Article

The Level of European Companies’ Integrated Reports Alignment to the <IR> Framework: The Role of Boards’ Characteristics

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Abstract: In terms of corporate governance, the board of directors (BoDs) is the main responsible structure in meeting and safeguarding both shareholders and stakeholders’ interests. Integrated reporting’s primary aim is to improve information quality provided to shareholders while responding to stakeholders’ interests and needs. Using lenses of stakeholder theory, this study explores the relationship between board of directors’ characteristics as size, gender diversity, activity, tenure, outside directors, chief executive officer (CEO) duality and the Integrated Reports alignment level to the International Integrated Reporting Committee (IIRC) framework, using a self-constructed disclosure index. Applying a content analysis method, data were collected from integrated reports to determine the self-constructed disclosure index (Integrated Reporting Score—IRS). Through quantitative analysis, we analyzed which BoDs’ characteristics are correlated to IRS. The analyzed sample was formed of 98 integrated reports produced by 61 European companies, published on the IIRC website for the period 2013–2017. The current study contributes to existing knowledge by exploring the voluntary adoption of integrated reporting using quantitative analysis and focusing on the European context. The obtained results highlight that integrated report alignment levels with IIRF is directly correlated with the proportion of outside directors on the board and longer board tenure. Results show a higher alignment for reports produced by two-tier or mixed boards than the unitary ones. Additionally, there is a constant improvement in alignment score, with a statistical difference occurring in 2016 compared to 2013.

Keywords: integrated reporting; IIRC framework; board of directors; corporate governance

1. Introduction

Corporate reporting evolved towards integrated reporting, becoming more of a new reporting model than accounting standard [1], focusing on how the company creates value in time [2]. Integrated reporting (IR) uses financial, intellectual, human, relationship, social, natural and manufactured capital based on integrated thinking, aiming to improve a company’s resource allocation and decision-making process [2]. Even though corporate reporting implies the preparation of financial and nonfinancial reports, such as financial statements, corporate governance, remuneration, management commentary, and environmental and CSR reporting, there is no interconnectivity between these reports and the information presented [3]. Moreover, IR represents a step forward for financial and nonfinancial reporting, not just a mere sum of the reports mentioned above [4]. The stand-alone presentation of these reports can lead to information overlapping or lack of coherence among reports, hampering the decision-making process [5]. Thus, traditional corporate reporting contains numerous, disconnected, and static reports, while IR focuses on the company’s value creation process over time, bringing together financial and nonfinancial information.
Companies prepare both mandatory and voluntary reports to mitigate agency and administrative costs. Voluntary reporting represents management’s free choice to disclose more than the required information relevant for users in the decision-making process [6]. Mandatory reporting aims to diminish the information asymmetry between company’s management (the agent) and shareholders/investors (the principal) [7], and it was supplemented in its aim by voluntary reporting [8]. Consequently, integrated reporting is considered a communication tool with investors and shareholders [2].

Along with investors, there are other actors like employees, customers, and regulatory agencies that require other types of information from companies. Nevertheless, serving as an information tool for stakeholders, proprietary costs (e.g., competitive disadvantage, increased competition, and administrative costs, government regulation) might occur in case of IR voluntary disclosure, impacting the volume and quality of information disclosed. Management’s information disclosure decision for capital markets is driven by one of the following reasons: transactions, stock compensation, corporate control, proprietary costs, litigation, and talent signaling [9]. Through the company’s board of directors (BoD), corporate governance functions influence the company’s disclosure, as the board validates the disclosed information in various reports. Therefore, information disclosure might depend on the board’s characteristics and structure, resulting in an agency relationship where shareholders and investors demand higher information disclosures by management [10].

In the European context, regulations regarding nonfinancial disclosure are weakly developed—the EU Directive 2014/95/EU does not indicate any framework to be used by companies for corporate and nonfinancial reporting. Nevertheless, companies adopted the IIRC framework as a mean to publish their nonfinancial and corporate information. Moreover, Europe has a stakeholder-based governance regime compared to North America, which has a shareholder-based governance regime [11].

Using the theoretical lens of stakeholder theory and via quantitative methods, the current paper aims to explore the relationship between board of directors’ characteristics (size, gender diversity, activity, tenure, outside directors, CEO duality) and Integrated Reporting Score, a self-constructed disclosure index, measuring the alignment level of the integrated report to the IIRC framework. Consequently, this study explores which BoD’s characteristics are correlated to integrated reports’ alignment levels to the IIRC framework. The Integrated Reporting Score also highlights the extent to which companies are applying the IIRC framework. The research sample comprises of 98 integrated reports, produced by 61 European headquartered publicly listed companies, published on the IIRC website for 2013–2017.

We expect that companies having larger boards, a higher proportion of outside directors, greater gender diversity, board chair different from the CEO role, more active board and a longer board tenure issue integrated reports that have a higher alignment level to IIRF.

Obtained results confirm that integrated reporting alignment level is directly correlated with the proportion of outside directors on board and longer board tenure. Regression analysis highlights that all of the board’s characteristics explain 33% of the integrated reporting alignment level, while nonexecutive directors’ proportion on boards explains 21% (the only statistically significant coefficient).

