fundamental role in the security and prosperity of the UK since 1782, and is a ministerial department, supported by 28 agencies and public bodies. MOD protects the security, independence and interests of UK at home and abroad and is a ministerial department, supported by 29 agencies and public bodies.

Crown Estate used the title 'Integrated Annual Report and accounts 2015' for its third integrated report and was prepared aligning with the Companies Act 2006 (Strategic report and Directors report Regulations 2013) and also IIRC Framework 2013. The structure of the report is as follows: general overview (including Chairman's statement and Chief Executive's review), review of activities and markets, value creation process, Governance section, financial statements and other information (including Finance Director's review). On the other hand, both HO and MOD used the title 'Annual Report and Accounts 2014-2015' for their accounts presented to House of Commons in pursuance of section 6(4) of the Government Resources and Accounts Act 2000. The structure of the reports includes: Strategic Report, Directors` Report/ Accountability, Annual accounts, and supplementary information. The Government Financial Reporting Manual (FReM) 2014-15 issued by HM Treasury requires public entities to prepare an annual report including the accounts containing the matters to be dealt with in a Strategic Report, in a Directors' Report and in a Remuneration Report as set out in the Companies Act 2006 and as interpreted for the public sector context.

For the financial year 2015, Crown Estate has an annual report of 120 pages; HO has prepared an ARA of 180 pages and SR of 58 pages; MOD has produced an ARA of 200 pages and SR of 34 pages. The length of Crown Estate's IR has increased by 8 pages from 2014. The ARA of HO has increased by 18 pages and SR by 8 pages from 2013-2014 whiles the ARA and SR of MOD have increased by 17 pages and 2 pages respectively in 2014-2015. In a study on 100 UK listed companies to determine the current practice, Deloitte also confirmed this upward trend in report length over the past few years. The average length of the annual report (excluding the banks surveyed) increased from 121 pages to 127 pages for 2014-2015 as companies followed a number of new reporting requirements. Not only the contents and quantity of the reports are increasing, but also these are becoming more diverse and sophisticated (Deloitte, 2015). The remaining part of this section will focus on the way organizations are arranging their reports and the extent to which they are taking on board to the principles of integrated reporting.

(a) Organizational Overview and External Environment: The content element 'Organizational Overview and External Environments' includes organization's vision, mission, values, ownership and operating structure, principal activities and markets, competitive landscape, key quantitative information, and factors affecting macro environment (IIRC, 2013). All three case organizations have reported on these issues in few introductory sections of their annual reports. One particular factor not discussed by any of these three reports is 'competitive landscape and market' and the reason may be non-relevance of this issue to this type of organization. As IIRC proposed a principle based Framework, an organization can omit information on the ground of non-relevance to it.

(b) Governance: All three organizations have prepared governance reports and remuneration reports as distinguishable sections in their annual reports to fulfill the governance requirements of the Code of Good Practice 2011, issued jointly by HM Treasury and the Cabinet Office. Besides, Crown Estate mentioned that because of its unique nature of being a public body and having a commercial mandate whilst remaining independent from government, it can adopt good corporate governance practice from both public and private sector. It also follows the UK Corporate Governance Code 2014, issued by the Financial Reporting Council as much as applicable to and is consistent with The Crown Estate Act 1961. IIRC Framework also permits organizations to comply with the national regulations regarding governance related disclosures.

In accordance with IIRC, all these three annual reports provided information on their leadership structures, governance structures, board's statutory position and composition, delegated authorities, and the work of the committees. All these repots discussed about their remuneration policies. The Crown Estate's remuneration report reveals that their remuneration committee works with rewards committee to ensure executive motivation through remuneration packages. Crown Estate has also provided a two pages summary on its governance related aspects under the headline ‘Committed to strong governance’. The summarized parts are connected to the relevant discussions in the following pages which seem to be very useful for readers. Importantly, the section discussed all core parts of governance as per IIRC: leadership, effectiveness of boards, accountability, remuneration, and relationships with stakeholders.

(c) Business Model: In line with section 4C of the IIRC Framework (IIRC, 2013), ‘How we create value?’ section of Crown Estate’s IR has discussed it’s business model defining six types of inputs and business activities through which these inputs are transformed into outputs and outcomes. The outputs of the entity are values beyond financial return for themselves, their stakeholders and communities as a whole. The outcome is the annual net revenue profit paid to the treasury for the benefit of the nation. The Finance Director’s review section discusses the net increase or decrease in various types of capitals during the year. To measure the significant value Crown Estate is making to the nation, it has initiated a way for internal decision making called ‘Total Contribution’ covering all social, economic and environmental contributions by the entity.

Section 414C (8) (b) of the Companies Act (2006) and the UK Corporate Governance Code (2014) states that the listed companies strategic report should include a description of the entity’s business model (Guidance on the Strategic Report, 2014). All reporting entities with public funds need to prepare an annual report including a Strategic Report, a Directors’ Report and a Remuneration Report as set out in the Companies Act 2006 and, as interpreted for the public sector context. Preparation of a sustainability report is also needed (Government Financial Reporting Manual, 2014-15). In this study, HO has prepared its financial statements in accordance with the 2014-15 Government Financial Reporting Manual (FReM). Although it has not provided the business model in its annual report, a business model is provided in its SR. The reason can be that HO wants to link sustainability as its inputs to create favorable outputs and outcomes for the entity and the nation. It is very interesting to note that though HO has not labeled their ARA as an IR, it discusses six types of inputs or capitals in its SR, such as, People, Energy and water, Budget, Assets, Staff, and Goods and services. The value creation process is not depicted completely and there is no quantitative information either. However, section four of HO’s SR discusses some examples of social, economic and environmental value creation through their policies and actions. In contrast, the other case entity, MOD has not provided with their value creation process or business model in its ARA or SR.

(d) Risk and Opportunities: In line with 'Risks and opportunities' section of IIRC Framework, the corporate governance part of Crown Estate's IR has given information on its risk management through a sub-section titled 'Principal corporate risks and opportunities'. This part has discussed the material issues (explained in 'How we create value?' section under a title 'Material issues') from which potential risks and opportunities are originated, associated mitigations, and related rating of each risk in a tabular form. These risks are related to the entity's portfolio of assets and typical to the real estate organizations. Relative changes in various risk categories from last year to this year are also shown in the table. The Main board is responsible for assessing the nature and extent of risks through risk management and internal control systems.

The Governance Statement sections of both HO and MOD provided information about their risk management, major risks encountered during the year, actions taken to minimize the chances of recurrence of those risks. Moreover, MOD provided a list of 'Material Issues for Defence' related with sustainability of the department through a pan-Department materiality analysis based on Global Reporting Initiatives in its SR.

(e) Strategy and Resource Allocation: According to section 4E (Strategy and Resource Allocation) of IIRC Framework, an IR should contain the strategic aims, the resource allocation plan and association between them (IIRC, 2013). The 'Strategic Objectives' part of Crown Estate's IR comprises the main elements described in the above Framework. Crown Estate has discussed its strategic objectives, their on-going initiatives towards those objectives, and resource allocation to some extent. The entity has been trying to integrate sustainability across its business as a competitive advantage. To communicate this agenda, Crown Estate has been preparing IR for last three years.

As a part of the 'Strategic Report', HO has provided a very long narration of its strategic aims or priorities divided into four main areas. The strategies to achieve those aims are also operationalized, but the linkages between strategies and resource allocation plans are not evident. In the same manner, the

‘Strategic Report’ of MOD has also discussed its priorities and strategies with long narratives, numbers and pictures. Both HO and MOD have published separate sustainability reports to update their performance against Greening Government Commitments and targets and to supplement sustainability information in the annual reports.

(f) Performance: All three entities provide financial information in the last sections of their reports. Other than financial information sections, every report discloses many KPIs throughout the report. Such as, Crown Estate discloses some financial and non-financial indicators against their targets for the year in ‘Key Performance Indicators’ part; both HO and MOD publish important KPIs in their ‘Strategic Report’ segments including their achievements against GGC and targets. Notably, HO and MOD prepare separate sustainability reports for disclosing their non-financial performances. They provide information on GGC progress for the year 2014-2015 in areas such as: greenhouse gas emissions, waste management, usage of water and paper etc.

(g) Outlook: According to IIRC Framework (4G) ‘Outlook’ section should focus on future problems and uncertainties to materialize strategic objectives and future performance. None of the three case organizations has provided with any separate or significant discussion on their future outlook. Rather, these reports are too backward looking and mention about future strategies in a fragmented way. For example, Chief Executive’s Review section of Crown Estate’s IR has mentioned about six strategies to achieve its Vision 2022. Then, in Key Performance Indicators part, some future targets on these six strategies are given which are too general and insufficient. The ARA of MOD includes different strategies and actions for the reform of department, defence environments and people. In its SR for year 2014-15, MOD discusses about Sustainable MOD Strategy 2015-2025, related risks, strategies and programs, with a special focus on climate change risks. The ARA of HO also lacks from any clear or specific disclosure on future outlook.

(h) Basis of Preparation and Presentation: According to IIRC Framework (section 4H), an IR should contain information on organization’s materiality determination process, description of reporting boundary, significant frameworks or methods used for materiality determination. The reports under study contain information on the objectives, scope and applicable frameworks or methods they used in preparation of their ARA and SR. These organizations have provided information on material risks, responsible units and methods used to identify key risks. But, Crown Estate has illustrated both material issues and risks. It has provided a summarized but connected picture of the entity's material issues in the section 'How we create value?' of its IR. By using icons and navigation system, each material issue is linked with related capitals, KPIs and specific strategic objectives. Crown Estate reviews the material issues through cross-business workshop by external third party and endorsed by the Management Board.

8.6.4 Discussion of the Findings

The objective of the current study is to understand whether public organizations can apply the guidelines of IR Framework in preparing the contents of their reports. Among the three organizations, this study finds that Crown Estate is trying to align its IR to the IIRC Framework and the Companies Act applicable to it. The two other annual reports of HO and MOD seem to follow the guidelines of HM Treasury for central government organizations in the UK.

All three entities describe about the entity's vision, strategic objectives, operations and other major responsibilities, key performance indicators. The reports of MOD and HO have discussed on significant factors affecting their organization's external environment, such as, legal, political or social issues and organization's preparedness for that. These reports have provided information on their leadership structure, governance mechanism, and remuneration policy. In regard to Risk and opportunities, Crown Estate IR discussed on material issues from which potential risks and opportunities can originate, associated mitigations, and related rating of each risk in a tabular form. On the other hand, the Governance Statement sections of both HO and MOD have provided information about their risk management, major risks encountered during the year, and actions taken to minimize the chances of recurrence of those risks.

These reports in general, discuss strategic objectives and environmental or social concerns that are rooted into their strategies. However, linkages between strategies and resources allocation plans are not so much evident in these reports. In conclusion, in most aspects Crown Estate's IR tries to follow the suggestions of the Content Elements of IIRC Framework. Improvement in areas such as, connectivity of financial and non-financial information, navigation or quantification of risks and opportunities, could also made the report more concise, and useful to readers. In contrast, the reports of HO and MOD have some ingredients of the IR Framework, but these are presented separately in their ARA and SR. The important aspects that require improvement in the reports of HO and MOD are conceptualization of the value creation model, future outlook and also materiality.

With an ambition that government departments would embed sustainability in their decision making, HM Treasury first introduced requirements for central government organizations to report on sustainability issues in their 2011-12 annual report. The UK government has also produced Greening Government Commitments, a set of targets for reducing the environmental impact of governmental bodies by 2015. Two other important initiatives to develop good practice in public sector in sustainability reporting are: recognizing good reporting through Building Public Trust Awards for sustainability reporting and the launch of a public sector pioneer network on integrated reporting. Another noteworthy initiative is launching ‘Simplifying and Streamlining Accounts’ project by HM Treasury in April 2013 suggesting the restructuring of the traditional annual reports into three broad segments: performance, accountability, and financial statements. Analysis of these three subsets reveal that ‘performance’ is actually ‘telling the story’ of the reporting organization. It may contain two sub-sections: overview and performance analysis. ‘Accountability’ section is concerned about the governance structure and compliance with the rules and regulations relating to remuneration of directors and executives. ‘Financial statements’ section continues to serve the core part of providing financial information to the users. The main objective behind these subsections is to ‘link the performance narrative to the figures in the accounts’ (HM Treasury, 2014: p.3). This objective is very much aligned with the basic objective of IIRC Framework that is, to prepare a connected and cohesive annual report.

8.6.5 Implications for Future Research in Public Sector

It is often argued that public sector entities are already publishing a good number of reports that ended up with disconnected information. According to CIPFA (2013), although public bodies usually publish a great deal of information for different services and activities, these reports tell us little about the future challenges and the measures taken by the organization to meet those challenges. Moreover, public sector reporting is often shadowed by the public budget. The adoption of integrated reporting may provide a new avenue for increased interest and stakeholder engagement in other aspects of reporting other than the budget. Understanding each stakeholder group's needs and organizational priorities will help formulation of short and long-term strategies. Based on strategies, organization needs to define the operational model. IR can help public sector organizations to clarify their strategies; operational model and governance objectives, and demonstrate how their performance can be assessed against these strategies (KPMG, 2012).

