GRI COMPLIANCE AND PREREQUISITES OF INTEGRATED REPORTING FOR ASIAN-PACIFIC COMPANIES

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ABSTRACT: Corporate reporting in recent times faces a series of challenges as companies are expected to reassess their strategy for information disclosure. Within a global economic environment that is continuously evolving, there is a strong need for an internationally coordinated action as the financial and non-financial information disclosed by a company influences its strategic decisions. The topic of the current paper outlines the issue of integrated reporting as the interconnection between financial, social and environmental information. We intend to investigate the influence of financial performance on social and environmental disclosure and measure the integration level of corporations that claim to publish integrated reports. The main stages of the research involve the determination of financial ratios and disclosure index levels for environmental and social information. For the purpose of establishing the disclosure index we consider the referential of GRI G3 international standards, while compliance with the standard would be the prerequisite for integrated reports, by contributing to an increase in non-financial disclosure, in addition to the mandatory financial one. Our sample comprises 16 Asian-Pacific companies that participate in the pilot program initiated by the International Integrated Reporting Committee according to which organizations are encouraged to integrate their non-financial information - social and environmental disclosure - within annual reports, along with financial data. The research methodology assumes computation of a disclosure index for social and environmental information, and determination of financial ratios for establishing the influence of financial performance on socio-environmental disclosure and the actual level of integration in specific integrated reports. Our findings suggest the financial ratios can be directly, indirectly, and non-correlated with non-financial information, while the integration process is attained at high, medium, or low levels, according to the aggregation of financial, social, and environmental information.

Keywords: integrated reporting, GRI compliance, social, environmental, and financial information, disclosure index.

JEL Codes: M40

Introduction

In 2011 the International Integrated Reporting Committee was submitting its first document on integrated reports. Since then, the organization has been the main driver for integrated reporting practices. The IIRC has initiated a pilot program for corporations willing to adopt integrated reporting. This initiative has gained the interest of more than 70 worldwide organizations that decided to submit for this program. For the purpose of our current investigation, we focus only on that particular companies headquartered in Asian-Pacific countries. Our choice is based upon the fact that the evolution of integrated reports could be better monitored if dissipated between regions.

In the absence of a current framework for integrated reporting, we decided to conduct our analysis from the perspective of voluntary disclosure of GRI G3 Guidelines. We check the level of social and environmental information disclosure by identifying the corresponding performance

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indicators. The financial information is represented by ROE and ROA ratios. The data for our analysis was extracted from 2011 annual integrated reports.

The originality of the current research paper relies in developing the topic of integrated reporting in its earliest stage, at a time when there is no standardized framework for such type of reports. GRI compliance can contribute to integrating financial, social and environmental information within one single, integrated report, as it mentions the most relevant social and environmental elements that can be attributed to a report by voluntary action. The socio-environmental information adds value to the financial, mandatory information. This study conveys an image upon how corporations manage to integrate their financial and non-financial elements within the annual report and explains whether financial performance has an effect on the level social and environmental disclosure in an annual integrated report.

Review of Literature

Nowadays, integrated reporting is highly debated on an international scale. Worldwide organizations, institutions, associations, accountancy profession representatives and experts in the field of accounting, along with practitioners, are joining their effort to develop a common global framework. The corporate environment is committed to the cause of integrated reporting, as the pilot program launched by the IIRC has been very successful so far, gaining new members as time passes. The organizations implied in this program are meant to contribute to setting a framework for integrated reports. Therefore, we can resume that the global standards on integrated reporting would evolve from corporate reporting practice. In our particular case, corporate reporting practice will define the actual framework for integrated reports and will conduct to a global set of standards. However, currently the GRI G3 Guidelines represent an important initiative for non-financial reporting.

In year 2000, the Global Reporting Initiative was developing its first version of GRI G3 Sustainability Reporting Guidelines. Later on, they revised the guidelines and re-issued an updated version of the standards. The next step will be to introduce the G4 Guidelines that could mean progress for integrated reports.