Moreover, the results highlight that integrated reports’ alignment level is higher for companies with a two-tier or mixed board structure than those with a unitary board structure. The average alignment score of integrated reports for each year records a constant increase over the analyzed period, but a statistically significant difference occurs between 2013 and 2016.

This study contributes to existing knowledge in the IR field in at least three ways: (i) explores voluntary adoption of integrated reporting, as many studies analyze mandatory IR adoption (ii) enriches the quantitative category of studies analyzing IR adoption, as the majority of studies analyzing integrated reporting are qualitative [3,12–14], (iii) focuses on the unified European context.

This article’s remainder is structured as follows: the theoretical framework is explained in Section 2, followed by Section 3 with hypothesis development. Section 4 presents the used method, data, and variables, while Section 5 highlights the obtained results, followed by conclusions, limitations of the study, and future research in Section 6.
2. Theoretical Framework

2.1. Stakeholder Theory

Stakeholder theory distinguishes actors other than shareholders—the stakeholders—interested in a company’s decisions and actions, who supply the company with valuable resources [15], but in exchange expect their interests to be satisfied and request in this sense information regarding a company’s behavior [16]. The stakeholders’ category includes, but is not limited to: employees, customers, suppliers, creditors, communities, government, nongovernmental organizations, and the general public [4,15].

Stakeholders exercise their control and supervision over the company’s management in a manner that assures the protection of their interests via the mechanism of corporate governance [17]. From an agency perspective, the board has the role of protecting and safeguarding shareholders’ interests due to ownership and control separation of the company, ensuring a return for financial capital providers [17–19]. From the stakeholder-agency perspective, the board is the main actor responsible for meeting and safeguarding the interests of stakeholders while managers are considered agents of other stakeholders—being the only stakeholders entering into a contractual relationship with all other stakeholders and the only ones having direct control over the company’s decision-making process [15].

Stakeholder theory lenses were used previously to explore the relation between board’s of directors and disclosure on CSR information via Global Reporting Initiative (GRI) reporting [16], integrated reporting disclosure [5], respectively IR adoption [20], IR quality [4], and adoption of environmental reporting [21].

2.2. Board of Directors Role in Corporate Governance and Integrated Reporting

BoDs area market-induced structure which oversee and monitor management decisions and actions as the ultimate internal monitor body [22,23]. Moreover, the board is accountable for hiring, firing, and compensating executive managers, monitoring and ratifying their decisions [19].

Corporate governance codes worldwide stipulate the boards’ role in disclosure decision-making [24], as investors and shareholders require more information disclosure by management [10], while stakeholders are interested in company’s behavior.

Thus, the board of directors might be a proxy, through which both shareholders and stakeholders assure that their interests are considered by management in the decision-making process [25]. Board characteristics, such as size, independence, composition, and duality, are considered to determine the effectiveness of its monitoring function [17,26].

The board of directors should provide an integrated report that explains and illustrates the company’s historical performance, risks, opportunities, and future development, enabling shareholders and stakeholders to understand the company’s strategic objectives and value creation process, by disclosing, on a timely basis, relevant and material information [25].

The above principles are translated into the South Africa Corporate Governance code, which requires that the board of directors assumes the responsibility for the integrated report’s validity and reliability [27]. Nevertheless, practical guidance on how the board can ensure that presented information in an integrated report is accurate and complete is scarce, as IR contains qualitative and forward-looking information [28]. BoDs should play a paramount role in the integrated reporting process by: (i) formally adopting integrated thinking, (ii) defining the company’s strategy in terms of value creation for shareholders, (iii) formalizing company’s vision and long-term strategy by clearly identifying its competitive advantage and characteristics of its business model, and risk appetite, (iv) identify, validate, and monitor the key performance indicators representative for the company’s strategy, and (v) develop and approve a “Board of Directors Strategic Report”, a vital tool for engaging with investors [29].

To mitigate agency and administrative costs and reduce information asymmetry, companies disclose both mandatory and voluntary information [5]. IR preparers state that the
decision to issue an integrated report was taken by senior executives, using IIRC framework and GRI Guidelines to report to an extensive range of stakeholders [28]. Integrated reporting’s primary purpose is to enhance the quality of the information provided to shareholders/investors while responding to stakeholders’ needs and interests [2]. Moreover, through information disclosure regarding its business, activities, and how they impact all the company’s stakeholders, companies are trying to legitimate their actions in front of society. Nevertheless, the mimetic isomorphism behavior might occur in preparing an integrated report, aiming to reduce the preparation time needed. However, lacking integrated thinking can result in the poor quality of an integrated report and redundant information that does not add value for stakeholders [28].

3. Hypothesis Development

3.1. Board Size

BoDs’ monitoring capacity increases with the number of its constituting directors, a benefit that might be surpassed by the disadvantages related to inadequate communication and inefficient decision-making process, specific for large groups [17]. After reaching a specific size, the larger the board is, the more ineffective it becomes [30,31]. A board larger than 7–8 members is less likely to function effectively, diminishes its monitoring capabilities, and is much easier to be controlled by the CEO [32].

