A COMPARATIVE ANALYSIS OF SUSTAINABILITY REPORTS PUBLISHED BY GLOBAL ENTERPRISES: STANDALONE CSR VERSUS INTEGRATED REPORTING

Mert Demir and Maung K. Min

Mert Demir (mert.demir@baruch.cuny.edu) holds a PhD in Finance and works as the Director of Research at the Weissman Center for International Business, Baruch College, CUNY. Demir's research centers around corporate finance and sustainability. Currently, his research focuses on the role of corporate responsibility on corporate financing decisions and firm valuations. Demir holds a bachelor's degree in Statistics and an MBA with a concentration in Finance. His academic research has been published in top tier academic journals and presented in several national and international conferences.

Maung K. Min (mkm69@psu.edu) is Director of Business Programs at Penn State Lehigh Valley. At PSU-LV he runs the BSB and BSPSCM programs, and teaches courses in international business, management, and marketing. His research interests are in Strategy, Sustainability, and Teaching & Learning Scholarship. Min has a doctorate in business balancing academia with 30 years of business experience. He also possesses an MBA and MS Chemical

Engineering degrees. Prior to PSU, he was Corporate Director with a global pharmaceutical company.

Abstract

Purpose – While standalone corporate social responsibility (CSR) reports continue to dominate the sustainability reporting space, integrated reports, combining financial and non-financial information, have emerged as a new approach to provide a more complete picture of a company's overall performance. This study undertakes a comparative analysis of these two CSR reporting models by drawing upon relevant academic theories in the field of sustainability reporting.

Design/methodology/approach – This study uses the CSR reporting transparency scores provided by the CSR-Sustainability Monitor®, a content analysis-based system which evaluates the scope of coverage, specificity of detail, and degree of external verification of information disclosed by companies in their CSR reports. Using the Monitor's scores, the paper analyzes the discrepancies between standalone CSR and integrated reports published by Fortune Global 500 companies in 2017 on 11 key sustainability topics.

Findings – Integrated reports significantly outscore standalone CSR reports on chair's/executive message and governance disclosures, while the opposite is observed on environment, stakeholder engagement, supply chain management, and human rights disclosures. Considerable regional patterns are also observed in the choice of reporting models and reporting transparency.

Originality/value – While a distinct and rapidly growing line of literature on integrated reporting has emerged recently, there is still a lack of comparative studies to assess the merits of standalone CSR and integrated reports. This research serves as a basis for the evaluation of the state of sustainability reporting and provides empirical evidence regarding the commonalities and discrepancies between the two leading reporting models.

Keywords - Sustainability, Corporate social responsibility (CSR), CSR Reporting, Integrated Reporting, Sustainability reporting, Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC)

DOI: <https://dx.doi.org/10.15239/j.brcacadjb.2021.11.01.ja02>

Article classification - Research paper

INTRODUCTION

This paper investigates the comprehensiveness of information contained in standalone CSR/sustainability reports and in integrated reports. To stand out from the crowd and build a solid reputation in the market, companies choose to show their commitment to CSR by providing sizable CSR reports. Yet, considerable variation in content (Krasodomska, 2015) and quality exists in the reports due to the lack of standardization in CSR reporting (Sethi *et al.*, 2017a, 2017b), as sustainability reports are not subject to strict standards, unlike financial reports.

A comprehensive and accurate CSR report can help legitimize the company's image as a good corporate citizen and enhance morale (Sethi *et al.*, 2016; Min *et al.*, 2017; Gamerschlag *et al.*, 2011). Companies providing an incomplete or potentially misleading picture of their CSR profiles, however, will face a higher level of scrutiny from stakeholders. Such actions also raise concerns over publishers' motivation behind CSR engagement (Sethi *et al.*, 2017).

Companies also largely vary in the way they release CSR information. The two prevalent models, standalone CSR/sustainability reports and integrated reports, and guidelines, Global Reporting Initiative (GRI) and International Integrated Reporting Council (IIRC), diverge considerably in terms of content and the way the information is presented by the company. [[¹]] Thus, a company's choice of a particular model is indicative

of not only the means of communication but also the comprehensiveness and specificity of the information therein.

Given the mostly voluntary nature of CSR reporting, while the theoretical and methodological approaches of both guidelines diverge considerably, there is also great discretion granted to company management in determining the details of these disclosures. Thus, an analysis of the empirical differences between standalone and integrated reports provides a valuable contribution to the literature on the merits/demerits of the two prevalent models in this field.

We base our analysis on the CSR reporting scores provided by the CSR-Sustainability Monitor® (CSR-S Monitor, or the Monitor) (Weissman Center for International Business, 2019). A total of 324 Fortune Global 500 companies published a CSR document in 2017 and their reports were subsequently scored on the comprehensiveness, detail, and degree of external verification on 11 CSR topics. In line with our expectations, our results present considerable variation in content and comprehensiveness between the two models. Specifically, our results show that companies provide significantly more comprehensive information on environment, stakeholder engagement, supply chain management, human rights, and codes of conduct through standalone CSR reports. Integrated reports score higher on chair's message and governance by significant margins. The two models are on par in terms of transparency on philanthropy, labor relations, anti-corruption, and integrity assurance.

We also find that reporting models show considerable regional patterns across the three most populated regions, namely North America, East Asia, and Western Europe. For North America, standalone CSR reports are more comprehensive on environment, stakeholder engagement, labor relations, anti-corruption, codes of conduct, and integrity assurance, while integrated reports include more detailed information only on chair's message. We observe a similar picture among East Asian companies for which standalone reports dominate almost all content areas but chair's message and governance.

Western Europe diverges considerably from the other two regions. Regarding overall transparency, standalone and integrated reports are equally comprehensive and detailed, with the highest overall scores among the three regions. The former includes a more comprehensive account of company activities than the latter on stakeholder engagement, human rights, and codes of conduct, while the latter score higher only on governance.