In contrast to the above discussion, there are arguments that a wholesale adoption of private sector reporting culture to the public sector is not acceptable. ACCA (2010) recognizes that while private sector reporting is usually motivated by legal requirements and industry standards, public sector reporting (by national governments or agencies) is typically driven by domestic political pressure, international agreements, trading relationships, and the objective of costs saving. Different governments and different regions or organizations may also have different priorities for sustainability reporting (ACCA, 2010). Public sector organizations are essentially different from private sector companies and it is advised that public sector reporting standards should be developed by specialized standard setting bodies for public sector (Ryan et al., 2007). Discussion in the current section (The Context of Sustainability Reporting in the UK Public Sector) shows many initiatives by the UK governments to improve sustainability reporting by the central and local government organizations. At present, there is no recommendation by the HM Treasury to follow IIRC Framework in preparing ARA by the public entities of the UK. But HM Treasury shows its commitment to examining the appropriateness of the Framework for the public sector context with the other Relevant Authorities and the Financial Reporting Advisory Board. For that reason, HM Treasury became a part of public sector pioneer network led by the Chartered Institute of Public Finance and Accountancy.

The above discussion initiates the following notions for further research:

1. A short overview on integrated reports of two South African public entities (in section 8.6 of this chapter) gives a hint that some organizations are successfully applying the IR Framework within the context of their activities. Future research can focus on the integrated reporting practices of early adopting public sector organizations in countries like South Africa, the UK, Japan or elsewhere of the world which

is in an advanced stage of sustainability reporting practice. A content analysis method can be useful for this purpose (Gray et al., 1995). This kind of research will demonstrate how the early adopters are complying with this new form reporting. The insights therein will be helpful for other public entities to set and improve their reporting agenda. A similar kind of research is conducted in Chapter 4 and 5 within the context of some listed companies in Japan and in the UK. The disclosure checklist proposed in the current thesis and used in these Chapters (4 and 5) can be useful in this regard with necessary modifications.

2. Research shows that some kind of government initiatives or stock exchange requirements may help to promote any new reporting practice (GRI, 2013). The current thesis also finds that regulatory requirements in certain aspects may lead to better disclosure in the annual reports. For example, the present study finds (in Chapters 4 and 5) that the annual reports of listed companies in Japan and UK have the highest disclosure in Governance. One possible reason could be stock exchange requirements for making particular disclosure. Future research can take a way to understand whether regulation can play a role to improve reporting practice in public sector organizations.

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Appendices

Appendix 1

List of 169 Sampled Companies Examined in the Study Conducted in Chapter 7

Name of Company	IR=1, Non-IR=0
Ajinomoto	1
Alps Electric	1
ANA Holdings	1
Asahi Kasei	1
Astellas Pharma	1
Chubu Electric Power	1
Dai Nippon Printing	1
Daiichi Sankyo	1
Daikin Industries	1
Daiwa House Industry	1
Denka	1
Denso	1
Ebara	1
Eisai	1
Fuji Electric	1
Fujifilm Holdings	1
Fujikura	1
Fujitsu	1
Furukawa Electric	1
GS Yuasa	1
Hitachi	1
Hitachi Construction Machinery	1
Hitachi Zosen	1
IHI	1
Inpex	1
Itochu	1
JGC	1
Jtekt	1
JXTG Holdings	1
Kajima	1
Kansai electric power	1
Kawasaki Heavy Industries	1

Kawasaki Kisen	1
KDDI	1
Konica Minolta	1
Marubeni	1
Marui Group	1
Meiji Holdings	1
Mitsubishi	1
Mitsubishi Chemical Holdings	1
Mitsubishi Heavy Industries	1
Mitsui	1
Mitsui Chemicals	1
Mitsui Engineering & Shipbuilding	1
Mitsui Fudosan	1
Mitsui O.S.K. Lines	1
NEC	1
Nichirei	1
Nikon	1
Nippon Kayaku	1
Nippon Steel & Sumitomo Metal	1
Nippon Telegraph & Telephone	1
Nippon Yusen	1
Nissan Chemical Industries	1
Nisshinbo Holdings	1
Nitto Denko	1
NSK	1
NTN	1
NTT Data	1
NTT Docomo	1
Obayashi	1
Oji Holdings	1
Oki Electric Industry	1
Okuma	1
Olympus	1
Panasonic	1
Recruit Holdings	1
Ricoh	1

Screen Holdings	1
Seiko Epson	1
Shimizu	1
Shionogi	1
Sojitz	1
Subaru	1
Sumitomo	1
Sumitomo Chemical	1
Sumitomo Dainippon Pharma	1
Sumitomo Heavy Industries	1
Sumitomo Metal Mining	1
Taisei	1
Taiyo Yuden	1
Takeda Pharmaceutical	1
TDK	1
Teijin	1
Tokyo Electric Power Company	1
Tokyu Fudosan Holdings	1
Toppan Printing	1
Toto	1
Toyobo	1
Toyota Motor	1
Toyota Tsusho	1
Ube Industries	1
Yahoo Japan	1
Yamato Holdings	1
Yaskawa Electric	1
Yokogawa Electric	1
Advantest	0
Amada Holdings	0
Casio Computer	0
Central Japan Railway	0
Chiyoda	0
Citizen Watch	0
Comsys Holdings	0
DENA	0

Dowa Holdings	0
East Japan Railway	0
FANUC	0
Furukawa	0
Haseko	0
Hino Motors	0
Honda Motor	0
Isetan Mitsukoshi Holdings	0
Isuzu Motors	0
Japan Steel Works	0
JFE Holdings	0
Keio	0
Keisei Electric Railway	0
Kikkoman	0
Kobe Steel	0
Komatsu	0
Konami Holdings	0
Kyocera	0
Maruha Nichiro	0
Mazda Motor	0
Minebea Mitsumi	0
Mitsubishi Electric	0
Mitsubishi Estate	0
Mitsubishi Logistics	0
Mitsubishi Materials	0
Mitsubishi Motors	0
Mitsui Mining & Smelting	0
NGK Insulators	0
NH Foods	0
Nippon Express	0
Nippon Light Metal Holdings	0
Nippon Paper Industries	0
Nippon Sheet Glass	0
Nippon Suisan	0
Nissan Motor	0
Nisshin Seifun Group	0

Nisshin STEEL	0
Odakyu Electric Railway	0
Osaka Gas	0
Pacific Metals	0
Pioneer	0
Secom	0
Shin-Etsu Chemical	0
Sky Perfect JSAT Holdings	0
Softbank Group	0
Sony	0
Sumitomo Electric Industries	0
Sumitomo Osaka Cement	0
Sumitomo Realty & Development	0
Suzuki Motor	0
Taiheiyo Cement	0
Takara Holdings	0
Terumo	0
Tobu Railway	0
Toho Zinc	0
Tokuyama	0
Tokyo Electron	0
Tokyo Gas	0
Tokyu	0
Toray Industries	0
Tosoh	0
Toyo Seikan Group Holdings	0
Unitika	0
West Japan Railway	0
Yamaha	0

Appendix- 2

Content Checklist: 3 Case Organizations in the UK Public Sector

	Checklist	Crown Estate	Home Office		Ministry of Defence	
			ARA	SR	ARA	SR
Content Element 1	**Organizational overview and external environment**					
4.5	Organization's mission, vision, values	○	○		○	
4.5	Principal activities and markets	○	○		○	
4.5	Competitive landscape and market positioning	○				
4.5	Key quantitative information	○	○		○	
4.5	Significant factors affecting the external environment and the organization's response(legal, commercial, social, environmental and political context)	○	○		○	
Content Element 2	**Governance**					
4.9	Organization's leadership structure(skills and diversity e.g., range of backgrounds, gender, competence and experience of BOD)	○	○		○	
4.9	Specific processes and particular actions used to make strategic decisions and risk management)	○	○		○	
4.9	How remuneration and incentives are linked to value creation?	○	○			
Content Element 3	**Business model**					
4.12	Inputs	○		○		
4.12	Business activities	○		○		
4.12	Outputs	○		○		
4.12	Outcomes	○		○		
4.13	Explicit identification of the key elements of the business model	○				
4.13	A simple diagram highliting key elements, supported by a clear explanation of the relevance of those elements to the organization	○	○			
4.13	Connection to information covered by other content elements, such as strategy, risks and opportunities, and performance(including KPIs and financial considerations, like cost containment and revenues).	○				
Content Element 4	**Risks and Opportunities**					
4.25	The specific source of risks and opportunities	○			○	
4.25	The organization's assessment of risks	○	○		○	○
4.25	The specific steps being taken to mitigate or manage key risks or to create value from key opportunities	○				

Content Element 5	**Strategy and Resources Allocation**					
4.28	The organization's short, medium, and long term strategic objectives	O	O		O	
4.28	The strategies it has in place, or intends to implement, to achieve those strategic objectives	O	O		O	
4.28	The resource allocation plans it has to implement its strategy	O			O	
4.29	linkage between the organization's strategy and resource allocation plans, and organization's business model					
4.29	environment and social considerations have been embedded into the organization's strategy to give it a competitive advantage	O		O		O
Content Element 6	**Performance**					
4.31	Quantitative indicators with respect to targets and risks and opportunities	O				O
4.31	The Organization's effects (both positive and negative) on the capitals					
4.31	The state of key stakeholer relationships and how the organization has responded to key stakeholders' legitimate needs and interests	O		O		
4.31	The linkages between past and current performance, and between current performance and the organization's outlook	O		O		O
4.32	KPIs that combine financial measures with other components			O		O
Content Element 7	**Outlook**					
4.35	Organization's expectations about the external environment	O				
4.35	Organization's preparedness for the future uncertainties	O	O		O	
4.37	Implication on future financial and other capitals				O	
4.38	Ways for outlook: lead indicators, KPIs or objectives, relevant information from recognized external sources, and sensitivity analyses	O			O	
4.38	Comparisons of actual performance to previously identified targets further enables evaluation of the current outlook	O	O			
Content Element 8	**Basis of Preparation and Presentation**					
4.11	A summary of the organization's materiality determination process	O				
4.11	A description of the reporting boundary and how it has been determined	O	O		O	
4.11	Frameworks and methods used to quantify or evaluate material matters					O

ARA: Annual Reports and Accounts
SR: Sustainability Reports
Note: The cell showing the sign 'O' in the above checklist means presence of the particular item.

Appendix-3 (A)

Disclosure Checklist (I): Sample Disclosure Checklist for Disclosure Checklists (III) and (V) used in Chapters 4 and 5 respectively

				Disclosure Scores of Companies- Country Name							
		Checklist	**Maximum possible score**	**Name of the Companies**							**Average Disclosure (by companies)**
Item	**Content Element 1**	**Organizational overview and external environment**									
1	4.5	Organization's mission, vision, values and culture (No disclosure=0, Disclosure=1)	**1**								
2	4.5	Principal activities and markets (No disclosure=0, Disclosure=1)	**1**								
3	4.5	Ownership and operating structure (No disclosure=0, Disclosure=1)	**1**								
4	4.5	Competitive landscape and market positioning (No disclosure=0, Disclosure=1)	**1**								
5	4.5	Key quantitative information (for example, the number of employees, Revenues, Number of countries opering, highlighting, in particular, significant changes from prior periods) (No disclosure=0, Financial KPIs only= 1, Both financial and non-financial KPIs = 2, KPIs linked with objectives and/or capital = 3)	**3**								
6	4.5	Significant factors affecting the external environment and the organization's response(legal, commercial, social, environmental and political context) No disclosure =0, general disclosure= 1, company specific disclosure= 2, company specific adequate disclosure=3)	**3**								
		Sub total (content element 1)	**10**								
		% of disclosure by company (content element 1)	**100**								
	Content Element 2	**Governance**	**Maximum possible score**								
7	4.9	Organization's leadership structure (skills and diversity e.g., range of backgrounds, gender, competence and experience of BOD) (No disclosure= 0, Members of the BOD/ Committees are listed =1, Names, experience and skills are also listed= 2)	**2**								
8	4.9	Role of highest governance body in setting purpose, values, and strategy (No disclosure=0, Disclosure= 1)	**1**								
9	4.9	Role of highest governance body in risk management (No disclosure=0, Disclosure= 1)	**1**								

10	4.9	Specific processes and particular actions used to make strategic decisions and risk management (No disclosure=0, Limited Disclosure= 1, Adequate disclosure= 2)	**2**								
11	4.9	How remuneration and incentives are linked to value creation? (No disclosure=0, general disclosure= 1, specific disclosure=2)	**2**								
12	4.9	Actions taken to influence and monitor cultural environment and ethical values of the organization (No action determinabe from narrative=0, Determinable actions = 1)	**1**								
		Sub total (content element 2)	**9**								
		% of disclosure by company (content element 2)	**100**								
	Content Element 3	**Business Model**	**Maximum possible score**								
13	4.13	Explicit identification of the key elements of the business model (No disclosure=0, Disclosure= 1)	**1**								
14	4.13	A simple diagram highliting key elements, supported by a clear explanation of the relevance of those elements to the organization (No disclosure=0, Disclosure with diagam or narrative = 1, disclosure with both diagram and narratives = 2)	**2**								
15	4.14	Relating and disclosing capitals with business model ((No disclosure=0, Narrative disclosure only= 1, narrative with limited quantitative disclosure=2, Adequate disclosure= 3)	**3**								
16	4.56	The interdependencies and trade-offs between the capitals: financial, manufactured, intellectural, human, social and relationship, and natural (No disclosure=0, Disclosure= 1)	**1**								
17	4.13	Connection to information covered by other content elements, such as strategy, risks and opportunities, and performance (including KPIs and financial considerations, like cost containment and revenues). (No disclosure=0, Limited disclosure= 1, Adequate disclosure=2)	**2**								
18	4.16	Changes in organization's strategy when, for instance, new risks and opportunities are identified or past performance is not as expected/Aligning business model with changes in its external environment (No disclosure=0, limited disclosure= 1, adequate disclosure=2)	**2**								
		Sub total (content element 3)	**11**								
		% of disclosure by company (content element 3)	**100.00**								