Board size positively impacts the integration of various reports, whether mandatory or voluntary, influencing IR voluntary adoption [33] and dissemination of integrated CSR [5]. Larger boards, being formed of more experienced and knowledgeable directors, can deal with integrated report preparation, playing a central role in the integrated reporting process [29]. Nevertheless, board size does not influence the quality of the issued integrated report [34] but influences reports’ alignment level with IIRC framework.

Environmental performance and disclosure are higher for companies with larger boards [35,36], where a larger board increases the probability of having the required expertise and diversity to enhance environmental performance [35]. The discussions above lead to the first hypothesis to be verified:

**Hypothesis 1 (H1).** Companies having larger boards issue integrated reports that have a higher alignment level to IIRF.

3.2. Board Gender Diversity

BoDs should be composed of an appropriate mix of independent directors having relevant knowledge, competence, and industry experience to bring a diverse perspective and take objective decisions [25], enabling their preferential access to outside and additional resources, broader social networks, and build new business relationships [35]. Moreover, multiple directorships increase directors’ exposure to various strategic and governance issues. An active CEO director might give better advice and counsel the board on various issues and opportunities [35].

Board diversity is closely related to board composition, as group diversity can improve the quality of the decisions in that group [37], and can be referred to gender, age, nationality, cultural background, and educational attainment [5].

Environmental performance is higher for firms having a board composed of more legal experts and active CEOs [35]. Moreover, companies that have a more significant proportion of Western European directors record higher Environmental Corporate Social Responsibility (ECSR) governance mechanisms [37], while those with a higher number of colored directors report a higher quality of the integrated report [34].

Companies should disclose their diversity policy (including gender, ethnicity, cognitive, and social) regarding senior management and board, reporting on diversity with measurable targets and the progress made [25].
Regarding gender, it is considered that men and women have different moral reasoning, women using more care reasoning and protective attitudes. Nevertheless, to influence the group behavior, a minority must reach a critical number of 3 persons, applicable to women’s presence on the board [37]. The presence of women directors on boards positively impacts the integration of various reports, whether mandatory or voluntary [5], while IR quality is higher for companies that have more women directors [34].

Board diversity does not significantly impact the dissemination behavior of greenhouse gasses, regardless of if the company comes from a sensitive industry or not [26], but companies with three or more female directors record superior environmental, social, and governance (ESG) scores [37].

CSR information disclosure is the most used mean to ease the understanding of companies’ social and environmental performance and improve stakeholder relationships, while women directors impact the CSR transparency disclosure behavior [16]. Companies become more aware and sensitive to air pollution and the greenhouse effect; the board is responsible for disclosing them [26]. The above debate conducts the following hypothesis to be tested:

**Hypothesis 2 (H2).** Companies with higher board gender diversity issue integrated reports that have a higher alignment level to IIRF.

3.3. Board Independence

Board composition and independence are closely related, the last one increasing with the proportion of independent outside directors [38]. It is generally accepted that outside directors are long-term oriented and concerned about the company’s sustainability (CSR, environmental issues) and less focused on economic performance [37]. The presentation of CSR information is impacted by outside directors, meaning that they have a role in ensuring that companies take into consideration the interest of their shareholders and stakeholders [16].

Board independence is closely linked to independent nonexecutive directors’ presence, which should be in the majority [25]. Companies having a board formed in majority by independent nonexecutive directors record higher levels of voluntarily disclosed information [38] and voluntarily disclose more strategic and forward-looking information [24]. Moreover, boards formed in a higher proportion of outside directors have greater control over management’s decisions and improved monitoring effectiveness [19,32].

Outside nonexecutive directors are more objective and independent when managing and analyzing a company’s actions than executive directors [5], offering additional assurance to market participants that their interests are safeguarded [39] and reducing the agency costs [40]. Consequently, outside directors should be compensated in a manner aligned with the shareholders [17]; both managers and board members should own significant stakes in the company [32].

The integrated report quality is higher for companies that have more nonexecutive directors [34]. The IR alignment level with the IIRC framework and Principles is higher for companies that have boards formed with a more substantial proportion of independent nonexecutive directors [41].

Environmental performance is better for companies with a high concentration of independent directors [35], while higher ESG scores are associated with a higher proportion of outside directors on board [37]. Contrarily, the number of independent nonexecutive directors negatively impacts the dissemination of greenhouse gasses for companies operating in sensitive industries, opposing the information disclosure [26]. Previous studies and results presented above lead to the third hypothesis to be tested:

**Hypothesis 3 (H3).** Companies that have a higher proportion of outside directors on the board issue integrated reports that have a higher alignment level to IIRF.
3.4. Board Activity

Board activity has contrary views—an active board with more meetings can be interpreted or viewed as inefficient, while others believe that more board meetings enable directors to supervise the company better [5,42]. By having more meetings, the board can debate, analyze, and decide on a broader range of topics, including the information included in the integrated report. Nevertheless, CSR information disclosure is not correlated with the number of board meetings [5]. The above discussion generates the following hypothesis:

**Hypothesis 4 (H4).** Companies that have a more active board issue integrated reports that have a higher alignment level to IIRF.