This paper makes some significant contributions to the literature. First, this study presents one of the most comprehensive analyses of standalone CSR and integrated reports in the literature. We conduct analyses using overall disclosure scores as well as scores on 11 key CSR topics across companies from eight regions and 17 sectors. Second, our sample includes the world's largest public, private, and state-owned enterprises with the biggest influence on business activity around the world. The analysis of their CSR disclosures leads the way to a better understanding not only of the state of CSR reporting but also of social, economic, and cultural factors affecting them and can shape our expectations about how reporting may evolve. Lastly, the regulation of sustainability reporting has stepped up to a new level with the recent EU Directive on mandatory reporting. Several countries and exchanges around the world have already incorporated ESG reporting into their disclosure and listing requirements, and many more have started entertaining the idea.^{[[2]]} As the trend accelerates, academic research has the potential to influence thinking and practice by making substantive contributions to the ongoing discussions. While a distinct and rapidly growing line of literature on integrated reporting has emerged recently, there is still a lack of comparative studies to assess the merits of standalone CSR and integrated reports. In this respect, our research serves as a basis for the evaluation of the state of sustainability reporting and provides empirical evidence regarding the commonalities and discrepancies between the two leading reporting models.

BACKGROUND

Standalone CSR and Integrated Reports

CSR disclosure complements financial disclosure in that the former alleviates the concerns over the latter's exclusively backward-looking style and nature of past performance justification (Ünal and Coşkun, 2018) by providing shareholders a more forward-looking view and long-term outlook of financial as well as non-financial performance (IIRC, 2013; Cohen and Simnett, 2015).

While the multidimensional construct of CSR including legal, economic, ethical, and philanthropic aspects (Schwartz and Carroll, 2003; Windsor, 2006; Mele, 2008) translates into companies undertaking a multitude of activities that usually expand beyond their core operations (Demir and Min, 2019), another, almost concurrent wave of the so-called “shareholder revolution” of recent decades has placed stockholders at the center of corporate strategy as the primary, and arguably the sole, beneficiaries of a corporation (Froud et al, 2000). This polarization between the emerging CSR trend and the investor-centric neoliberal economic view unavoidably increased tensions between company shareholders and other stakeholders.

Companies can use corporate disclosures to reduce information asymmetries primarily between management (agents) and shareholders (principals) (agency theory [Jensen and Meckling, 1976]), attracting more investors—as investors consider no disclosure as bad news (Ross, 1979)—thereby increasing liquidity and decreasing cost of capital (Lambert *et al.*, 2007). These releases of information through periodic corporate disclosures help mitigate any existing agency problems and/or prevent potential ones between the two aforementioned parties (Verrecchia, 2001) by helping shareholders get a better understanding of company performance and operations, thereby carrying out their monitoring role of the management more effectively.

Consistent with the signaling theory, disclosure also works as a signal of value (Hughes, 1986) along with financial signaling methods such as issue of debt or equity, or payment of dividends (Ross, 1977; Leland and Pyle, 1977; Myers and Majluf, 1984). Because of potential adverse selection, even companies with unfavorable information will have incentives to use comprehensive and detailed disclosures to avoid being considered “a lemon” by investors (Akerlof, 1970).

CSR disclosures provide company management with an opportunity to explain their side of the story and thereby counter potential negative public opinion. Never-ending corporate scandals have increased stakeholder tolerance for negative news and decreased tolerance for lack of disclosure (Li *et al.*, 1997; Demir and Min, 2019), especially for industries with a record of financial, ethical, social, and environmental scandals. Standalone CSR reports thus serve not only as the primary source of sustainability information for investors but also as a reputation management tool to respond to concerns of other stakeholders (Peters and Romi, 2013).

Integrated reporting has emerged mainly as a response to concerns over the disconnectedness of financial and standalone CSR reports (Jensen and Berg, 2012). In this respect, integrated reports blend financial and nonfinancial information into one report (Eccles and Krzus, 2010), enhancing the decision usefulness of such information (de Villiers *et al.*, 2014). The integrated, holistic approach of the integrated reporting also requires a multidisciplinary perspective (Gerwanski *et al.*, 2019) as in standalone CSR reporting, yet perhaps slightly differently due to the former’s primary focus on financial value creation (Flower, 2015). Nevertheless, integrated reporting framework as outlined by the IIRC stresses materiality, stakeholder (not just shareholder) engagement, and integrated thinking (IIRC, 2013) as three guiding principles to be used in planning and executing a company’s non-financial activities. Integrated reporting can thus be the silver bullet in a manager’s quest to balance the

conflict between financial capital providers and other stakeholders by enriching financial disclosures with material nonfinancial information.

The evidence to date, however, is mixed. The literature on the comparative analysis of integrated and standalone CSR reports has evolved in two branches. The first one examines the merits of the former over the latter in terms of third-party response (external perspective). For example, Mervelskemper and Streit (2017) found firms that publish composite ESG and governance information in integrated reports enjoy higher valuation than those that publish the same information in standalone CSR report, a result that does not hold for environmental and social disclosures. As we show later in this study, corporate governance is the only area where integrated reports consistently contain more comprehensive information than standalone CSR reports, so the aforementioned study's findings are somewhat expected and cannot conclude the superiority of integrated reports. Other studies echo their findings with some variation as well.

Others analyzed this phenomenon from a content perspective (internal perspective) and our study falls in this group. Noteworthy studies from this group include Maniora (2017) who failed to document evidence of a significant difference between standalone CSR and integrated reports in terms of the integration of sustainability issues and related performance changes. De Villiers and Sharma (2020) who found integrated reports fall behind standalone CSR reports in terms of the information on intellectual capital. Clayton *et al.* (2015) who analyzed the transition of a sample of South African firms from standalone CSR to integrated reporting and found that the shift in reporting models does not fully maximize the benefits expected from integrated reporting unless it is accompanied by a simultaneous shift in managerial thinking. Romero *et al.* (2019) who used a sample of 68 Spanish companies in 2013-2015 also found standalone CSR reports to be of higher quality than integrated reports. In a comprehensive review of the extant literature on multiple aspects of integrated reporting, Kannenberg and Schreck (2019) concluded with a lack of empirical support for one of the key proposed benefits of

integrated reporting over standalone CSR reports: a higher level of connectivity of financial and nonfinancial data. Though they noted that the methodological differences among the studies they reviewed could be partly to blame.

