

## Integrated Reporting: A Research Note on Measurement, Verification, and Capital Market Relevance

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### ABSTRACT

Integrated Reporting (IR) has evolved as a key advancement in corporate reporting, incorporating the financial and non-financial features of value creation. This research note critically explores IR from three angles: conceptual basis, implementation challenges, and capital market relevance. It contemplates IR as a multidisciplinary system that combines accounting, governance, sustainability, and strategic management within a value-creation framework, rather than as a specifically disclosure-focused profession. The paper emphasises ongoing challenges in assessing non-financial information, organisational limits in data integration, ineffective assurance methods, and managerial discretion in reporting practices. It synthesises existing research through a structured, interpretive literature review technique. It further assesses empirical evidence on IR's capital market effects, which is still varied and vague. While some research indicates positive correlations between IR quality, firm value, and market liquidity, other research finds weak or inconsistent links. The paper highlights significant gaps in theory, measurement, and technique. It finds that IR's effectiveness is dependent on increased standardisation, verification, and deeper organisational integration of integrated thinking.

**Keywords:** Integrated Reporting; Non-Financial Disclosure; Multi-Capital Framework; Sustainability Reporting; Capital Market Relevance; Corporate Governance

## 1. Introduction and Motivation

Integrated Reporting (IR) has come out as a crucial evolution in corporate reporting, sustainability disclosure, and governance research (Sun, Y., 2024). Its rapid global adoption is propelled by an increasing demand from investors, regulators, and standard-setting bodies for more holistic reporting systems that surpass the limitations of traditional financial statements (Raimo, Vitolla, Marrone, & Rubino, 2022).

The International Integrated Reporting Council (IIRC) framework launches a multi-capital model requiring firms to report across six capitals: financial, manufactured, intellectual, human, social, and natural capitals. This reveals a change from short-term financial reporting toward a larger value-creation perspective.

The inconsistency between the broad use of IR and ongoing worries about its conceptual clarity, measurement accuracy, and conflicting empirical data serves as motivation for this research note. Although IR is frequently marketed as improving decision-making usefulness and transparency, its true economic effects are still unknown. Critical accounting academics have long argued that sustainability reporting is inadequate in this aspect (Vinnari & Laine, 2017). For instance, (Joshi, 2026) argues that traditional IR lacks stakeholder responsibility, comparability, transparency, and integration.

This paper evaluates IR through three angles: its conceptual structure, implementation challenges, and capital market relevance.

## 2. Objectives of the Study

This research note is focused around three main objectives:

1. To conceptualise Integrated Reporting (IR) as a multidisciplinary and technical reporting system, integrating accounting, governance, sustainability, and strategic management into a unified value creation framework.
2. To examine structural and operational challenges in IR implementation, including non-financial measurement issues, organisational constraints, assurance limitations, and managerial discretion.
3. To evaluate the capital market relevance of IR, focusing on empirical evidence regarding firm valuation, investor decision-making, and economic outcomes.

## 3. Methodology

This study applies a conceptual and interpretive research approach to critically evaluate the literature on Integrated Reporting (IR). Instead of using a systematic literature review or empirical design, the attempt is to synthesise current scholarly discussions.

The analysis uses peer-reviewed journal papers on accounting, corporate governance, sustainability reporting, and corporate disclosure from reputable sources including Scopus and Web of Science. The literature was chosen because it was pertinent to IR-related topics, including measurement problems, implementation difficulties, assurance procedures, and

consequences for the capital market (Dumay, Bernardi, Guthrie, & Demartini, 2016); (Velte, 2022).

A thematic synthesis approach is used to identify recurring concepts, methodological limitations, and inconsistencies in prior studies. Rather than offering a thorough analysis of the literature, this method is suitable for research notes that seek to produce conceptual insights and identify research needs.

The paper's objective is to build a critical conceptual understanding of IR as a multidisciplinary reporting and governance system rather than to offer comprehensive bibliometric coverage. The various issues discussed in this paper related to IR are presented in Figure 1 below:

