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REPORTING IN TIME OF PANDEMIC: WILL INTEGRATED REPORTING BECOME A MUST?

Dorel MATEȘ[1] ORCID: ORCID: 0000-0003-2006-6114
Roxana Mirella IRIMUȘ[2] ORCID: 0000-0003-0590-452X

Abstract: *The fast-paced spread of Covid-19 pandemic has significantly impacted organizations of all sizes, across all industry sectors. Management and those charged with governance are having to make difficult decisions about operational, financial, and strategic matters. That's why companies need to broaden their reporting disclosure in order to satisfy the market's needs. This article highlights the importance of integrated reporting and ESG disclosure in times of crisis. In addition, it aims to study the the amount of information about the changes companies have made to their business model in order to adapt to the Covid-19 pandemic or the effects the pandemic has on it through their integrated reporting.*

Key words: *Covid-19 disclosure, integrated reporting, ESG issues*

Jel Codes: M40, H12, Q56

Introduction

At the beginning of the COVID-19 pandemic, uncertainty and confusion surrounded the world and its effects are significant and hard to handle. Unemployment rates spiked and worldwide markets were brought to their knees. By the end of March the Dow Jones Industrial Average and London's FTSE 100 saw their biggest quarterly drops since 1987, plunging 23% and 25% respectively. The S&P 500 also lost 20% during the quarter, its worst since 2008.

Now more than half a year has passed since the pandemic outbreak and companies are seeking to take action in order to be able to keep on going and prove to stakeholders that they are worthy. Investors, creditors, customers and employees have all their eyes pointed at the companies and are waiting for their response regarding COVID-19.

Nonetheless most corporations have taken action by implementing a work from home culture, organising work shifts or even rethinking the workspace in order to provide social distancing. They also took measures into protecting customers, by limiting the number of face-to-face interaction, by providing more online services, disinfecting the area, etc. But in order to make a well funded investing decision stakeholders need to see companies compile COVID-19 data into their integrated annual reports so investors will know exactly the measures taken by the company and the financial or non financial effects on it.

Literature review

The world's economy is continually changing as companies face global competition, technology innovations and increased regulation in response to financial, governance and health crises. The accounting profession has challenged the traditional financial business reporting model, arguing that it does not adequately satisfy the information needs of stakeholders for assessing a

[1] Prof. Dr., West University of Timişoara, dorel.mates@e-uvt.ro.
[2] PhD Student, Doctoral School of Economic Science and Business Administration, West University of Timișoara, roxana.irimus95@e-uvt.ro.
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company's past and future performance (Flower, 2015). Initially, the idea of reporting the three elements of an organisation's impact - social, environmental and economic - gained importance during the late '90s and early '00s. This was in part due to the popularity of John Elkington's (1997) book "Cannibals with Forks: The Triple Bottom Line of 21st Century Business", which is accredited with starting new non-financial reporting frameworks from a social and environmental perspective (Gray, 2006).

In recent years investors have shown a growing interest in ESG investing, especially now with the Covid-19 crisis. A Morgan Stanley study compared the risk and rentabilities for mutual funds which integrate ESG criteria whith traditional ones from 2004 to 2018. The study demonstrated that in time periods with higher volatility, statistic evidence has shown that sustainable funds are more stable (www.morganstanley.com). In their studies Amel-Zade A., Serafeim G., (2017) analysed what are the motives for investors to use ESG data from integrated reports. The investors being from different parts of the globe: Europe, North America, Asia, South America, Middle East, Africa and Central America. As a conclusion, the evidence suggests that the use of non-financial information is driven primarily by financial rather than ethical reasons but it varies from a demographic point of view. It seems like in the US the primary motive is the financial one whereas in Europe ethical issues are the main reasons for choosing an ESG investment.

Iredele O.O. (2019) assessed in his paper the overall integrated reporting quality of JSE listed firms and the associated corporate characteristics. He has found a positive significant relationship between the length and quality of integrated reports. The most important finding in his research being that profitability, board size, gender diversity (in terms of percentage of women representation on the board) and firm size influence the quality of integrated reports. Finding a correlation between quality of the integrated report and profitability is an indication that companies with a good integrated report are more profitable and so investors can include integrated reporting as a factor when making a decision.