In a stark contrast, Kannenberg and Schreck's (2019) review also lends support to improved data quality (through an increase in either the quantity or quality of nonfinancial information) upon the adoption of integrated reporting. Driving their conclusion, Carels *et al.* (2013) analyzed the integrated reports of South African mining sector following the King III Code. The results of their content analysis of the reports of a sample of South African mining companies from 2008 to 2012 showed an increase in disclosure particularly of environmental and social issues and, to a lesser extent, of ethical matters. Setia *et al.* (2015) also content-analyzed the integrated reports of top Johannesburg Stock Exchange companies for the years 2009/2010 and 2011/2012 and broadly echoes Carels *et al.*'s (2013) conclusions of an improved information quality. Lastly, Esch *et al.* (2018) compared two types of information, unlinked financial-nonfinancial and integrated, by their influence on internal decision making and found integrated reporting to shift decision making within companies toward more sustainable outcomes.

GRI and IIRC Guidelines

Two reporting guidelines, GRI and IIRC, will subsequently be discussed to compare the two types of CSR reports (standalone and integrated). Although a majority of the largest corporations around the world follow GRI standards (Andreu and Ortiz-Martínez, 2018), a relatively small but growing portion of companies publish integrated annual reports using IIRC's framework (KPMG, 2017; Investor Responsibility Research Center Institute [IRRCI], 2018).

While GRI places materiality at the core of its model, the IIRC focuses on six capitals. According to the IIRC report, "Those responsible for the preparation and presentation of the integrated report therefore need

to exercise judgment” (IIRC, 2013, p. 7) to ensure that the organization does not overlook a capital that it uses or affects (i.e., material to the organization). However, leaving extensive managerial discretion for the selection of material topics also works counter to the argument that integrated reports, supposedly incorporating all material information into a single integrated report, will provide a broader view of a company’s non-financial profile than standalone CSR reports (Cohen and Simnett, 2015). In this respect, Rivera-Arrubla *et al.* (2017) succinctly present that the disclosure levels of the integrated reports published by the early adopters of the IIRC framework are mediocre at best, while other factors (e.g., regional, industrial, etc.) drive the considerable variation observed in disclosure levels. Considering the lack of a list of specific key performance indicators provided by IIRC’s framework (Oshiko and Saka, 2017), such an approach carries the risk of incorporating an unprecedented level of managerial discretion into the reporting process, thereby downgrading the credibility as well as the comprehensiveness of reports prepared by following the IIRC framework.

A major skeptic of the IIRC framework, Flower (2015) argues that it primarily targets “providers of financial capital” and is arguably in line with the neoclassical view (Friedman, 1970). While GRI standards emphasize the need to identify stakeholders, and through their concerns to identify organizations’ social and environmental impacts, the IIRC’s integrated reporting framework focus is primarily on “shareholder value.”

Milne and Gray (2013) also define IIRC’s discussion paper “Towards Integrated Reporting” as a “masterpiece of obfuscation and avoidance of any recognition of the prior 40 years of research and experimentation.” As per the authors, the lack of a substantive drive for accountability or sustainability along with its exclusively investor-centric view constitute a major drawback of the integrated reporting framework.

Integrated reports are also said to lack investor attention due to their limited decision usefulness (Slack and Tsalavoutas, 2018). Despite the significant and growing uptake by the corporate community for

integrated reporting, the investor community expresses concerns over the length, excessive repetition in content, and the checklist approach followed in preparing this type of report, which collectively poses certain restrictions to their usefulness by their primary audiences, the investor community (Atkins and Maroun, 2015). This directly contradicts the primary notion of integrated reporting and gives credibility to the calls for further research of this emerging framework (Atkins and Maroun, 2015; Potter and Soderstrom, 2017; Rowbottom and Locke, 2016).

GRI also has its own and sometimes similar limitations. A major critique of GRI, for example, is its inherent “corporate-focus” (Milne and Gray, 2013). The triple bottom line approach behind GRI’s framework is arguably a factor that hampers the effectiveness of such efforts in achieving the ultimate goal, a more sustainable society (Milne and Gray, 2013; Rambaud and Richard, 2015). Another limiting factor is the publishers’ lack of meaningful interactions with stakeholders in the report preparation process (Barkemeyer *et al.*, 2015). This raises concerns over reports’ intended audience, selection of material topics disclosed, and their comprehensiveness. Lastly, GRI is exclusively process oriented and thus lacks appropriate monitoring of its robust implementation (Sethi *et al.*, 2017). This raises questions regarding if the companies claiming to follow GRI guidelines actually live up to their claims. This should also be considered along the lines of (in)comparability of these reports. Giving too much flexibility to organizations without properly following up on the end product, GRI falls short of leading to a reporting environment where greater transparency on CSR activities meets with credible reporting and certain levels of standardization that enable effective comparisons (Sethi *et al.*, 2017a, 2017b).

RESEARCH QUESTIONS

While GRI and IIRC share the common goal of bringing a certain level of standardization to CSR reporting, the two models have distinct differences in their approaches to the reporting process. The reporting content can be

visualized in two main dimensions: scope of coverage and specificity of detail (Sethi *et al.*, 2017). Regarding the former, the differences between the two models are more pronounced in the selection of target audience and material topics. The multi-stakeholder approach of GRI is expected to lead to a more comprehensive report covering a wider range of topics that are material to multiple stakeholders and the company, while IIRC's selective focus on providers of financial capital will result in a limited selection of topics of interest to the company and its financial stakeholders.

Regarding the depth of discussion, a limitation of integrated reports is that not all topics are easily linked to financial outcomes. Human rights and anti-corruption are two examples (e.g., Healy and Serafeim, 2016). While human rights violations and bribery/corruption cases are stains on a company's reputation that last a long time, the financial implications of such incidents may not be so obvious in the short term. Companies also commonly use such disclosures as a response to legitimacy threats driven by social and political pressure, overlooking the required genuine commitment to curb corruption or other problems at the company (Deegan, 2014; Patten, 2005; Blanc *et al.*, 2017). This being the case, the long-sought link between anti-corruption or human rights disclosures in particular and financial performance becomes hard to establish and prove from a reporting perspective.

