Towards integrated reporting: The inclusion of content elements of an integrated annual report in the chairmen's statements of JSE-listed companies

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A call for greater transparency following various corporate scandals in a volatile global economy has placed intense pressure on South African corporations to reform, not only their conduct but also their reporting. As investors and other stakeholders insisted on the assurance that company practices were transparent, accountable and fair to all stakeholders, the JSE changed listing requirements to oblige listed companies to integrate their sustainability reports with their annual reports. To understand how companies incorporate integrated reporting standards in voluntary narrative disclosures, this article reports on how chairpersons of 50 high-performing and 50 poor-performing companies listed on the JSE included content elements within their statements. Qualitative content analysis was used to analyse how content elements were presented and communicated in the 2012 chairpersons' statements. Findings indicate that South African companies embraced new reporting requirements. Just as the King Reports have been praised as an internationally leading code of governances, annual corporate reports of JSE-listed companies can become an international benchmark for integrated reporting. Even though the chairperson's statement does not present the platform to discuss all the content elements in detail, the content elements of integrated reporting seem to provide a useful framework for chairpersons on what to include in their chairperson's statement.

Introduction

Following various corporate scandals in the early years of the 21st century and public outcry that corrupt practices and transgressions be brought to light, the focus and content of corporate reports changed considerably. Today, emphasis is placed on the integration of social, environmental, sustainability and economic issues within corporate reports (Adams & Frost, 2008: 288). Disclosures are also required to adhere to reporting requirements outlined in corporate governance codes and legislation (Tricker, 2015: 3). Publicly listed companies in South Africa are, for example, required by regulation to publish annual reports consisting of income statements and balance sheets (Corporate Laws Amendment Act No 24, 2006: 14). Additionally, the Johannesburg Stock Exchange (JSE) made it a requirement in 2010 for companies to submit integrated reports connecting financial and sustainability information (Eccles & Saltzman, 2011: 57; JSE, 2013).

Consequently, the past five years saw various reports analyse and consider the content elements and guiding principles associated with integrated reporting (see for example guidelines proposed by Abeysekera, 2013; International Integrated Reporting Committee [IIRC], 2011; *PricewaterhouseCoopers [*PwC], 2012). Despite proposed guidelines and the existence of proposed frameworks and templates, which outline and demarcate the scope and content elements of narratives, little has been reported on the practices of integrated reporting within annual corporate reports. JSE-listed companies furthermore conveyed their difficulty in understanding the structure and content of the mandatory integrated reports (Atkins & Maroun, 2015: 201). These companies would thus benefit from practical examples illustrating the inclusion of content elements of integrated reporting in narrative statements. The term *content elements* specifically refers to items of information communicated to the stakeholders of a company, which provide a holistic presentation of the performance of a company and its ability to create and sustain value.

Given the prominence of the chairperson's statement within annual corporate reports as a discretionary narrative disclosure outlining the reality and performance of the organisation (Smith & Taffler, 2000), these statements may be a good starting point in understanding how integrated performance elements are presented and communicated. While the chairperson's statement is not a mandatory audited disclosure, this document occupies a strategic position in communicating the performance of the company, as well as its future prospects. The presentation of positive and negative information in this statement could furthermore influence investor decision-making (Cen & Cai, 2014; Merkl-Davies, Brennan & McLeay, 2011) and thus warrants attention.

To provide practical examples to professional managers, this article describes the inclusion of the suggested content elements of the Integrated Reporting Council (IRC) of South

Africa in the chairpersons' statements of JSE-listed companies. Findings are based on a descriptive, qualitative study, which analysed the statements of the 2012 chairpersons of 50 high-performing and 50 poor-performing JSE-listed companies. In 2012, JSE-listed companies were producing what was either their first or second integrated report under what many companies deemed 'limited guidance' of the 'apply and explain' approach prescribed by the JSE (Setia, Abhayawansa, Joshi & Vu Huynh, 2015: 399). Although this approach was supported by non-binding guidelines produced by the IRC in 2011, most companies had to exercise judgement on how to comply with JSE prescriptions stemming from the King III Code of Corporate Governance (Setia *et al*., 2015: 399).

The findings reported in this article are part of a larger qualitative study of discretionary disclosures in the chairperson's statement. Conclusions and recommendations highlight the need to avoid dogmatic discussions of economic, environmental, social and governance issues in statements such as the chairperson's statement. Instead, recommendations are made to enhance the presentation of the chairperson's report to present a balanced overview of performance providing an integrative perspective on future organisational sustainability.