The interdependence between financial information disclosure and sustainability information disclosure is strongly debated within the international literature. Katelijne Van Wensen et. al. (2011) considers that sustainability reports tend to become integrated reports. The final stage of integration consists in incorporating financial aspects to complete the non-financial information. The need for integrated reporting emerges on the background of GRI guidelines for sustainability reporting (Benoit & Niederman, 2010) and financial, social and environmental elements should be unified to generate the single integrated report. Other studies (Uwuigbe et al., 2011) reveal the correlation between financial performance and sustainability and analyse the level of environmental disclosure in connection to performance (Hossain et. al, 2006). Sustainability reporting expectations (Godschalk, 2011) and the positive evolutions of sustainability disclosure and practice (Michael, 2009; Kolk, 2002) underline the importance of sustainability for corporate reporting. Michael (2009) identifies a series of elements for a list of Australian organizations, such as environmental and social issues, headquarter, profile, and other connected criteria. In the same time, Australia becomes one of the first states in which non-for profit organizations adopt integrated reporting (Adams & Simnett, 2011).

Both financial and non-financial information disclosure represent an area of interest for academics and scholars. Htaybat (2010) studied online reporting practices by determining the un-weight disclosure index for 272 organizations. The findings show that most of the sample companies incorporate online reporting. Other studies (Michelon, 2007; Clarkson et. al., 2007; Tsalavoutas, 2009) discuss the implication of environmental performance indicators by modeling the relationship between performance and disclosure of environmental information. The current

research employs a similar approach, by establishing correlation between social-environmental information disclosure and financial indicators.

Attempts to investigate the corporate social responsibility within Greek banks (Engelinos et. al, 2010) assume deep analysis upon the social and environmental disclosure in annual reports. The methodology involves, among others, GRI guideline scoring. Clausen et al. (2001) mentions possible methods of examining social and environmental disclosure.

Kim (2002) provides a synthesis of the main methods used in sustainability research, namely: analysis of sustainability or environmental reports for the purpose of identification of socio-environmental information; studying the ethical and ecological aspects; usage of sustainability indicators.

Our study incorporates the first and latter categories of methods, by determining the degree of disclosure for environmental and social information, testing the correlation with the financial ratios, and identifying the integration degrees.

Research Methodology

We selected our sample companies from the IIRC pilot program. All the organizations are headquartered in the Asia-Pacific region and are listed in the table below:

Table no. 1.

Sample of Prerequisites Integrated reports

Crt. No.	Organization	Country	Sector	Website	Year	Report denomination
1	Mecu Limited	Australia	Banks	www.bankmecu.com.au	2011	Annual Report
2	National Australia Bank Limited	Australia	Banks	www.nab.com.au	2011	Annual Review
3	Stockland	Australia	Real estate investment & services	www.stockland.com.au	2011	Corporate responsibility & Sustainability
4	Vancity	Canada	Banks	www.vancity.com	2011	Annual Report
5	MASISA S.A.	Chile	Forestry, wood and boards	www.masisa.com	2011	Integrated Report
6	CLP Holdings Limited	China	Electricity	www.clpgroup.com	2011	Sustainability Report
7	Tata Steel	India	Steel producers	www.tatasteel.com/	2011	Annual Report
9	Showa Denki Co. Ltd.	Japan	Household goods & home construction	www.showadenki.co	2011	Annual Report
10	Takeda Pharmaceutical Company Limited	Japan	Pharmaceuticals & biotechnology	www.takeda.com/	2011	Annual Report
11	Diesel & Motor Engineering PLC	Sri Lanka	Industrial engineering	www.dimolanka.com/	2011	Annual Report
12	Cliffs Natural Resources	USA	Industrial mining & metals	www.cliffsnaturalresources.com	2011	Annual Report
13	Microsoft Corporation	USA	Software & computer services	www.microsoft.com	2011	Annual Report
14	Prudential Financial, Inc.	USA	Financial services	www.prudential.com	2011	Annual Report
15	The Clorox Company	USA	Chemicals	www.thecloroxcompany.com	2011	Annual Report
16	The Coca-Cola Company	USA	Beverages	www.thecoca-colacompany.com	2011	Annual Review

(Source: author's contribution)

Initially, we had a sample of 18 companies. We had to exclude one of the organizations because the most recent published annual report was the one for year 2010 and it would not have been relevant to compare the information from 2010 reporting period with the one disclosed for year 2011.