3.5. Board Tenure

Directors composing the board should have an appropriate length of their service to bring an objective perspective, but without compromising the BoDs’ independence [25]. Longer tenure of board directors can be viewed as a source of organizational knowledge and reputation, leading to better counsel and access to resources [35]. Nevertheless, each director’s tenure length should be reviewed regularly to enable boards’ diversity and refreshment [25].

Boards formed of directors with an average age of around 56 exhibit higher environmental corporate social responsibility [37] but an increased tenure of directors does not impact a company’s environmental performance [35]. The discussion presented above brings the fifth hypothesis to be tested:

**Hypothesis 5 (H5).** Companies that have longer board tenure issue integrated reports that have a higher alignment level to IIRF.

3.6. Chair & CEO

It is recommended that BoDs should have as president an independent nonexecutive director with a clear separation of executive management regarding responsibilities [25]. The Board chair is responsible for running the board meetings, supervising CEO hiring, firing, evaluation, and compensation; consequently, the CEO cannot play the chair role aside from their interest [32].

Regarding information disclosure, the CEO holds more private information regarding a company’s internal environment and competitive advantage [41] and a CEO-chair separation might derive in lower voluntary disclosures, as private information transfer is reduced. Nevertheless, a CEO-chair role separation defines clear lines of authority and responsibilities for each role.

The CEO duality function significantly impacts the dissemination of greenhouse gases—when the same person performs the duties of CEO and chair, the amount increases—but the effect disappears if there is a litigation risk associated with industry sensitivity [26]. Contrarily, companies where the BoDs’ chair is different from the CEO recorded better qualities of integrated reports, meaning that the chair has an active role in integrated reporting implementation [34].

Nevertheless, other studies did not flag any relationship between voluntary disclosure [38], environmental performance [35], presentation of CSR information [16], integrated reports alignment level with IIRF [43], and CEO-duality. The above discussion generates the fourth hypothesis to be tested:

**Hypothesis 6 (H6).** Companies where the BoD chair is different from the CEO issue integrated reports that have a higher alignment level to IIRF.

4. Used Method, Data, and Variables

The present study explores the relationship between integrated reports alignment level with IIRC framework and board of directors’ characteristics. The research sample is formed of all integrated
reports produced by European-headquartered publicly listed companies, presented on the IIRC website in the Examples Database section, region Europe, until February 2019, now rebranded as Leading Practices. IIRC Examples Database section highlights emerging practices in integrated reporting regarding the appliance of guiding principles and content elements [44]. The integrated reporting examples on the website were selected from publicly available reports, including also those from the IIRC Pilot Programme. A sample containing 98 integrated reports voluntarily issued by 61 publicly listed companies for the 2013–2017 periods resulted. The IIRC framework, issued in December 2013, is built on fundamental concepts, content elements, and guiding principles. Only content elements were analyzed in the current study, based on which the coding framework for the Integrated Reporting Score (IRS) is constructed, measuring the integrated report alignment level with IIRF.

Voluntary disclosure improves the company’s information environment, reducing information asymmetry [45]. IR’s primary purpose is to increase the quality of the information provided to shareholders/investors while responding to stakeholders’ needs and interests by explaining how the company creates value in time [2].

Previous studies analyzing integrated reports quality and alignment level with the IIRC framework/Prototype framework use a scale (0–5/1–5) to assess the quality/disclosure level, give a grade (good/poor) [46,47], or check the presentation of that element [45]. Ernst &Young Awards rank the integrated report’s quality, issued by companies listed on Johannesburg Stock Exchange, by poor/good/excellent. Nevertheless, using a scale scoring model implies high subjectivity closely linked to the report’s user previous experience and professional judgment—what is “good” for a user might be “excellent” for another user.

Using the IIRC framework was eliminated due to the subjectivity that might occur in designing and computing the Integrated Reporting Score, which is built on the 8 content elements mentioned by IIRF (see Table A1 from Appendix A), resulting in 28 dimensions (3 dimensions of organizational overview and external environment having more than 1 analyzed element, named component). Our approach is similar to other disclosure indexes employed in previous studies using IIRC framework [1,45,46], where the items included in the disclosure index are validated with IR preparers and end-users [48]. Nevertheless, our disclosure index measures the alignment level to the IIRF of the integrated report, not its quality.

The existence of dimensions and components (components were checked only for “Organizational overview and external environment”) was checked, using the content analysis method, largely adopted in various studies to investigate disclosure, quality, and compliance of various reports issued by companies [36,46,47] even to compare different accounting frameworks/standards/guidelines [3]. The content analysis method is frequently used in corporate and integrated reporting fields, being useful to examine trends and patterns, and implies the classification of disclosures into categories which capture the essence of the concept, often using a predetermined disclosure index based on best practice guidelines or a framework. Additionally, content analysis is suitable when exploring whether a framework is adopted or not. We adopted a dichotomist scoring approach to measure the alignment level of the integrated report with the IIRC framework. By comparison, to determine the integrated report’s quality, a scale scoring model (e.g., 0–5) is more suitable [47].

Consequently, if the report presented the element (the stand-alone dimension or the component), the variable took “1” as a value and if not “0”. The value of each content element was computed as the average scores of each dimension. If the dimension had components, the average score of each dimension was first computed, and afterward, the value of the content element, as the average score of dimensions. The Integrated Reporting Score was computed as the average of the values obtained for each content element. Each content element, dimension, and component were considered equally important.