Moreover, consistent with the stakeholder theory, the greater the number of material/relevant stakeholders to a company, the higher their anticipated influence/exposure on the company will be (Deegan, 2014; Freeman, 1984), which eventually induces the company to disclose more on a wider range of ESG issues. This leads us to expect that standalone reports with their broader focus on stakeholders present a more detailed account of company risks, impacts, policies, actions, and outcomes than a typical integrated report. While there are studies such as Wachira *et al.* (2020) that found both methods to possess a comparably high level of disclosure quality, we formulated our research questions as follows:

Research Question 1: Do standalone CSR reports cover a wider range of topics than integrated reports?

Research Question 2: Do standalone CSR reports cover topics in greater detail than integrated reports?

METHODOLOGY

CSR-Sustainability Monitor[®]

The data used in this study comes from the CSR-Sustainability Monitor[®] database. The Monitor uses a modified content analysis-based framework to evaluate the reporting transparency in CSR reports published by the world's largest companies (Sethi *et al.*, 2017). Reporting transparency is defined in three dimensions: scope of coverage (i.e., geographical, operational, or topic/aspect), specificity of detail (depth of information), and the degree of external verification (integrity assurance). The Monitor identifies 11 key sustainability topics (Appendix) as the most common topics covered in a typical CSR report and scores the comprehensiveness of information therein. These topics are selected based on an extensive review of the academic literature on CSR/sustainability along with various industry publications and actual company reports.

Limited standardization in the CSR reporting field leads to considerable variation in information content and quality, which triggers a growing concern over the credibility and usefulness of these reports. To address this issue, companies increasingly resort to external verification of these publications (Sethi *et al.*, 2017b). Third-party verification of these reports serves as the sustainability equivalent of financial audits and adds an additional layer of trust to alleviate any stakeholder concerns. The CSR-S Monitor integrates this emerging practice into its framework as a unique feature, "independent third-party assurance," which measures the degree of the external verification of the report (if any).

The Monitor's overall reporting transparency scores range between 0 and 100, higher scores indicating greater transparency. Thus, the scoring facilitates comparisons among different reports across countries, regions, industry sectors, and legal and regulatory systems. The analyses are done at the "theme" level, which outperforms other coding types (e.g., sentence or phrase) by allowing to better capture the totality of the relevant narrative that is usually spread over multiple sentences, or even pages, in a CSR report. [[³]]

The sample of companies included in the Monitor is carefully selected to capture the wide variation in CSR reporting around the globe. Companies listed in the Fortune Global 500 index (the 500 largest organizations in the world) are used for analysis to achieve global representation including companies of different types (public, private, and state-owned) and from different regions, countries, and industries. To facilitate fair and consistent comparisons among various different forms of CSR disclosures available in the public space, the Monitor focuses on the CSR report as a single unit and assesses the comprehensiveness of information in it. According to CSR-S Monitor definitions, a valid report must have (1) been published during a particular calendar year of interest, (2) been written in English (or have an English translation available), and (3) included information that is presented as a cohesive unit. The sample of the Monitor used in this study thus includes 324 valid CSR reports published by the Fortune Global 500 companies in calendar year 2017, all of which were identified as eligible for scoring and subsequently analyzed. These companies represent 30 different headquarters locations and 17 industries around the world.

Among the 324 reports, 50 reports (representing 10 percent of the Fortune Global 500 sample) were identified as integrated/part of annual reports. The remaining 274 reports are designated by the publishers as standalone CSR/sustainability reports. The remaining 176 companies (35 percent of the sample) either did not publish a CSR report (standalone or

integrated) or publish CSR information in a format that is either invalid or ineligible for scoring (e.g., web-based reports).

RESULTS

The Big Picture

We start by analyzing the types of reports published by companies. As shown in Figure I, among the Fortune 500 Global companies, companies that published a standalone CSR report lead those with integrated/part of annual reports by a significant margin. Standalone reports constitute the majority of the sample with 54.8 percent (274 reports), while only 10.0 percent (50 reports) of the sample issued integrated reports in 2017. These findings suggest that despite the uptake among the world's largest organizations of integrated reporting, companies need more time to adjust to the framework and it leaves the proponents of integrated reporting to seek potential explanations for such slow uptake, even almost a decade after its inception. A surprising 35.2 percent (176 companies) also prefer to not publish a standalone CSR or integrated report, a finding that also needs further investigation. Given their large size and unmatched influence on other companies as well as on society, these companies' behavior poses a critical question as to why more than a third of the world's largest organizations are muted in communicating their ESG impacts and risks to their stakeholders (see figure 1 of web appendix).

We further broke down the overall trends in reporting into regions, shown in Figure II. Our analysis of the top three regions with the most companies in the Fortune index shows that Western Europe leads with 111 reports, followed by North America and East Asia, each of which has 94 reports. Among these three regions, Western Europe tops with 21.6 percent integrated reports, followed by East Asia with 19.1 percent. ^{[[4]]} There is a huge gap between these two regions and North America on integrated reporting, as standalone reports surpass integrated reports across the North American sample (96.8 percent vs. 3.2 percent integrated

reports). While these statistics, especially for Western Europe and East Asia, look promising from an integrated reporting perspective, they raise some serious concerns over the future of integrated reporting and its main premise of integrated thinking, particularly for North America (see figure 2 of web appendix).

CSR Reporting Scores

We also analyze the comprehensiveness of these two types of reports. Figure III shows the average CSR reporting transparency scores for the top three regions. East Asia and Western Europe outscore North America on the overall comprehensiveness of reporting. Western Europe matches its high level of uptake of integrated reporting with the highest average integrated report score (39.77 percent)—slightly higher than the average standalone report score (36.99 percent, the difference being insignificant), suggesting that a serious commitment in integrated reporting (and integrated thinking) can very well lead to the publication of a substantial document that is on par with a standalone CSR report from an information efficiency standpoint. The gap in reporting transparency between the two types of reports is larger yet not significant in North America (20.16 percent vs. 28.56 percent), while integrated reports score fairly lower than standalone reports in East Asia (29.04 percent vs. 36.50 percent, the difference being significant), indicating a sacrifice being made by choosing integrated reporting at the expense of their stakeholders, who increasingly raise their voices for more and better disclosure of CSR matters (see figure 3 of web appendix).

