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INTEGRATED REPORTING INTO PRACTICE – A TEN YEAR EXPERIENCE

Empirical research

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Abstract

Nowadays business environment can be described through continuous changes, complexity, raising concerns regarding the limited non-renewable resources. Through changes in the reporting practice and by demonstrating a great commitment to responsible corporate day-to-day activities, companies are able to increase their performances on the market. This research aims to underline the performance achieved by "one of the earlier adopters" of integrated reporting by correlating financial performance indicators to its stock price evolution. The results show that responsible actions directed towards social and environmental causes demonstrate a more visible, transparent and active side of a business which helps companies in achieving higher performances.

1. Introduction

Nowadays business environment has to confront with various 21st century's challenges from economic uncertainty, climate change, low regeneration of scarce resources to poverty (Cha et al., 2008; Guest, 2010; Stern, 2008, 2006 in Figge and Hahn, 2013; IIRC, 2011; King and Roberts, 2013). In this respect, companies around the world have to face changes in the reporting practice assuring stakeholders a better look towards companies' overall activities in terms of social, environmental and governance aspects of the business (Adams and Simnett, 2011; Eccles and Krzus, 2010).

The ever increasing demand on reporting of non-financial information at a large scale is explained through the implications of different stakeholders in expressing the need for more complex reporting outputs which could ease the decision making process (Reverte, 2015).

This research aims at offering an insight upon the integrated reporting practice around the world. Moreover, the case of "one of the earliest adopters" of integrated reporting practice is scrutinized as this holistic reporting is observed to improve the market performance of a company, not only by referring to the reporting practice but also by making reference to the corporate actions implied in the development of a sustainable society.

2. Literature review – Integrated Reporting

While financial reporting is mandatory at a global level for all listed companies providing evidence of a company's financial situation and performances (King and Roberts, 2013), non-financial information increasingly gains importance among companies which want to give a holistic understanding of their activities and to demonstrate their responsible behaviour towards the environment and society, in general (Aldaz Odrizola et al., 2012 in Garcia-Sanchez et al., 2013). Magarey (2012) observes that the principal concern of reporting is represented by the communication with various stakeholders and underlines the fact that the quality and relevance of information provided throughout the traditional annual reports are actually being scrutinized as they do not provide an overall image of the social, environmental and governance aspects covering the business life cycle.

Gray, Owen, & Maunders (1987) in Garcia Sanchez et al. (2013) observe the limited areas of concern covered by financial statements and explain the necessity of spreadening them towards social and environmental aspects for achieving a transparent reporting.

The regulatory body concerned with the development of corporate reporting towards a holistic perspective is represented by the International Integrated Reporting Council (IIRC), being created in August 2010 at the initiative of two bodies Accounting for Sustainability (A4S) and Global Reporting Initiative (GRI) (Flower, 2015 in Turturea, 2015, Eccles and Krzus, 2010). The latter establishes guiding principles and useful pathways at a global level for disclosing social and environmental impacts of a company towards the society. Also, GRI aims at using "sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development" according to their website. An important step in the integrated reporting practice is represented by the development of the IIRC Framework which has been published in December 2013 (Flower, 2015) with the commitment of different third parties from accountancy profession, multinational companies to non-for-profit organisations.

The stakeholders increasing demand on non-financial information has emerged to the adoption of integrated reporting practices on a largely voluntary basis all over the world (KPMG, 2013). Hess (2008) in Garcia Sanchez (2013: 829) explains through the stakeholder theory that a company depends on its relationship with stakeholders and in this respect "the latter need to be informed of the economic, social and environmental impact of corporate performance if they are to continue to waive resources, or to penalise inadequate performance by revoking the support provided".

Reporting practice in South Africa has to be observed within a particular context, being the only one country where integrated reporting is mandatory for all listed companies at the Johannesburg Stock Exchange on an apply or explain basis since March 2010 (SAICA, 2013 in Rensburg and Botha, 2013, KING III in Frias-Aceituno et al., 2013).

Integrated reporting, being in its inception phase (Turturea, 2014) is presented within accounting literature under different definitions. Beginning with the IIRC's Discussion Paper, integrated reporting has firstly being defined as a process which "brings together the material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates" (IIRC, 2011), the main purpose being the issuance of a single report able to "replace, rather than add to existing requirements". Later, within the IIRC Framework, integrated reporting represents "a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation".

Flower (2015: 4) supposes that the purpose presented within the Discussion Paper of issuing a single report does not represent anymore the IIRC's target of integrated reporting, rather it is viewed as an additional reporting „adding to the clutter of reports which the IIRC so graphically condemned in its Discussion Paper (IIRC, 2011: 4)". Furthermore, Garcia Sanchez (2013) underpins the idea that there is a lack of evidence regarding the way integrated reports have replaced other sources of communication of a company's activity.