Disclosure scores have the advantage of measuring and comparing the actual presented information with the information that could have possibly been disclosed in the report, thus, measuring the alignment level. A recorded value closer to “1” indicates a higher alignment with the IIRF of the integrated report.
The developed model to compute the Integrated Reporting Score can be used and replicated in practice by a wide range of users to determine the alignment level of any integrated report with the IIRC framework. Moreover, the usage of a dummy variable eases the model and method usage.

Based on the most analyzed BoDs’ characteristics in previous studies, the following independent variables related to Board characteristics will be used, as presented in the Table 1, below:

| BoDs’ Characteristics | Independent Variable Description | Expected Sign | Previous Studies |
|-----------------------|---------------------------------|---------------|-----------------|
| Size                  | Number of board directors       | +             | [5,29,33–36]    |
| Gender diversity      | Percentage of women directors   | +             | [5,16,26,33,34,37] |
| Outside directors     | Proportion of: independent, nonexecutive, and independent nonexecutive directors | +             | [19,24,32–35,37,38,41] |
| Activity              | Number of board meetings during the year and board meetings attendance | +/-           | [5,16,42]       |
| Tenure                | Number of average years         | +/-           | [35,37]         |
| CEO duality           | If board chair is different from the CEO | +             | [16,26,34,35,38,43] |

For statistical analysis, we used IBM SPSS 20. The values recorded for the Integrated Reporting Score were not normally distributed (test results significance level for Kolmogorov-Smirnov of 0.004 and Shapiro-Wilk of 0.033; which are below 0.05). In consequence, nonparametric tests were used for inferential statistics analysis: Mann-Whitney U and Kruskal Wallis (compare means of independent groups), Spearman’s rho test (the relationship between IRS and BoDs characteristics) and regression analysis (IRS—dependent variable—and BoDs characteristics—-independent variables).

5. Results and Discussion

5.1. IRS & BoD Characteristics—Descriptive Statistics

The average score recorded for each content element is shown in Table 2. The highest value was recorded for “Business model”, while the lowest was recorded for “Outlook”. Nevertheless, the relatively high standard deviation symbolized that there are variations among the analyzed reports—a fact explainable by the voluntary adoption of integrated reporting in Europe.

| Reporting score and content elements. | N  | Average | Std. Deviation | Min. | Max. |
|--------------------------------------|----|---------|----------------|------|------|
| Integrated Reporting Score           | 98 | 0.70    | 0.13           | 0.32 | 0.97 |
| Organizational overview and external environment | 98 | 0.83    | 0.15           | 0.27 | 1    |
| Governance                           | 98 | 0.71    | 0.16           | 0.2  | 1    |
| Business model                       | 98 | 0.94    | 0.24           | 0    | 1    |
| Risks and opportunities              | 98 | 0.74    | 0.25           | 0.5  | 1    |
| Strategy and resource allocation     | 98 | 0.70    | 0.14           | 0    | 1    |
| Performance                          | 98 | 0.76    | 0.20           | 0.4  | 1    |
| Outlook                              | 98 | 0.44    | 0.36           | 0    | 1    |
| Basis of preparation and presentation| 98 | 0.47    | 0.41           | 0    | 1    |

The average value of the Integrated Reporting Score was 0.70, with a minimum of 0.32 and a maximum of 0.97. Regarding the frequency of the values recorded, 3 reports had 0.96 and another 3 recorded 0.83. Looking at deciles, the majority of IRS values were encountered between 0.6 and 0.7 (for 29 reports). Average values of the Integrated Reporting Score for each year are presented in Table 3.
The Integrated Reporting Score recorded higher values on a year-on-year basis, from 0.63 in 2013 to 0.73 in 2017. This is translated into a higher alignment with the IIRC framework and higher disclosures from companies. A significant difference in the Integrated Reporting Score level is encountered between the 2013 and 2016 values (Mann-Whitney U test significance was 0.014, which was below 0.05 level).

Regarding variables describing the board of directors’ characteristics, the recorded values are presented in Table 4.

### Table 4. Board of directors’ characteristics.

|                          | N          | Average | Std. Deviation | Min. | Max. |
|--------------------------|------------|---------|----------------|------|------|
| Board size               | 98         | 0       | 12             | 4    | 24   |
| Board gender diversity   | 98         | 0       | 0.26           | 0.11 | 0.5  |
| Independent non-executive directors | 98        | 0       | 0.65           | 0.19 | 0.2  |
| Independent directors    | 98         | 0       | 0.66           | 0.19 | 0.1  |
| Non-executive directors  | 98         | 0       | 0.82           | 0.14 | 0.5  |
| Board meetings           | 96         | 2       | 9              | 3    | 24   |
| Board meetings attendance| 88         | 10      | 0.97           | 0.03 | 0.86 |
| Average board tenure     | 89         | 9       | 5.5            | 1.7  | 0.73 |
|                          |            |         |                |      | 11.1 |

On average, the Board of Directors is formed with 12 directors—more than 7–8 members to function effectively [32]—out of which 26% were women, 65% were independent nonexecutive, 66% were independent, and 82% were nonexecutive, with a tenure of 5.5 years, who met on average 9 times per year with a 97% attendance.