In Table I (see web appendix) we compare the scores on the overall report transparency as well as the transparency on each of the 11 contextual elements analyzed by the CSR-S Monitor between integrated and standalone reports. Overall, integrated reports fare on par with standalone reports in terms of the comprehensiveness of information (34.93 percent vs. 34.17 percent). With its larger size and influence on the sample, Western Europe seems to attenuate and even reverse the gap in the average reporting score between the two types of reports

observed for North American and East Asian companies. These results also highlight the influence of regional patterns in reporting trends that would otherwise not be observed by just looking at the entire sample in one piece.

However, a deeper look at the contextual element scores reveals some anomalies between integrated and standalone reports in our sample. Blending financial and non-financial information, integrated reports score higher on governance-related disclosures (69.40 percent) than standalone CSR reports (26.35 percent). However, the governance scores should be taken with appropriate caution because standalone reports typically provide very limited information on governance, most likely with a link to an external document (financial report, etc.) for those looking for more specifics on the matter. Consequently, this particular type of report commonly lacks the content necessary for the reader to grasp company efforts, policies, etc. toward a sustainable corporate governance, resulting also in a lower score on the Monitor's system. Therefore, in our alternative analysis of the data, we excluded governance score and recalculated the overall scores. In this analysis, standalone reports score higher than integrated reports, although not statistically (34.96 percent vs. 31.48 percent), suggesting that the governance element was driving the earlier results.

Integrated reports also significantly outscore standalone reports on chair's/executive message (55.91 percent vs. 50.36 percent), a topic that lays out a company's vision on sustainability. This topic has particular importance, as it gives the top-level management of the firm a window of opportunity to outline their ongoing efforts to narrow the credibility gap between corporate actions and public perception thereof, discuss limitations of their business and how they (plan to) address outstanding ESG issues, and thereby build/maintain their companies' public image and reputation.

Regarding anti-corruption—a topic of controversy among companies due to risks and liability concerns—while their overall average score is

still a nascent 29.80 percent, integrated reports outperform (albeit not significantly) standalone reports by 3.66 percent. These findings suggest that integrated reports allow for a marginal improvement over standalone reports (or at least compete with them) regarding disclosure on one of the most sensitive areas for companies.

In all of the other topics, standalone reports score higher than integrated reports at varying levels. Standalone reports significantly outscore integrated reports in environment (38.25 percent vs. 31.10 percent), stakeholder engagement (31.20 percent vs. 24.71 percent), supply chain management (34.79 percent vs. 25.53 percent), human rights (33.49 percent vs. 24.94 percent), and codes of conduct (19.87 percent vs. 16.13 percent) disclosures. Of particular interest, human rights is another area of controversy for companies when it comes to the disclosure of actual human rights violations, policies, actions taken by the company in response to any cases, and potential results/outcomes and legal/regulatory consequences. Contrary to anti-corruption disclosures, for which our findings suggest integrated reporting is at least equally as comprehensive as standalone reports, human rights disclosures are more substantive in standalone reports, offering a potential point of further research.

Regional Analysis

We dug deeper into regional patterns in reporting transparency. Consistent with the overall trend, integrated reports score higher on chair's/executive message than standalone reports by a significant margin for North American companies (66.67 percent vs. 48.85 percent), as shown in Table II (see web appendix). Governance scores are also higher (yet not significantly) for integrated reports than standalone reports (40.0 percent vs. 16.92 percent).[[⁵]]

[

Integrated reports also score higher on philanthropy, although not significantly (55.56 percent vs. 48.35 percent for standalone reports). North American companies typically provide more detailed information on

philanthropic activities, yet more so in integrated reports than standalone reports, an interesting finding considering integrated reporting's slow pace of adoption in the region.

On all of the other topics, standalone reports scored considerably higher than integrated reports. Integrated reports provide disappointingly low levels of transparency on environment (10.37 percent vs. 37.05 percent for standalone reports), stakeholder engagement (4.76 percent vs. 25.67 percent), supply chain management (17.65 percent vs. 33.94 percent), labor relations (13.07 percent vs. 33.66 percent), human rights (9.80 percent vs. 26.89 percent), and codes of conduct (3.89 percent vs. 17.29 percent), while offering no sufficient information for anti-corruption (0 percent vs. 14.87 percent for standalone reports) and integrity assurance (0 percent vs. 10.62 percent). These results indicate a crawling phase and a not-so-brilliant future for integrated reporting in the North America region.

We observe a very different picture for Western Europe, as presented in Table III. Overall, the average reporting scores for the two types are very close. When governance is taken out, standalone reports slightly but not significantly outscore integrated reports.

In almost all of the CSR topics, integrated reports stand out as a serious contender to standalone CSR reports. Specifically, in governance, integrated reports score significantly higher on average than standalone CSR reports. In chair's message, philanthropy, and anti-corruption, integrated reports lead with insignificant margins, while in the rest of the elements except human rights the scores weigh in favor of standalone reports, although not by significant margins. Standalone CSR reports outscore integrated reports only on disclosure of human rights. These results suggest that a variety of dynamics could play out to determine CSR reporting transparency across the region, thereby making Western Europe a potential testing lab for further research on the subject.

We see a slightly different picture in East Asia, shown in Table IV (web appendix). Overall, integrated reports average only 29.04 percent, compared to 36.50 percent for standalone reports. Leaving governance

out does not have a material impact on this finding, as the difference in averages gets wider, preserving its high significance. With these numbers, East Asia falls somewhere between the laggard North America and leader Western Europe, indicating that regional patterns, be they cultural, societal, or regulatory, play a major role across various aspects of CSR reporting decisions.

Regarding each topic, while East Asia shows a similar pattern to the other regions of higher score on chair's message and governance for integrated reports, integrated reports scored lower by a significant margin on all of the remaining topics except human rights, where average scores for the two groups show an insignificant difference, though still in favor of standalone CSR reports.

CONCLUSION

Our study undertakes a comparative analysis of standalone CSR vs. integrated reports that dominate the sustainability reporting space. Though integrated reporting is highly touted by the sustainability community, is it really the "gold standard" in sustainability reporting or just another episode in a trail of failed reform initiatives? If integrated reporting is designed to share in the CSR reporting landscape with standalone CSR reporting, there should be an uptick in companies choosing integrated reporting methodology over the other.