19	4.25	The specific sources of risks and/or opportunities (No disclosure=0, Disclosing risks only= 1, Disclosing both risk and opportunity= 2)	**2**									
20	4.25	Possible impacts of risk and opportunity on the organization (No disclosure=0, Disclosing risks impacts only= 1, Disclosing both risk and opportunity= 2)	**2**									
21	4.25	The specific steps being taken to mitigate or manage key risks or to create value from key opportunities (No disclosure=0, Disclosure on risk mitigation only =1, Disclosure on risk mitigatigation mainly with limited on opportunity= 2, Adequate disclosure both on risks and opportunity= 3)	**3**									
		Sub total (content element 4)	**7**									
		% of disclosure by company (content element 4)	**100**									
	Content Element 5	**Strategy and Resources Allocation**	**Maximum possible score**									
22	4.28	The organization's short, medium, and long term strategic objectives (No disclosure = 0, partial disclosure= 1, adequate disclosure=2)	**2**									
23	4.28	The strategies it has in place, or intends to implement, to achieve those strategic objectives (No disclosure = 0, Disclosure= 1)	**1**									
24	4.28	The resource allocation plans it has to implement its strategy (No disclosure = 0, Limited disclosure= 1, Adequate disclosure =2)	**2**									
25	4.29	Linkage between the organization's strategy and resource allocation plans, and organization's business model (No disclosure = 0, Partial Disclosure= 1, Adequate Disclosure=2)	**2**									
26	4.29	The extent to which environment and social considerations have been embedded into the organization's strategy to give it a competitive advantage (No disclosure = 0, Disclosure= 1)	**1**									
27	4.29	Stakeholder engagement in formulating strategies and resource plans (No disclosure = 0, Identification of related stakeholders = 1, Specific details on stakeholders engagement= 2)	**2**									

		Sub total (content element 5)	**10**								
		% of disclosure by company (content element 5)	**100**								
	Content Element 6	**Performance**	**Maximum possible score**								
28	4.31	Quantitative indicators with respect to targets and risks and opportunities (No disclosure = 0, Partial Disclosure= 1,Partial disclosure but with trends = 2), Adequate Disclosure= 3)	**3**								
29	4.31	The Organization's effects (both positive and negative) on the capitals (No disclosure = 0, Mainly positive disclosure= 1, Adequate disclosure = 2)	**2**								
30	4.31	The state of key stakeholer relationships and how the organization has responded to key stakeholders' legitimate needs and interests (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**								
31	4.31	The linkages between past and current performance, and between current performance and the organization's outlook (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**								
32	4.32	KPIs that combine financial measures with other components or monetizing certain effects on the capitals (No disclosure = 0, Limited disclosure = 1, Company specific and innovative disclosure= 2)	**2**								
		Sub total (content element 6)	**11**								
		% of disclosure by company (content element 6)	**100**								
	Content Element 7	**Outlook**	**Maximum possible score**								
33	4.35	Organization's expectations about the external environment (No disclosure = 0, General disclosure = 1, Organization specific disclosure =2)	**2**								
34	4.35	Organization's preparedness for the future uncertainties (No disclosure = 0, Disclosure= 1)	**1**								
35	4.37	Potential implications of future uncertainties on future financial and other capitals (No disclosure = 0, Partial Disclosure= 1, Adequate Disclosure=2)	**2**								

36	4.38	Ways for outlook: lead indicatiors, KPIs or objectives, relevant information from recognized external sources, and sensitivity analyses (No disclosure = 0, General disclosure = 1, Organization specific disclosure =2)	**2**								
37	4.38	Comparisons of actual performance to previously identified targets further enables evaluation of the current outlook No disclosure = 0, Disclosure= 1)	**1**								
		Sub total (content element 7)	**8**								
		% of disclosure by company (content element 7)	**100**								
	Content Element 8	**Basis of Preparation and Presentation**	**Maximum possible score**								
38	4.41	A description of the reporting boundary and how it has been determined (No disclosure = 0, Disclosure= 1)	**1**								
39	4.41	Frameworks and methods used to quantify or evaluate material matters (No disclosure = 0, Disclosure= 1)	**1**								
40	4.42	Brief description of the process used to identify relevant matters, evaluate their importance and narrow them down to material matters (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**								
41	4.42	Identification of the role of those charged with governance and key personnel in the identification and prioritization of material matters. (No disclosure = 0, Disclosure= 1)	**1**								
42	3.21	Impact of material matters on the organization`s vlaue creation process (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**								
43	3.2	Stakeholder engagement in materiality determination (No disclosure=0, disclosure=1)	**1**								
		Sub total (content element 8)	**8**								
		% of disclosure by company (content element 8)	**100**								
		Overall Disclosure Score by company (all content elements)	**74**								
		% of disclosure by company (all content elements)	**100**								

Appendix- 3 (B)

Disclosure Checklist (II): Sample Disclosure Checklist for Disclosure Checklists (IV) and (VI) used in Chapters 4 and 5 respectively

				Disclosure Scores for Companies- Country name										
		Checklist	**Maximun possible score**	**Name of Companies**								**Average. Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed this Item**
Item	**Content Element**	**Organizational overview and external environment**												
1	4.5	Organization's mission, vision, values and culture (No disclosure=0, Disclosure=1)	**1**											
2	4.5	Principal activities and markets (No disclosure=0, Disclosure=1)	**1**											
3	4.5	Ownership and operating structure (No disclosure=0, Disclosure=1)	**1**											
4	4.5	Competitive landscape and market positioning (No disclosure=0, Disclosure=1)	**1**											
5	4.5	Key quantitative information (for example, the number of employees, Revenues, Number of countries operaing, highlighting, in particular, significant changes from prior periods) (No disclosure=0, Financial KPIs only= 1, Both financial and non-financial KPIs = 2, KPIs linked with objectives and/or capital = 3)	**3**											
6	4.5	Significant factors affecting the external environment and the organization's response(legal, commercial, social, environmental and political context) (No disclosure =0, general disclosure= 1, company specific disclosure= 2, company specific adequate disclosure=3)	**3**											
		Sub total (content element 1)	**10**											
		% of disclosure by company (content element 1)	**100**											
	Content Element 2	**Governance**	**Maximun possible score**									**Average. Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed this Item**
7	4.9	Organization's leadership structure (skills and diversity e.g., range of backgrounds, gender, competence and experience of BOD) (No disclosure= 0, Members of the BOD/ Committees are listed =1, Names, experience and skills are also listed= 2)	**2**											
8	4.9	Role of highest governance body in setting purpose, values, and strategy (No disclosure=0, Disclosure= 1)	**1**											
9	4.9	Role of highest governance body in risk management (No disclosure=0, Disclosure= 1)	**1**											

10	4.9	Specific processes and particular actions used to make strategic decisions and risk management (No disclosure=0, Limited Disclosure= 1, Adequate disclosure= 2)	**2**											
11	4.9	How remuneration and incentives are linked to value creation (No disclosure=0, general disclosure= 1, specific disclosure=2)	**2**											
12	4.9	Actions taken to influence and monitor cultural environment and ethical values of the organization (No action determinabe from narrative=0, Determinable actions = 1)	**1**											
		Sub total (content element 2)	**9**											
		% of disclosure by company (content element 2)	**100**											
	Content Element 3	**Business Model**	**Maximun possible score**									**Average. Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed this Item**
13	4.13	Explicit identification of the key elements of the business model (No disclosure=0, Disclosure= 1)	**1**											
14	4.13	A simple diagram highliting key elements, supported by a clear explanation of the relevance of those elements to the organization (No disclosure=0, Disclosure with diagam or narrative = 1, disclosure with both diagram and narratives = 2)	**2**											
15	4.14	Relating and disclosing capitals with business model ((No disclosure=0, Narrative disclosure only= 1, narrative with limited quantitative disclosure=2, Adequate disclosure= 3)	**3**											
16	4.56	The interdependencies and trade-offs between the capitals: financial, manufactured, intellectural, human, social and relationship, and natural (No disclosure=0, Disclosure= 1)	**1**											
17	4.13	Connection to information covered by other content elements, such as strategy, risks and opportunities, and performance (including KPIs and financial considerations, like cost containment and revenues). (No disclosure=0, Limited disclosure= 1, Adequate disclosure=2)	**2**											
18	4.16	Changes in organization’s strategy when, for instance, new risks and opportunities are identified or past performance is not as expected/Aligning business model with changes in its external environment (No disclosure=0, limited disclosure= 1, adequate disclosure=2)	**2**											

		Sub total (content element 3)	**11**											
		% of disclosure by company (content element 3)	**100**											
	Content Element 4	**Risks and Opportunities**	**Maximun possible score**									**Average. Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed this Item**
19	4.25	The specific sources of risks and/or opportunities (No disclosure=0, Disclosing risks only= 1, Disclosing both risk and opportunity= 2)	**2**											
20	4.25	Possible impacts of risk and opportunity on the organization (No disclosure=0, Disclosing risks impacts only= 1, Disclosing both risk and opportunity= 2)	**2**											
21	4.25	The specific steps being taken to mitigate or manage key risks or to create value from key opportunities (No disclosure=0, Disclosure on risk mitigation only =1, Disclosure on risk mitigatigation mainly with limited on opportunity= 2, Adequate disclosure both on risks and opportunity= 3)	**3**											
		Sub total (content element 4)	**7**											
		% of disclosure by company (content element 4)	**100**											
	Content Element 5	**Strategy and Resources Allocation**	**Maximun possible score**									**Average. Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed this Item**
22	4.28	The organization's short, medium, and long term strategic objectives (No disclosure = 0, partial disclosure= 1, adequate disclosure=2)	**2**											
23	4.28	The strategies it has in place, or intends to implement, to achieve those strategic objectives (No disclosure = 0, Disclosure= 1)	**1**											
24	4.28	The resource allocation plans it has to implement its strategy (No disclosure = 0, Limited disclosure= 1, Adequate disclosure =2)	**2**											
25	4.29	Linkage between the organization's strategy and resource allocation plans, and organization's business model (No disclosure = 0, Partial Disclosure= 1, Adequate Disclosure=2)	**2**											
26	4.29	The extent to which environment and social considerations have been embedded into the organization's strategy to give it a competitive advantage (No disclosure = 0, Disclosure= 1)	**1**											
27	4.29	Stakeholder engagement in formulating strategies and resource plans (No disclosure = 0, Identification of related stakeholders = 1, Specific details on stakeholders engagement= 2)	**2**											

		Sub total (content element 5)	**10**											
		% of disclosure by company (content element 5)	**100**											
	Content Element 6	**Performance**	**Maximun possible score**									**Average. Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed this Item**
28	4.31	Quantitative indicators with respect to targets and risks and opportunities (No disclosure = 0, Partial Disclosure= 1, disclosuret with trends = 2, Adequate Disclosure= 3)	**3**											
29	4.31	The Organization's effects (both positive and negative) on the capitals (No disclosure = 0, Mainly positive disclosure= 1, Adequate disclosure = 2)	**2**											
30	4.31	The state of key stakeholer relationships and how the organization has responded to key stakeholders' legitimate needs and interests (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**											
31	4.31	The linkages between past and current performance, and between current performance and the organization's outlook (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**											
32	4.32	KPIs that combine financial measures with other components or monetizing certain effects on the capitals (No disclosure = 0, Limited disclosure = 1, Company specific and innovative disclosure= 2)	**2**											
		Sub total (content element 6)	**11**											
		% of disclosure by company (content element 6)	**100.00**											
	Content Element 7	**Outlook**	**Maximun possible score**									**Average. Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed this Item**
33	4.35	Organization's expectations about the external environment (No disclosure = 0, General disclosure = 1, Organization specific disclosure =2)	**2**											
34	4.35	Organization's preparedness for the future uncertainties (No disclosure = 0, Disclosure= 1)	**1**											
35	4.37	Potential implications on future financial and other capitals (No disclosure = 0, Partial Disclosure= 1, Adequate Disclosure=2)	**2**											

36	4.38	Ways for outlook: lead indicatiors, KPIs or objectives, relevant information from recognized external sources, and sensitivity analyses (No disclosure = 0, General disclosure = 1, Organization specific disclosure =2)	**2**											
37	4.38	Comparisons of actual performance to previously identified targets further enables evaluation of the current outlook No disclosure = 0, Disclosure= 1)	**1**											
		Sub total (content element 7)	**8**											
		% of disclosure by company (content element 7)	**100.0**											
	Content Element 8	**Basis of Preparation and Presentation**	**Maximun possible score**									**Average. Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed this Item**
38	4.41	A description of the reporting boundary and how it has been determined (No disclosure = 0, Disclosure= 1)	**1**											
39	4.41	Frameworks and methods used to quantify or evaluate material matters (No disclosure = 0, Disclosure= 1)	**1**											
40	4.42	Brief description of the process used to identify relevant matters, evaluate their importance and narrow them down to material matters (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**											
41	4.42	Identification of the role of those charged with governance and key personnel in the identification and prioritization of material matters. (No disclosure = 0, Disclosure= 1)	**1**											
42	3.21	Impact of material matters on the organization`s vlaue creation process (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**											
43	3.2	Stakeholder engagement in materiality determination (No disclosure=0, disclosure=1)	**1**											
		Sub total (content element 8)	**8**											
		% of disclosure by company (content element 8)	**100**											
		Overall Disclosure Score by company (all content elements)	**74**											
		% of disclosure by company (all content elements)	**100.00**											

Appendix- 4 (A)

For convenience of presenting the data in the disclosure checklists (III) and (IV) in Appendix 5(A) and 5 (B), the name of the sampled companies of Japan are replaced with the following alphabets.