In order to test the compliance with GRI G3, we identified the social and environmental performance indicators disclosed within the reports. In addition, for each of the sample company, we examined the financial ratios, ROE, and ROA, testing their correlation with the non-financial information- social and environmental. Regarding the scores for environmental and social information, we used the following codification: "0" for the performance indicators that are not mentioned within the report, "0,5" for partial reporting and "1" for full disclosure. Further on, we extracted the financial elements of total assets, equity and net income, necessary for determining the ratios of return on equity and return on asset- that represent the financial information.

The disclosure index for social and environmental data has been computed according to the formula stated below:

$$DI_{IR} = \sum(d_i \text{ effectively disclosed}) / \sum(d_i \text{ all possible cases of disclosure})$$

Our main research question is: Does financial performance influence the integration level in an annual report? As mentioned before, by financial performance we understand the levels of ROA and ROE. We define the integration level as organizations' willingness to disclose more socio-environmental information. In addition, we develop three hypotheses:

H01: The financial performance will not generate any change in the disclosure of social and environmental information in an IAR.
H02: The financial performance of a company is directly correlated with the disclosure of social and environmental information in an IAR.
H03: The financial performance of a company is indirectly correlated with the disclosure of social and environmental information in an IAR.

Findings

By extracted the data from the Integrated Annual Report we can observe the connections between the financial information and the non-financial one (Table 2).

Table no. 2.

Financial, Social and Environmental Information presented in Annual integrated Reports

Companies	ROA	ROE	Social DI	Environmental DI
Mecu Limited	0,0100	0,1000	0,0313	0,0167
National Australia Bank Limited	0,0100	0,1200	0,8646	1,0000
Stockland	0,0500	0,0900	0,7500	0,4833
Vancity	0,0100	0,1100	0,5833	0,3667
Masisa	0,0100	0,0300	0,3542	0,8000
CLP Holdings	0,0400	0,1150	0,0833	0,3333
Tata Steel	0,1100	0,1900	0,0417	0,1333
Showa Denki	0,0180	0,0690	0,6531	0,3257
Takeda Pharmaceutical	0,0900	0,1200	0,1354	0,0667
Diesel & Motor Engineering	0,1000	0,2700	0,9792	0,9667
Cliffs Natural Resources	0,1200	0,3100	0,0313	0,2333
Microsoft Corporation	0,2100	0,4100	0,5000	0,9667
Prudential Financial	0,0100	0,1000	0,0833	0,0000
Clorox	0,1300	-1,9651	0,5104	0,4500
Coca-Cola	0,1100	0,2700	0,1458	0,2667

(Source: author's own computations)

Chart no. 1 shows the evolution of the financial indicators – ROA and ROE-, as well as the social and environmental disclosure index. We can observe that corporations tend to present more environmental than social information in their integrated reports. Regarding the influence of financial ratios on social and environmental disclosure, we can track both direct and indirect correlations. However, ROE seems to generate a higher influence than ROA. We distinguish the case of Clorox Company, with a negative return on equity that registers low socio- environmental disclosures. On the other hand, we found that Mercu Limited has the highest ROE, but low values for social and environmental DI. In other situations, both environmental and social information disclosure have high scores, but ROE and ROA are not significant (National Australia Bank Ltd., Stockland, Vancity, Masisa). Finally there are cases when higher financial performance implies more social disclosure (Prudential Financials), and environmental disclosures (Coca-Cola, Microsoft Corporation, Cliffs Natural Resources, Diesel & Motor Engineering).