Our research shows that the number of companies that published standalone CSR reports leads the number of companies with integrated reports by a significant margin. While a considerable portion of Western European and East Asian companies publish integrated reports, standalone CSR reports far surpass integrated reports among North American companies.

Standalone reports are also more comprehensive and detailed than integrated reports overall. While the former significantly outscore the latter on multiple key areas of CSR such as environment, stakeholder

engagement, supply chain management, and human rights, the opposite is observed only on chair's/executive message and governance disclosures.

The differences in disclosure content between the two models highlighted in this study reflect the diverse nature of CSR reporting. It is also worth mentioning that while the richness of reporting patterns around the world yields a judgment favoring standalone reports (and downplaying integrated reports), the attribution for differences in report scope and specificity in our sample set were based on what the companies reported. Consequently, it was not our intent to separate out differences attributable to the reporting models themselves. Depending on a company's assessment of its needs and position in the industry, country, or region, it seems more the company management and less the reporting model that deserves praise or blame for the comprehensiveness of information in the report.

Given these findings, we re-emphasize that the voluntary nature of CSR reporting still stands out as the main driver of CSR reporting comprehensiveness and allow company management to determine what information goes into these documents and to what extent. However, a satisfying level of standardization can be achieved in CSR reporting if a broad consensus emerges on the list of material sustainability topics and companies consequently put greater emphasis on these topics in their disclosures. The resulting stakeholder-driven incentive to provide complete, comprehensive, and material information will eventually result in greater transparency, as peer pressure will lead to more comprehensive reports from a greater number of companies.

Standalone CSR reporting dominates corporate reporting on sustainability and companies get better in their disclosures on material topics over time. On the other hand, it requires considerably more effort from companies for integrated reporting to leap forward. Given Western Europe's leadership in sustainability and the lag between them and the other two regions as outlined by this study, a mere commitment to disclosure while overlooking a wholesome, integrated approach in

business in general, which is the backbone of integrated reporting, may not be sufficient to produce a comprehensive integrated report that is comparable to a standalone report—an interesting point of which the rest of the world should take notice.

European Commission President Ursula Von der Leyen, in her first major proposal since taking office on Dec. 1, 2019, challenges the EU to achieve climate neutrality, emitting no more greenhouse gases beyond what can be absorbed, by 2050.^[6] These types of messages from global leadership further signify the importance of sustainability, and the associated need for transparent reporting. Consistent with this notion, our findings underscore the evolving nature of sustainability reporting and call for further investigation from managers and researchers alike.

REFERENCES

- Akerlof, G. A. (1970), “The market for “lemons”: Quality uncertainty and the market mechanism”, *The Quarterly Journal of Economics*, Vol. 84 No.3, pp. 488-500.
- Andreu, L. M. and Ortiz-Martínez, E. (2018), “Non-financial information of Spanish companies and financial evolution”, *Social Responsibility Journal*, Vol. 14 No. 4, pp. 782-801.
- Atkins, J. and Maroun, W. (2015), “Integrated reporting in South Africa in 2012: Perspectives from South African institutional investors”, *Meditari Accountancy Research*, Vol. 23 No. 2, pp. 197-221.
- Barkemeyer, R., Preuss, L. and Lee, L. (2015), “On the effectiveness of private transnational governance regimes—Evaluating corporate sustainability reporting according to the Global Reporting Initiative”, *Journal of World Business*, Vol. 50 No. 2, pp. 312-325.
- Blanc, R., Islam, M. A. Patten, D. M. and Branco, M. C. (2017), “Corporate anti-corruption disclosure: An examination of the impact of media exposure and country-level press freedom”, *Accounting, Auditing & Accountability Journal*, Vol. 30 No. 8, pp. 1746-1770.

- Carels, C., Maroun, W. and Padia, N. (2013), "Integrated reporting in the South African mining sector", *Corporate Ownership and Control*, Vol. 11 No. 1, pp. 991-1005.
- Clayton, A. F., Rogerson, J. M. and Rampedi, I. (2015), "Integrated reporting vs. sustainability reporting for corporate responsibility in South Africa", *Bulletin of Geography. Socio-economic Series*, Vol. 29 No. 29, pp. 7-17.
- Cohen, J. R. and Simnett, R. (2015), "CSR and assurance services: A research agenda", *Auditing: A Journal of Practice & Theory*, Vol. 34 No. 1, pp. 59-74.
- De Villiers, C. and Sharma, U. (2020), "A critical reflection on the future of financial, intellectual capital, sustainability and integrated reporting", *Critical Perspectives on Accounting*, Vol. 70, pp. 101999.
- de Villiers, C., Rinaldi, L. and Unerman, J. (2014), "Integrated reporting: Insights, gaps and an agenda for future research", *Accounting, Auditing & Accountability Journal*, Vol. 27, pp. 1042-1067. <https://doi.org/10.1108/AAAJ-06-2014-1736>
- Deegan, C. (2014), "An overview of legitimacy theory as applied within the social and environmental accounting literature. In Bebbington, J., Unerman, J. and O'Dwyer, B. (Eds), *Sustainability Accounting and Accountability*, Routledge, London, 2nd ed., pp. 248-272.
- Demir, M. and Min, M. (2019), "Consistencies and discrepancies in corporate social responsibility reporting in the pharmaceutical industry", *Sustainability Accounting, Management and Policy Journal*, Vol. 10 No. 2, pp. 333-364.
- Eccles, R. G. and Krzus, M. P. (2010), *One report: Integrated reporting for a sustainable strategy*, John Wiley & Sons, Hoboken, NJ.
- Esch, M., Schnellbacher, B. and Wald, A. (2019), "Does integrated reporting information influence internal decision making? An experimental study of investment behavior", *Business Strategy and the Environment*, Vol. 28 No.4, pp. 599-610.
- Flower, J. (2015), "The International Integrated Reporting Council: A story of failure", *Critical Perspectives on Accounting*, Vol. 27, pp. 1-17.