The publication of the IIRC and Black Sun (2014) provides the benefits companies already issuing integrated reports have faced, these being presented within the Table 1.

According to different researchers, the first integrated report was published in 2002 by a Danish pharmaceutical company, Novozymes (Eccles and Saltzman, 2011; Jensen and Berg, 2012), followed by other companies like Novo Nordisk in 2004, United Technologies Corporation in 2008, American Electric Power and Southwest Airlines in 2009 (Eccles and Armbrester, 2011). Important is to mention that before their integrated reporting commencement, Novozymes and Novo Nordisk companies had formed a single company, the business having demerged in 2000 resulting in two listed entities which continue to function separately as per Novo Nordisk's website (http://www.novonordisk.com/).

Previous studies explore the relationship between better reporting practices which include social and environmental disclosures and the financial performance of a company. Frederick (2006) in Ameer and Othman (2012) underlines that debates relating CSR aspects to financial performance of a company have emerged in 1980s. Yusoff et al. (2013) demonstrate that companies disclosing CSR aspects are good financial performers and underline the fact that what matters the most in presenting non-financial information is the variety of elements disclosed, not the volume of disclosures. Ameer and Othman (2012) show that the disclosures of sustainability aspects have positive impacts on the financial performance measured through the return on assets, profit before taxation and cash flow from operation.

3. Research method

As a result of a foregoing study conducted by the author, this research aims to deepen the viability of Eccles and Armbrester (2011) statement with regard to the achievement of higher performance through integrated reporting, and, simultaneously, present the progress a company has faced with respect to integrated reporting practice.

This research is conducted on a quantitative research basis aiming at explaining and connecting the evolution of a company's performance to its reporting practice in the last years, more exactly, the "pioneer" company in issuing integrated reports, Novo Nordisk (Eccles and Armbrester, 2011).

The analysed company is represented by Novo Nordisk, a Danish health care company which is considered by Eccles and Krzus (2010: 23) "one of the earliest adopters of One Report", having started issuing integrated reports since 2004 (Eccles and Krzus, 2010; Eccles and Saltzman, 2011). Novo Nordisk is one of the entities registered within the IIRC Pilot Programme Business Network since its beginning. Interesting is to be observed that the integrated reporting initiative of this company has started earlier than the formation of the IIRC, having a quite interesting evolution described later in this paper.

Financial performance indicators together with the stock price evolution are provided through Thomson Reuters Eikon database, while the integrated reports between 2004 and 2014 are accessed on the company's website. Financial performance indicators are described in Table 2. Also, stock price evolution of Novo Nordisk's main competitors, together with the industry index in which they are comprised, NYSE Arca Pharmaceutical Index (^DRG) is retrieved from Yahoo! Finance website.

4. Results

Having a decade experience in issuing integrated reports, Novo Nordisk's reporting practice has to be observed step by step from its inception phase. According to their website, Novo Nordisk has issued the first environmental report in 1994 with a year in advance of the implementation of Danish requirement related to certain environmental disclosure with regard to company's impact on the environment. Moreover, in 1998, this company has issued its first social report, presenting its responsibility towards employees and the society, in general. A year later, the company brings together in a single report social and environmental disclosures. In 2001, Novo Nordisk starts to include the third part of the triple bottom line (TBL), which is socio-economics, publishing in 2002 and 2003 Sustainability reports covering all three pillars of TBL. As of 2004, Novo Nordisk has started offering a holistic perspective of the company's activities to shareholders and other interested parties, covering economic, social and environmental aspects within an inclusive document, One Report (http://www.novo nordisk.com/, Eccles and Armbrester, 2011). Each annual report issued between 2004 and 2014 is assured by PricewaterhouseCoopers and has on average 42.72% pages referring to non-financial aspects, being presented in Table 3.

Regarding the social and environmental disclosures, Novo Nordisk, on the long run, can be observed as a responsible company towards these aspects, being included in several indices and ratings related to social and environmental performance.

In this respect, Novo Nordisk appears the second company belonging to pharmaceutical industry and the seventh company in the Global 100 Most Sustainable Corporations in the World with an overall score of 68.88%, after Biogen Idec Inc company. This index takes into consideration all publicly traded companies with a market capitalization of at least US$ 2 billion. It is published on an annual basis by Corporate Knights Review since 2005 (http://www.corporateknights.com/).