Serial number	Name of the companies (Japan)	Replaced in the disclosure checklists (III) and (IV) with
1	NSK Ltd	A
2	MS&AD Insurance Group Holdings, Inc.	B
3	Itochu Corporation	C
4	Omron Corporation	D
5	Hitachi Chemical Company, Ltd.	E
6	Asahi Group Holdings, Ltd.	F
7	Mitsubishi UFJ Financial Group	G
8	KDDI Corporation	H
9	Seven & I Holdings Co. Ltd.	I
10	Chugai Pharmaceutical Co., Ltd.	J
11	Bridgestone Corporation	K
12	Recruit Holdings Co., Ltd.	L
13	Sumitomo Corporation	M
14	Denso Corporation	N
15	Nippon Telegraph and Telephone Corporation	O
16	Mitsubishi Heavy Industries Group	P
17	Dentsu Incorporation	Q
18	Chubu Electric Power Company Group	R
19	Daiichi Sankyo Company, Ltd	S
20	Panasonic Corporation	T

Appendix-4 (B)

For convenience of presenting the data in the disclosure checklists (V) and (VI) in Appendix 6(A) and 6(B), the name of the sampled companies of the UK are replaced with the following alphabets.

Serial Number	Name of the Companies (United Kingdom)	Replaced in the disclosure checklists (V) and (VI) with
1	Ashtead group Plc	A1
2	Associated British Foods Plc	B1
3	AstraZeneca Plc	C1
4	BAE Systems	D1
5	British Land	E1
6	BT Group Plc	F1
7	Bunzl Plc	G1
8	Coca Cola HBC	H1
9	Diageo Plc	I1
10	Easy Jet Plc	J1
11	Intertek	K1
12	Just Eat Plc	L1
13	Melrose Industries Plc	M1
14	Marks & Spencer Group Plc	N1
15	Sage Group Plc	O1
16	Severn Trent Plc	P1
17	Smith & nephew	Q1
18	Rentokil Initial	R1
19	Rightmove Plc	S1
20	United Utilities Group Plc.	T1

Appendix-5A: Disclosure Checklist (III) - Company basis information for sampled companies of Japan

				Company Score- Japan																				
		Checklist	**Maximum possible score**	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**	**J**	**K**	**L**	**M**	**N**	**O**	**P**	**Q**	**R**	**S**	**T**	**Average Disclosure (by companies)**
Item	**Content Element 1**	**Organizational overview and external environment**																						
1	4.5	Organization's mission, vision, values and culture (No disclosure=0, Disclosure=1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
2	4.5	Principal activities and markets (No disclosure=0, Disclosure=1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
3	4.5	Ownership and operating structure (No disclosure=0, Disclosure=1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
4	4.5	Competitive landscape and market positioning (No disclosure=0, Disclosure=1)	**1**	1	1	1	1	1	1	1	1	1	1	0	1	0	0	1	0	0	1	0	0	
5	4.5	Key quantitative information (for example, the number of employees, Revenues, Number of countries operaing, highlighting, in particular, significant changes from prior periods) (No disclosure=0, Financial KPIs only= 1, Both financial and non-financial KPIs = 2, KPIs linked with objectives and/or capital = 3)	**3**	3	3	1	2	3	2	2	2	2	3	1	1	2	1	2	2	2	2	2	2	
6	4.5	Significant factors affecting the external environment and the organization's response(legal, commercial, social, environmental and political context) No disclosure =0, general disclosure= 1, company specific disclosure= 2, company specific adequate disclosure=3)	**3**	2	2	2	2	2	2	2	1	2	2	1	2	2	1	2	2	2	3	2	3	
		Sub total (content element 1)	**10**	**9**	**9**	**7**	**8**	**9**	**8**	**8**	**7**	**8**	**9**	**5**	**7**	**7**	**5**	**8**	**7**	**7**	**9**	**7**	**8**	**7.6**
		% of disclosure by company (content element 1)	**100**	**90**	**90**	**70**	**80**	**90**	**80**	**80**	**70**	**80**	**90**	**50**	**70**	**70**	**50**	**80**	**70**	**70**	**90**	**70**	**80**	**76**
	Content Element 2	**Governance**	**Maximum possible score**	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	
7	4.9	Organization's leadership structure (skills and diversity e.g., range of backgrounds, gender, competence and experience of BOD) (No disclosure= 0, Members of the BOD/ Committees are listed =1, Names, experience and skills are also listed= 2)	**2**	2	2	2	1	2	1	2	2	2	2	2	2	2	1	2	2	2	2	2	2	
8	4.9	Role of highest governance body in setting purpose, values, and strategy (No disclosure=0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
9	4.9	Role of highest governance body in risk management (No disclosure=0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
10	4.9	Specific processes and particular actions used to make strategic decisions and risk management (No disclosure=0, Limited Disclosure= 1, Adequate disclosure= 2)	**2**	1	2	2	2	1	1	2	1	1	2	1	1	2	2	2	2	1	2	2	2	

11	4.9	How remuneration and incentives are linked to value creation (No disclosure=0, general disclosure= 1, specific disclosure=2)	**2**	1	1	1	0	1	1	0	0	1	1	0	1	1	1	1	1	1	0	1	1	
12	4.9	Actions taken to influence and monitor cultural environment and ethical values of the organization (No action determinabe from narrative=0, Determinable actions = 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
		Sub total (content element 2)	**9**	**7**	**8**	**8**	**6**	**7**	**6**	**7**	**6**	**7**	**8**	**6**	**7**	**8**	**7**	**8**	**8**	**7**	**7**	**8**	**8**	**7.2**
		% of disclosure by company (content element 2)	**100**	**77.78**	**88.89**	**88.89**	**66.67**	**77.78**	**66.67**	**77.78**	**66.67**	**77.78**	**88.89**	**66.67**	**77.78**	**88.89**	**77.78**	**88.89**	**88.89**	**77.78**	**77.78**	**88.89**	**88.89**	**80**
	Content Element 3	**Business Model**	**Maximum possible score**	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	
13	4.13	Explicit identification of the key elements of the business model (No disclosure=0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	0	1	0	1	1	1	1	1	1	0	1	1	
14	4.13	A simple diagram highliting key elements, supported by a clear explanation of the relevance of those elements to the organization (No disclosure=0, Disclosure with diagam or narrative = 1, disclosure with both diagram and narratives = 2)	**2**	2	2	2	1	1	1	1	2	0	2	1	2	1	2	2	1	1	1	2	1	
15	4.14	Relating and disclosing capitals with business model ((No disclosure=0, Narrative disclosure only= 1, narrative with limited quantitative disclosure=2, Adequate disclosure= 3)	**3**	2	2	2	1	1	1	0	2	0	1	0	1	1	1	1	1	1	1	0	1	
16	4.56	The interdependencies and trade-offs between the capitals: financial, manufactured, intellectural, human, social and relationship, and natural (No disclosure=0, Disclosure= 1)	**1**	1	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	
17	4.13	Connection to information covered by other content elements, such as strategy, risks and opportunities, and performance (including KPIs and financial considerations, like cost containment and revenues). (No disclosure=0, Limited disclosure= 1, Adequate disclosure=2)	**2**	2	1	1	1	1	1	0	1	0	1	0	1	0	0	1	0	1	1	1	0	
18	4.16	Changes in organization's strategy when, for instance, new risks and opportunities are identified or past performance is not as expected/Aligning business model with changes in its external environment (No disclosure=0, limited disclosure= 1, adequate disclosure=2)	**2**	1	2	1	1	1	1	1	1	2	2	0	1	2	1	1	2	1	1	1	1	
		Sub total (content element 3)	**11**	**9**	**9**	**7**	**5**	**5**	**5**	**3**	**7**	**2**	**8**	**1**	**6**	**5**	**5**	**6**	**5**	**5**	**4**	**5**	**4**	**5.3**
		% of disclosure by company (content element 3)	**100.00**	**81.82**	**81.82**	**63.64**	**45.45**	**45.45**	**45.45**	**27.27**	**63.64**	**18.18**	**72.73**	**9.09**	**54.55**	**45.45**	**45.45**	**54.55**	**45.45**	**45.45**	**36.36**	**45.45**	**36.36**	**48.18**

	Content Element 4	Risks and Opportunities	Maximum possible score	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	
19	4.25	The specific sources of risks and/or opportunities (No disclosure=0, Disclosing risks only= 1, Disclosing both risk and opportunity= 2)	**2**	2	2	2	1	2	2	1	2	1	2	1	1	2	1	2	2	2	2	2	2	
20	4.25	Possible impacts of risk and opportunity on the organization (No disclosure=0, Disclosing risks impacts only= 1, Disclosing both risk and opportunity= 2)	**2**	1	2	2	1	1	2	1	0	1	2	1	0	2	0	1	2	2	1	2	2	
21	4.25	The specific steps being taken to mitigate or manage key risks or to create value from key opportunities (No disclosure=0, Disclosure on risk mitigation only =1, Disclosure on risk mitigatation mainly with limited on opportunity= 2, Adequate disclosure both on risks and opportunity= 3)	**3**	2	3	3	1	1	2	1	0	1	2	1	0	2	1	1	2	2	2	1	2	
		Sub total (content element 4)	**7**	**5**	**7**	**7**	**3**	**4**	**6**	**3**	**2**	**3**	**6**	**3**	**1**	**6**	**2**	**4**	**6**	**6**	**5**	**5**	**6**	**4.5**
		% of disclosure by company (content element 4)	**100**	**71.43**	**100**	**100**	**42.86**	**57.14**	**85.71**	**42.86**	**28.57**	**42.86**	**85.71**	**42.86**	**14.29**	**85.71**	**28.57**	**57.14**	**85.71**	**85.71**	**71.43**	**71.43**	**85.71**	**64.29**
	Content Element 5	**Strategy and Resources Allocation**	**Maximum possible score**	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	
22	4.28	The organization's short, medium, and long term strategic objectives (No disclosure = 0, partial disclosure= 1, adequate disclosure=2)	**2**	2	2	2	2	2	2	2	2	2	2	1	1	2	1	2	2	1	2	2	2	
23	4.28	The strategies it has in place, or intends to implement, to achieve those strategic objectives (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
24	4.28	The resource allocation plans it has to implement its strategy (No disclosure = 0, Limited disclosure= 1, Adequate disclosure =2)	**2**	1	1	2	1	1	2	1	1	1	2	0	1	2	1	1	2	1	1	2	2	
25	4.29	Linkage between the organization's strategy and resource allocation plans, and organization's business model (No disclosure = 0, Partial Disclosure= 1, Adequate Disclosure=2)	**2**	1	1	2	1	2	0	1	1	0	1	0	0	1	0	0	1	0	0	1	1	
26	4.29	The extent to which environment and social considerations have been embedded into the organization's strategy to give it a competitive advantage (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
27	4.29	Stakeholder engagement in formulating strategies and resource plans (No disclosure = 0, Identification of related stakeholders = 1, Specific details on stakeholders engagement= 2)	**2**	2	2	1	2	2	0	2	1	2	1	0	1	1	1	2	1	1	2	2	2	

		Sub total (content element 5)	**10**	**8**	**8**	**9**	**8**	**9**	**6**	**8**	**7**	**7**	**8**	**3**	**5**	**8**	**5**	**7**	**8**	**5**	**7**	**9**	**9**	**7.2**
		% of disclosure by company (content element 5)	**100**	**80**	**80**	**90**	**80**	**90**	**60**	**80**	**70**	**70**	**80**	**30**	**50**	**80**	**50**	**70**	**80**	**50**	**70**	**90**	**90**	**72**
	Content Element 6	**Performance**	**Maximum possible score**	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	
28	4.31	Quantitative indicators with respect to targets and risks and opportunities (No disclosure = 0, Partial Disclosure= 1,Partial disclosure but with trends = 2), Adequate Disclosure= 3)	**3**	2	2	2	2	2	2	2	2	2	2	1	2	2	2	2	2	2	2	2	2	
29	4.31	The Organization's effects (both positive and negative) on the capitals (No disclosure = 0, Mainly positive disclosure= 1, Adequate disclosure = 2)	**2**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	2	1	1	1	1	
30	4.31	The state of key stakeholer relationships and how the organization has responded to key stakeholders' legitimate needs and interests (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**	2	1	1	1	1	1	2	1	2	2	1	1	1	1	2	1	1	2	1	2	
31	4.31	The linkages between past and current performance, and between current performance and the organization's outlook (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**	2	2	1	2	2	2	2	1	1	2	1	1	2	1	2	1	1	1	2	2	
32	4.32	KPIs that combine financial measures with other components or monetizing certain effects on the capitals (No disclosure = 0, Limited disclosure = 1, Company specific and innovative disclosure= 2)	**2**	1	1	1	1	1	0	0	0	0	1	0	0	0	0	1	0	0	0	0	0	
		Sub total (content element 6)	**11**	**8**	**7**	**6**	**7**	**7**	**6**	**7**	**5**	**6**	**8**	**4**	**5**	**6**	**5**	**8**	**6**	**5**	**6**	**6**	**7**	**6.25**
		% of disclosure by company (content element 6)	**100**	**72.727**	**63.636**	**54.545**	**63.64**	**63.636**	**54.545**	**63.636**	**45.45**	**54.545**	**72.727**	**36.36**	**45.455**	**54.55**	**45.455**	**72.727**	**54.545**	**45.45**	**54.55**	**54.55**	**63.64**	**56.82**
	Content Element 7	**Outlook**	**Maximum possible score**	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	
33	4.35	Organization's expectations about the external environment (No disclosure = 0, General disclosure = 1, Organization specific disclosure =2)	**2**	2	2	2	2	2	1	2	1	2	2	1	2	1	1	2	2	2	1	2	2	
34	4.35	Organization's preparedness for the future uncertainties (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	0	1	1	0	1	1	0	1	1	1	1	1	1	
35	4.37	Potential implications of future uncertainties on future financial and other capitals (No disclosure = 0, Partial Disclosure= 1, Adequate Disclosure=2)	**2**	1	1	1	1	1	1	1	1	0	1	0	1	1	1	1	1	1	1	1	1	