- Freeman, R. E. (1984), *Strategic management: A stakeholder approach*, Pitman, Boston, MA.
- Friedman, M. (1970), "The social responsibility of business is to increase its profits", *New York Times Magazine*, 13 September, pp. 32-33, 122-124.
- Froud, J., Haslam, C., Johal, S. and Williams, K. (2000), "Shareholder value and financialization: Consultancy promises, management moves", *Economy and Society*, Vol. 29 No. 1, pp. 80-110.
- Gamerschlag, R., Möller, K. and Verbeeten, F. (2011), "Determinants of voluntary CSR disclosure: Empirical evidence from Germany", *Review of Managerial Science*, Vol. 5, pp. 233-262.
- Gerwanski, J., Kordsachia, O. and Velte, P. (2019), "Determinants of materiality disclosure quality in integrated reporting: Empirical evidence from an international setting", *Business Strategy and the Environment*, Vol. 28 No. 5, pp. 750-770.
- Healy, P. M. and Serafeim, G. (2016), "An analysis of firms' self-reported anticorruption efforts", *The Accounting Review*, Vol. 91 No. 2, pp. 489-511.
- Hughes, P. J. (1986), "Signalling by direct disclosure under asymmetric information", *Journal of Accounting and Economics*, Vol. 8 No. 2, pp. 119-142.
- IIRC. (2013), "The International <IR> Framework International Integrated Reporting Council", available at <http://integratedreporting.org/wp-content/uploads/2015/03/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf> (accessed 15 July 2018).
- Investor Responsibility Research Center Institute (IRRCI). (2018), "State of sustainability and integrated reporting 2018", available at <https://www.weinberg.udel.edu/IIRCiResearchDocuments/2018/11/2018-SP-500-Integrated-Reporting-FINAL-November-2018-1.pdf> (accessed 25 October 2019).
- Jensen, J. C. and Berg, N. (2012), "Determinants of traditional sustainability reporting versus integrated reporting. An institutionalist approach", *Business Strategy and the Environment*, Vol. 21 No. 5, pp. 299-316.

- Jensen, M. C. and Meckling, W. H. (1976), "Theory of the firm: Managerial behavior, agency costs and ownership structure", *Journal of Financial Economics*, Vol. 3 No. 4, pp. 305-360.
- Kannenberg, L. and Schreck, P. (2019), "Integrated reporting: boon or bane? A review of empirical research on its determinants and implications", *Journal of Business Economics*, Vol. 89 No. 5, pp. 515-567.
- KPMG. (2017), "The road ahead – The KPMG survey of corporate responsibility reporting 2017", available at https://home.kpmg/content/dam/kpmg/campaigns/csr/pdf/CSR_Reporting_2017.pdf (accessed 25 October 2019).
- Krasodomska, J. (2015), "CSR disclosures in the banking industry. Empirical evidence from Poland", *Social Responsibility Journal*, Vol. 11 No. 3, pp. 406-423.
- Lambert, R., Leuz, C. and Verrecchia, R. E. (2007), "Accounting information, disclosure, and the cost of capital", *Journal of Accounting Research*, Vol. 45 No. 2, pp. 385-420.
- Leland, H. E. and Pyle, D. H. (1977), "Informational asymmetries, financial structure, and financial intermediation" *The Journal of Finance*, Vol. 32 No. 2, pp. 371-387.
- Li, Y., Richardson, G. D. and Thornton, D. B. (1997), "Corporate disclosure of environmental liability information: Theory and evidence", *Contemporary Accounting Research*, Vol. 14 No. 3, pp. 435-474.
- Maniora, J. (2017), "Is integrated reporting really the superior mechanism for the integration of ethics into the core business model? An empirical analysis", *Journal of Business Ethics*, Vol. 140 No. 4, pp. 755-786.
- Mele, D. (2008), "Corporate social responsibility theories", in Crane, A., McWilliams, A., Matten, D., Moon, J. and Siegel, D. (Eds.), *The Oxford Handbook Of Corporate Social Responsibility*, Oxford University Press, Oxford, pp. 47-82.
- Mervelskemper, L. and Streit, D. (2017), "Enhancing market valuation of ESG performance: Is integrated reporting keeping its promise?", *Business Strategy and the Environment*, Vol. 26 No. 4, pp. 536-549.

- Milne, M. J. and Gray, R. (2013), "W(h)ither ecology? The triple bottom line, the global reporting initiative, and corporate sustainability reporting", *Journal of Business Ethics*, Vol. 118 No. 1, pp. 13-29.
- Min, M., Desmoulins-Lebeault, F. and Esposito, M. (2017), "Should pharmaceutical companies engage in corporate social responsibility?", *Journal of Management Development*, Vol. 36 No. 1, pp. 58-70.
- Myers, S. C. and Majluf, N. S. (1984), "Corporate financing and investment decisions when firms have information that investors do not have", *Journal of Financial Economics*, Vol. 13 No. 2, pp. 187-221.
- Oshika, T. and Saka, C. (2017), "Sustainability KPIs for integrated reporting", *Social Responsibility Journal*, Vol. 13 No. 3, pp. 625-642.
- Patten, D. M. (2005), "The accuracy of financial report projections of future environmental capital expenditures: a research note", *Accounting, Organizations and Society*, Vol. 30 No. 5, pp. 457-468.
- Peters, G. F. and Romi, A. M. (2013), "Discretionary compliance with mandatory environmental disclosures: Evidence from SEC filings", *Journal of Accounting and Public Policy*, Vol. 32 No. 4, pp. 213-236.
- Potter, B. and Soderstrom, N. (2017), "Exploring the challenges of broadening accounting reports", in Hitt, M. A., Jackson, S. E., Carmona, S., Bierman, L., Shalley, C. E. and Wright, M. (Eds.), *The Oxford Handbook of Strategy Implementation*, Oxford University Press, Oxford, pp. 419.
- Ramnaud, A. and Richard, J. (2015), "The "Triple Depreciation Line" instead of the "Triple Bottom Line": Towards a genuine integrated reporting", *Critical Perspectives on Accounting*, Vol. 33, pp. 92-116.
- Rivera-Arrubla, Y. A., Zorio-Grima, A. and García-Benau, M. A. (2017), "Integrated reports: Disclosure level and explanatory factors", *Social Responsibility Journal*, Vol. 13 No. 1, pp. 155-176.
- Romero, S., Ruiz, S. and Fernandez-Feijoo, B. (2019), "Sustainability reporting and stakeholder engagement in Spain: Different instruments, different quality", *Business Strategy and the Environment*, Vol. 28 No. 1, pp. 221-232.

