

# Trends in Integrated Reporting: A State-Owned Company Analysis

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## Abstract

The need for an oversight mechanism to improve governance and accountability is required for state-owned companies. Integrated reporting, if appropriately implemented, can answer this call due to its ability to provide a holistic view of the factors that create value for an entity in the short, medium and long term. This study investigated the trends in integrated reporting by state-owned companies for the 2013, 2014 and 2015 financial periods with reference to section 2 of The Public Finance Management Act 1999. The nature and extent of disclosures made by state-owned companies with reference to the recommendations and requirements of King III and The International Integrated Reporting Framework with respect to integrated reporting were studied by using a scorecard approach to identify the level of disclosure made by each state-owned company. Key findings suggest that the level of reporting disclosure by state-owned companies increased over the period evaluated. A positive trend was identified in the level of reporting disclosures over the measurement period. Reporting disclosures generally increased from providing "little information" in 2013 to providing "some information" in 2015. There were no instances of non-compliance with overall disclosures with respect to King III and the IR Framework by any of the state-owned companies analysed over the three-year period. Furthermore, no company provided disclosure overall at an excellent level in any of the three years analysed. Thus, although improving, the level of integrated reporting disclosure by state-owned companies is still only satisfactory and as such there is still much room for improvement.

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**Keywords:** accountability; corporate governance; corporate reporting; integrated reporting; International Integrated Reporting Framework; King III; non-financial information; state-owned entities

## **Introduction**

Integrated reporting has gained attraction in recent times (Atkins and Maroun 2014). Although integrated reporting is a relatively new concept through which entities report information globally, South Africa has led the way in implementing integrated reporting (Makiwane 2012). The increasing focus by stakeholders on social, environmental and governance issues is the root source of the growth seen in integrated reports that are produced by entities (Adam and Simnett 2011). Integrated reporting has changed and developed the way entities are held accountable and has developed a new form of accountability (Hopwood 1987). The use of retrospective financial information in the current economic environment does not satisfy the needs of shareholders and other stakeholders who seek information regarding the strategies and future objectives of an entity (Eurosif 2009). Integrated reporting presents numerous advantages as information is aligned more accurately to stakeholders' needs with greater non-financial information becoming available, which provides for better resource allocation by investors and stakeholders alike (Frias-Aceituno, Rodríguez-Ariza and Garcia-Sánchez 2014).

The literature review focuses on the importance of state-owned companies and how integrated reporting can assist state-owned companies in improving stakeholder accountability. Furthermore, the literature review will discuss the King III and IR Framework and how these guidance principles can assist state-owned companies to prepare integrated reports that provide adequate disclosure on key matters. The following section describes the research methodology adopted in carrying out this research study. Furthermore, it introduces the use of a scorecard as the research instrument. Additionally, the methodology sets out the procedure for data collection and data analysis required for the successful execution of this research study. The results of this study are dealt with and contain the findings from the integrated reports which were analysed and interpreted. This article concludes with the findings and recommends avenues for further research.

## **Literature Review**

A state-owned company is defined as a government-owned entity that provides services by following a business-based model where profits are generated in the provision of a service rather than operating on a non-profit basis with total government control (Gildenhuis, Fox and Wissink

1991). Thus, state-owned companies' importance to the economy as a whole cannot be ignored (PwC 2015). The performance of state-owned companies is therefore a vital issue that needs to be addressed (Mbo and Adjasi 2013). State-owned companies are generally protected from business failure as a result of government backing (Wong 2004). A question that can therefore be raised is whether the notion of not being able to fail may lead to the board of directors and management of a state-owned company to become complacent in their duties, thereby hampering entity value creation due to their failure to operate the entity in an effective and efficient manner (IoDSA and PwC 2011). This stems from the fact that the board of directors and management of a state-owned entity effectively operate with the promise of financial support from government who will bail out a state-owned company in the national interest of the country no matter its performance (IoDSA and PwC 2011). This highlights the need for an effective oversight and performance monitoring mechanism to require the board of directors and management to be held accountable (IoDSA and PwC 2011). This view is shared by Mbo and Adjasi (2013) who advocate that to ensure the performance of state-owned companies, government should, to the best of their ability, equip the management of state-owned companies with the necessary skills to make informed decisions. Furthermore, state-owned companies should have an appropriate oversight mechanism to ensure performance (Mbo and Adjasi 2013).

### **Accountability by State-Owned Entities**

The International Integrated Reporting Committee (IIRC) (n.d.) stated that the need for greater accountability by the board of directors and management to the stakeholders of an entity following the global financial crisis has led to effective corporate governance within entities becoming a major focus area. This need for accountability can be explained using agency theory. A concern relating to an agent-principal relation is that the agent may not always act in the best interest of the principal (Eisenhardt 1989; Jensen and Meckling 1976). A situation can therefore arise where the management of a company decides whether to withhold or release information in relation to a company—as they have the ability to do so through the power they possess to control the company as the agent (Rossouw, Van der Watt and Rossouw 2002). The need for an appropriate mechanism to align the interests of both the agent and principal is therefore imperative (Fontrodona and Sison 2006).