All companies from the sample had a board comprising in the majority (over 50%) of nonexecutive board members, respecting the ICGN recommendations. Moreover, 73 reports came from companies where the board was formed preponderantly of independent nonexecutive directors.

Regarding board structure, 66% of reports came from companies that had a unitary structure, 30% were produced by companies having a two-tier board structure, while 4% were issued by companies having a mixed board structure. Moreover, companies that had a mixed board structure recorded the highest average value of IRS (see Table 5).

### Table 5. Integrated Reporting Score and board structure type—descriptive statistics.

| Board Structure Type | N  | Average | Std. Deviation | Min. | Max. |
|----------------------|----|---------|----------------|------|------|
| Unitary              | 65 | 0.65    | 0.12           | 0.32 | 0.96 |
| Two-tier             | 29 | 0.78    | 0.12           | 0.55 | 0.97 |
| Mixed                | 4  | 0.82    | 0.03           | 0.79 | 0.85 |

By company’s board structure type, the values recorded for the Integrated Reporting Score were statistically significantly different (Kruskal Wallis test significance was 0, below 0.05).

Based on the Mann-Whitney U Test, the Integrated Reporting Score was significantly higher for reports coming from companies with a two-tier or mixed board structure versus those coming from companies with a unitary board structure (significance < 0.05 in Table 6). Based on stakeholder theory,
the presentation of information required by the IIRC framework (materialized through IRS) might be higher for two-tier and mixed boards as these types of board structures better represent and align to stakeholders’ interests. In the case of a two-tier governance system, the supervisory board members are elected by shareholders, responsible for hiring and firing the members of the management board. This can result in constructive discussions regarding information disclosure in the integrated report.

Table 6. Reporting score and board structure type—Mann-Whitney U Test.

| Test Statistics       | Unitary vs. Two-Tier | Unitary vs. Mixed | Two-Tier vs. Mixed |
|-----------------------|----------------------|-------------------|-------------------|
| Mann-Whitney U        | 445                  | 21                | 49                |
| Wilcoxon W            | 2590                 | 2166              | 484               |
| Z                     | −4.073               | −2.799            | −0.497            |
| Asymp. Sig. (2-tailed)| 0                    | 0.005             | 0.619             |

Regarding CEO duality, 77% of reports were produced by companies where CEO and board chair roles are performed by the same person (see Table 7 below)—which is not in accordance with ICGN Global Governance Principles requiring that the board chair to be different from the CEO role—and independent nonexecutives [25]. On average, the Integrated Reporting Score was higher for reports issued by companies where the CEO-chair roles are performed by different persons (0.75), compared to the situation when the role is played by the same person (0.68).

Table 7. Reporting score and CEO duality—descriptive statistics.

| CEO—Chairperson Separation | N | Average | Std. Deviation | Min. | Max. |
|----------------------------|---|---------|----------------|------|------|
| No                         | 75| 0.68    | 0.11           | 0.39 | 0.92 |
| Yes                        | 23| 0.75    | 0.18           | 0.32 | 0.97 |

Depending on the CEO duality variable, no significant differences were found in the Integrated Reporting Score and alignment level with IIRF (H6 rejected; Mann-Whitney U test sig. = 0.078, which is above 0.05). Similar results were found for CEO duality and CSR information disclosure [16]. Contrarily, the junction of CEO-chair roles positively impacts the information dissemination on greenhouse gasses, but the effect disappears when there is the risk of litigation due to industry sensitivity [26]. In companies where there is CEO-chair role segregation, the quality of integrated reports increases [34], meaning the board chair has an active role in its implementation.

5.2. IRS & BoDs Characteristics—Relationship Analysis

The association between the Integrated Reporting Score and the Board of Directors’ characteristics was analyzed using Spearman’s rho nonparametric test (see Table 8).

Table 8. Reporting score and board of directors’ characteristics—Spearman’s rho test.

| Spearman’s Rho       | Board Size | Board Gender Diversity | Independent Nonexecutive Directors | Independent Directors | Nonexecutive Directors | Board Meetings | Board Meetings Attendance | Average Board Tenure |
|----------------------|------------|-------------------------|-------------------------------------|-----------------------|------------------------|----------------|--------------------------|---------------------|
| IRS                  |            |                         |                                     |                       |                        |                |                          |                     |
| Correlation Coefficient | 0.058      | 0.033                   | 0.229 **                            | 0.280 **              | 0.459 **               | 0.081          | −0.06                    | 0.213 *             |
| Sig. (1-tailed)      | 0.285      | 0.373                   | 0.012                               | 0.003                 | 0                      | 0.216          | 0.288                    | 0.023               |
| N                    | 98         | 98                      | 98                                  | 98                    | 98                     | 96             | 88                       | 89                  |

* Correlation is significant at 0.05 level (1-tailed). ** Correlation is significant at 0.01 level (1-tailed).