According to Access to Medicines Index, Novo Nordisk represents the second company out of twenty pharmaceutical companies with a score of 3, coming after GlaxoSmithKline plc with a 3.3 score. As per their website the Access to Medicine Index independently ranks pharmaceutical companies' efforts to improve access to medicine in developing countries. This ranking is built on seven areas of focus (general access to medicine management; public policy and market influence; research and development; pricing, manufacturing and distribution; patents and licencing; capability advancement, product donations) assessing four aspects of a company's actions: commitments, transparency, performance and innovation (http://www.accesstomedicineindex.org/).

As a result of the experience reached so far in integrated reporting, Novo Nordisk is awarded with the best integrated report for the years 2006, 2007, 2008, 2010 and 2011 within CR Reporting Award. This implies the interwaving of financial and non-financial aspects within the entire report (http://www.corporateregister.com/).

Table 4 and Table 5 present the financial indicators evolution over a twenty-two years period, from 1993 to 2014. As we can observe, profitability indicators, the gross margin and EBITDA margin, show an overall increase in the analysed period from 64.4% to 83.5%, respectively 22.5% to 42.7%, having higher results than the industry from 1997 to present in the case of EBITDA margin. Gross margin registers higher results than the idustry in the last nine years consequtively, fluctuating around and above industry median for the rest of the analysed period. Also, Return on equity (ROE), considered one of the most important financial ratios and profitability metrics, shows a positive trend during the analyzed period, achieving higher results than the industry from year 2000 to present, meaning how profitable the company is with regard to the total amount of shareholder equity. Furthermore, asset turnover ratio, showing the earning power, presents almost a growing trend and higher results than the industry, having for the year 2014, 1.2 amount of sales generated per DKK of asset. The leverage ratio measured as Asset to Equity presents mostly lower results than the industry, meaning that assets can cover the equity of the business, return on borrowed capital exceeding the cost of that capital.

Regarding the stock price evolution, we have compared it to the industry index which comprise the Novo Nordisk and to its main competitors (Eli Lilly and Company, Pfizer Inc., Sanofi). In Figure1 we observe an ascendent trend in the stock price of Novo Nordisk, with a sharp increase of its stock price between 2008 and 2014 period. Also, the market value has increased by over in the last 3800% in the 1995-2014 period. As compared to the evolution of the NYSE Arca Pharmaceutical Index (DRG) and its main competitors in Figure 2, there can be observed a higher performance of Novo Nordisk stock on the market exceeding both industry and principal competitors stock perfomance.

This findings are consistent with the results achieved in a previous research and confirm the affirmation of Eccles and Armbrester (2011) which supports the idea that integrated reporting helps companies in achieving higher performance.

5. Conclusion

Non-financial information disclosures are worldwide demanded as companies search to demonstrate their responsible citizenship towards stakeholders in search for potential benefits.

This paper presents the evolution of Novo Nordisk reporting practice in the last twenty years and links it to its financial and market performances. The results are consistent with previous studies connecting nonfinancial disclosures to financial performances of a company and confirm the affirmation of Eccles and Armbrester (2011) which supports the idea that integrated reporting helps companies in achieving higher performance. This research shows that responsible actions directed also towards social and environmental causes demonstrate a more visible, transparent and active side of a business which helps companies in achieving higher performances.

Future research aims to observe the extent to which companies coming from developing countries respond to non-financial reporting and if there is a dependency between non-financial disclosures and profitability on a large set of data.

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Appendices

Table 1
Benefits encountered by companies issuing integrated reports

% of companies now issuing IR	Observations
65%	see a current benefit of better long-term decision making
92%	believe they have increased understanding of value creation
79%	report improvements in decision making
78%	see a current benefit of more collaborative thinking about goals and targets by the board, executives and strategy departments
82%	have made changes in performance information
84%	believe the process has had benefits for their board
84%	have experienced benefits in collaboration between the board and executives

Source: Adapted from IIRC, 2014

Table 2
Financial indicators presentation

Gross Margin	This item is calculated as Gross Profit (Industrial and Utility) for the fiscal year divided by Primary Revenue for the same period, and multiplied by 100. This item available for Industrial and Utility companies.
EBITDA Margin	This value represents annual Earnings Before Interest, Taxes and Depreciation expressed as a percent of annual Total Revenue.
ROE	This value is calculated as the Net Income Before Extraordinary Items for the fiscal year divided by the same period Average Total Equity and is expressed as a percentage. Average Total Equity is the average of Total Equity at the beginning and the end of the year. Available for Industrial and Utility companies.
Asset Turnover	The amount of revenue generated for each unit of assets. Also known as TAT. It is calculated as Primary Revenue for the fiscal year divided by the Average Total Assets for the same period.
Leverage (Assets/Equity)	This is the ratio of Total Assets for the fiscal year to Common Shareholders Equity for the same period and is expressed as percentage.