The need for accountability from public sector organisations has been driven not only by government but by all interested stakeholders of the relevant public-sector entities (KPMG 2012). The lack of an appropriate oversight mechanism, and as such accountability, has led to a lack of

governance in state-owned entities (IoDSA and PwC 2011). This often leads to the mandates that these institutions are required to meet not being achieved (IoDSA and PwC 2011). The study by Chiu and Hung (2004) asserted that there has been very little research undertaken on the topic of accountability of state-owned companies. Sinclair (1995) confirms this assertion, as accountability in the public sector is often viewed as difficult to achieve. Furthermore, it can be seen that accountability in the public sector is developing and is a continual work in progress (Sands 2004). Reddy and Padmakumar (2008) suggest that improvements in terms of governance by state-owned companies globally are, however, lagging improvements made in the private sector. The need for state-owned companies to undertake greater accountability has been driven mainly due to social, economic and technological forces arising from the use of taxpayers' money (Hoque and Moll 2001). The notion, according to Rivlin (1996), is that globalisation and dissatisfaction of taxpayers with respect to the use of funds by the state has consequently led to accountability becoming a key issue of state-owned companies which cannot be ignored.

### **How Integrated Reporting Can Aid State-Owned Companies in Achieving Accountability**

Integrated reporting can assist state-owned companies to achieve accountability (KPMG 2012). The reason is that integrated reporting can be adapted to take the goals of state-owned companies into account (KPMG 2012). Furthermore, integrated reporting will enable state-owned companies to address factors that are of concern to a vast number of stakeholders who have an interest in their performance (Nkonki 2015). Integrated reporting can also assist in ensuring that a state-owned company makes sustainable decisions as stakeholders of the organisation have greater insight into the objectives and performance of those decisions through reporting disclosures (Nkonki 2014). Due to the framework that is provided by integrated reports, state-owned companies can focus on their principal objectives (KPMG 2012). This is as integrated reporting allows for a state-owned company to clearly state its objectives and strategies which reflect the company's constraints and contrasting expectations from different stakeholders (KPMG 2012). Stakeholders can therefore see the value that state-owned companies create by reporting more holistically based on financial and non-financial information (Nkonki 2015). KPMG (2012) discusses that, whilst integrated reporting was originally an initiative focused on the private sector, the application of integrated reporting to state-owned companies is relevant. Poor performance of a private sector entity (based on the documentation in its integrated report) may lead to divestment in the entity by capital markets. Given a similar situation in a state-owned company, stakeholders may instead seek a change in management (KPMG 2012). Nkonki (2015) echoed this sentiment stating that the use of integrated reporting better prepares state-owned companies to analyse their long-term strategic objectives in

light of stakeholders' needs and noted that many local and international state-owned entities are applying integrated reporting.

Integrated reporting can be guided in state-owned companies by means of the application of the King Report and Code of Governance Principles for South Africa 2009 (King III). This is as King III "applies to all entities regardless of the manner and form of incorporation or establishment and whether in the public, private sectors or non-profit sectors" (IoDSA 2009, 16). King III, in terms of application to state-owned entities, is accommodating, as King III operates on an "apply or explain" principle (IoDSA 2009). As such, it does not lead to a situation where an entity must comply with a so-called "one size fits all" approach, but rather allows for an entity to adapt principles based on its own characteristics and size in a bespoke manner (IoDSA 2009).

Integrated reporting by state-owned companies can also be achieved by the application of the IIRC's Integrated Reporting (IR) Framework guidance on application and preparation of integrated reporting. This is as the IR Framework is principles-based and applicable to both public and private sector entities. As a result, integrated reporting can provide the answer to state-owned companies' perceived lack of governance and can aid them to improve their business. A discussion of the definition of integrated reporting, the issues relating to integrated reports and its benefits in today's ever-changing economy are therefore relevant for this study and are discussed below.

### **What Is Integrated Reporting and What Are Its Benefits and Drawbacks?**

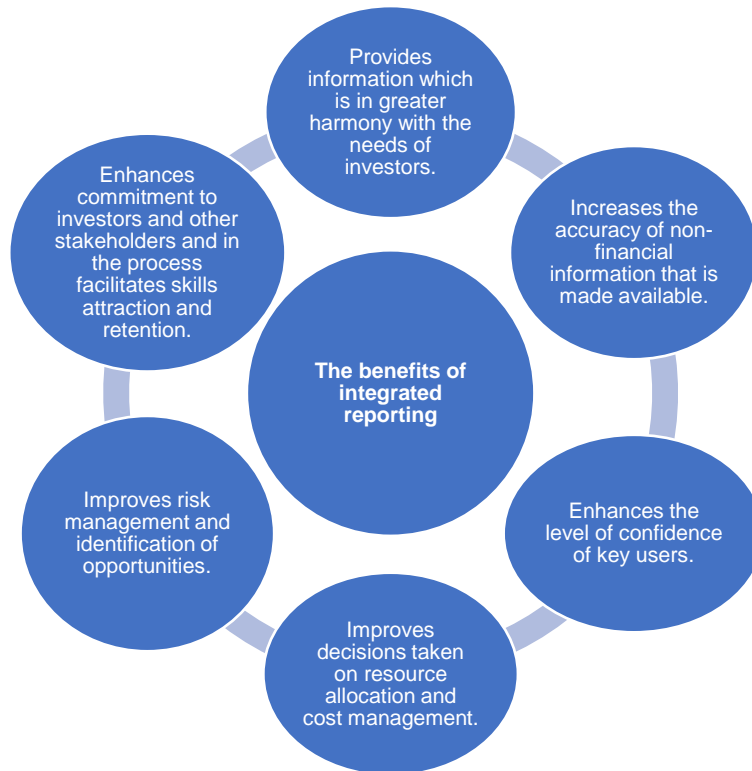
An integrated report is defined as a report that "demonstrates the linkages between an organisation's strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, Integrated Reporting can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organisation is really performing" (IIRC 2011, 7). From this definition, it can be seen that integrated reporting aims to create a concise strategic picture of an entity's ability to create and maintain value both in the short- and long term (Adam and Simnett 2011). This is achieved by integrated reports reflecting the areas that create value in an entity, including social, environmental and governance issues, with qualitative information playing an important role (Adam and Simnett 2011).

