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Unlocking the reporting rhapsody: Mediating performance and integrated disclosures in Indian businesses

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Abstract

Implementation of Integrated Reporting (IR) can reduce information imbalance between investors and companies so long as the reports include elements recommended by established frameworks. Prevailing studies show a relationship between IR Practices and firm performance, but more is needed regarding their paths. The study attempts to analyze IR's direct and indirect effects on performance using the size and leverage of a firm in a mediation framework. The sample companies include 69 Indian companies voluntarily adopting IR over five years (2017-18 to 2021-22). The findings reveal a significant direct impact of IR on performance measures. It shows that the leverage and size of the firm mediate the correlation between IR and the performances of sample companies. Again, the statistical significance of the indirect effects of IR on Performance is found concerning firm size and leverage. The article provides a more comprehensive aspect of the prevalent literature on IR.

Subject Classification: *65-03, 65-11.*

Keywords: *Integrated reporting, IR practices, Firm performance, Mediation analysis, Direct & indirect effect.*

Introduction

Corporate reporting serves the fundamental purpose of a company's information disclosure for its stakeholders. This promotes accountability through transparent reporting, ultimately benefiting business operations. The Information role of corporate reporting signifies the most substantial act of corporate reports in aiding the stakeholders with the required and appropriate information whenever required (Adegboyegun et. al., 2020; Krzus, 2011). The vitality of social, economic, and technical careers and stakeholders' continually transforming needs have caused substantial corporate reporting revolutions over time. The varying panorama of the business models has fostered the stakeholders' requirements beyond the conventional requirement for finance-related information for the developed understanding of value creation by companies.

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In conventional financial reports, the requirement for non-financial disclosures has arisen. As a result, various corporate reports, including environmental, social, corporate social responsibility, corporate governance, business responsibility, and sustainability reporting, have been developed to complement conventional financial reporting (Kohli *et. al.*, 2023; Gogia *et. al.*, 2023). However, multiple reports have made corporate reporting practices more complex, increasing compliance difficulties and reporting costs for companies. Consequently, as stated by (Jensen & and Berg, 2012; and Vitolla et. al., 2019), "Integrated Reporting Practices was developed to provide better and more comprehensive financial as well as non-financial information disclosures in the individual annual report." This approach caters to the requirements of diverse stakeholders (Raimo et. al., 2020). IR is a system that involves integrated thoughts and results in a sole report providing information on value-creation over a period. It comprehensively discloses the creation of value by the firm through strategic governance and prospective performance within its exterior surroundings (Swain & Kumar, 2017). Value creation and transmission are defined by integrated thinking through integrated procedure and better resource allocation. Regardless, IR is considered a reporting channel to meet stakeholders' requirements rather than a vital governance instrument of corporations (Di Vaio et. al., 2021). Integrating thinking concerning integrated business responsibility drives a sustainability stance for creating value. However, a narrower view indicates a valuation perception focusing mainly on operational efficiency through accountability. These diverse viewpoints cause diversities in the valuation of firms over a period (Herath et. al., 2021; Swain et. al., 2017; Kumar, 2018).

The existing research investigates the relationship of IR practices with various performance indicators. The IR practices of publicly listed companies in Malaysia significantly influence the RoA (Wen et. al., 2017). Similar results are observed in Bangladeshi companies (Islam, 2020). Adopting Integrated reporting practices addressing the stakeholders' information requirement results in companies' enhanced EPS, RoA, and RoE (Matemane & Wentzel, 2019). RoA and RoE, as extensively used performance measures, precisely signify profitability and intrinsic value (Ohlson, 1995; Islam, 2020).

Through empirical investigation, the present study aims to answer the below-mentioned research questions:

RQ1. Does IR have a direct effect on the performances of firms?

RQ2. On the path of IR and performance measures' relationship, does the Leverage and Size of the firm mediate the relationship?

RQ3. Does IR have an indirect effect on performance through Leverage and firm size?

Research Methodology

Purpose of Study

Based on the above research questions, the objectives framed for this study are:

1. To study IR's direct effect on performance measures.
2. To examine the mediating effect of Leverage and firm size in the IR and performance relationship.
3. To analyse the indirect effect of IR on performance through leverage and firm size.

Sampling and Data Collection

The study considered 75 voluntarily IR-adopted Indian companies. This information was sourced from "India Adopts IR" (Edition 2, December 2020) by AICL Communications Ltd., 2020, which is available on the IIRC website. However, due to limited data and information availability, only 69 companies were included in the final sample for the five years from 2017-18 to 2021-22. The base year for the study was chosen as 2017-18, as it coincided with SEBI's circular on voluntary IR adoption issued on 6 February 2017.

Statistical Tools and Techniques Used

Content Analysis and Principal component analysis (PCA) were used to measure IR adoption by sample companies. Parallel Mediation Analysis through SPSS and PROCESS was applied for the study of the objectives of the study.

