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Integrated Reporting Quality: Value creation and Accounting Information Relevance

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Abstract

Purpose: The aim of this study is reviewing the effect of integrated reporting quality on value creation and accounting information relevance.

Method: The sample comprises 161 firm that are accepted in stock exchange of Iran, from 2017 to 2023. Regression analysis based on OLS is employed to examine study's hypotheses.

Results: our results showed that there is not significant relevance between integrated reporting quality and value creation and accounting information relevance.

Conclusion: In Iran, at present, financial and non-financial information prepare in different reports regardless to international integrated reporting framework (at least based on a localized framework). Therefore, stakeholder cannot make any relation between these information. As a result, the separate information cannot be useful in value creation and improve the accounting information relevance.

Contribution: the results of this study can serve as an incentive to culture in order to adopt integrated reporting in Iran and utilize its advantages including value creation as well as improving the accounting information relevance.

Keywords: Integrated Reporting Quality, Value Creation, Accounting Information Relevance, Financial Reporting Quality, Market Value.

Research Article

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Introduction

The main goal of this study is to examine the effect of integrated reporting quality (IRQ) on the value creation and relevance of accounting information.
The “information problem” and “agency problem” are two major problems that interfere with the optimal allocation of resources in the capital market Decreasing the information asymmetry and increasing the transparency of the information for stakeholders based on improved disclosure are the best solutions for decreasing both of these problems (Leukhardt et al, 2022). The latest novel in reporting is integrated reporting (Nicolo et al., 2022). Since integrated reporting can disclose more information for decision-making, it is a stronger mechanism than other framework reporting (Donkor et al., 2021), and in addition to stakeholders, the interests of other stakeholders are also considered in integrated reporting. Integrated reporting with the presentation of the business model and process of value creation can help stakeholders evaluate corporate capability (Sinnewe et al., 2021). Companies can gain their trust and credibility by disclosing integrated reporting in response to the needs of stakeholders (Azizul Islam and Deegan, 2008) and increasing the company’s value in the long term. So, the first assumption of the study is the following explanation:

H1: High quality integrated reporting leads to increased value creation of the firm.

Integrated reporting, by making connections between the information disclosed in different reports, presents a comprehensive view of a firm's value creation. International integrated reporting proves the main goal of financial information because the framework requires the use of financial statements in the integrated report as a reference to which all other information provided in the report relates. (IIRF, 2021, 3.31). On the other hand, some studies, such as those by Ekles and Saltsman (2011), showed that if companies report their financial results without taking into account the impact of their operations on their financial environment, they will present vague information
(Baboukardos and Rimmel, 2016). In this base, the second hypothesis is:

H2: High quality of integrated reporting leads to the promotion of accounting information relevance.

Materials and Methods

The study is examined based on 161 companies in Tehran Stock Exchange over a period of 6 years from 1396 to 1402. The data involved in this research was collected from the Rahavard novin software and codal website. To analyze the research hypotheses, we used the Olson's model (1395) and the regression approach. Stata (version 17) and EViews (version 13) were used for our analyses. Indeed, endogeneity problem was examined by 2SLS approach. Furthermore, taking into account the market price of the share price after the general meeting of shareholders (rather than the market price of the share before the general meeting of shareholders in the primary model), the validity of the results of the assumption test was assessed. It is worth noting that integrated reporting quality scores were measured as the main variable of the survey using a content analysis approach using the checklist of Pistoni et al. (2018) based on hand collecting.

Results and Discussion

Initially, the variables of the study were examined using the Lewin, Lin, and Cho test. The results showed that all of the variables have a p-value less than 5%, so all of the variables are stationary.

Since this study controls the fixed effects of industries, it is not necessary to conduct appropriate model selection tests (Aflatouni, 2021, 304).

Also, heteroskedasticity and autocorrelation were examined by Modified-Walde and Wooldridge, respectively. Since the p-values of both of these tests were less than 5%, we had homoscedasticity and autocorrelation in the residuals, and we estimated the model by clustering for solving them.

The model in this study is:

$$MVE_{it} = \alpha_0 + \alpha_1 BVS_{it} + \alpha_2 EPS_{it} + \alpha_3 IRQ_{it} + \alpha_4 (IRQ_{it} \times BVS_{it}) + \alpha_5 (IRQ_{it} \times EPS_{it}) + \alpha_6 MTB_{it} + \alpha_7 PV_{it} + \alpha_8 DPayout_{it} + \alpha_9 Age_{it} + \alpha_{10} Growth_{it} + \alpha_{11} CFO_{it} + Industry\_Dummies + \varepsilon_{it}$$

The results of estimating this model showed that the p-value of the F-statistic is 0/000, so the model is suitable generallySinse R-Squared is 76%; explanatory variables can explain 76% of dependent variable changes. The IRQ variable has a p-value > 5% so there is no significant relationship between IRQ and value creation. Therefore, H1 was rejected. Furthermore, the coefficient and p-value of book value of share (BVS) are 11/2 and 0/000 respectively so it shows that the accounting information is valuable. On the other hand, since the p-value of the interaction variable (IRQ*BVS) has a p-value >5%, IRQ cannot improve the relevance of accounting information. Therefore, the second hypothesis was rejected.

Finally, 2SLS was used to address endogeneity concerns. Industry-year averages of IRQ was instrumental variable. Insignificant Durbin and Wu-Hausman p-values show no endogeneity issues.

Indeed, re-estimating the models using the share price after the general meeting of shareholders as an alternative measure of MVE, instead of the share price before the general meeting of shareholders, served to corroborate and validate the original results for all of the hypotheses tested.

Conclusion

According to the results of this study, the quality of integrated reporting generally cannot affect the value creation of the companies that are accepted on the Stock Exchange of Tehran. First, there is no approved conceptual framework for the preparation and presentation of integrated reporting that is consistent with the environmental conditions and the laws and regulations of the country. Second, the companies were not aware of the benefits of presenting this report and did not adopt the preparation of integrated reporting. Therefore, stakeholders are unable to make a connection between financial and non-financial information that is reported in different documents and become aware of the company’s value-creation process. Therefore, this information may not be useful and lead to optimal decision-making by stakeholders, especially investors.

It recommends to legislators and publishing organizations the standards; first, by creating appropriate environments and culturalization in the corporate community, encourage companies to adopt the international integrated reporting framework.

Because, according to studies conducted at the international level, integrated reporting can have a positive impact on the decision-making process of investment market investors and thus aim to increase the company's value. Secondly, in order to more beneficial results, responsible institutions can seriously discuss the drafting of a standard framework based on the environmental and economic conditions of the country for the preparation and presentation of financial and non-financial information of companies in the form of a single report under the title of integrated reporting. Furthermore, researchers are expected, by conducting further research on this phenomenon, to inform companies, users and corporate stakeholders of the benefits of using integrated reporting in economic decision-making and to encourage the public to accept it.

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