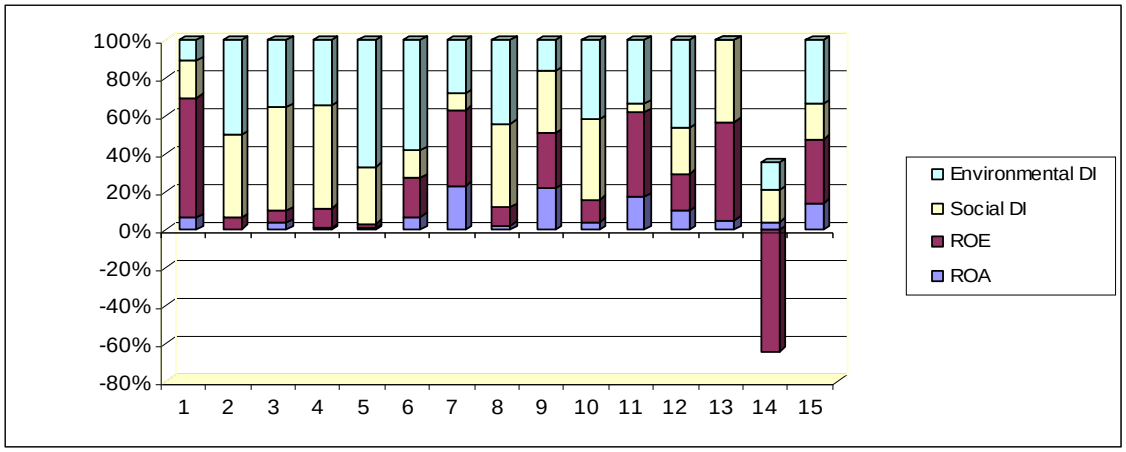

Chart no. 1. - Financial ratios and DI for social and environmental information
(Source: authors' projection)

We should distinguish between the financial information, that is mandatory by legal requirements, and the voluntary non-financial (social and environmental) information that follow a set of guidelines. We consider that the most relevant measurements for the financial information represent the ratios of ROE and ROA. The annual reports of our sample companies disclosed the elements needed for determining these ratios (Net Income, Total Assets, Equity - that are comprised on the balance Sheet and Profit and Loss Statement).

The social and environmental information has been measured using a disclosure index applied to the elements requested by GRI 3 guidelines. Therefore, we tested the GRI compliance on our sample companies.

By definition, integrated reporting means bringing together financial and non-financial (social and environmental) information into one single report. In addition, the integration level has been tested using the following framework:

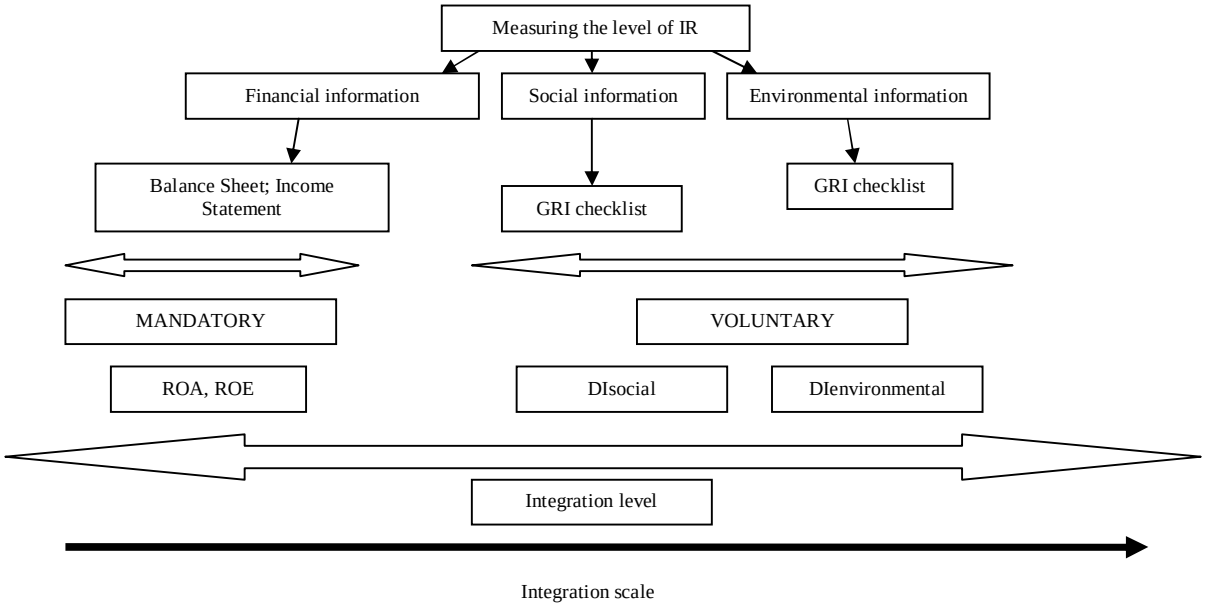

Figure no. 1. - Framework for testing the integration level in the IAR:

The current research perceives the process of *integration* as an aggregation of information – financial, social, and environmental. In addition, we do not claim to study the connection between these elements, as the IIRC is still working on a final document for an IR framework that should show the linkage/interconnection between financial and non-financial information and performance. Regarding social-environmental performance, GRI has joined efforts with the IIRC to develop some specific KPIs that would eventually connect also the financial performance. Actually, our vision on integrated reporting represents a combination of 3 reports into one single document: Financial Report, CSR Report, and Environmental Report. As financial information is mandatory, and organizations have to provide it in the Annual Report, we consider that integration takes place by adding the non-financial (social and environmental) information in the AR. In addition, we try to test if financial performance can influence the integration level on an IAR – that represents the addition of social and environmental disclosure to the financial one according to definition.

Table no. 3 presents the correlations between the financial and non- financial information. For each of our variables (financial – ROE, ROA; and non- financial – environmental DI and social DI) we determine an *average value.* This *value* stands as *reference* in the first part of our analysis for testing the connection between financial ratios and the disclosure level of non-financial information. The same *average value* is considered in the second part of the analysis, where we investigate the integration of financial with social and environmental information.

Table no. 3.

Correlations between financial and non- financial information

Companies	ROA		ROE		Social DI	Check	Environmental DI	check	TEST	Result
Mecu Limited	0,0100	below average	0,1000	above average	0,0313	below average	0,0167	below average	H01	no correlation
National Australia Bank Limited	0,0100	below average	0,1200	above average	0,8646	above average	1,0000	above average	H01	no correlation
Stockland	0,0500	below average	0,0900	above average	0,7500	above average	0,4833	above average	H01	no correlation
Vancity	0,0100	below average	0,1100	above average	0,5833	above average	0,3667	below average	H01	no correlation
MASISA	0,0100	below average	0,0300	below average	0,3542	below average	0,8000	above average	H01	no correlation
CLP Holdings	0,0400	below average	0,1150	above average	0,0833	below average	0,3333	below average	H01	no correlation
Tata Steel	0,1100	above average	0,1900	above average	0,0417	below average	0,1333	below average	H03	indirect correlation
Showa Denki	0,0180	below average	0,0690	above average	0,6531	above average	0,3257	below average	H01	no correlation
Takeda Pharmaceutical	0,0900	above average	0,1200	above average	0,1354	below average	0,0667	below average	H03	indirect correlation
Diesel & Motor Engineering	0,1000	above average	0,2700	above average	0,9792	above average	0,9667	above average	H02	Direct correlation
Cliffs Natural Resources	0,1200	above average	0,3100	above average	0,0313	below average	0,2333	below average	H03	indirect correlation
Microsoft Corporation	0,2100	above average	0,4100	above average	0,5000	above average	0,9667	above average	H02	Direct correlation
Prudential Financial	0,0100	below average	0,1000	above average	0,0833	below average	0,0000	below average	H01	no correlation
Clorox	0,1300	above average	-1,9651	below average	0,5104	above average	0,4500	above average	H01	no correlation
Coca-Cola	0,1100	above average	0,2700	above average	0,1458	below average	0,2667	below average	H03	indirect correlation
Average	0,0685		0,0226		0,3831		0,4273			