With respect to the challenges of integrated reporting, Atkins and Maroun (2014) discovered that, prior to the introduction of the IR Framework, integrated reports lacked conciseness and were

exceptionally lengthy, with information that in most cases was repetitive and difficult to understand. Furthermore, Atkins and Moroun's (2014) study found that printing vast amounts of information, in excess of 500 pages, in most cases was in direct contrast with the substance of sustainability. This sentiment is echoed by Adam and Simnett (2011, 294) where integrated reports are described as "merely exacerbating the already overwhelming amount of disclosure provided without adding further insight." It is evident that the needs that integrated reports were supposedly required to fulfil are left unfulfilled due to the complexity of interpreting and reviewing the information presented.

Apart from regulatory reasons, entities have begun to adopt integrated reporting to demonstrate to the public, and specifically their stakeholders, that their corporate behaviour is acceptable regarding social and environmental issues (Lozano and Huisingh 2011). Although this is a step in the right direction, many of these reports are not balanced and serve more as a marketing exercise focusing on creating a good corporate image rather than providing a balanced report in relation to social, environmental and governance issues (Adams and Larrinaga-Gonzalez 2007; Tilt 2001). This ultimately leads to integrated reports failing to meet their purported purpose (Adams and Larrinaga-Gonzalez 2007; Tilt 2001). The lack of assurance over integrated reports is also a factor of concern as investors and the broader group of stakeholders are more comfortable and perceive greater reliance on assured reports on social and environmental issues (Jones and Solomon 2010).

The IIRC explains that the benefit of integrated reporting is that it provides a more comprehensive account of the performance of an entity than that of traditional reporting as it makes apparent the use and dependence of an entity's financial, manufactured, human, intellectual, natural and social capitals together with the entity's impact and access to them (IIRC Discussion Paper 2011). Furthermore, integrated reporting aids in the identification of risks and opportunities by an entity so that it may allocate resources more effectively (Frias-Aceituno et al. 2014). Integrated reporting therefore further enhances the commitment of stakeholders by achieving a greater level of amalgamation between financial and non-financial information (Frias-Aceituno et al. 2014). The benefit of using integrated reporting will thus aid state-owned companies to achieve accountability (Sands 2004). Figure 2.1 summarises some of the important benefits of integrated reporting:



**Figure 2.1:** Diagram of the benefits of the integrated reporting (Frias-Aceituno et al. 2014)

### **Integrated Reporting and King III**

An integrated report is a single document that pools together an entity’s financial and non-financial performance information (Eccles and Saltzman 2011). This allows for the financial performance of an entity to be evaluated in light of the entity’s negative or positive impact on the community in which it operates (IoDSA 2009). The driving force behind the adoption and development of integrated reporting can be attributed to the King III Report (Eccles and Saltzman 2011). King III was developed with the aim of making South Africa a country where corporate governance and leadership are maintained to the highest standard (IoDSA 2009). Maintaining high standards in corporate governance and leadership in Professor Mervin King’s view would hold South African corporations in good light globally and in effect improve the economic prospects of entities that adopt it (IoDSA 2009). The King IV Report on Corporate Governance for South Africa 2016 (King IV) is effective from 1 April 2017 for use by all types of companies including state-owned entities (IoDSA 2016). King IV builds on the principles of King III but is more closely aligned to the IR Framework following an outcomes-based approach (IoDSA 2016). Looking forward, state-owned entities will need to reevaluate the extent to which the integrated reports that are prepared aligns to the IR Framework and demonstrates the outcomes-based approach.

## **The International Integrated Reporting Framework 2013**

The IR Framework is aimed more at providing effective shareholder accountability (Solomon and Maroun 2012). This is evident from the IR Framework which aims to provide information that can aid providers of financial capital in making investment decisions (IIRC 2013). The IR Framework also seeks to address accountability in relation to the entity's use of all the various sources of capital by an entity, be it financial, manufactured, social, human and natural (IIRC 2013). In addressing these capitals, the IR Framework aims to provide users with an understanding of the inseparable link the different capitals have on one another and ultimately how these capitals and other factors create value for entity, not only in the short but in the medium and long term as well (IIRC 2013). Reports conducted by IoDSA and PwC (2011) and KPMG (2012) agree that this may prove valuable to state-owned companies who struggle in terms of having an appropriate strategy to meet their objectives and who have a lack of transparency in accounting for the results of their operations.

