

## Chapter 8

# Integrated Reports and Board Diversity: An International Perspective

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### ABSTRACT

*Organizations currently must report to a broader audience, capturing the attention of several categories of stakeholders, who want to know why, where, and how companies create and add value, and how they deal with responsibility and sustainability issues, contributing to the emerging of integrated reporting (IR). IR is as an innovation in promoting a holistic and integrated vision of the business, where the Board of Directors must play an important role. This chapter covers diversity of directors seated on the board of integrated reporters, comparing two groups: those who are IR references and those that are IR regular reporters. The results show that organizations with larger boards, higher proportions of non-executive directors, and a higher proportion of women on the board have an higher probability of preparing IR reference reports, while the duality role of CEO inverts the probability, and no relationship is found with board experience.*

### INTRODUCTION

Corporate social responsibility and corporate sustainability are distinct concepts, but the literature exposes a growing tendency towards a more integrated approach to both topics that incorporates social, environmental and economic perspectives. This integrate approach can be potentially achieved through the preparation of the so-called “integrated report,” a recent channel used by Organizations to communicate the way they create value through short, medium and long term. Organizations currently must report to a broader audience than shareholders, capturing the attention of several categories of stakehold-

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ers, who want to know why, where and how companies create and add value, and how they deal with responsibility and sustainability issues, contributing to the emerging of integrated reporting. While it is still voluntary in almost all the world, it is indeed gradually encouraged and supported by regulators, institutional investors and organizations, as an innovative nature in promoting a holistic and integrated vision of the organization, where the Board of Directors must play an important role (defining strategies, promoting policies and implementing best practices).

The main issue addressed in this chapter is an analysis of the different characteristics of Directors seated on the Board of Organizations preparing Integrated Reports.” As such, two different groups are created: the main focus, comprising all the organizations that prepared an integrated report that is considered a benchmark or that has obtained a premium; the control group, covering all the other organizations that also prepare an integrated report. The sample includes almost 380 entities all over the world identified as IR preparers, from whom people expect to be accountable for the transparency of their external communication process. Characteristics such as the role duality, the board size, the independence, the gender diversity and the experience of boards members are stressed and compared. Results show that larger Boards, with a larger proportion of non-executive directors and a higher proportion of women as directors on the board have higher likelihood of producing an integrated report that is highlighted as IR reference, while the dual role of the CEO negatively influences the recognition of leading practices of the integrated reports. This last result is not maintained if unlisted entities are removed. Due to the international context of all the entities included in the sample, institutional characteristics of the countries are also used for control issues. The findings will be of practical interest to investors (shareholders) and executives when evaluating the board composition and the perspectives of being engaged with the integrated reporting commitment.

## **Background**

Social, environmental and economic perspectives of firms running businesses are traditionally included in the scope of corporate social responsibility and corporate sustainability concepts. Beyond their importance, there is an awareness about how to facilitate the dialogue between reporting companies, users and other relevant stakeholders. Some Organizations are engaged in promoting communication not just about the perspectives mentioned, but about value creation, assuming that this would be the next step in the evolution of corporate reporting. The most important Organization leading this process is the International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, standard setters, the accounting profession and even NGOs.

The role of IIRC has been increasing since its foundation in 2010. Currently, the IIRC intends to establish integrated reporting and thinking within ‘mainstream business practice’. This integrated approach can be potentially achieved through the preparation of the so-called “integrated report,” a recent channel used by Organizations to communicate the way they create value through short, medium and long term. Organizations currently must report to a broader audience than shareholders, capturing the attention of several categories of stakeholders, who want to know why, where and how companies create and add value, and how they deal with responsibility and sustainability issues, contributing to the emerging of Integrated Reporting. Since the Board of Directors represent the interest of the shareholders, and act in the firm’s social interest, one key is to outline a value creation pattern. So, the board of directors should have an active role in the integrated thinking phase (strategic orientations) and in the drafting of integrated report (relevant financial and non-financial information on critical issues).

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