In order to respond to the investor's train of thought companies need to adapt and disclose their ESG data through CSR a report, a web presentation but most importantly integrated report. Integrated reporting involves compiling financial and non-financial data in a single document in an integrated manner that enhances shareholders' understanding of the firm (Lee and Yeo, 2015). The Framework is not rigid in nature about how information should be disclosed; rather, it provides specific guidelines for quality reporting in line with guiding principles and content elements. The International Framework (the Framework) takes a principles-based approach. The intent is to strike an appropriate balance between flexibility and prescription that recognizes the wide variation in individual circumstances of different organizations while enabling a sufficient degree of comparability across organizations to meet relevant information needs. It does not prescribe specific key performance indicators, measurement methods or the disclosure of individual matters but does include a small number of requirements that are to be applied before an integrated report can be regarded to be in accordance with the Framework.

The importance of ESG integration is proved by many other studies but the most relevant here would be the Broadstock D.C., Chanb K., Cheng L.T.W., Wangb X., (2020). The study examines the role of ESG performance during market-wide financial crisis as a consequence of the world pandemic. Using a new dataset covering China's CSI300 constituents, the authors show high-ESG portfolios generally outperform low-ESG portfolios. ESG performance mitigates financial risk during financial crisis and the role of ESG performance is attenuated in 'normal' times, confirming its incremental importance during crisis.

In light of the coronavirus pandemic García-Sánchez I.M., Raimo N., Marrone A., Vitolla F., (2020) studied the new information companies need to include in order to satisfy the new market's needs. In order to do so they analysed the impact of corornavirus on the economy by reading numerous journals but they also interviewed several professional investors to figure a list of a list of new information that they need in their investment processes. Secondly, they made a detailed analysis

of the framework provided in 2013 by the IIRC and several integrated reports. They concluded that covid-19 information should be added in many sections of the integrated reports. For instance, with regard to human capital, companies should include information about the skills acquired through new hires to face the pandemic and information about the pandemic training programs or within the natural capital companies should provide information on the effects of pandemic management on the environment, with reference to water and energy consumption, the disposal of individual protection, etc.

In their study Lopatta K., Alexander K., Gastone L., Tammen T., (2020) discovered that firms that are leaders in early risk detection capability and thus report on the COVID-19 pandemic in early released annual reports experience a decrease in stock risk following the publication of the annual report. Firms publishing annual reports after 11 March 2020 and reporting on COVID-19 experience almost no change in beta following the publication of the annual report, while firms that do not address COVID-19 at all experience overall an increase in stock risk. Furthermore, the authors found that state ownership plays an additional role in explaining this association. The authors showed that state-owned firms that are leaders in early risk detection enjoy a decrease in stock risk following the publication of their annual reports.

Research methodology

Given the fact that disclosing information about Covid-19 in the annual reports will become more important for the stakeholders of a company we decided to analyse the frequency of Covid-19 disclosure. But also, we want to take a look at the factors that influence the quantity of disclosure within the annual reports.

This study focuses on Covid-19 information disclosure in the annual report of 30 companies from the FTSE100 index. The data panel is composed of companies based on their market capitalisation and in order to have a diverse data set there are 15 companies with the highest market capitalisation and 15 with the lowest market capitalisation, regardless their sector. The FTSE100 index was chosen because it is one of the most performant stock indexes in the world and its main components are from the United Kingdom, where the fiscal year is irregular and the chances of a higher Covid-19 disclosure and therefore a more diverse data set was higher. In the data panel there are 7 sectors (6 from Financials, 2 from Healthcare, 4 from Food & Beverage, 4 from Extractives & Minerals Processing, 2 from Consumer Goods, 5 from Infrastructure, 3 from Services, 3 from Resource Transformation, 1 from Technology & Communications). The sectors were identified the by accessing Sustainable Industry Classification System formed by SASB.

Dependent variable (COVID)

2019 annual reports are used as the main constituent of the study to analyze how firms choose to incorporate the coronavirus outbreak in their reporting process. The dependent variable is based on references to the coronavirus pandemic in 2019 annual reports. The variable COVID is constructed by performing a text analysis of the hand-collected 2019 annual reports. The search was made for two terms, “corona” and “covid.” Those terms were chosen as the exact designation differs from firm to firm. Some use the term “coronavirus,” others “COVID-19”. This allows to identify each instance where the current COVID-19 pandemic is being referenced and construct the variable COVID as a count variable equal to the number of times the pandemic is mentioned in the annual report. For firms that use both terms (coronavirus and COVID-19), the COVID variable was constructed based on the more frequently used term. Lopatta K., Alexander K., Gastone L., Tammen T., (2020).

The disclosure varies between 1 and 232 Covid-19 hits. The most frequent term, companies referred to in their annual report was Covid-19 and it was mentioned on average 72 times.