36	4.38	Ways for outlook: lead indicators, KPIs or objectives, relevant information from recognized external sources, and sensitivity analyses (No disclosure = 0, General disclosure = 1, Organization specific disclosure =2)	**2**	1	2	1	2	2	2	2	1	1	2	1	1	2	1	2	2	2	2	2	2	
37	4.38	Comparisons of actual performance to previously identified targets further enables evaluation of the current outlook No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	
		Sub total (content element 7)	**8**	**6**	**7**	**6**	**7**	**7**	**6**	**7**	**4**	**5**	**7**	**3**	**5**	**6**	**4**	**7**	**7**	**7**	**6**	**7**	**7**	**6.05**
		% of disclosure by company (content element 7)	**100**	**75**	**87.5**	**75**	**87.5**	**87.5**	**75**	**87.5**	**50**	**62.5**	**87.5**	**37.5**	**62.5**	**75**	**50**	**87.5**	**87.5**	**87.5**	**75**	**87.5**	**87.5**	**75.63**
	Content Element 8	**Basis of Preparation and Presentation**	**Maximum possible score**	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	
38	4.41	A description of the reporting boundary and how it has been determined (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
39	4.41	Frameworks and methods used to quantify or evaluate material matters (No disclosure = 0, Disclosure= 1)	**1**	1	0	1	1	1	1	1	1	1	0	1	0	0	0	0	1	0	0	1	1	
40	4.42	Brief description of the process used to identify relevant matters, evaluate their importance and narrow them down to material matters (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**	1	0	0	1	2	2	1	2	2	0	0	0	0	0	1	1	0	0	2	1	
41	4.42	Identification of the role of those charged with governance and key personnel in the identification and prioritization of material matters. (No disclosure = 0, Disclosure= 1)	**1**	0	0	1	1	1	1	1	1	1	0	0	0	0	0	1	1	0	0	1	1	
42	3.21	Impact of material matters on the organization`s vlaue creation process (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**	1	0	0	0	1	1	0	2	1	0	0	0	0	0	1	1	0	0	1	1	
43	3.2	Stakeholder engagement in materiality determination (No disclosure=0, disclosure=1)	**1**	0	0	0	0	1	1	0	1	1	0	0	0	0	0	0	1	0	0	1	1	
		Sub total (content element 8)	**8**	**4**	**1**	**3**	**4**	**7**	**7**	**4**	**8**	**7**	**1**	**2**	**1**	**1**	**1**	**4**	**6**	**1**	**1**	**7**	**6**	**3.8**
		% of disclosure by company (content element 8)	**100**	**50**	**12.5**	**37.5**	**50**	**87.5**	**87.5**	**50**	**100**	**87.5**	**12.5**	**25**	**12.5**	**12.5**	**12.5**	**50**	**75**	**12.5**	**12.5**	**87.5**	**75**	**47.5**
		Overall Disclosure Score by company (all content elements)	**74**	**56**	**56**	**53**	**48**	**55**	**50**	**47**	**46**	**45**	**55**	**27**	**37**	**47**	**34**	**52**	**53**	**43**	**45**	**54**	**55**	**47.9**
		% of disclosure by company (all content elements)	**100**	**75.676**	**75.676**	**71.622**	**64.86**	**74.324**	**67.568**	**63.51**	**62.16**	**60.811**	**74.324**	**36.49**	**50**	**63.51**	**45.946**	**70.27**	**71.622**	**58.11**	**60.81**	**72.97**	**74.32**	**64.73**

Appendix-5B: Disclosure Checklist (IV) - Item basis information for sampled companies of Japan

				Company Score-Japan																					
		Checklist	**Maximun possible score**	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**	**J**	**K**	**L**	**M**	**N**	**O**	**P**	**Q**	**R**	**S**	**T**	**Average. Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed this Item**
Item	**Content Element 1**	**Organizational overview and external environment**																								
1	4.5	Organization's mission, vision, values and culture (No disclosure=0, Disclosure=1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	**1**	100	100
2	4.5	Principal activities and markets (No disclosure=0, Disclosure=1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	**1**	100	100
3	4.5	Ownership and operating structure (No disclosure=0, Disclosure=1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	**1**	100	100
4	4.5	Competitive landscape and market positioning (No disclosure=0, Disclosure=1)	**1**	1	1	1	1	1	1	1	1	1	1	0	1	0	0	1	0	0	1	0	0	**0.65**	65	65
5	4.5	Key quantitative information (for example, the number of employees, Revenues, Number of countries operaing, highlighting, in particular, significant changes from prior periods) (No disclosure=0, Financial KPIs only= 1, Both financial and non-financial KPIs = 2, KPIs linked with objectives and/or capital = 3)	**3**	3	3	1	2	3	2	2	2	2	3	1	1	2	1	2	2	2	2	2	2	**2**	66.66666667	100
6	4.5	Significant factors affecting the external environment and the organization's response(legal, commercial, social, environmental and political context) (No disclosure =0, general disclosure= 1, company specific disclosure= 2, company specific adequate disclosure=3)	**3**	2	2	2	2	2	2	2	1	2	2	1	2	2	1	2	2	2	3	2	3	**1.95**	65	100
		Sub total (content element 1)	**10**	**9**	**9**	**7**	**8**	**9**	**8**	**8**	**7**	**8**	**9**	**5**	**7**	**7**	**5**	**8**	**7**	**7**	**9**	**7**	**8**			
		% of disclosure by company (content element 1)	**100**	**90**	**90**	**70**	**80**	**90**	**80**	**80**	**70**	**80**	**90**	**50**	**70**	**70**	**50**	**80**	**70**	**70**	**90**	**70**	**80**			
	Content Element 2	**Governance**	**Maximun possible score**	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	**Average. Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed this Item**
7	4.9	Organization's leadership structure (skills and diversity e.g., range of backgrounds, gender, competence and experience of BOD) (No disclosure= 0, Members of the BOD/ Committees are listed =1, Names, experience and skills are also listed= 2)	**2**	2	2	2	1	2	1	2	2	2	2	2	2	2	1	2	2	2	2	2	2	**1.85**	92.5	100
8	4.9	Role of highest governance body in setting purpose, values, and strategy (No disclosure=0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	**1**	100	100
9	4.9	Role of highest governance body in risk management (No disclosure=0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	**1**	100	100
10	4.9	Specific processes and particular actions used to make strategic decisions and risk management (No disclosure=0, Limited Disclosure= 1, Adequate disclosure= 2)	**2**	1	2	2	2	1	1	2	1	1	2	1	1	2	2	2	2	1	2	2	2	**1.6**	80	100

11	4.9	How remuneration and incentives are linked to value creation (No disclosure=0, general disclosure= 1, specific disclosure=2)	**2**	1	1	1	0	1	1	0	0	1	1	0	1	1	1	1	1	1	0	1	1	**0.75**	37.5	75
12	4.9	Actions taken to influence and monitor cultural environment and ethical values of the organization (No action determinabe from narrative=0, Determinable actions = 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	**1**	100	100
		Sub total (content element 2)	**9**	**7**	**8**	**8**	**6**	**7**	**6**	**7**	**6**	**7**	**8**	**6**	**7**	**8**	**7**	**8**	**8**	**7**	**7**	**8**	**8**			
		% of disclosure by company (content element 2)	**100**	**77.78**	**88.89**	**88.89**	**66.67**	**77.78**	**66.67**	**77.78**	**66.67**	**77.78**	**88.89**	**66.67**	**77.78**	**88.89**	**77.78**	**88.89**	**88.89**	**77.78**	**77.78**	**88.89**	**88.89**			
	Content Element 3	**Business Model**	**Maximun possible score**	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	**Average. Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed this Item**
13	4.13	Explicit identification of the key elements of the business model (No disclosure=0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	0	1	0	1	1	1	1	1	1	0	1	1	**0.85**	85	85
14	4.13	A simple diagram highliting key elements, supported by a clear explanation of the relevance of those elements to the organization (No disclosure=0, Disclosure with diagam or narrative = 1, disclosure with both diagram and narratives = 2)	**2**	2	2	2	1	1	1	1	2	0	2	1	2	1	2	2	1	1	1	2	1	**1.4**	70	95
15	4.14	Relating and disclosing capitals with business model ((No disclosure=0, Narrative disclosure only= 1, narrative with limited quantitative disclosure=2, Adequate disclosure= 3)	**3**	2	2	2	1	1	1	0	2	0	1	0	1	1	1	1	1	1	1	0	1	**1**	33.33333333	80
16	4.56	The interdependencies and trade-offs between the capitals: financial, manufactured, intellectural, human, social and relationship, and natural (No disclosure=0, Disclosure= 1)	**1**	1	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	**0.15**	15	15
17	4.13	Connection to information covered by other content elements, such as strategy, risks and opportunities, and performance (including KPIs and financial considerations, like cost containment and revenues). (No disclosure=0, Limited disclosure= 1, Adequate disclosure=2)	**2**	2	1	1	1	1	1	0	1	0	1	0	1	0	0	1	0	1	1	1	0	**0.7**	35	65
18	4.16	Changes in organization's strategy when, for instance, new risks and opportunities are identified or past performance is not as expected/Aligning business model with changes in its external environment (No disclosure=0, limited disclosure= 1, adequate disclosure=2)	**2**	1	2	1	1	1	1	1	1	2	2	0	1	2	1	1	2	1	1	1	1	**1.2**	60	95
		Sub total (content element 3)	**11**	**9**	**9**	**7**	**5**	**5**	**5**	**3**	**7**	**2**	**8**	**1**	**6**	**5**	**5**	**6**	**5**	**5**	**4**	**5**	**4**			
		% of disclosure by company (content element 3)	**100**	**81.82**	**81.82**	**63.64**	**45.45**	**45.45**	**45.45**	**27.27**	**63.64**	**18.18**	**72.73**	**9.09**	**54.55**	**45.45**	**45.45**	**54.55**	**45.45**	**45.45**	**36.36**	**45.45**	**36.36**			

	Content Element 4	Risks and Opportunities	Maximun possible score	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	Average. Disclosure per Item	Average disclosure Quality per Item (%)	% of companies disclosed this Item
19	4.25	The specific sources of risks and/or opportunities (No disclosure=0, Disclosing risks only= 1, Disclosing both risk and opportunity= 2)	**2**	2	2	2	1	2	2	1	2	1	2	1	1	2	1	2	2	2	2	2	2	**1.7**	85	100
20	4.25	Possible impacts of risk and opportunity on the organization (No disclosure=0, Disclosing risks impacts only= 1, Disclosing both risk and opportunity= 2)	**2**	1	2	2	1	1	2	1	0	1	2	1	0	2	0	1	2	2	1	2	2	**1.3**	65	85
21	4.25	The specific steps being taken to mitigate or manage key risks or to create value from key opportunities (No disclosure=0, Disclosure on risk mitigation only =1, Disclosure on risk mitigatigation mainly with limited on opportunity= 2, Adequate disclosure both on risks and opportunity= 3)	**3**	2	3	3	1	1	2	1	0	1	2	1	0	2	1	1	2	2	2	1	2	**1.5**	50	90
		Sub total (content element 4)	**7**	**5**	**7**	**7**	**3**	**4**	**6**	**3**	**2**	**3**	**6**	**3**	**1**	**6**	**2**	**4**	**6**	**6**	**5**	**5**	**6**			
		% of disclosure by company (content element 4)	**100**	**71.43**	**100.00**	**100.00**	**42.86**	**57.14**	**85.71**	**42.86**	**28.57**	**42.86**	**85.71**	**42.86**	**14.29**	**85.71**	**28.57**	**57.14**	**85.71**	**85.71**	**71.43**	**71.43**	**85.71**			
	Content Element 5	**Strategy and Resources Allocation**	**Maximun possible score**	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	**Average. Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed this Item**
22	4.28	The organization's short, medium, and long term strategic objectives (No disclosure = 0, partial disclosure= 1, adequate disclosure=2)	**2**	2	2	2	2	2	2	2	2	2	2	1	1	2	1	2	2	1	2	2	2	**1.8**	90	100
23	4.28	The strategies it has in place, or intends to implement, to achieve those strategic objectives (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	**1**	100	100
24	4.28	The resource allocation plans it has to implement its strategy (No disclosure = 0, Limited disclosure= 1, Adequate disclosure =2)	**2**	1	1	2	1	1	2	1	1	1	2	0	1	2	1	1	2	1	1	2	2	**1.3**	65	95
25	4.29	Linkage between the organization's strategy and resource allocation plans, and organization's business model (No disclosure = 0, Partial Disclosure= 1, Adequate Disclosure=2)	**2**	1	1	2	1	2	0	1	1	0	1	0	0	1	0	0	1	0	0	1	1	**0.7**	35	60
26	4.29	The extent to which environment and social considerations have been embedded into the organization's strategy to give it a competitive advantage (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	**1**	100	100
27	4.29	Stakeholder engagement in formulating strategies and resource plans (No disclosure = 0, Identification of related stakeholders = 1, Specific details on stakeholders engagement= 2)	**2**	2	2	1	2	2	0	2	1	2	1	0	1	1	1	2	1	1	2	2	2	**1.4**	70	90