Source: Adapted from Thomson Reuters Eikon Database

Table 3
Introduction to annual Novo Nordisk's annual reports

Annual Report	Non-financial disclosures pages	Total no. of pages	%
ANNUAL REPORT 2004 financial, social and environmental performance 2004	48	112	42,86%
ANNUAL REPORT 2005 financial, social & environmental performance 2005	43	116	37,07%
ANNUAL REPORT 2006 financial, social and environmental performance 2006	53	124	42,74%
ANNUAL REPORT 2007 financial, social and environmental performance 2007	47	124	37,90%
ANNUAL REPORT 2008 financial, social and environmental performance 2008	45	124	36,29%
ANNUAL REPORT 2009 financial, social and environmental performance 2009	47	112	41,96%
ANNUAL REPORT 2010 financial, social and environmental performance 2010	43	116	37,07%
ANNUAL REPORT 2011 financial, social and environmental performance 2011	51	116	43,97%
ANNUAL REPORT 2012	59	116	50,86%
ANNUAL REPORT 2013	59	116	50,86%
ANNUAL REPORT 2014	57	116	49,14%
Average			42,72%

Table 4
Novo Nordisk's financial results between 1993-2003

Indicators	Industry Median	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Gross Margin	74.5%	64.4%	63.8%	63.8%	66.3%	65.9%	72.5%	74.3%	75.8%	74.9%	73.5%	71.7%
EBITDA Margin	25.6%	22.5%	24.0%	24.7%	25.6%	25.7%	28.7%	29.3%	28.1%	28.1%	29.0%	29.9%
Asset Turnover	0.63	-	0.67	0.65	0.69	0.69	0.50	0.65	0.87	0.88	0.82	0.79
ROE	14.5%	-	11.4%	11.3%	11.6%	12.3%	11.1%	12.1%	19.2%	20.8%	19.1%	20.3%
Assets/Equity	1.88	1.61	1.61	1.45	1.39	1.49	1.52	1.52	1.47	1.44	1.37	1.40

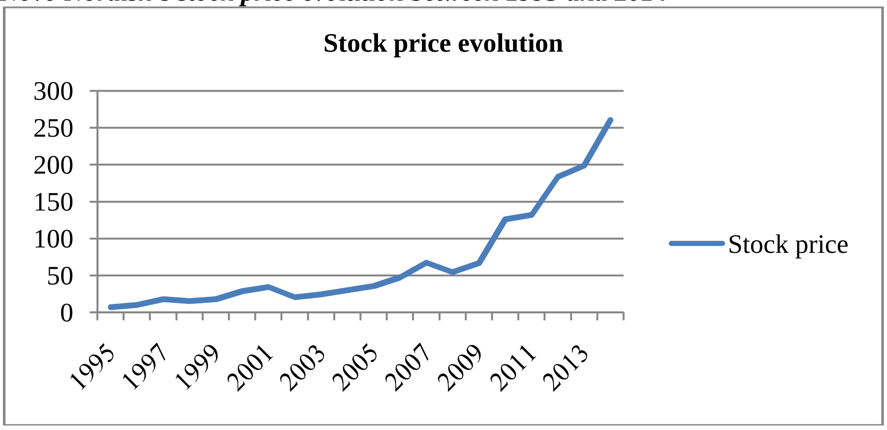
Source: Adapted fromThomson Reuters Eikon Database

Table 5
Novo Nordisk's financial results between 2004-2014

Indicators	Industry Median	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Gross Margin	74.5%	72.3%	72.8%	75.3%	76.6%	77.8%	79.6%	80.8%	81.0%	82.6%	82.9%	83.5%
EBITDA Margin	25.6%	29.4%	29.2%	28.6%	26.3%	32.1%	33.7%	35.0%	37.7%	41.0%	41.0%	42.7%
Asset Turnover	0.63	0.81	0.85	0.89	0.91	0.93	0.97	1.05	1.05	1.20	1.23	1.20
ROE	14.5%	19.6%	21.7%	22.3%	27.4%	29.6%	31.3%	39.6%	46.0%	54.9%	60.5%	63.9%
Assets/Equity	1.88	1.41	1.52	1.48	1.48	1.53	1.53	1.66	1.73	1.62	1.65	1.91

Source: Adapted fromThomson Reuters Eikon Database

Figure 1
Novo Nordisk's stock price evolution between 1995 and 2014



Source: Adapted fromThomson Reuters Eikon Database

Figure 2
Stock price evolution for Novo Nordisk, Pfizer Inc., Sanofi, Eli Lilly and Company and DRG Index

Source: Yahoo! Finance website