- Ross, S. A. (1977), "The determination of financial structure: The incentive-signalling approach", *The Bell Journal of Economics*, Vol. 8 No. 1, pp. 23-40.
- Ross, S. A. (1979), "Disclosure regulation in financial markets: Implications of modern finance theory and signaling theory", in Edwards, F. (Ed.), *Issues in Financial Regulation*, McGraw-Hill, NY, pp. 177-202.
- Rowbottom, N. and Locke, J. (2016), "The emergence of <IR>", *Accounting and Business Research*, Vol. 46 No. 1, pp. 83-115.
- Schwartz, M. S. and Carroll, A. B. (2003), "Corporate social responsibility: A three-domain approach", *Business Ethics Quarterly*, Vol. 13 No. 4, pp. 503-530.
- Sethi, S. P., Martell, T. F. and Demir, M. (2016), "Building corporate reputation through corporate social responsibility (CSR) reports: The case of extractive industries", *Corporate Reputation Review*, Vol. 19 No. 3, pp. 219-243.
- Sethi, S. P., Martell, T. F. and Demir, M. (2017a), "An evaluation of the quality of corporate social responsibility reports by some of the world's largest financial institutions", *Journal of Business Ethics*, Vol. 140 No. 4, pp. 787-805.
- Sethi, S. P., Martell, T. F. and Demir, M. (2017b), "Enhancing the role and effectiveness of corporate social responsibility (CSR) reports: The missing element of content verification and integrity assurance", *Journal of Business Ethics*, Vol. 144 No. 1, pp. 59-82.
- Sethi, S. P., Rovenpor, J. L. and Demir, M. (2017), "Enhancing the quality of reporting in corporate social responsibility guidance documents: The roles of ISO 26000, Global Reporting Initiative and CSR-Sustainability Monitor", *Business and Society Review*, Vol. 122, pp. 139-163.
- Setia, N., Abhayawansa, S., Joshi, M. and Huynh, A. (2015), "Integrated reporting in South Africa: some initial evidence", *Sustainability Accounting, Management and Policy Journal*, Vol. 6 No. 3, pp. 397-424.
- Slack, R. and Tsalavoutas, I. (2018), "Integrated reporting decision usefulness: Mainstream equity market views", *Accounting Forum*, Vol. 42 No. 2, pp. 184-198.

- Ünal, G. and Coşkun, A. (2018), "Disclosure for sustainability: The case of integrated reporting", in Information Resources Management Association (Ed.), *Operations and Service Management: Concepts, Methodologies, Tools, and Applications*, IGI Global, Hershey, PA, pp. 546-555.
- Verrecchia, R. E. (2001), "Essays on disclosure", *Journal of Accounting and Economics*, Vol. 32 No. 1-3, pp. 97-180.
- Wachira, M.M., Berndt, T. and Romero, C.M. (2019), "The adoption of international sustainability and integrated reporting guidelines within a mandatory reporting framework: Lessons from South Africa", *Social Responsibility Journal*, Vol. 16 No. 5, pp. 613-629. <https://doi.org/10.1108/SRJ-12-2018-0322>
- Weissman Center for International Business. (2019), "The CSR-Sustainability Monitor", available at <https://www.csrmonitor.org/sites/default/files/pdfs/2018%20CSR-S%20Monitor%20Report.pdf> (accessed 13 December 2019).
- Windsor, D. (2006), "Corporate social responsibility: Three key approaches", *Journal of Management Studies*, Vol. 43 No. 1, pp. 93-114.

CITATION INFORMATION

Demir, Mert A., and Maung K. Min "A Comparative Analysis of Sustainability Reports Published by Global Enterprises: Standalone CSR Versus Integrated Reporting." *The BRC Academy Journal of Business* 11, no. 1 (2021): 27-55. <https://dx.doi.org/10.15239/j.brcacadjb.2021.11.01.ja02>

WEB APPENDIX

A web appendix for this paper is available at: <https://dx.doi.org/10.15239/j.brcacadjb.2021.11.01.wa02>

NOTES

1. [] There are different variants of integrated reports. As discussed in the Data and Methodology section later, while 22 of 50 companies do not refer to International Integrated Reporting Council (IIRC) guidelines in their reports, 7 out of these 22 companies use the word “integrated” for their reports. The IIRC leaves it for the companies to decide the type of report they publish and name it. We define an integrated report as one that (1) clearly states on the title that it is such, (2) references the IIRC guidelines in the preparation process as explained in the report, or (3) is published as part of an annual financial report. IIRC (2013) states that: “1.15An integrated report may be either a standalone report or be included as a distinguishable, prominent and accessible part of another report or communication. For example, it may be included at the front of a report that also includes the organization’s financial statements.” (p. 8) This supports our grouping of different types of integrated reports we have come across in our analysis. Whether a company publishes an integrated annual report in line with the IIRC guidelines or publishes a self-identified “integrated” report as a standalone or a part of annual report, we treat them the same and group them together, which resulted in 50 integrated reports out of the 324 reports in our sample.
2. [] <https://www.reportingexchange.com>
3. [] See www.csrmonitor.org for further details of the Monitor’s scoring methodology.
4. [] The three top regions together constitute 92 percent of all published reports in 2017 in our sample. The remaining regions are Eastern Europe and Central Asia (5), Latin America & the Caribbean (7), Middle East & North Africa (1), Oceania (8), and South Asia (4).
5. [] The North America sample has only 3 companies with integrated reports and 91 companies with standalone CSR reports. While the sample of Fortune Global 500 companies that published integrated reports is very small, it still highlights the current state of different types of reporting among the largest and most influential companies across the region.
6. [] <https://www.reuters.com/article/us-climate-change-eu/eu-trumpets-green-deal-as-its-man-on-the-moon-moment-idUSKBN1YF1NA>