Integrated reports should show the linkages and connectivity of financial and non-financial information such as management commentary and governance matters (Dumitru, Glavan, Gorgan and Dumitru 2013). In a research survey on the implication of integrated reporting through a pilot programme of applying the IR Framework, it was discovered there was a greater connection across the different departments in an entity (Black Sun 2012). The IR Framework requires that an entity's integrated report provides a holistic picture of how the factors that are co-dependent on each other create value for the entity over the short-, medium- and long term (IIRC 2013). The greater level of connectivity across the entity allows for concerns to be considered collectively by each department within the entity rather than in isolation (Black Sun 2012). Connectivity of information is driven by integrated thinking and will provide vital insight into how integrated thinking is applied within an entity (IIRC 2013). The implementation of the IR Framework in its pilot phase led to senior management taking on a greater interest in the long-term sustainability of the entities for which they are responsible (Black Sun 2012). This is crucial for state-owned companies that have opposing objectives to make not only a profit but also to meet certain social and environmental objectives (Luke 2010). Black Sun (2012) found that entities developed more holistic business models which enable management to understand their businesses and the factors that create and add value through implementation of the IR Framework. The results of the application of the IR Framework in respect of integrated reporting to a state-owned entity can be seen in the case of Eskom (Black Sun 2015). Eskom realised the comprehensive nature of integrated reports as a single reference point with respect to the company's information when communicating to the public regarding any questions asked about the entity (Black Sun 2015). The implementation of the IR Framework has saved



Eskom time and precious resources as all the relevant information required by the stakeholders is gathered in the integrated report; hence, there was no need to prepare additional documents at a later stage (Black Sun 2015). Furthermore, Eskom has observed benefits internally within the entity by means of the integrated report (Black Sun 2015). This is as internal business reporting at Eskom became more integrated method thus allowing for a greater understanding internally of how technical performance and financial performance affected each other in a single report (Black Sun 2015).

The IR Framework is principle-based and requires that an entity must comply with and apply certain requirements of the framework whilst others are recommended to be applied (IIRC 2013). The IR Framework can be applied by both private and public-sector entities although its focus is on private entities (IIRC 2013). The IR Framework contains two elements: firstly, being the guiding principles, which inform how the content of as well as the manner in which information is prepared and presented in the integrated report, and, secondly, the content element which provides guidance as to what should be contained in the integrated report (IIRC 2013).

The use of King III and the IR Framework in state-owned companies thus have the potential to provide immense value. Furthermore, as the majority of South African state-owned entities have adopted integrated reporting and apply King III and the IR Framework (KPMG 2012), evaluating the trends in integrated reporting by state-owned entities would thus be a fruitful exercise.

## **Methodology**

### **Research Question**

This study draws on research conducted by Makiwane (2012). However, the context of the study will relate to the evaluation of state-owned companies. The aim of this research is to investigate what the trends are in integrated reporting by South African state-owned companies over the 2013, 2014 and 2015 financial years.

A quantitative research methodology was used to assess the quality of integrated reporting in state-owned companies by means of evaluating the trends in disclosures made in the integrated reports of state-owned companies from 2013 to 2015. The research conducted takes the form of a descriptive study. According to Leedy and Ormrod (2010), research of a descriptive nature purely seeks to explore an existing situation as opposed to altering the status quo. For the purpose of this

study, data analysis is deductive, meaning that researchers deduce findings from the data collected in a manner which protects researchers from bias and allows for general assumptions to be made (Creswell 2013).

### **Research Design**

The study was conducted through inspection of annual reports and websites of state-owned companies that are constituents of Schedule 2 of the Public Finance Management Act of 1999 (PFMA) for the 2013, 2014 and 2015 financial years, in order to review the trends in the integrated reports of each of the state-owned companies identified. Where the 2015 integrated reports were not available, the 2012, 2013 and 2014 financial years were examined. The reports were examined for disclosure relating to the King III and the IR Framework. This method of research forms part of archival research, which involves the use of “administrative records and documents as a principle source of data. Archival research allows for research questions to focus on the historical data, which have subsequently changed over a period of time” (Saunders, Lewis, and Thornhill 2009, 177).

The integrated report of each state-owned company, the nature and extent of disclosure, as well as details provided in each state-owned company’s integrated report issued for the 2015 year were compared to the preceding two years’ (2014 and 2013) reports to identify any changes in the extent of disclosure relating to the integrated reports prepared.

### **Population**

The population for this exploratory study is all the state-owned companies that form part of Schedule 2 of the Public Finance Management Act of 1999 (PFMA). This consists of 21 companies in total. The PFMA lists state-owned companies as either Schedule 2 (21 companies) or Schedule 3 (269 companies) companies. Schedule 2 companies are listed as the most important state-owned companies in South Africa, whilst Schedule 3 companies are listed as “other state-owned entities.” As such, given that this is an exploratory study, it was imperative to use companies that form part of Schedule 2 of the PFMA in order to gain an understanding of the trends in integrated reporting given their importance as state-owned companies in South Africa.