		Sub total (content element 5)	**10**	**8**	**8**	**9**	**8**	**9**	**6**	**8**	**7**	**7**	**8**	**3**	**5**	**8**	**5**	**7**	**8**	**5**	**7**	**9**	**9**			
		% of disclosure by company (content element 5)	**100**	**80**	**80**	**90**	**80**	**90**	**60**	**80**	**70**	**70**	**80**	**30**	**50**	**80**	**50**	**70**	**80**	**50**	**70**	**90**	**90**			
	Content Element 6	**Performance**	**Maximun possible score**	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	**Average. Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed this Item**
28	4.31	Quantitative indicators with respect to targets and risks and opportunities (No disclosure = 0, Partial Disclosure= 1, disclosuret with trends = 2, Adequate Disclosure= 3)	**3**	2	2	2	2	2	2	2	2	2	2	1	2	2	2	2	2	2	2	2	2	**1.95**	65	100
29	4.31	The Organization's effects (both positive and negative) on the capitals (No disclosure = 0, Mainly positive disclosure= 1, Adequate disclosure = 2)	**2**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	2	1	1	1	1	**1.05**	52.5	100
30	4.31	The state of key stakeholer relationships and how the organization has responded to key stakeholders' legitimate needs and interests (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**	2	1	1	1	1	1	2	1	2	2	1	1	1	1	2	1	1	2	1	2	**1.35**	67.5	100
31	4.31	The linkages between past and current performance, and between current performance and the organization's outlook (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**	2	2	1	2	2	2	2	1	1	2	1	1	2	1	2	1	1	1	2	2	**1.55**	77.5	100
32	4.32	KPIs that combine financial measures with other components or monetizing certain effects on the capitals (No disclosure = 0, Limited disclosure = 1, Company specific and innovative disclosure= 2)	**2**	1	1	1	1	1	0	0	0	0	1	0	0	0	0	1	0	0	0	0	0	**0.35**	17.5	35
		Sub total (content element 6)	**11**	**8**	**7**	**6**	**7**	**7**	**6**	**7**	**5**	**6**	**8**	**4**	**5**	**6**	**5**	**8**	**6**	**5**	**6**	**6**	**7**			
		% of disclosure by company (content element 6)	**100.00**	**72.73**	**63.64**	**54.55**	**63.64**	**63.64**	**54.55**	**63.64**	**45.45**	**54.55**	**72.73**	**36.36**	**45.45**	**54.55**	**45.45**	**72.73**	**54.55**	**45.45**	**54.55**	**54.55**	**63.64**			
	Content Element 7	**Outlook**	**Maximun possible score**	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	**Average. Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed this Item**
33	4.35	Organization's expectations about the external environment (No disclosure = 0, General disclosure = 1, Organization specific disclosure =2)	**2**	2	2	2	2	2	1	2	1	2	2	1	2	1	1	2	2	2	1	2	2	**1.7**	85	100
34	4.35	Organization's preparedness for the future uncertainties (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	0	1	1	0	1	1	0	1	1	1	1	1	1	**0.85**	85	85
35	4.37	Potential implications on future financial and other capitals (No disclosure = 0, Partial Disclosure= 1, Adequate Disclosure=2)	**2**	1	1	1	1	1	1	1	1	0	1	0	1	1	1	1	1	1	1	1	1	**0.9**	45	90

36	4.38	Ways for outlook: lead indicatiors, KPIs or objectives, relevant information from recognized external sources, and sensitivity analyses (No disclosure = 0, General disclosure = 1, Organization specific disclosure =2)	**2**	1	2	1	2	2	2	2	1	1	2	1	1	2	1	2	2	2	2	2	2	**1.65**	82.5	100
37	4.38	Comparisons of actual performance to previously identified targets further enables evaluation of the current outlook No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	**0.95**	95	95
		Sub total (content element 7)	**8**	**6**	**7**	**6**	**7**	**7**	**6**	**7**	**4**	**5**	**7**	**3**	**5**	**6**	**4**	**7**	**7**	**7**	**6**	**7**	**7**			
		% of disclosure by company (content element 7)	**100.0**	**75.0**	**87.5**	**75.0**	**87.5**	**87.5**	**75.0**	**87.5**	**50.0**	**62.5**	**87.5**	**37.5**	**62.5**	**75.0**	**50.0**	**87.5**	**87.5**	**87.5**	**75.0**	**87.5**	**87.5**			
	Content Element 8	**Basis of Preparation and Presentation**	**Maximun possible score**	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	**Average. Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed this Item**
38	4.41	A description of the reporting boundary and how it has been determined (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	**1**	100	100
39	4.41	Frameworks and methods used to quantify or evaluate material matters (No disclosure = 0, Disclosure= 1)	**1**	1	0	1	1	1	1	1	1	1	0	1	0	0	0	0	1	0	0	1	1	**0.6**	60	60
40	4.42	Brief description of the process used to identify relevant matters, evaluate their importance and narrow them down to material matters (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**	1	0	0	1	2	2	1	2	2	0	0	0	0	0	1	1	0	0	2	1	**0.8**	40	55
41	4.42	Identification of the role of those charged with governance and key personnel in the identification and prioritization of material matters. (No disclosure = 0, Disclosure= 1)	**1**	0	0	1	1	1	1	1	1	1	0	0	0	0	0	1	1	0	0	1	1	**0.55**	55	55
42	3.21	Impact of material matters on the organization`s vlaue creation process (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**	1	0	0	0	1	1	0	2	1	0	0	0	0	0	1	1	0	0	1	1	**0.5**	25	45
43	3.2	Stakeholder engagement in materiality determination (No disclosure=0, disclosure=1)	**1**	0	0	0	0	1	1	0	1	1	0	0	0	0	0	0	1	0	0	1	1	**0.35**	35	35
		Sub total (content element 8)	**8**	**4**	**1**	**3**	**4**	**7**	**7**	**4**	**8**	**7**	**1**	**2**	**1**	**1**	**1**	**4**	**6**	**1**	**1**	**7**	**6**			
		% of disclosure by company (content element 8)	**100**	**50**	**12.5**	**37.5**	**50**	**87.5**	**87.5**	**50**	**100**	**87.5**	**12.5**	**25**	**12.5**	**12.5**	**12.5**	**50**	**75**	**12.5**	**12.5**	**87.5**	**75**			
		Overall Disclosure Score by company (all content elements)	**74**	**56**	**56**	**53**	**48**	**55**	**50**	**47**	**46**	**45**	**55**	**27**	**37**	**47**	**34**	**52**	**53**	**43**	**45**	**54**	**55**			
		% of disclosure by company (all content elements)	**100.00**	**75.68**	**75.68**	**71.62**	**64.86**	**74.32**	**67.57**	**63.51**	**62.16**	**60.81**	**74.32**	**36.49**	**50.00**	**63.51**	**45.95**	**70.27**	**71.62**	**58.11**	**60.81**	**72.97**	**74.32**			

Appendix-6A: Disclosure Checklist (V) - Company basis information for sampled companies of the UK

				Company Score- United Kingdom																				
		Checklist	**Maximum possible score**																					**Average Disclosure (by companies)**
Item	**Content Element 1**	**Organizational overview and external environment**		**A1**	**B1**	**C1**	**D1**	**E1**	**F1**	**G1**	**H1**	**I1**	**J1**	**K1**	**L1**	**M1**	**N1**	**O1**	**P1**	**Q1**	**R1**	**S1**	**T1**	
1	4.5	Organization's mission, vision, values and culture (No disclosure=0, Disclosure=1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
2	4.5	Principal activities and markets (No disclosure=0, Disclosure=1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
3	4.5	Ownership and operating structure (No disclosure=0, Disclosure=1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
4	4.5	Competitive landscape and market positioning (No disclosure=0, Disclosure=1)	**1**	1	1	1	1	1	1	1	1	1	1	1	0	0	1	0	1	1	1	1	1	
5	4.5	Key quantitative information (for example, the number of employees, Revenues, Number of countries operaing, highlighting, in particular, significant changes from prior periods) (No disclosure=0, Financial KPIs only= 1, Both financial and non-financial KPIs = 2, KPIs linked with objectives and/or capital = 3)	**3**	3	2	3	2	3	2	3	3	3	3	2	3	3	3	3	2	2	3	2	3	
6	4.5	Significant factors affecting the external environment and the organization's response (legal, commercial, social, environmental and political context) (No disclosure =0, general disclosure= 1, company specific disclosure= 2, company specific adequate disclosure=3)	**3**	2	2	2	3	2	3	2	3	2	2	2	2	1	2	1	2	3	2	1	2	
		Sub total (content element 1)	**10**	**9**	**8**	**9**	**9**	**9**	**9**	**9**	**10**	**9**	**9**	**8**	**8**	**7**	**9**	**7**	**8**	**9**	**9**	**7**	**9**	**8.55**
		% of disclosure by company (content element 1)	**100**	**90**	**80**	**90**	**90**	**90**	**90**	**90**	**100**	**90**	**90**	**80**	**80**	**70**	**90**	**70**	**80**	**90**	**90**	**70**	**90**	**85.5**
	Content Element 2	**Governance**	**Maximum possible score**	**A1**	**B1**	**C1**	**D1**	**E1**	**F1**	**G1**	**H1**	**I1**	**J1**	**K1**	**L1**	**M1**	**N1**	**O1**	**P1**	**Q1**	**R1**	**S1**	**T1**	
7	4.9	Organization's leadership structure (skills and diversity e.g., range of backgrounds, gender, competence and experience of BOD) (No disclosure= 0, Members of the BOD/ Committees are listed =1, Names, experience and skills are also listed= 2)	**2**	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	
8	4.9	Role of highest governance body in setting purpose, values, and strategy (No disclosure=0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
9	4.9	Role of highest governance body in risk management (No disclosure=0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
10	4.9	Specific processes and particular actions used to make strategic decisions and risk management (No disclosure=0, Limited Disclosure= 1, Adequate disclosure= 2)	**2**	2	2	1	1	2	2	2	2	2	2	2	1	2	2	2	2	2	2	1	2	

11	4.9	How remuneration and incentives are linked to value creation (No disclosure=0, general disclosure= 1, specific disclosure=2)	**2**	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	
12	4.9	Actions taken to influence and monitor cultural environment and ethical values of the organization (No action determinabe from narrative=0, Determinable actions = 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
		Sub total (content element 2)	**9**	**9**	**9**	**8**	**8**	**9**	**9**	**9**	**9**	**9**	**9**	**9**	**8**	**9**	**9**	**9**	**9**	**9**	**9**	**8**	**9**	**8.8**
		% of disclosure by company (content element 2)	**100**	**100**	**100**	**88.89**	**88.89**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**88.89**	**100**	**100**	**100**	**100**	**100**	**100**	**88.89**	**100**	**97.78**
	Content Element 3	**Business Model**	**Maximum possible score**	**A1**	**B1**	**C1**	**D1**	**E1**	**F1**	**G1**	**H1**	**I1**	**J1**	**K1**	**L1**	**M1**	**N1**	**O1**	**P1**	**Q1**	**R1**	**S1**	**T1**	
13	4.13	Explicit identification of the key elements of the business model (No disclosure=0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	0	1	
14	4.13	A simple diagram highliting key elements, supported by a clear explanation of the relevance of those elements to the organization (No disclosure=0, Disclosure with diagam or narrative = 1, disclosure with both diagram and narratives = 2)	**2**	2	1	2	2	1	2	2	2	1	2	2	2	1	2	1	2	2	1	1	2	
15	4.14	Relating and disclosing capitals with business model ((No disclosure=0, Narrative disclosure only= 1, narrative with limited quantitative disclosure=2, Adequate disclosure= 3)	**3**	2	0	3	1	0	3	1	2	1	2	0	2	1	2	2	1	2	1	0	2	
16	4.56	The interdependencies and trade-offs between the capitals: financial, manufactured, intellectural, human, social and relationship, and natural (No disclosure=0, Disclosure= 1)	**1**	1	0	1	1	0	1	0	1	0	0	0	0	0	1	0	0	1	0	0	0	
17	4.13	Connection to information covered by other content elements, such as strategy, risks and opportunities, and performance (including KPIs and financial considerations, like cost containment and revenues) (No disclosure=0, Limited disclosure= 1, Adequate disclosure=2)	**2**	1	1	2	1	1	2	1	1	0	1	0	1	1	2	1	1	1	1	1	2	
18	4.16	Changes in organization's strategy when, for instance, new risks and opportunities are identified or past performance is not as expected/Aligning business model with changes in its external environment (No disclosure=0, limited disclosure= 1, adequate disclosure=2)	**2**	1	1	1	1	2	1	1	1	1	1	1	1	1	1	1	1	2	1	1	1	
		Sub total (content element 3)	**11**	**8**	**4**	**10**	**7**	**5**	**10**	**6**	**8**	**3**	**7**	**4**	**7**	**5**	**9**	**6**	**6**	**9**	**5**	**3**	**8**	**6.5**
		% of disclosure by company (content element 3)	**100**	**72.73**	**36.36**	**90.91**	**63.64**	**45.45**	**90.91**	**54.55**	**72.73**	**27.27**	**63.64**	**36.36**	**63.64**	**45.45**	**81.82**	**54.55**	**54.55**	**81.82**	**45.45**	**27.27**	**72.73**	**59.09**