Independent variables (LNTA, EM, FY, W)

Company size (LNTA) - Bigger companies generate a higher number of stakeholders who need to be satisfied and therefore will tend to disclose a significantly higher set of information, financial or non-financial, than the smaller ones. Also, based on the hypothesis that was proved by Ribeiro da Silva Maria de Lurdes, Gomes Rodrigues Ana Maria, Munoz Duenas Maria del Pilar (2011), that big institutions disclose more financial information, it can be presumed that the situation is similar to Covid-19 disclosure. For the measurement of this variable we chose total assets being suitable to represent the size of a company.

Employees (EM) - This variable was chosen as it is expected that a company with more employees to take more Covid-19 measures and disclose them in the annual report.

Fiscal year (FY) - It is understandable that companies which ended their financial year on 31 December 2019 to have a lower disclosure of Covid-19 related information as the spread of the virus only began. On the other hand, given the fact that on 11 March the World Health Organisation declared world pandemic, we expect companies with a Fiscal year of March or June to have a higher disclosure. The data panel when it comes to this variable is almost split in half, with 14 companies which published their annual report with the fiscal year ended on 31 December 2019 and 16 companies which had an irregular fiscal year (e.g. February, March, June).

Release week (W) - This variable represents the week in which the annual report was released. Similar to the FY variable, the later companies published their reports, the more time they had to integrate Covid-19 information. From the data panel, the earliest a report was published was in week 7 and the latest ones are from week 39.

Table 1

Set of variables used in the panel regression model

Abbreviation	Description	Measurements
COVID	Covid mentions	Number of times "corona" or "covid" has been mentioned in the 2019 annual report. If firm uses both terms, the more frequently used term is taken into account to adjust for the following scenario: "[…] the coronavirus (covid-19) epidemic has a […]"
LNTA	Size	Firm size, calculated by taking the natural logarithm of total assets for 2019.
EM	Employees	Number of employees companies reported at the end of fiscal year.
FY	Fiscal year	Dummy variable which takes the value of 0 if the fiscal year ended in December 2019 and the value 1 if the fiscal year ended later in 2020.
W	Weeks	The week in which the annual report was published, calculated at the number of weeks from the beginning of 2020.

Source: Own performance

Research hypothesis

H1: The size of the company has an impact on Covid-19 disclosure.
H2: The number of employees in a company has an impact on Covid-19 disclosure.
H3: The fiscal year has an impact on Covid-19 disclosure.
H4: The publication date of the annual report has an impact on Covid-19 disclosure.

Testing and Results

For testing our hypothesis we use the linear model, mainly because it is a simple efficient means of testing the correlation between the variables, but also it was used in other disclosure analysis, like Cooke (1998). Therefore the general model and the variables within, will take the following form:

$$\text{COVID}= \alpha+ \gamma_1 LNTA + \gamma_2 EM + \gamma_3 FY + \gamma_4 W + \varepsilon \ (1)$$

Where:
COVID - Number of times “corona” or “covid” has been mentioned in the 2019 annual report.
LNTA - Company size
EM - Number of employees
FY - Fiscal year
W - Publishing week of the annual report

After running the model with the linear regression analysis we can firstly confirm that the predictors Company size, Employees, Fiscal Year and Weeks account for 87.1% of the variance in Covid-19 disclosure (fig.no.1). Also, if we check the ANOVA test which includes the significance test for R, we can see that the p-value is 0.000, meaning that with an alpha=0.05, the predictors in the group predict the covid-19 disclosure significantly (fig.no.2).

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.871[a]	.758	.719	43.899

Figure 1: ***Model Summary (SPSS processing)***
Source: Own performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	150876.325	4	37719.081	19.573	.000[b]
	Residual	48177.842	25	1927.114		
	Total	199054.167	29			

Figure 2: ***ANOVA test (SPSS processing)***
Source: Own performance

While the ANOVA looked at the regression analysis overall, or the predictors taken as a set, the coefficients table looks at each of the predictors individually (fig.no.3), so, whether a given predictor was significant on its own right. So we are going to evaluate each p-value associated to the coefficient at an alpha of 0.05. It ca be seen from the table below that only one variable has a p-value lower than 0.05.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-82.666	70.547		-1.172	.252
	LNTA	7.004	5.973	.137	1.173	.252
	EM	.000	.000	-.210	-2.058	.050
	FY	115.829	23.205	.711	4.992	.000
	W	2.290	1.204	.256	1.902	.069

Figure 3: ***Coefficients (SPSS processing)***
Souce: Own performance

Because we accept the hypothesis of an existing significant correlation between Covid-19 disclosure and the independent variable introduced in the model, we will include in the model only the significant one, meaning FY, which has a Sig<0.05. Therefore, for the 30 analysed companies from the FTSE100 index, the equation of the model will take the following form:

$$COVID=-82 + 115FY+ \varepsilon \quad (2)$$

Meaning that for companies which reported their information for the fiscal year ended after December 2019, the Covid-19 disclosure will increase with 115. This was expected as the virus started spreading in China only at the end of 2019 and little was known about it.

