

A comparative empirical analysis of the determinants of initiation of integrated reporting practices in Japanese and UK listed companies :the view of voluntary disclosure theory or legitimacy theory ?

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Abstract

Providers of financial capital are increasingly recognising the long-term financial impacts arising from social and environmental impacts. This has led to a demand for sustainability reporting to be integrated with financial reporting. One manifestation of this is integrated reporting (IR). The aim of this paper is to identify factors that appear to lead to the initiation of IR practices. It addresses this aim by undertaking a comparative study of Japanese and UK listed companies that have implemented IR from the perspective of both voluntary disclosure theory and legitimacy theory. This study conducts a survival analysis using data from the 100 largest companies listed in each of the Japanese and UK stock markets from 2012 to 2014 to analyse the relationship between environmental performance and initiation of IR practices. The main findings of regression analyses are as follows. The factors motivating initiation of IR practices are different between Japanese and UK listed companies. Japanese listed companies with better environmental performance are more likely to initiate IR practices earlier, while UK listed companies with better or worse environmental performance are not. At the industry level, whereas Japanese listed companies with better environmental performance in potentially environmentally harmless industries are more likely to initiate IR practices earlier, Japanese and UK listed companies with worse environmental performance in potentially environmentally harmful industries are more likely to initiate IR practices earlier. Accordingly, our findings support the view of voluntary disclosure theory for Japanese listed companies – and especially for those belonging to potentially environmentally harmless industries – and the view of legitimacy theory for Japanese and UK listed companies belonging to potentially environmentally harmful industries.

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