### **Sample**

The selection of an appropriate sample size for a given population is a matter of calculation and judgement (Saunders, Lewis and Thornhill 2009). Where the population size of the data is less than

100, it is advisable to use the entire population (Leedy and Ormrod 2010). The larger the sample size used in proportion to the population, the closer its distribution will be to the normal distribution per the central limit theory (Saunders, Lewis and Thornhill 2009). As such, according to Stutely (2003), in order to carry out statistical analysis, a sample size should at minimum comprise of 30 items of data, irrespective of the population size. Based on the aforementioned discussion, as well as the fact that only Schedule 2 state-owned companies per the PFMA will be analysed, the entire population of 21 state-owned companies was selected. A limitation of the study is that only 19 out of the 21 companies were analysed per Schedule 2 of the PFMA, as two state-owned companies could not provide integrated reports for all three financial years.

### **The Research Instrument**

The research instrument adopted was a scorecard approach, where the principles and recommended practices of King III and the IR Framework (indicators) were recorded and scored against the disclosure contained in the various state-owned companies' integrated reports. A total of 105 indicators were assessed, the specific details of which are available from the authors on request. The 105 indicators were categorised into 19 high level indicators as per King III and the IR Framework. See Table 3.1 below for a list of the high level indicators.

**Table 3.1:** High level indicators

High indicators	
King III	IR
Ethical leadership and corporate citizenship	Organisational overview and external environment
Board and Directors	Governance
Audit Committees	Business model
Risk management Committee	Risks and opportunities
Remuneration Committee	Strategy and resource allocation
Nomination Committee	Performance
Internal audit function	Outlook
Governance of information technology	Basis of preparation
Compliance laws, rules codes and standards	
Governing stakeholder relationships	
Integrated reporting per King III	

The scoring of indicators was based on the quality of disclosure of each indicator with reference to the classification matrix summarised in Table 3.1. The mean scores achieved per indicator were then used to generate the findings of this study. It is recognised that the use of a checklist is not in the spirit of integrated reporting as it encourages a “tick-box” approach. However, this method provided for consistency in carrying out the required testing of the research. Table 3.2 sets out the Makiwane (2012) rating scale that was adapted for the analyses in the current study.

**Table 3.2:** Rating scale

SCORE	INDICATOR	Classification
1	The report provides no information/detail on the requirement.	(Non-compliance)
2	The report provides a small amount of detail/information on the requirement.	(Poor)
3	The report provides satisfactory detail/information on the requirement.	(Satisfactory)
4	The report provides more detail/information on the requirement.	(Good)
5	The report provides a large amount of detail/information on the requirement.	(Excellent)

### **Validity and Reliability**

White (2003, 25) described that “validity is concerned with the idea that the research design fully addresses the questions and objectives aimed to be achieved. Reliability is about consistency and research, and whether another researcher could use the design and obtain similar findings.” This study conforms to the above statement, as it uses the annual reports of state-owned companies. The benefit of using these reports is that it consists of audited financial statements. As such, the auditor of the company would, per the International Standards on Auditing 720, be required to examine both financial and non-financial information contained in the annual report for any inconsistencies (IAASB 2011). The auditor would then need to determine if there are any inconsistencies between the information provided in the annual report and the financial statements, as well as information gained throughout the performance of the audit (IAASB 2009). The information contained in the annual reports can thus be regarded as a reliable source of information and regarded as valid and reliable given that the auditors have considered this information in carrying out their objectives.

It must be noted that the scoring of the nature and extent of reporting involves a level of subjectivity. Subjectivity in itself, however, does not lead to a threat that the validity and reliability of a study will be compromised (Unerman 2009). This study discloses the fact that it is subjective and includes a description of the analysis process in a complete and transparent manner (Elo and Kyngas 2008; Unerman 2009). As a result, the researcher's consistency of scoring was relied upon in order to deliver dependable results in a fair, just and equitable manner.

## **Data Analysis and Results**

### **Patterns in Reporting Disclosure**

Spearman's rho ( $r_s$ ) was used to determine whether there is a monotonic relationship between the state-owned companies' overall (across all indicators) disclosure scores for the years 2013, 2014 and 2015 with respect to integrated reporting.

The disclosures from 2013 to 2014 ( $r_s=0.672$ ) on average appear to follow largely the same pattern and the same can be said about the disclosures from the year 2014 to 2015 ( $r_s=0.726$ ). It can therefore be deduced that on average, there is a strong positive pattern of reporting disclosures from the 2013 to 2014 period and from the 2014 to 2015 period which indicates an improvement in reporting disclosures. However, the results do not provide information as to how the level of integrated reporting changed year on year for each of the state-owned companies analysed. A further discussion of the change in the level of integrated reporting is provided in the section below using the Friedman test.