Results of Spearman’s rho test highlighted the Integrated Reporting Score being directly correlated with the proportion of outside directors (independent, independent nonexecutive—weak intensity; nonexecutive—medium intensity) and average board tenure (weak intensity). Thus, companies having boards composed of a higher proportion of outside directors issue integrated reports which align at a higher
level to IIRF (H3 accepted), proving that outside directors are long-term oriented and concerned about the sustainability of the business. Obtained results strengthen previous studies’ findings, where the proportion of outside directors is correlated with a higher quality/alignment level of integrated reports to IIRF and higher environmental performance, CSR and ESG scores.

Through the lenses of stakeholder theory, this correlation can also be explained as it is considered that outside directors tend to have interests and information needs aligned with external stakeholders. Moreover, independent nonexecutive directors can provide supplementary assurance to various stakeholders that their interests are taken into consideration by companies in the decision-making process. A board formed with a higher proportion of outside directors is better controls management decisions, who decide over the information to be included in the integrated reports.

Previous studies, analyzing integrated reporting and boards of directors, highlight a higher quality of integrated report for companies having more nonexecutive directors on the board [34] and a higher alignment level of the integrated report with IIRF for companies having a more substantial proportion of independent nonexecutive directors on the board [41]. Nevertheless, board independence does not influence the voluntary adoption of integrated reporting (proportion of nonexecutive directors in [33]), nor the disclosed amount regarding greenhouse gasses information (number of independent nonexecutive directors in [26]).

A more significant proportion of outside directors is correlated with higher environmental performance [35], ECSR, and ESG scores [37]. Furthermore, nonexecutive directors impact the presentation of CSR information, meaning that they play an essential role in ensuring that companies take into consideration the interest of both their shareholders and stakeholders [16].

Companies with a longer board tenure issue integrated reports which align at a higher level to IIRF (H5 accepted). This can be viewed as more experienced directors better understand the company and its operations, leading to more effective integrated reporting implementation. Nevertheless, no correlation was found between board tenure and company’s environmental performance [35].

Companies having larger boards, higher gender diversity of the board, or a more active board, do not issue integrated reports which align at a higher level to IIRF (H1, H2, and H4 rejected). Consequently, a larger board and women directors’ presence does not impact the information disclosure decision in integrated reports.

Similar results highlight that board size does not influence the integrated report quality [34] nor the alignment level with IIRF [41]. Nevertheless, larger boards influence IR voluntary adoption [33] and positively impact the integration of various reports, whether mandatory or voluntary [5].

By contrast, environmental disclosures [36] and performance [35] are higher for companies with larger boards. Regarding CSR disclosure, results are debatable: companies with larger boards disseminate more corporate social responsibility information [5], but no relevant relation was found between the presentation of corporate social responsibility information and board size [16].

Similar results show that the voluntary adoption of integrated reporting is not influenced by board diversity [33]. Contrary results highlight that more women directors on boards lead to an improved quality of integrated reports [34], moreover positively impacting the integration of various reports, whether mandatory or voluntary [5].

Board diversity does not impact dissemination behavior regarding greenhouse gasses, regardless of whether or not the company comes from a sensitive industry [26]. Nevertheless, the existence of women directors on boards impacts corporate transparency behavior regarding CSR disclosure [16] and leads to higher ESG scores [37].

Similarly obtained results underline that the number of board meetings does not impact CSR information disclosure behavior [5,16].

Linear regression analysis outlined that variables associated to the board of directors’ characteristics explain 33% of the Integrated Reporting Score (R square = 0.33), with the regression being statistically significant (significance = 0.001 which is below 0.05). Nevertheless, the only statistically significant coefficient is recorded for board nonexecutive directors (significance = 0 which is below 0.05; see Table 9).
Table 9. Integrated Reporting Score and Board of Directors’ characteristics—regression analysis

| Model                          | Unstandardized Coeff. | Standardized Coeff. | t     | Sig.  |
|-------------------------------|-----------------------|---------------------|-------|-------|
|                               | B                     | Std. Error          | Beta  |       |
| Constant                      | −0.725                | 0.533               | −1.360| 0.178 |
| Board size                    | 0.003                 | 0.005               | 0.053 | 0.502 |
| Board gender diversity        | −0.089                | 0.129               | −0.074| 0.693 |
| Independent non-executive directors | 0.050                | 0.104               | 0.072 | 0.478 |
| Board independent directors   | 0.019                 | 0.106               | 0.026 | 0.175 |
| Board non-executive directors | 0.426                 | 0.108               | 0.479 | 3.929 |
| Board meetings                | 0.006                 | 0.004               | 0.150 | 1.454 |
| Board meetings attendance     | 0.916                 | 0.511               | 0.191 | 1.794 |
| Average board tenure          | 0.013                 | 0.008               | 0.180 | 1.685 |
| CEO duality                   | −0.024                | 0.038               | −0.067| 0.616 |

Taking into account only the proportion of nonexecutive directors in the linear regression analysis, a 21% explanation in the Integrated Reporting Score variation was obtained (R square = 0.21), while maintaining the significance of regression (sig. = 0) and coefficient (sig. = 0, below 0.05; and board nonexecutive directors beta unstandardized coefficient = 0.428 and standardized coefficient = 0.457; constant beta unstandardized coefficient = 0.345).