(Source: authors' compilation)

Our observations indicate that we can distinguish between 3 types of correlations:

- direct correlation (H01)
- indirect correlation (H02)
- no correlation (H03)

The condition of direct correlation was met when both ROA and ROE were above average/below average, and this fact generated a disclosure index that was also above the average/below average. The indirect relationship appeared when having contracts between financial ratios and non-financial information disclosure – either below average ROE and ROA with above average DI for social and environmental information, or the other way around – meaning that an increase in the financial performance leads to a decrease in non-financial disclosure. Direct correlation applies only for two out of our 16 sample companies: Diesel & Motor Engineering and Microsoft Corporation. More than that, the results show only that an eventual decrease in financial ratios generates low socio- environmental disclosure rates. A possible explanation could be that a decrease in financial performance might cause corporation become less interested in social and environmental accountability. Five companies from the sample maintain an indirect correlation in which low rates for ROE and ROA conduct to high disclosure in social and environmental data: Tata Steel, Takeda Pharmaceutical, Cliffs Natural Resources, Coca-Cola. Here the explanation can be found in the marketing strategy for organizations to gain credit from customers, creditors, community, and other stakeholders. All the other companies present no correlation between their financial scores and non-financial information disclosure

The second part of the analysis considers the *integration level* of the annual reports. We discuss the integration of financial and non- financial information starting from the three types of correlations:

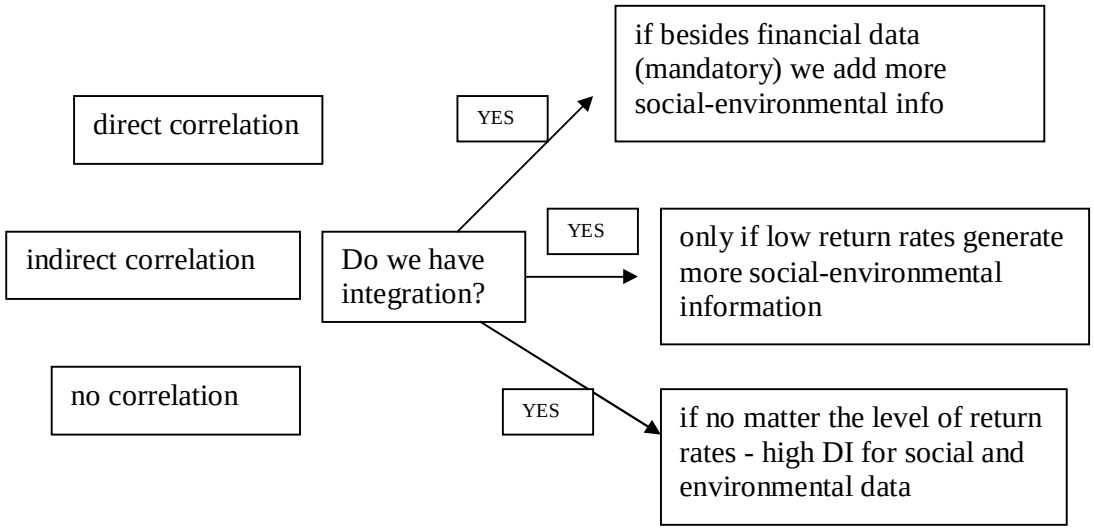

Figure no. 2. - Correlation between financial and non financial information and the integration of financial, social, and environmental information

Therefore, we identify three main stages of integration:

- high integration level
- medium integration level
- low integration level

Table no. 4.