### **Changes in the Level of Integrated Reporting by State-Owned Companies over the Three-Year Period Analysed**

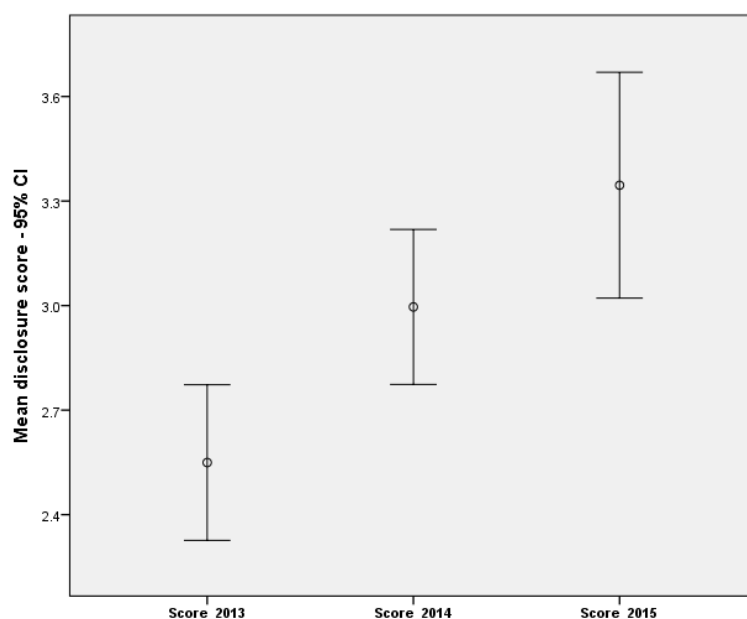
To establish whether there is a difference in the quality of disclosure by state-owned companies disclosed from one year to the next, the mean disclosure level scores for the three years were compared using repeated measures ANOVA by means of the Friedman test.

The Friedman test found that, at the 1% level of significance, the null hypothesis that there are no differences between reporting disclosures by companies from one year to the next can be rejected; therefore, there is a statistically significant difference between the mean ranks, Chi-square (2) = 21.895,  $p < 0.01$ , of at least one pair of mean disclosure rank values.

By analysing the descriptive statistics in Table 4.1 below, it is evident that the mean disclosure level scores which represent the overall average disclosure score achieved by all 19 companies increased in the 2014 and 2015 periods. However, to determine which of these differences (increases) are statistically significant, an error bar chart was used to compare the 95% confidence intervals (CIs) for each of the disclosure level scores for 2013, 2014 and 2015 (Figure 4.1). As the standard deviation (SD) variation in the 2015-year scores are greater (SD=0.672) than the 2013 (SD=0.46367) and 2014 year's (SD=0.46148) scores, there was less precision, and consequently, the 95% CI is wider for the 2013 and 2014 years' scores. The 2013 mean score differs significantly from both the 2014 and 2015 mean scores since there is no overlap between the CI of the 2013 mean score and that of 2014 and 2015. However, due to the overlap in the 95% CIs for 2014 and 2015, one cannot assume that the observed mean score increases from 2014 to 2015 is statistically significant. This can be due to the fact that the mean differences observed from 2014 to 2015 were not very large.

**Table 4.1:** Results of the Friedman test (descriptive statistics)

Score per year	Number of companies	Mean	Std. deviation	Minimum	Maximum
2013	19	2.5496	0.46367	1.93	3.42
2014	19	2.9962	0.46148	2.07	3.85
2015	19	3.3454	0.67223	1.92	4.28



**Figure 4.1:** Diagram representing 95% confidence intervals over the 2013, 2014 and 2015 periods

In conclusion, the quality of integrated reporting disclosure by state-owned companies from 2013 to 2014 increased and is statistically significant. Furthermore, the quality of integrated reporting disclosure by state-owned companies over the 2013 to 2015 period also increased and was statistically significant as discussed above. The quality of integrated reporting disclosure from the 2014 to 2015 period for state-owned companies also increased; however, the Friedman test used in this report was unable to determine if this increase was statistically significant.