From the data panel 16 companies published their reports with the fiscal year ending December 2019 and the average Covid-19 mention was of 6.25. On the other hand, 14 companies published their annual report with a fiscal year ending in February, April, March and June and those had an average of 147.5 Covid-19 mentions in their annual report, showing a significantly higher disclosure.

Even though the rest of the independent variables proved to not have a significant impact on the Covid-19 disclosure, when running the linear regression model, if we take them separately a trend can be seen in the data set.

For instance, if the release week of the annual report (W) is being studied, an increasing trend can be seen (fig.no.4). Up until week 15, the Covid-19 disclosure was relatively low, with an average of 5,14 mentions. Starting with week 15, it increased significantly, with an average of 130.81 mentions, reaching a maximum in week 36, with 232 mentions.

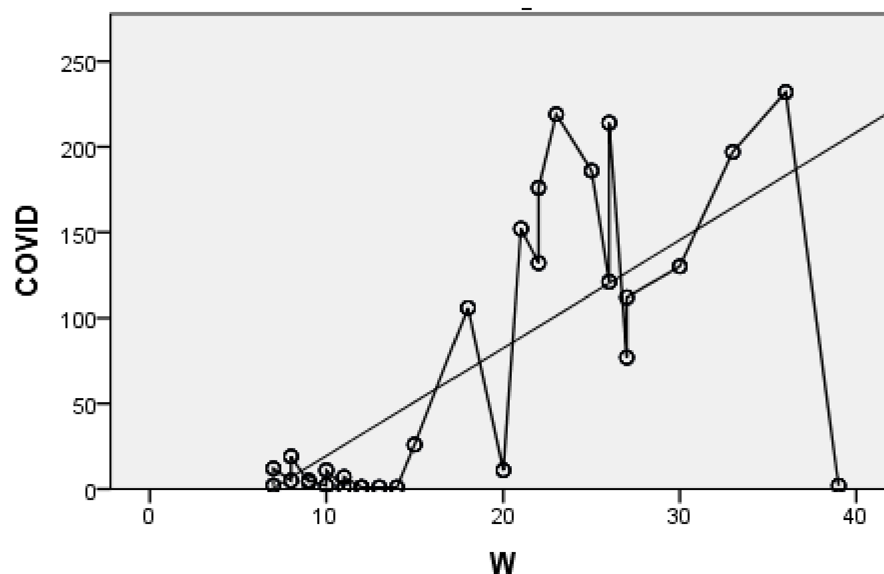

Figure 4: ***Covid disclosure by weeks***
Souce: Own performance

On the other hand, even though it was expected for bigger companies to disclose more information, the trend analysis shows otherwise (fig.no.5). Companies with a lower amount of total assets proved to be more transparent about their covid-19 actions. This can be explained by the fact that smaller companies are more eager to attract investors or any kind of stakeholders in order to grow. On the contrary, bigger companies already built a reputation for themselves and this could be a reason for overlooking the Covid-19 issue.

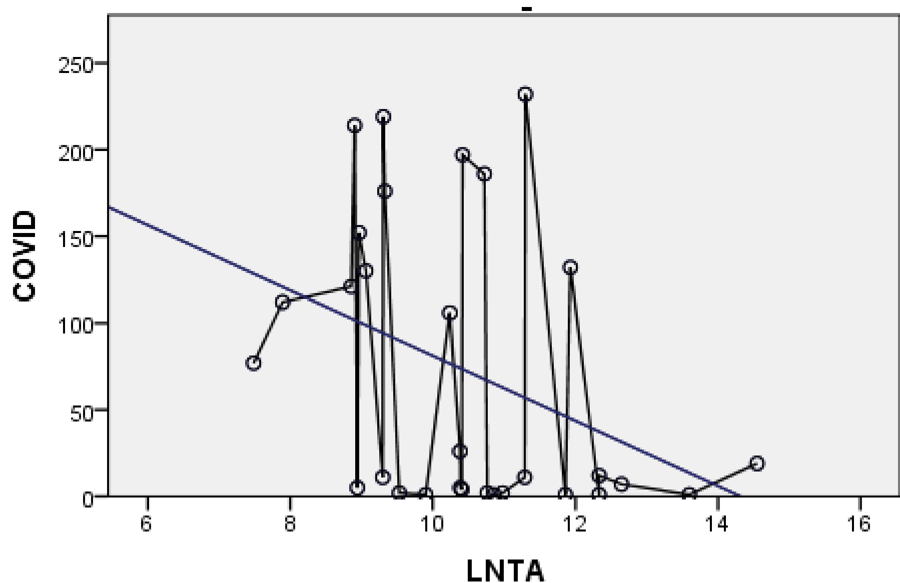

Figure 5: ***Covid disclosure by total assets***
Souce: Own performance

Similar to total assets, the graph showing covid mentions by number of employees (fig.no.6) discloses that companies with less employees have a higher disclosure.