High integration level

Companies	ROA		ROE		Social DI	Check	Environmental DI	check
National Australia Bank Limited	0,0100	below average	0,1200	Above average	0,8646	above average	1,0000	Above average
Stockland	0,0500	below average	0,0900	Above average	0,7500	above average	0,4833	Above average
Diesel & Motor Engineering	0,1000	above average	0,2700	Above average	0,9792	above average	0,9667	Above average
Microsoft Corporation	0,2100	above average	0,4100	Above average	0,5000	above average	0,9667	Above average
Clorox	0,1300	above average	-1,9651	Below average	0,5104	above average	0,4500	Above average

Table no 5.

Medium integration level

Companies	ROA		ROE		Social DI	Check	Environmental DI	check
Vancity	0,0100	below average	0,1100	above average	0,5833	above average	0,3667	below average
Showa Denki	0,0180	below average	0,0690	above average	0,6531	above average	0,3257	below average
Masisa	0,0100	below average	0,0300	below average	0,3542	below average	0,8000	Above average

Table no. 6.

Low integrated level

Companies	ROA		ROE		Social DI	Check	Environmental DI	check
Mecu Limited	0,0100	below average	0,1000	above average	0,0313	below average	0,0167	below average
CLP Holdings	0,0400	below average	0,1150	above average	0,0833	below average	0,3333	below average
Tata Steel	0,1100	above average	0,1900	above average	0,0417	below average	0,1333	below average
Takeda Pharmaceutical	0,0900	above average	0,1200	above average	0,1354	below average	0,0667	below average
Cliffs Natural Resources	0,1200	above average	0,3100	above average	0,0313	below average	0,2333	below average
Prudential Financial	0,0100	below average	0,1000	above average	0,0833	below average	0,0000	below average
Coca-Cola	0,1100	above average	0,2700	above average	0,1458	below average	0,2667	below average

Out of 16 annual reports, 5 reports qualify for a high integration level, with all values of DI for social and environmental information above the average (Table 4). However, if we closely observe the figures from Table 4, only Diesel&Motor Engineering have both high environmental and social disclosure (0,97 and 0,96). Clorox company maintains its social and environmental disclosure around 0,5, while National Australia Bank Ltd also has close values for the DI. In all the other cases, the social there are discrepancies between social and environmental information disclosure. If the environmental disclosure is high, the social information is less representative, or we might witness more social disclosure and few evidence of environmental related information.

The medium integrated annual reports are the ones in which at least one of the two categories of non-financial information registers values that are above average (Table 5). Therefore, no matter the financial ratios, if the disclosure index for social/environmental information is above average, we consider that the respective report qualifies as a medium integrated one. The IAR from Vancity and Showa Denki maintain a disclosure index for social information that is above the average, while environmental disclosure is below average. For Masisa we have the opposite, because environmental DI is above average and social DI below average.

The low integrated reports are the ones that have low DI levels, no matter what the financial ratios show (Table 6). The disclosure index for social / environmental information is often close to 0 and the maximum points do not achieve a 0,4 value. Not surprisingly, the Prudential Financial Company has 0 index for environmental disclosure, being a financial institution. The maximum value for social DI (0,1458) is reached by Coca Cola, while CLP Holdings registers the higher DI for environmental information (0,3333).

Final Remarks

The current paper analysis the information disclosed in companies reports, in order to observe the prerequisites of integrated reporting behaviors. In the absence of a common framework, we consider the GRI G3 guidelines and use it as a reference point for the social-environmental information. The research studies the inclusion of environmental and social performance indicators within the reports of 16 Asian-Pacific corporations registered in the pilot program issued by the IIRC. We compute the disclosure index for the socio-environmental information and we test the correlation with financial performance - return on assets, and return on equity. Our findings suggest the following aspects: the financial ratios generate direct/ indirect correlations, or lack of correlation with non-financial information, while the integration process is attained at high, medium, or low levels, according to the aggregation of financial, social, and environmental information.

The current research outlines the topic of integrated reporting in its earliest stage, contributing to the literature in the field of integrated reports and provides a deeper understanding of the prerequisites of GRI G3 guidelines in setting global standards for integrate reporting.

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