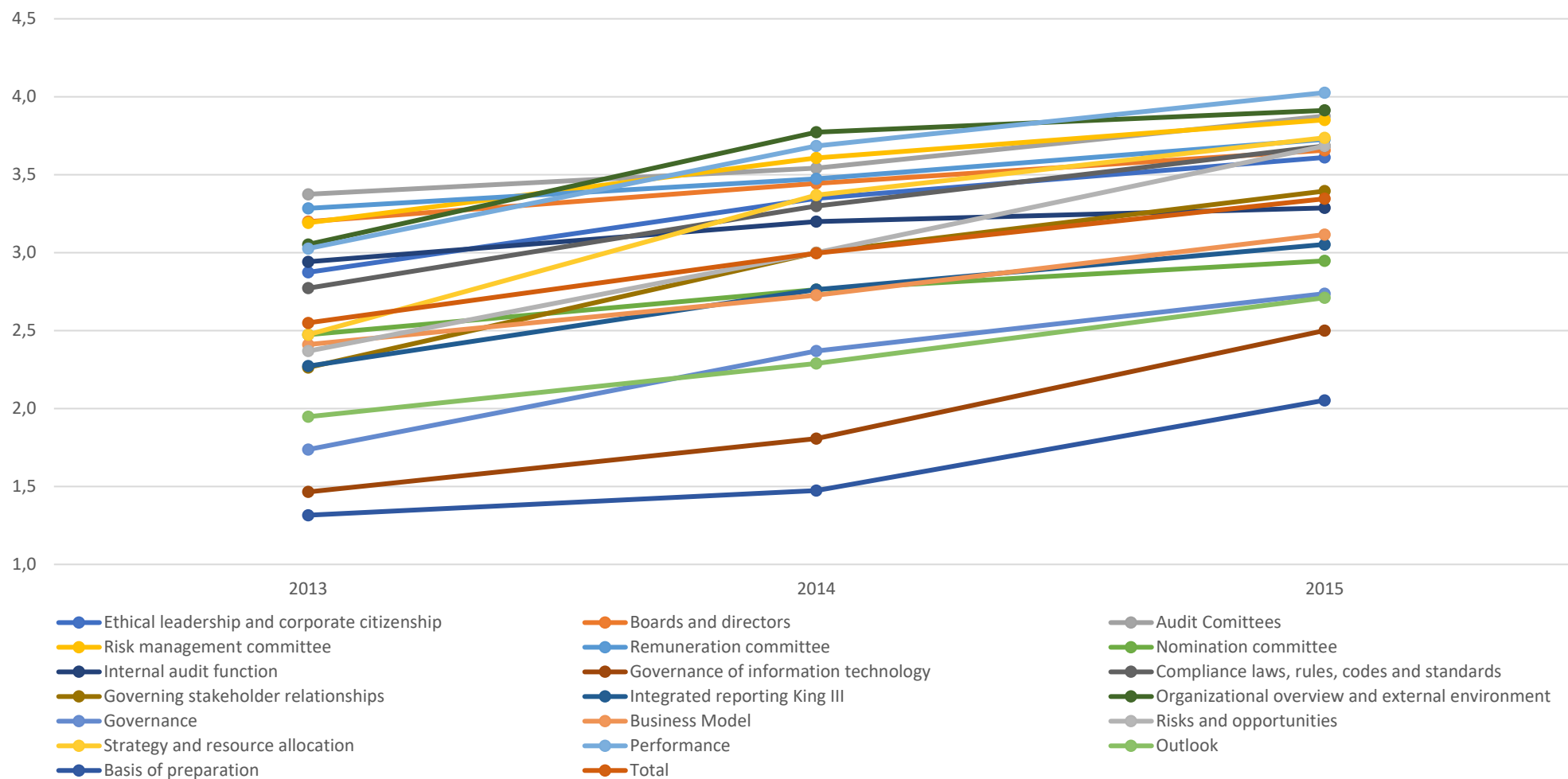
### Evaluating the Trends in Integrated Reporting Per High Level of Indicator

The 105 indicators of this study were categorised, per principle or recommendation of King III and the IR Framework, into 19 high level indicators (see Table 3.1). This section will identify the overall mean scores for each high level indicator used in this study and provide insight into the trends in reporting by state-owned companies based on each high level indicator.

Table 4.2 below lists the average mean scores for each high level indicator over the 2013, 2014 and 2015 reporting periods. Figure 4.2 and Figure 4.3 graph these scores in order to visualise the trends identified more effectively.

**Table 4.2:** Average Score Comparisons Across the Three-Year Period Analysed

Higher classification per higher level indicator classification		Statistical value			
		Number of companies	Mean per year		
			2013	2014	2015
1	Ethical leadership and corporate citizenship	19	2.8737	3.3474	3.6105
2	Boards and directors	19	3.1989	3.4437	3.6566
3	Audit committees	19	3.3746	3.5418	3.8762
4	Risk management committee	19	3.1914	3.6077	3.8517
5	Remuneration committee	19	3.2842	3.4737	3.7263
6	Nomination committee	19	2.4737	2.7632	2.9474
7	Internal audit function	19	2.9415	3.1988	3.2865
8	Governance of information technology	19	1.4649	1.807	2.5
9	Compliance laws, rules, codes and standards	19	2.7719	3.2982	3.6842
10	Governing stakeholder relationships	19	2.2632	3	3.3947
11	Integrated reporting King III	19	2.2719	2.7632	3.0526
12	Organisational overview and external environment	19	3.0526	3.7719	3.9123
13	Governance	19	1.7368	2.3684	2.7368
14	Business model	19	2.4105	2.7263	3.1158
15	Risks and opportunities	19	2.3684	3	3.6842
16	Strategy and resource allocation	19	2.4737	3.3684	3.7368
17	Performance	19	3.0263	3.6842	4.0263
18	Outlook	19	1.9474	2.2895	2.7105
19	Basis of preparation	19	1.3158	1.4737	2.0526
	Total		2.5496	2.9962	3.3454



**Figure 4.3:** An alternative representation of the average scores per high level indicator over the three-year period analysed