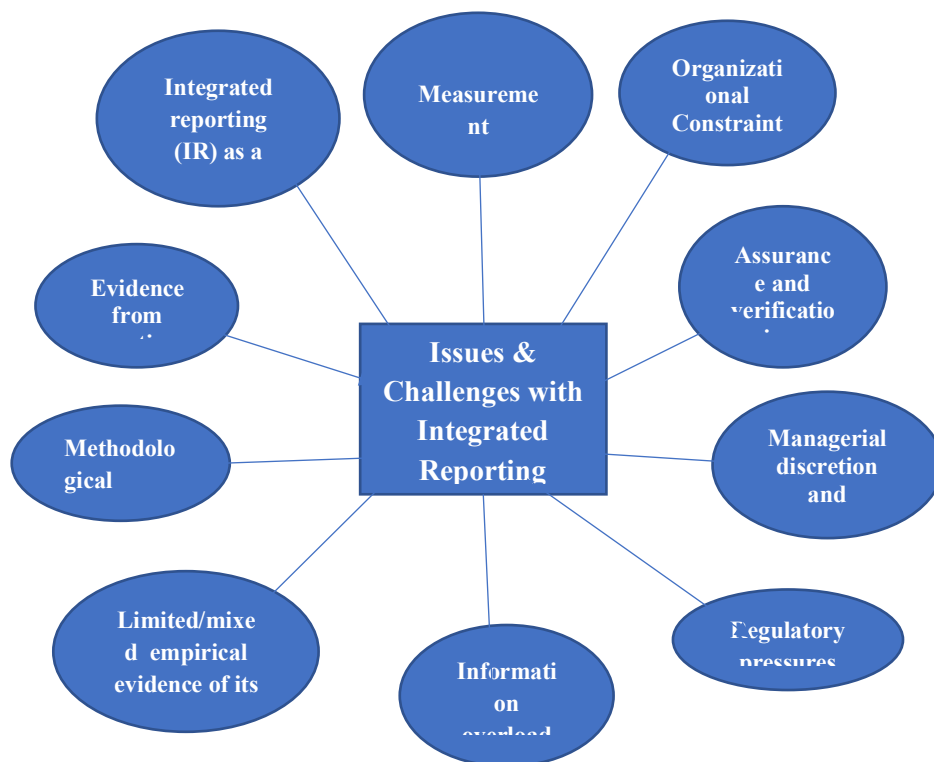


Figure 1: Overview of issues and challenges associated with contributions in IR research (developed by the author)

**OBJECTIVE 1: Conceptualization of Integrated Reporting**

**4. IR as a Multidisciplinary System**

Integrated Reporting (IR) is best appreciated as a multidisciplinary corporate reporting and governance system, rather than a narrow disclosure mechanism. This structure basically reinforces accountability by including financial, environmental, social, and governance (ESG) performance, and strategic communication into a single unified model for value creation in organisations (e.g., (Cortesi & Vena, 2019).

The IR model involves firms to incorporate multiple capitals into decision-making and reporting structures, creating it more complex than traditional reporting systems (De Villiers, Rinaldi, & Unerman, 2014). It represents a hybrid architecture linking financial performance with broader environmental and social dimensions.

Empirical evidence indicates that IR adoption is shaped by firm-level governance and structural factors. (Frias-Aceituno, Rodríguez-Ariza, & García-Sánchez, 2013) find that board characteristics significantly influence IR adoption, indicating that governance quality drives its implementation. More recent evidence by (Bhatia, Mehrotra, & Thawani, 2023) confirms that firm size, complexity, and ESG orientation also increase IR adoption, reinforcing its dependence on organisational capability and strategic positioning.

Recent literature further treats IR as evolving measurement integration, assurance mechanisms, and governance alignment (Velte, P., 2022). However, despite this, much of the research continues to consider IR basically as a disclosure practice rather than an incorporated organisational system.

Although IR is conceptualised as a governance-driven mechanism for long-term value creation and integrated thinking, its practical applications often are focused more on disclosure compliance rather than being related to significant organisational transformation. As a result, integrated thinking is often implemented symbolically rather than integrated into strategic and management processes, which restricts IR's transformative potential and perpetuates conflicts between reporting ideals and organisational realities (Rinaldi, Lai, Corvino, & Dumay, 2023).

## OBJECTIVE 2: Implementation Issues & Challenges

### 5. Measurement Challenges in Non-Financial Reporting

A key limitation of IR is the difficulty in measuring non-financial information. Unlike financial data, ESG indicators lack standardised valuation methods, making comparability difficult.

Most empirical studies rely on disclosure indices and content analysis, which introduce subjectivity and inconsistency (Barth, Cahan, Chen, & Venter, 2017). The absence of standardised frameworks further reduces comparability across firms (Sun, Qiao, An, Fang, & Wu, 2022).

### 6. Organisational Constraints

Strong internal mechanisms for collecting and verifying ESG data are lacking in many businesses (Vaihekoski & Yahya, 2025). While non-financial reporting is dispersed, financial reporting is backed by established accounting standards. Therefore, rather than reflecting actual sustainability performance, IR quality frequently represents organisational capabilities (Lee & Yeo, 2016).