Variables under study

Independent Variable: IR Index

Dependent Variable: Firm Performance values –

1. Return on Assets (ROA)
2. Return on Equity (ROE)

Mediating Variables:

1. Leverage
2. Firm Size

Hypothesis Formulation

The null hypotheses developed for this study includes:

1. IR do not directly affect the performance measures of firms.
2. Leverage does not mediate the relationship of IR on Performance.
3. Firm Size does not mediate the relationship of IR on Performance.
4. IR does not indirectly affect Performance through Leverage and Firm Size.

Results and Discussions

RQ1. Does IR directly affect the performance measures of firms?

$H_0$1: IR does not have any direct impact on performance measures of firms.

Table 1

Direct Effect of IR on Performance

T		Prob.		LLCI		ULCI	
ROA	ROE	ROA	ROE	ROA	ROE	ROA	ROE
-2.0388	-3.7289	0.0423	0.0002	-0.2570	-32.9863	-0.0046	-10.2034

Source: Author Compiled

In the above results, zero is absent in the interval between LLCI and ULCI. Also, the p-value of IR on ROA & ROE is 0.0423 and 0.0002, respectively, which is less than the accepted norm of 0.05 at a 5% significance level as shown in Table 1.

Hence, the null hypothesis that IR does not directly affect performance measures cannot be accepted. IR has a statistically substantial direct impact on both the performance measures, i.e., ROA ROE of firms.

RQ2. On the path of IR and performance measures' relationship, does the Leverage and Size of the firm mediate the relationship?

$H_0$2: Leverage does not mediate the relationship of IR on Performance.

Table 2

Mediating Effect Model of Leverage

Model			
T	**Prob.**	**LLCI**	**ULCI**
-4.7849	0.0000	-1.5954	-0.6659

Source: Author Compiled

In the above table, zero does not exist between the values of LLCI and ULCI, and the probability value is within the acceptable norm of 0.05. So, the null hypothesis that Leverage does not mediate the relationship could not be accepted. It can, therefore, be inferred that the firm's Leverage mediates the relationship of IR on the Performance of firms as shown in Table 2.

Table 3

Mediating Effect Model Summary of Leverage

Model Summary		
R-squared	**F-Stats**	**Prob**
0.0633	22.8954	0.0000

Source: Author Compiled

Again, r-squared, although 6.33%, the probability value of 0.0000 (less than 0.05) reveals the significance of Leverage on the correlation of IR and Performances as shown in Table 3.

$H_0$3: Firm Size do not mediate the relationship of IR on Performance.

Table 4

Mediating Effect Model of Firm Size

Model			
T	**Prob.**	**LLCI**	**ULCI**
-2.3060	0.0217	-2.8784	-0.2284

Source: Author Compiled

In the above table, zero does not exist between the values of LLCI ULCI, and the probability value is within the acceptable norm of 0.05. So, the null hypothesis that the firm's size does not mediate the relationship could not be accepted. It can, therefore, be inferred that the firm's size does mediate the relationship of IR on the Performance of firms as shown in Table 4.

Table 5

Mediating Effect Model Summary of Firm Size

Model Summary		
R-squared	**F-Stats**	**Prob**
0.0154	5.3177	0.0217

Source: Author Compiled

Again, r-squared, although 1.54%, the probability value of 0.0217 (less than 0.05) reveals the significance of Size of firm on the link among IR and Performances as shown in Table 5.

RQ3. Does IR have an indirect impact on performances through Leverage and firm size?

$H_0$4: IR has no indirect impact on Performances through Leverage and Firm Size.

Table 6

Indirect Effect of IR on Performance

	Effect		**SE**		**LLCI**		**ULCI**	
	ROA	**ROE**	**ROA**	**ROE**	**ROA**	**ROE**	**ROA**	**ROE**
Leverage	0.2077	-9.3255	0.0492	3.2546	0.1004	-16.1656	0.2945	-3.6169
Size	0.0183	-3.2807	0.0134	2.1170	-0.0512	-8.5053	0.0001	-0.3959

Source: Author Compiled

The LLCI & ULCI of ROA & ROE for Leverage is 0.1004 & 0.2945 and -16.1656 & -3.6169, respectively. The CI intervals in both situations are above zero or less than zero, i.e., no zero is present between LLCI and ULCI as shown in Table 6.

This infers that Leverage has a significant indirect mediation effect on the link between IR and Firm Performance.

Similarly, results disclose the significant presence of the indirect impact of Firm Size in the IR and Performance linkage.

Conclusion

This research study aimed to explore the effect of IR practices on firms' performances and how and when this impacts them. The model presented in the study was able to adequately account for the data collected, indicating that adopting IR practices can improve performance by providing better disclosure and meeting the needs of stakeholders. The study also revealed that various mediating factors might influence the association of IR with performance and that the effects of these factors may change as IR disclosure improves. These findings suggest that understanding IR's complex processes and effects requires further research and analysis.

This study had a few limitations to consider when interpreting the results. Firstly, it was a cross-sectional time series research conducted in India, so one should be vigilant and careful while generalizing the results to other countries' economies. Secondly, the deficit of previous studies on the effect of IR makes it necessary to conduct more quantitative studies to better understand its impact on performance. Finally, all data used in the analysis were obtained through secondary sources only. To further enrich the findings, using various techniques to triangulate the results may be beneficial.

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