	Content Element 4	Risks and Opportunities	Maximum possible score	A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1	M1	N1	O1	P1	Q1	R1	S1	T1	
19	4.25	The specific sources of risks and/or opportunities (No disclosure=0, Disclosing mainly the risks = 1, Disclosing both risk and opportunity= 2)	**2**	2	2	2	2	2	2	1	2	2	2	2	2	2	2	1	2	2	2	1	2	
20	4.25	Possible impacts of risk and opportunity on the organization (No disclosure=0, Disclosing mainly the risks impacts = 1, Disclosing both risk and opportunity= 2)	**2**	2	2	2	1	2	2	1	2	2	2	2	2	1	2	1	2	2	2	1	2	
21	4.25	The specific steps being taken to mitigate or manage key risks or to create value from key opportunities (No disclosure=0, Disclosure on risk mitigation only =1, Disclosure on risk mitigatigation mainly with limited on opportunity= 2, Adequate disclosure both on risks and opportunity= 3)	**3**	3	2	3	2	2	2	2	2	3	2	3	2	2	2	2	3	2	2	2	2	
		Sub total (content element 4)	**7**	**7**	**6**	**7**	**5**	**6**	**6**	**4**	**6**	**7**	**6**	**7**	**6**	**5**	**6**	**4**	**7**	**6**	**6**	**4**	**6**	**5.85**
		% of disclosure by company (content element 4)	**100**	**100**	**85.71**	**100**	**71.43**	**85.71**	**85.71**	**57.14**	**85.71**	**100**	**85.71**	**100**	**85.71**	**71.43**	**85.71**	**57.14**	**100**	**85.71**	**85.71**	**57.14**	**85.71**	**83.57**
	Content Element 5	**Strategy and Resources Allocation**	**Maximum possible score**	**A1**	**B1**	**C1**	**D1**	**E1**	**F1**	**G1**	**H1**	**I1**	**J1**	**K1**	**L1**	**M1**	**N1**	**O1**	**P1**	**Q1**	**R1**	**S1**	**T1**	
22	4.28	The organization's short, medium, and long term strategic objectives (No disclosure = 0, partial disclosure= 1, adequate disclosure=2)	**2**	2	1	2	1	2	1	1	2	1	2	1	1	1	1	1	2	2	2	1	2	
23	4.28	The strategies it has in place, or intends to implement, to achieve those strategic objectives (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
24	4.28	The resource allocation plans it has to implement its strategy (No disclosure = 0, Limited disclosure= 1, Adequate disclosure =2)	**2**	1	1	1	2	2	2	0	1	1	1	1	1	1	1	1	1	1	1	1	1	
25	4.29	Linkage between the organization's strategy and resource allocation plans, and organization's business model (No disclosure = 0, Partial Disclosure= 1, Adequate Disclosure=2)	**2**	2	0	2	1	1	2	1	1	0	2	1	0	0	1	0	1	1	1	0	1	
26	4.29	The extent to which environment and social considerations have been embedded into the organization's strategy to give it a competitive advantage (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
27	4.29	Stakeholder engagement in formulating strategies and resource plans (No disclosure = 0, Identification of related stakeholders = 1, Specific details on stakeholders engagement= 2)	**2**	1	2	1	1	2	2	1	2	1	1	1	1	1	2	2	1	1	1	2	1	

		Sub total (content element 5)	**10**	**8**	**6**	**8**	**7**	**9**	**9**	**5**	**8**	**5**	**8**	**6**	**5**	**5**	**7**	**6**	**7**	**7**	**7**	**6**	**7**	**6.8**
		% of disclosure by company (content element 5)	**100**	**80**	**60**	**80**	**70**	**90**	**90**	**50**	**80**	**50**	**80**	**60**	**50**	**50**	**70**	**60**	**70**	**70**	**70**	**60**	**70**	**68**
	Content Element 6	**Performance**	**Maximum possible score**	**A1**	**B1**	**C1**	**D1**	**E1**	**F1**	**G1**	**H1**	**I1**	**J1**	**K1**	**L1**	**M1**	**N1**	**O1**	**P1**	**Q1**	**R1**	**S1**	**T1**	
28	4.31	Quantitative indicators with respect to targets and risks and opportunities (No disclosure = 0, Partial Disclosure= 1, Disclosure with trends = 2, Adequate Disclosure= 3)	**3**	2	2	3	3	2	3	2	2	3	2	2	3	2	3	2	2	2	2	2	2	
29	4.31	The Organization's effects (both positive and negative) on the capitals (No disclosure = 0, Mainly positive disclosure= 1, Adequate disclosure = 2)	**2**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	2	1	1	
30	4.31	The state of key stakeholer relationships and how the organization has responded to key stakeholders' legitimate needs and interests (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**	1	1	2	2	2	2	1	2	1	1	1	2	1	2	1	2	2	1	1	2	
31	4.31	The linkages between past and current performance, and between current performance and the organization's outlook (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**	2	1	2	1	2	2	1	2	1	1	1	2	1	1	1	2	2	2	1	2	
32	4.32	KPIs that combine financial measures with other components or monetizing certain effects on the capitals (No disclosure = 0, Limited disclosure = 1, Company specific and innovative disclosure= 2)	**2**	0	0	0	0	0	1	1	1	1	0	0	0	0	1	0	0	1	0	0	0	
		Sub total (content element 6)	**11**	**6**	**5**	**8**	**7**	**7**	**9**	**6**	**8**	**7**	**5**	**5**	**8**	**5**	**8**	**5**	**7**	**8**	**7**	**5**	**7**	**6.65**
		% of disclosure by company (content element 6)	**100**	**54.55**	**45.45**	**72.73**	**63.64**	**63.64**	**81.82**	**54.55**	**72.73**	**63.64**	**45.45**	**45.45**	**72.73**	**45.45**	**72.73**	**45.45**	**63.64**	**72.73**	**63.64**	**45.45**	**63.64**	**60.45**
	Content Element 7	**Outlook**	**Maximum possible score**	**A1**	**B1**	**C1**	**D1**	**E1**	**F1**	**G1**	**H1**	**I1**	**J1**	**K1**	**L1**	**M1**	**N1**	**O1**	**P1**	**Q1**	**R1**	**S1**	**T1**	
33	4.35	Organization's expectations about the external environment (No disclosure = 0, General disclosure = 1, Organization specific disclosure =2)	**2**	2	1	2	2	2	2	1	2	1	1	2	2	1	1	1	1	2	2	1	1	
34	4.35	Organization's preparedness for the future uncertainties (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
35	4.37	Potential implications of future uncertainties on future financial and other capitals (No disclosure = 0, Partial Disclosure= 1, Adequate Disclosure=2)	**2**	1	1	2	1	1	1	1	2	1	1	1	1	1	2	1	1	2	1	1	1	

36	4.38	Ways for outlook: lead indications, KPIs or objectives, relevant information from recognized external sources, and sensitivity analyses (No disclosure = 0, General disclosure = 1, Organization specific disclosure =2)	**2**	2	2	2	2	2	2	2	2	2	2	2	2	1	2	1	2	2	2	2	2	
37	4.38	Comparisons of actual performance to previously identified targets further enables evaluation of the current outlook (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
		Sub total (content element 7)	**8**	**7**	**6**	**8**	**7**	**7**	**7**	**6**	**8**	**6**	**6**	**7**	**7**	**5**	**7**	**5**	**6**	**8**	**7**	**6**	**6**	**6.6**
		% of disclosure by company (content element 7)	**100**	**87.5**	**75**	**100**	**87.5**	**87.5**	**87.5**	**75**	**100**	**75**	**75**	**87.5**	**87.5**	**62.5**	**87.5**	**62.5**	**75**	**100**	**87.5**	**75**	**75**	**82.5**
	Content Element 8	**Basis of Preparation and Presentation**	**Maximum possible score**	**A1**	**B1**	**C1**	**D1**	**E1**	**F1**	**G1**	**H1**	**I1**	**J1**	**K1**	**L1**	**M1**	**N1**	**O1**	**P1**	**Q1**	**R1**	**S1**	**T1**	
38	4.41	A description of the reporting boundary and how it has been determined (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
39	4.41	Frameworks and methods used to quantify or evaluate material matters (No disclosure = 0, Disclosure= 1)	**1**	1	0	1	0	1	1	1	1	0	0	1	0	0	0	0	1	0	0	0	0	
40	4.42	Brief description of the process used to identify relevant matters, evaluate their importance and narrow them down to material matters (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**	1	0	1	0	1	0	1	2	0	0	0	0	0	0	0	1	0	0	0	0	
41	4.42	Identification of the role of those charged with governance and key personnel in the identification and prioritization of material matters. (No disclosure = 0, Disclosure= 1)	**1**	1	0	1	0	1	1	1	1	0	0	1	0	0	0	0	1	0	0	0	0	
42	3.21	Impact of material matters on the organization`s vlaue creation process (No disclosure = 0, Limited disclosure = 1, Adequate disclosure = 2)	**2**	1	0	1	0	1	0	2	2	0	0	1	0	0	0	0	1	1	0	0	0	
43	3.2	Stakeholder engagement in materiality determination (No disclosure=0, disclosure=1)	**1**	1	0	0	0	0	0	0	1	0	0	0	0	0	0	0	1	0	0	0	0	
		Sub total (content element 8)	**8**	**6**	**1**	**5**	**1**	**5**	**3**	**6**	**8**	**1**	**1**	**4**	**1**	**1**	**1**	**1**	**6**	**2**	**1**	**1**	**1**	**2.8**
		% of disclosure by company (content element 8)	**100**	**75**	**12.5**	**62.5**	**12.5**	**62.5**	**37.5**	**75**	**100**	**12.5**	**12.5**	**50**	**12.5**	**12.5**	**12.5**	**12.5**	**75**	**25**	**12.5**	**12.5**	**12.5**	**35**
		Overall Disclosure Score by company (all content elements)	**74**	**60**	**45**	**63**	**51**	**57**	**62**	**51**	**65**	**47**	**51**	**50**	**50**	**42**	**56**	**43**	**56**	**58**	**51**	**40**	**53**	**52.55**
		% of disclosure by company (all content elements)	**100**	**81.08**	**60.81**	**85.14**	**68.92**	**77.03**	**83.78**	**68.92**	**87.84**	**63.51**	**68.92**	**67.57**	**67.57**	**56.76**	**75.68**	**58.11**	**75.68**	**78.38**	**68.92**	**54.05**	**71.62**	**71.01**

Appendix-6B: Disclosure Checklist (VI) - Item basis Information for sampled companies of the UK

				Company Score-United Kingdom																						
		Checklist	**Maximum possible score**	**A1**	**B1**	**C1**	**D1**	**E1**	**F1**	**G1**	**H1**	**I1**	**J1**	**K1**	**L1**	**M1**	**N1**	**O1**	**P1**	**Q1**	**R1**	**S1**	**T1**	**Average Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed the Item**
Item	**Content Element 1**	**Organizational overview and external environment**																								
1	4.5	Organization's mission, vision, values and culture (No disclosure=0, Disclosure=1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	100	100
2	4.5	Principal activities and markets (No disclosure=0, Disclosure=1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	100	100
3	4.5	Ownership and operating structure (No disclosure=0, Disclosure=1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	100	100
4	4.5	Competitive landscape and market positioning (No disclosure=0, Disclosure=1)	**1**	1	1	1	1	1	1	1	1	1	1	1	0	0	1	0	1	1	1	1	1	0.85	85	85
5	4.5	Key quantitative information (for example, the number of employees, Revenues, Number of countries operaing, highlighting, in particular, significant changes from prior periods) (No disclosure=0, Financial KPIs only= 1, Both financial and non-financial KPIs = 2, KPIs linked with objectives and/or capital = 3)	**3**	3	2	3	2	3	2	3	3	3	3	2	3	3	3	3	2	2	3	2	3	2.65	88.33	100
6	4.5	Significant factors affecting the external environment and the organization's response (legal, commercial, social, environmental and political context) (No disclosure =0, general disclosure= 1, company specific disclosure= 2, company specific adequate disclosure=3)	**3**	2	2	2	3	2	3	2	3	2	2	2	2	1	2	1	2	3	2	1	2	2.05	68.33	100
		Sub total (content element 1)	**10**	9	8	9	9	9	9	9	10	9	9	8	8	7	9	7	8	9	9	7	9			
		% of disclosure by company (content element 1)	**100**	90	80	90	90	90	90	90	100	90	90	80	80	70	90	70	80	90	90	70	90			
	Content Element 2	**Governance**	**Maximum possible score**	**A1**	**B1**	**C1**	**D1**	**E1**	**F1**	**G1**	**H1**	**I1**	**J1**	**K1**	**L1**	**M1**	**N1**	**O1**	**P1**	**Q1**	**R1**	**S1**	**T1**	**Average Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed the Item**
7	4.9	Organization's leadership structure (skills and diversity e.g., range of backgrounds, gender, competence and experience of BOD) (No disclosure= 0, Members of the BOD/ Committees are listed =1, Names, experience and skills are also listed= 2)	**2**	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	100	100
8	4.9	Role of highest governance body in setting purpose, values, and strategy (No disclosure=0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	100	100
9	4.9	Role of highest governance body in risk management (No disclosure=0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	100	100
10	4.9	Specific processes and particular actions used to make strategic decisions and risk management (No disclosure=0, Limited Disclosure= 1, Adequate disclosure= 2)	**2**	2	2	1	1	2	2	2	2	2	2	2	1	2	2	2	2	2	2	1	2	1.8	90	100