Decision-making processes frequently do not fully incorporate integrated thinking. Research indicates that companies that incorporate sustainability more thoroughly into their core business operations have better organisational alignment and more consistent reporting

quality (Eccles, Ioannou, & Serafeim, 2014). The credibility of non-financial disclosures is diminished, and comparability is restricted by these data shortcomings.

Information siloing significantly hampers internal reporting effectiveness within organisations (Bento & Tagliabue, 2020). This takes place owing to data fragmentation from incompatible departmental systems, which may lead to inconsistent metrics. Furthermore, it may be possible that rigid hierarchies may also make it more difficult to distribute important information on time.

Additionally, (Beretta, Demartini, & de Villiers, 2025) state that the impact of IR is frequently restricted by the symbolic applications of its principles, particularly during the production phase, when organisations adopt IR superficially rather than embedding integrated thinking into core business practices.

## 7. Assurance and Verification Issues

Because traditional auditors are largely educated in financial verification, while ESG disclosures require broader environmental and social competence, integrated reporting assurance is still lacking. Documentation may be another issue with IR.

The credibility and dependability of integrated reports may be compromised by inconsistent and inadequately designed assurance processes, according to Patrick Velte's systematic evaluation of integrated reporting research (Velte, 2022). Additionally, (Gerwanski, Velte, & Mechtel, 2022) showed that due to technical constraints and worries about assurance quality, investors and managers frequently continue to have doubts about the value and reliability of integrated reports even when they are externally assured.

## 8. Managerial Discretion and Reporting Bias

When explaining materiality and selecting KPIs, IR demands a significant amount of managerial judgement. This could produce risks of impression management and selective disclosure practices. (De Villiers, Rinaldi, & Unerman, 2014) state that it is often known that management's discretion in IR increases subjectivity, especially when it comes to defining materiality and choosing performance indicators. According to empirical research, companies may deliberately highlight positive ESG information while leaving out or softening unfavourable disclosures, which is in line with impression management theory.

This behaviour is supported by evidence of "selective disclosure" trends in sustainability reporting, which have been connected to risks of greenwashing and decreased stakeholder confidence (Roszkowska-Menkes, Aluchna, & Kamiński, 2024).

## 9. Regulatory and Institutional Drivers

IR adoption is often driven by regulatory and institutional pressure rather than voluntary transparency.

For example, South African firms adopted IR due to governance codes and stock exchange requirements. Studies show that stakeholder pressure and reputation concerns strongly influence adoption (Vitolla & Raimo, 2018).

This suggests IR is often used as a legitimacy mechanism rather than a value-driven innovation.

## 10. Information Overload Issues

Empirical research indicates that IR can inadvertently create information overload despite its goal of conciseness. Because integrated reporting incorporates substantial financial and non-financial disclosures into a single report, (Lafta & Kamil, 2022) discovered that it often results in information overload. Excessive disclosure decreases report clarity and complicates stakeholder interpretation, according to the study.

According to (Eissa, Diab, Almutairi, & Abdelrhman, 2024), investors' comprehension of business performance and financial data is adversely affected by long and intricate corporate reports. They also noted that information overload lowers investors' confidence in their ability to make decisions and raises their perception of investment risk. Both research projects came to the conclusion that users' capacity to effectively find pertinent information is hampered by excessive and complicated disclosures. As a result, information overload in integrated reporting can make investment decisions less effective, increase uncertainty, and diminish transparency.

Evidence also suggests that extensive, qualitative narratives meant to detail "value creation" ultimately complicate readability, resulting in "analysis paralysis" instead of enhancing clarity.

## OBJECTIVE 3: Capital Market Relevance and Stock Prices

### 11. Empirical Evidence

Empirical findings on the capital market effects of IR are mixed. Some studies find positive associations between IR quality and firm value or liquidity (Lee & Yeo, 2016); (Barth, Cahan, Chen, & Venter, 2017). However, other studies report weak or inconsistent relationships with stock performance and cost of capital. According to a study by (Leukhardt, Charifzadeh, & Diefenbach, 2022), there is no meaningful effect between the accuracy of analyst earnings forecasts and Integrated Reporting Quality (IRQ). They argue that IRQ seems to increase a firm's information ecosystem only in mandatory scenarios. According to their research, integrated reporting (IR) has not yet fully benefited capital markets.

Additionally, despite strong institutional support for integrated reporting (IR), (Slack & Tsalavoutas, 2019) found that its usefulness to fund managers and equity analysts remains limited. This suggests that IR risks becoming a reporting fad rather than being fully integrated into mainstream investment decision-making.