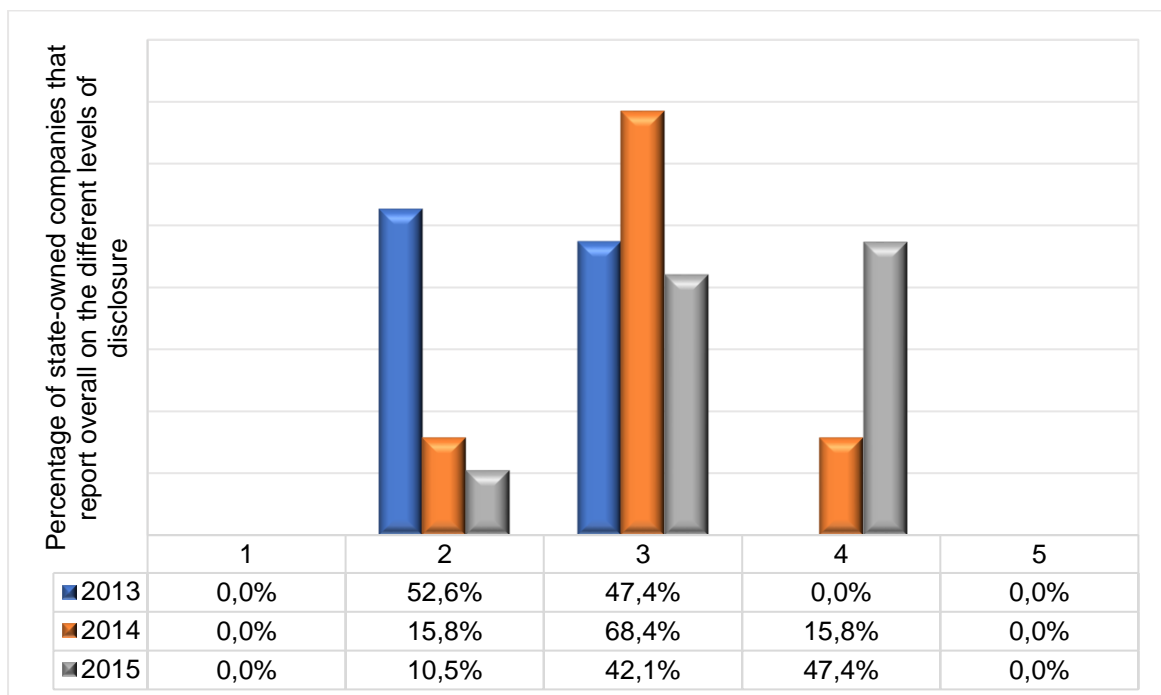


In order to obtain information as to the percentage of companies that reported on each of the high level indicators, the mean scores calculated for each company across all indicators was reclassified as follows per the rating scale adopted from the study conducted by Makiwane (2012) (refer to Table 3.1): (square bracket → includes value, round bracket → excludes value)

- 1 if the mean score falls in [1, 1.5)
- 2 if the mean score falls in [1.5, 2.5)
- 3 if the mean score falls in [2.5, 3.5)
- 4 if the mean score falls in [3.5, 4.5)
- 5 if the mean score falls in [5.5, 5]

### Overall Observations

Analysing the number of state-owned companies that reported at the different indicator levels (per Table 3.1) on an overall basis as indicated in Figure 4.4, it can be seen that no company had an overall classification of 1 in any of the three years and also no company had an overall classification of 5 in any of the three years. No company had a classification of 4 (good) in 2013 while 15.8 per cent of the companies had an overall classification of 4 in 2014 and 47.4 per cent of the companies were classified at level 4 in 2015.



**Figure 4.4:** Bar graph representing the percentage of state-owned companies that report overall on the different levels of disclosure

On an overall basis across all the indicators tested in this report, the mean score achieved by state-owned companies with respect to the level of disclosure in their integrated reports has followed an increasing trend to provide more information. Over the three years analysed, the mean average for disclosure by state-owned companies in their integrated report moved from providing little information at a mean score of 2.5496 in 2013 to providing just below satisfactory information in 2014 at a mean score of 2.9962. Finally, the information disclosed by state-owned entities in their integrated report as a whole improved to providing some information in a satisfactory manner at a mean score of 3.3454 in 2015.

It is evident from the overall analysis that as time progresses, the quality of integrated reporting by state-owned companies improves with experience and adoption of standards such as the IR Framework with respect to integrated reporting. The results further highlight the improving trend in disclosure made by state-owned companies in their integrated reports. Although improving, the level of disclosure is still only satisfactory and as such there is a lot of room for improvement over time. This study found that areas where the nature and extent of disclosure can be increased include: governance; the governance of information technology; the provision of information on the outlook of the entity; and information as to the basis upon which integrated reports are prepared.

## **Conclusion**

The purpose of this article was to analyse the trends in integrated reporting from a state-owned company perspective. The analysis of state-owned companies was conducted by means of analysing the annual/integrated reports of all the state-owned companies that formed part of Schedule 2 of the PFMA for the disclosures per King III and the IR Framework. This analysis was carried out for the 2013, 2014 and 2015 financial years of each state-owned company and where the 2015 results were not available, the analysis was done over the 2012, 2013 and 2014 financial years. The disclosures made in the integrated reports of the various state-owned entities analysed were scored using a scorecard which classified disclosure as non-compliant, poor, satisfactory, good or excellent. The mean scores of the disclosures made by all the state-owned companies were then determined based on the quality of disclosure per the high-level indicators and then on an overall level for all disclosures analysed. The mean scores were then further analysed to provide information as to the percentage of state-owned companies that reported under the different levels of disclosure. The Friedman test and

Spearman's rho were also used to determine if the nature and extent of disclosure increased or not and if there was a pattern in reporting disclosure respectively. An area for future research includes analysing whether the increased adoption of integrated reporting by state-owned entities has had a positive effect on the economic value of the state-owned entities.

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