11	4.9	How remuneration and incentives are linked to value creation (No disclosure=0, general disclosure= 1, specific disclosure=2)	**2**	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	100	100
12	4.9	Actions taken to influence and monitor cultural environment and ethical values of the organization (No action determinabe from narrative=0, Determinable actions = 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	100	100
		Sub total (content element 2)	**9**	9	9	8	8	9	9	9	9	9	9	9	8	9	9	9	9	9	9	8	9			
		% of disclosure by company (content element 2)	**100**	100	100	88.89	88.89	100	100	100	100	100	100	100	88.89	100	100	100	100	100	100	88.89	100			
	Content Element 3	**Business Model**	**Maximum possible score**	**A1**	**B1**	**C1**	**D1**	**E1**	**F1**	**G1**	**H1**	**I1**	**J1**	**K1**	**L1**	**M1**	**N1**	**O1**	**P1**	**Q1**	**R1**	**S1**	**T1**	**Average Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed the Item**
13	4.13	Explicit identification of the key elements of the business model (No disclosure=0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	0	1	0.9	90	90
14	4.13	A simple diagram highliting key elements, supported by a clear explanation of the relevance of those elements to the organization (No disclosure=0, Disclosure with diagam or narrative = 1, disclosure with both diagram and narratives = 2)	**2**	2	1	2	2	1	2	2	2	1	2	2	2	1	2	1	2	2	1	1	2	1.65	82.5	100
15	4.14	Relating and disclosing capitals with business model ((No disclosure=0, Narrative disclosure only= 1, narrative with limited quantitative disclosure=2, Adequate disclosure= 3)	**3**	2	0	3	1	0	3	1	2	1	2	0	2	1	2	2	1	2	1	0	2	1.4	46.67	80
16	4.56	The interdependencies and trade-offs between the capitals: financial, manufactured, intellectural, human, social and relationship, and natural (No disclosure=0, Disclosure= 1)	**1**	1	0	1	1	0	1	0	1	0	0	0	0	0	1	0	0	1	0	0	0	0.35	35	35
17	4.13	Connection to information covered by other content elements, such as strategy, risks and opportunities, and performance (including KPIs and financial considerations, like cost containment and revenues). (No disclosure=0, Limited disclosure= 1, Adequate disclosure=2)	**2**	1	1	2	1	1	2	1	1	0	1	0	1	1	2	1	1	1	1	1	2	1.1	55	90
18	4.16	Changes in organization's strategy when, for instance, new risks and opportunities are identified or past performance is not as expected/Aligning business model with changes in its external environment (No disclosure=0, limited disclosure= 1, adequate disclosure=2)	**2**	1	1	1	1	2	1	1	1	1	1	1	1	1	1	1	1	2	1	1	1	1.1	55	100
		Sub total (content element 3)	**11**	8	4	10	7	5	10	6	8	3	7	4	7	5	9	6	6	9	5	3	8			
		% of disclosure by company (content element 3)	**100**	72.73	36.36	90.91	63.64	45.45	90.91	54.55	72.73	27.27	63.64	36.36	63.64	45.45	81.82	54.55	54.55	81.82	45.45	27.27	72.73			

	Content Element 4	Risks and Opportunities	Maximum possible score	A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1	M1	N1	O1	P1	Q1	R1	S1	T1	Average Disclosure per Item	Average disclosure Quality per Item (%)	% of companies disclosed the Item
19	4.25	The specific sources of risks and/or opportunities (No disclosure=0, Disclosing mainly the risks = 1, Disclosing both risk and opportunity= 2)	**2**	2	2	2	2	2	2	1	2	2	2	2	2	2	2	1	2	2	2	1	2	1.85	92.5	100
20	4.25	Possible impacts of risk and opportunity on the organization (No disclosure=0, Disclosing mainly the risks impacts = 1, Disclosing both risk and opportunity= 2)	**2**	2	2	2	1	2	2	1	2	2	2	2	2	1	2	1	2	2	2	1	2	1.75	87.5	100
21	4.25	The specific steps being taken to mitigate or manage key risks or to create value from key opportunities (No disclosure=0, Disclosure on risk mitigation only =1, Disclosure on risk mitigatigation mainly with limited on opportunity= 2, Adequate disclosure both on risks and opportunity= 3)	**3**	3	2	3	2	2	2	2	2	3	2	3	2	2	2	2	3	2	2	2	2	2.25	75	100
		Sub total (content element 4)	**7**	7	6	7	5	6	6	4	6	7	6	7	6	5	6	4	7	6	6	4	6			
		% of disclosure by company (content element 4)	**100**	100	85.71	100	71.43	85.71	85.71	57.14	85.71	100	85.71	100	85.71	71.43	85.71	57.14	100	85.71	85.71	57.14	85.71			
	Content Element 5	**Strategy and Resources Allocation**	**Maximum possible score**	**A1**	**B1**	**C1**	**D1**	**E1**	**F1**	**G1**	**H1**	**I1**	**J1**	**K1**	**L1**	**M1**	**N1**	**O1**	**P1**	**Q1**	**R1**	**S1**	**T1**	**Average Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed the Item**
22	4.28	The organization's short, medium, and long term strategic objectives (No disclosure = 0, partial disclosure= 1, adequate disclosure=2)	**2**	2	1	2	1	2	1	1	2	1	2	1	1	1	1	1	2	2	2	1	2	1.45	72.5	100
23	4.28	The strategies it has in place, or intends to implement, to achieve those strategic objectives (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	100	100
24	4.28	The resource allocation plans it has to implement its strategy (No disclosure = 0, Limited disclosure= 1, Adequate disclosure =2)	**2**	1	1	1	2	2	2	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1.1	55	95
25	4.29	Linkage between the organization's strategy and resource allocation plans, and organization's business model (No disclosure = 0, Partial Disclosure= 1, Adequate Disclosure=2)	**2**	2	0	2	1	1	2	1	1	0	2	1	0	0	1	0	1	1	1	0	1	0.9	45	70
26	4.29	The extent to which environment and social considerations have been embedded into the organization's strategy to give it a competitive advantage (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	100	100
27	4.29	Stakeholder engagement in formulating strategies and resource plans (No disclosure = 0, Identification of related stakeholders = 1, Specific details on stakeholders engagement= 2)	**2**	1	2	1	1	2	2	1	2	1	1	1	1	1	2	2	1	1	1	2	1	1.35	67.5	100

		Sub total (content element 5)	**10**	8	6	8	7	9	9	5	8	5	8	6	5	5	7	6	7	7	7	6	7			
		% of disclosure by company (content element 5)	**100**	80	60	80	70	90	90	50	80	50	80	60	50	50	70	60	70	70	70	60	70			
	Content Element 6	**Performance**	**Maximum possible score**	**A1**	**B1**	**C1**	**D1**	**E1**	**F1**	**G1**	**H1**	**I1**	**J1**	**K1**	**L1**	**M1**	**N1**	**O1**	**P1**	**Q1**	**R1**	**S1**	**T1**	**Average Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed the Item**
28	4.31	Quantitative indicators with respect to targets and risks and opportunities (No disclosure = 0, Partial Disclosure= 1, Disclosure with trends = 2, Adequate Disclosure= 3)	**3**	2	2	3	3	2	3	2	2	3	2	2	3	2	3	2	2	2	2	2	2	2.3	76.67	100
29	4.31	The Organization's effects (both positive and negative) on the capitals (No disclosure = 0, Mainly positive disclosure= 1, Adequate disclosure = 2)	**2**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	2	1	1	1.05	52.5	100
30	4.31	The state of key stakeholer relationships and how the organization has responded to key stakeholders' legitimate needs and interests (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**	1	1	2	2	2	2	1	2	1	1	1	2	1	2	1	2	2	1	1	2	1.5	75	100
31	4.31	The linkages between past and current performance, and between current performance and the organization's outlook (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**	2	1	2	1	2	2	1	2	1	1	1	2	1	1	1	2	2	2	1	2	1.5	75	100
32	4.32	KPIs that combine financial measures with other components or monetizing certain effects on the capitals (No disclosure = 0, Limited disclosure = 1, Company specific and innovative disclosure= 2)	**2**	0	0	0	0	0	1	1	1	1	0	0	0	0	1	0	0	1	0	0	0	0.3	15	30
		Sub total (content element 6)	**11**	6	5	8	7	7	9	6	8	7	5	5	8	5	8	5	7	8	7	5	7			
		% of disclosure by company (content element 6)	**100**	54.55	45.45	72.73	63.64	63.64	81.82	54.55	72.73	63.64	45.45	45.45	72.73	45.45	72.73	4.55	63.64	72.73	63.64	45.45	63.64			
	Content Element 7	**Outlook**	**Maximum possible score**	**A1**	**B1**	**C1**	**D1**	**E1**	**F1**	**G1**	**H1**	**I1**	**J1**	**K1**	**L1**	**M1**	**N1**	**O1**	**P1**	**Q1**	**R1**	**S1**	**T1**	**Average Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed the Item**
33	4.35	Organization's expectations about the external environment (No disclosure = 0, General disclosure = 1, Organization specific disclosure =2)	**2**	2	1	2	2	2	2	1	2	1	1	2	2	1	1	1	1	2	2	1	1	1.5	75	100
34	4.35	Organization's preparedness for the future uncertainties (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	100	100
35	4.37	Potential implications of future uncertainties on future financial and other capitals (No disclosure = 0, Partial Disclosure= 1, Adequate Disclosure=2)	**2**	1	1	2	1	1	1	1	2	1	1	1	1	1	2	1	1	2	1	1	1	1.2	60	100

36	4.38	Ways for outlook: lead indicators, KPIs or objectives, relevant information from recognized external sources, and sensitivity analyses (No disclosure = 0, General disclosure = 1, Organization specific disclosure =2)	**2**	2	2	2	2	2	2	2	2	2	2	2	2	1	2	1	2	2	2	2	2	1.9	95	100
37	4.38	Comparisons of actual performance to previously identified targets further enables evaluation of the current outlook (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	100	100
		Sub total (content element 7)	**8**	7	6	8	7	7	7	6	8	6	6	7	7	5	7	5	6	8	7	6	6			
		% of disclosure by company (content element 7)	**100**	87.5	75	100	87.5	87.5	87.5	75	100	75	75	87.5	87.5	62.5	87.5	62.5	75	100	87.5	75	75			
	Content Element 8	**Basis of Preparation and Presentation**	**Maximum possible score**	**A1**	**B1**	**C1**	**D1**	**E1**	**F1**	**G1**	**H1**	**I1**	**J1**	**K1**	**L1**	**M1**	**N1**	**O1**	**P1**	**Q1**	**R1**	**S1**	**T1**	**Average Disclosure per Item**	**Average disclosure Quality per Item (%)**	**% of companies disclosed the Item**
38	4.41	A description of the reporting boundary and how it has been determined (No disclosure = 0, Disclosure= 1)	**1**	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	100	100
39	4.41	Frameworks and methods used to quantify or evaluate material matters (No disclosure = 0, Disclosure= 1)	**1**	1	0	1	0	1	1	1	1	0	0	1	0	0	0	0	1	0	0	0	0	0.4	40	40
40	4.42	Brief description of the process used to identify relevant matters, evaluate their importance and narrow them down to material matters (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**	1	0	1	0	1	0	1	2	0	0	0	0	0	0	0	1	0	0	0	0	0.35	17.5	30
41	4.42	Identification of the role of those charged with governance and key personnel in the identification and prioritization of material matters. (No disclosure = 0, Disclosure= 1)	**1**	1	0	1	0	1	1	1	1	0	0	1	0	0	0	0	1	0	0	0	0	0.4	40	40
42	3.21	Impact of material matters on the organization`s vlaue creation process (No disclosure = 0, Limited disclosure= 1, Adequate disclosure = 2)	**2**	1	0	1	0	1	0	2	2	0	0	1	0	0	0	0	1	1	0	0	0	0.5	25	40
43	3.2	Stakeholder engagement in materiality determination (No disclosure=0, disclosure=1)	**1**	1	0	0	0	0	0	0	1	0	0	0	0	0	0	0	1	0	0	0	0	0.15	15	15
		Sub total (content element 8)	**8**	6	1	5	1	5	3	6	8	1	1	4	1	1	1	1	6	2	1	1	1			
		% of disclosure by company (content element 8)	**100**	75	12.5	62.5	12.5	62.5	37.5	75	100	12.5	12.5	50	12.5	12.5	12.5	12.5	75	25	12.5	12.5	12.5			
		Overall Disclosure Score by company (all content elements)	**74**	**60**	**45**	**63**	**51**	**57**	**62**	**51**	**65**	**47**	**51**	**50**	**50**	**42**	**56**	**43**	**56**	**58**	**51**	**40**	**53**			
		% of disclosure by company (all content elements)	**100**	**81.08**	**60.81**	**85.14**	**68.92**	**77.03**	**83.78**	**68.92**	**87.84**	**63.51**	**68.92**	**67.57**	**67.57**	**56.76**	**75.68**	**58.11**	**75.68**	**78.38**	**68.92**	**54.05**	**71.62**			