The effects of IR on stock prices and the value of businesses are not very clear. While some research revealed positive market responses, other studies revealed weak or negligible correlations between IR adoption and stock valuation. (Wahl, Charifzadeh, & Diefenbach, 2020), for instance, found that voluntary IR adoption did not considerably increase business value or analyst projection accuracy, indicating that investors might not benefit further from such disclosures.

Similarly, (Cooray, Senaratne, Gunarathne, Herath, & Samudrage, 2020) reported that increased IR disclosure in Sri Lanka did not significantly affect firm value on its own. These findings suggest that stock prices primarily mirror short-term market reactions, while investors often overlook the long-term value creation objective of IR. Therefore, the benefits of IR may be more visible in long-term sustainability, transparency, and strategic decision-making rather than immediate stock price movements.

Overall, existing research provides mixed and limited evidence that integrated reporting significantly improves stock prices even in the long run. Although IR aims to enhance transparency and long-term value creation, investors may not fully incorporate non-financial disclosures into valuation decisions. Therefore, the expected financial market benefits of IR remain uncertain despite its broader reporting advantages. Therefore, it appears that there is a lack of strong consensus that IR consistently improves capital market outcomes.

## 12. Methodological Weaknesses

Prior evidence shows that ESG and IR research relies deliberately on subjective scoring systems and disclosure-based proxies, generating significant measurement discrepancies between datasets and limiting comparability of findings. Velte (2022) argued that integrated reporting quality assessments are largely dependent on heterogeneous content-analysis measures and researcher-developed indices, which increase risks of bias and greenwashing interpretations. Similarly, (Pistoni, Songini, & Bavagnoli, 2018) found that many IR studies stress the form rather than the significant quality of disclosures, thereby mitigating construct validity and methodological robustness. These methodological limitations reduce reliability, replication, and cross-country comparability in ESG and IR scholarship.

(Berg, Kölbel, & Rigobon, 2022) claim that measurement discrepancies rather than key firm characteristics account for a significant portion of ESG rating discrepancies. Furthermore, missing data, lack of proper definitions, and estimation bias may further compromise the reliability and comparability of ESG metrics.

Consequently, reliance on proxy-based ESG measures may introduce omitted variable bias and measurement error, thereby reducing the validity of empirical findings in IR research.

## 13. Evidence from Practice

Evidence from the corporate world further shows the gap between integrated reporting and real outcomes. For example, regulatory pressure (King III and JSE listing requirements) was one of the key factors in the adoption of IR in South Africa, and there are mixed results about its increased effectiveness for investor decision-making (Baboukardos & Rimmel, 2016). Furthermore, it is argued that large corporations such as BP, Shell, and Volkswagen demonstrate that extensive sustainability or integrated reporting does not necessarily reflect actual environmental or governance performance, as firms may use disclosures strategically to enhance legitimacy while masking unsustainable practices (Sundarasan, Zyznarska-Dworczak, & Goel, 2024). Examples and cases indicate that

disclosure practices do not always translate into enhanced transparency or market efficiency.

Additionally, according to (Ruiz-Blanco, Romero, & Fernandez-Feijoo, 2022), comprehensive sustainability disclosures might serve less as indicators of real sustainability performance and more as symbolic legitimacy mechanisms.

#### 14. Conclusion & Implications

IR constitutes an important evolution in corporate reporting by utilising both financial and non-financial aspects of value relevance and creation. Despite this, its effectiveness remains constrained by several structural and methodological limitations which are being questioned by researchers from time to time. Key issues include:

- lack of standardised measurement systems
- weak assurance and verification mechanisms
- managerial discretion and reporting bias
- organisational capability constraints
- inconsistent capital market evidence
- Information overload issues

Undoubtedly, IR has strong conceptual relevance; however, its empirical validation and practical efficacy remain debatable and incomplete. Future research should move toward system-level analysis of how organisations integrate multiple capitals into governance and decision-making processes. In particular, there is a great need to comprehend with respect to integrity thinking that it is included in companies' practices or it remains restricted to reporting and disclosure practices. For example, a recent study by (Pigatto, Cinquini, Tenucci, & Dumay, 2023) recommends that despite the fact that the adoption of IR frameworks has been rapid by organisations, the real integration of multiple capitals reflecting long-term value generation and strategic decision-making is still limited and is being questioned. In this light, the future research attempts should concentrate on longitudinal governance, behaviour and sustainable value creation in order to justify the adoption of IR.

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