6. Conclusions, Limitations, and Future Research

The alignment level of analyzed reports with the IIRC framework consistently increased over the analyzed period for publicly listed European-headquartered companies, with a significant difference in the Integrated Reporting Score level occurring between 2013 and 2016. Nevertheless, it remains a relatively high variation in the average values recorded for each year, possibly explained by the voluntary adoption of integrated reporting in Europe.

Regarding the board structure type, the Integrated Reporting Score was significantly higher for reports produced by companies with a two-tier or mixed structure compared to those produced by companies with a unitary board structure. Moreover, there was no significant difference in the integrated reports alignment level with IIRF for companies where the board chair is different from the CEO versus companies where the same person performs these roles.

Results highlighted that the integrated reports alignment level (voluntarily produced by European-headquartered publicly listed companies) with the IIRC framework is directly correlated with a higher proportion of outside directors on board (independent nonexecutive, independent, and non-executive) and longer board tenure. However, there was no correlation with the board’s size, gender diversity, or activity.

Obtained results strengthen previous studies analyzing integrated reports alignment level with IIRF and proportion of outside directors. Additionally, more extended board tenure highlighted that experienced directors better understand the company and its operations, leading to a better implementation of IIRC framework.

This research thickens previous studies exploring integrated reporting and board size and activity—there is no relation between integrated report alignment level with IIRF and board size, nor does board activity influence the dissemination of integrated CSR information. The neutral relation between IRS and board gender diversity does not tilt the balance of previous studies results.

Through the lenses of stakeholder theory, obtained results highlighted that the information required to be presented by IIRF in the integrated reports/integrated reporting alignment level to IIRF is higher for companies having: (i) two-tier and mixed boards as these type of board structures better represent and align to the interests of stakeholders; a larger proportion of outside directors on the board, as they tend to have interests and information needs, aligned with external stakeholders.

Using linear regression analysis, the board of directors’ characteristics explained 33% of the Integrated Reporting Score variation, while considering only the proportion of nonexecutive directors’
variable in the linear regression analysis (only statistically significant coefficient), a 21% explanation is obtained.

This study contributes to existing knowledge in the integrated reporting area by: (i) exploring IR voluntary adoption, (ii) enriching the quantitative category of studies analyzing IR adoption, and (iii) focusing on the unified European context.

The current study brings various implications for practice, society, and regulators. The developed model to compute the Integrated Reporting Score can be used in practice by a wide range of users to determine the alignment level of any integrated report with IIRC framework. Stakeholders can better trust the information disclosed in the integrated report if the board of directors is largely composed of outside directors. Moreover, corporate governance regulators can use the current study results by requesting companies to have boards composed largely of outside directors, enabling the presentation of nonfinancial information promoted by IIRC framework.

Limitations of the current research are related to sample size and the chosen board of directors’ characteristics.

Future research will analyze the board of directors’ characteristics that were not found to be correlated with integrated reporting alignment score, in order to identify possible explanations and drivers.

The current European scenario, characterized by the proliferation of nonfinancial reports prepared on a mandatory basis, opens new horizons for future research. In this sense, it is of high interest what elements and BoDs’ characteristics lead to the adoption of IR, GRI, or other frameworks for mandatory reporting (according to EU directive) or voluntary reporting.

In the international context, there is a new debate towards comprehensive corporate reporting to reach reporting comparability and enhance stakeholders’ trust, which enables us to further research the IR developments and integrated thinking.

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**Appendix A**

| Table A1. Reporting score elements. |
|-------------------------------------|
| Content Element | Dimension (Component) |
|-----------------|-----------------------|
| Organizational overview and external environment of the company | Mission, Vision and Values (same components) |
| | Context (Ownership, Operating structure, |
| | Principal activities, Principal markets |
| | Competitive landscape, Market positioning, |
| | Position within the value chain) |
| | Key quantitative information (Number of employees, |
| | Number of countries in which the company operates, |
| | Revenues by countries in which the company operates) |
| | Significant factors affecting the external environment and |
| | the organization’s response |
| The Governance system of the company | Governance structure, including the skills and diversity |
| | Governance and strategy |
| | Governance and stakeholders |
| | Governance and innovation |
| | Remuneration and incentives |
### Table A1. Cont.

| Content Element | Dimension (Component) |
|-----------------|-----------------------|
| The Business model of the company | Description or graphic representation of the business model |
| **Risks and opportunities impacting company’s ability to create value over time** | **Risks**<br>Strategic Objectives<br>Opportunities<br>Strategies to reach the Strategic Objectives<br>Resource allocation<br>KPIs for achievements |
| Company’s strategy and allocated resources to achieve it | KPIs against targets, risks, and opportunities<br>Impact on used capitals<br>Stakeholder relationships<br>Past, current, and future performance<br>Nonfinancial KPIs |
| Company’s performance against strategy, stakeholders, and effects on capitals | Anticipated changes<br>Potential implications<br>Planned measures<br>KPIs to quantify |
| Outlook | Materiality<br>Boundary<br>Methods used |
| Basis of preparation and presentation of the report | **Materiality**<br>Boundary<br>Methods used |

Source: Author’s projection based on the IIRC framework.

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