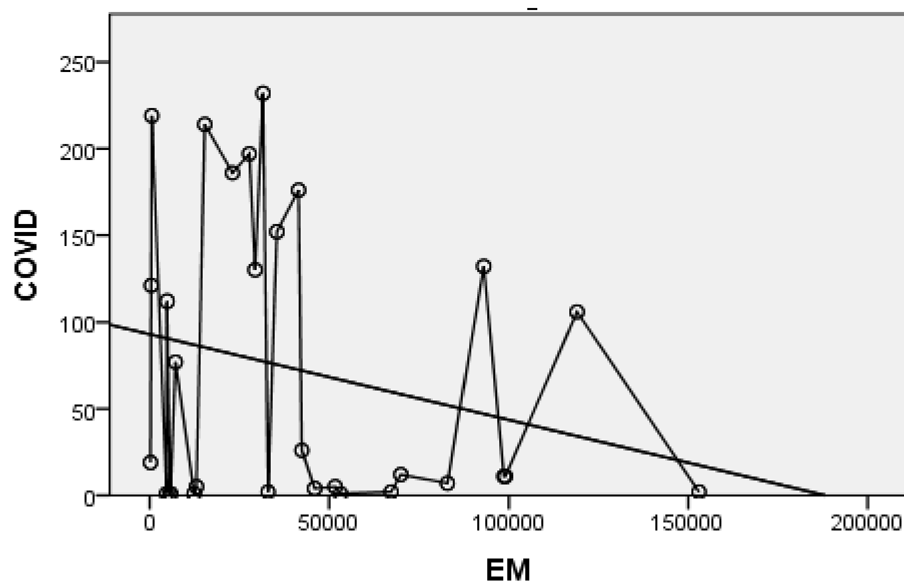

Figure 6: ***Covid disclosure by number of employees***
Souce: Own performance

Covid-19 disclosure

In this part of the article we discuss what information about the Coronavirus outbreak are companies disclosing. Companies with little disclosure on Covid-19 will mainly discuss how their subsidiaries in China and Asian countries will be affected by the new coronavirus. Given the evidence found, that companies with little disclosure report their annual statements with the financial year of December 2019, it is understandable that they thought that the rest of the world wouldn't be affected as the cases in non-asian countries were insignificant.

Also in the „2020 Outlook" section, where companies predict their future revenues and returns, they include the Covid-19 pandemic as a factor risk that will alter the well-being of the

company. Some companies even have a small paragraph on Covid-19 risks in the Risk management section.

When it comes to companies with more than 100 Covid-19 mentions throughout their reports the amount of information allocated at the Risk Management section is considerably higher. In addition companies added information specific to their business model and how they plan to contribute to the well-being of the society through their businesses. Also, companies disclose charitable donations to hospitals and research for Covid-19.

Disclosure of employees well-being is crucial when it comes to a pandemic crisis. Most companies reported if they instituted a work from home programme or measures taken for social distancing at the workplace. Also, in light of assuring the calm within the stakeholders they state they did not make any redundancies and the salary pay was made on time. The companies also felt the need to state that their dividend policy remains the same in times of pandemic and they will be paid on time.

Conclusion

More and more stakeholders are becoming aware of the importance of integrating reporting especially when it comes to such crisis periods like the Covid-19 pandemic. This study highlights the companies interest in disclosing Covid-19 information is increasing and as time passes by they try to incorporate more relevant information.

In this study, clearly the most important variable when analysing the Covid-19 disclosure is time. Throgh the linear regression model it was found that financial year influences the Covid-19 disclosure, with companies publishing their annual reports after the date of 31 December 2019 having a significant higher amount. But there is a significant increasing trend when it comes to the publishing date of the annual report too.

On the contrary companies with more employees and more assets do not disclose that much information as probably they tend to overlook those aspects as they already made a name for themselves and their stakeholders trust them.

As timpe passes by all companies are expected to integrate Covid-19 disclosure into their annual reports as the concern will keep on growing and they will no longer be able to satisfy the martket's needs.

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