From audited financial statements to integrative reporting

Although the South African economy has benefited from substantial transformation since the advent of democracy, it also suffered the consequences of a volatile global economy (Mangena & Chamisa, 2008: 29). Indeed, performance of local corporations were subjected to a number of external shocks, with the most pronounced being the East Asian crisis (1997), the "dot.com crisis" (2000), the 9/11 events in the United States (2001) and the subsequent corporate scandals in 2002/03. More recently, corporates are recovering from the global financial crisis which started manifesting itself in late 2007 (Industrial Development Corporation [IDC], 2013: 3). Consequently legislators, investors and corporates alike realised that financial statements produced under generally accepted accounting principles (GAAP) may not be a sufficient measure of sustainable performance (Deloitte, 2009: 4). As a result, intense pressure was placed on South African corporations to reform, not only their conduct but also their reporting, as investors insisted on the assurance that company practices were transparent, accountable and fair to all stakeholders (Andreasson, 2011: 656; Vaughn & Ryan, 2006: 505; West 2009: 11). Accordingly, corporate governance and integrated reporting became key focal areas for South African corporations.

In terms of the reporting standards, the King III report stipulates that the board should compile a report that provides a holistic and reliable view of a company's performance (PwC, 2009: 61). The proposed way of reporting is integrative where the triple bottom line of economic, social and environmental aspects of the company is reported on in a company's annual report. Where financial statements report on the previous financial year, integrative reporting also provides forward-looking information on the sustainability efforts of the company (KPMG, 2011: 5). It is worth mentioning that South Africa was one of the first countries in the world to implement integrated reporting. In 2010, the JSE revised their listing requirements (Section 8.63) to include that listed companies had to integrate their sustainability reports with their annual reports (Hebble & Ramaswamy, 2011: 11; Institute of Directors in Southern Africa [IoDSA], 2013: 1).

In its simplest form, integrated reporting means producing a single report that combines the financial, non-financial and narrative information found in a company's reporting (Eccles & Krzus, 2010: 10). As a statutory requirement, financial statements presented in corporate annual reports should be a true and fair reflection of a company's position. Financial statements presented by JSE-listed companies are following the GAAP principles, which are concerned with economic activity, the time when measurements are to be made and recorded as well as the disclosures surrounding company activity (Epstein, Nach & Brag, 2010: 2). These principles were put in place in order to facilitate good reporting and allow comparison of financial statements from year to year. The requirements to present non-financial and narrative information are unfortunately less structured and disclosure is voluntary.

In a quest to provide more structure to non-financial and narrative information, the Integrated Reporting Council (IRC) of South Africa released a discussion paper in 2011 on the proposed framework for integrated reporting. This was followed by the Draft Framework Outline, released by the International Integrated Council (IIRC) in 2012. The final framework for integrated reporting was released in December 2013. The IIRC's content elements provide details of the business reality elements of strategy, risk, performance and sustainability, which are inseparable, as recommended by the King III Code. For the purpose of this article, the identification of content elements was based on the IRC of South Africa's Draft Framework Outline for Integrated Reporting and the Integrated Report as illustrated in Table 1.

Despite the above guidelines, JSE-listed companies conveyed their difficulty in understanding the structure and content of the mandatory integrated reports (Atkins & Maroun, 2015: 201). Hence, these companies would benefit from practical examples illustrating the inclusion of content elements of integrated reporting in narrative statements in annual corporate reports.

Table 1: Content elements of an integrated report, as suggested by the IRC of South Africa

Content element	Description/Explanation
Organisational overview and business model	What does the organisation do and how does it create and sustain value in the short, medium and long term?
Operating context, including risks and opportunities	What are the circumstances under which the organisation operates, including the key resources and relationships on which it depends, and the key risks and opportunities that it faces?
Strategic objectives and strategies to achieve those objectives	Where does the organisation want to go and how is it going to get there?
Governance and remuneration	What is the organisation's governance structure, and how does governance support the strategic objectives of the organisation and relate to the organisation's approach to remuneration?
Performance	How has the organisation performed against its strategic objectives and related strategies?
Future outlook	Which opportunities, challenges and uncertainties is the organisation likely to encounter in achieving its strategic objectives and what are the resulting implications for its strategies and future performance?

Source: International Integrated Reporting Council (IIRC), 2012

Inclusion of integrated reporting content elements in narrative statements of annual reports

Annual reports are considered valued communication tools used for dialogue, and they can influence first impressions of corporates by investors and other stakeholders (Clarke & Murray, 2000: 150). Researchers generally view annual reports as a tool used by management to construct a picture of how it would like to be viewed in the eyes of institutional investors, as well as other relevant stakeholders (Merkl-Davies & Koller, 2012; Smith, Dong & Ren, 2011; Stanton & Stanton, 2002). The importance of annual reports is that they are information-dispensing tools that communicate the personality and philosophy of the company, as well as marketing tools that can impart a particular organisational message (Stanton & Stanton, 2002: 478). The document is thus compiled to fulfil more purposes than just to meet a statutory requirement for publicly listed companies.

Researchers who work on qualitative aspects of annual reports suggest that readers of annual statements first consult the chairperson's statement, as readers often consider it the most understandable section of the annual report (Breton, 2009: 188). Recently it has been reported that the discourse in these statements is changing to become more stakeholder-orientated. Following an analysis of JSE-listed companies chairpersons' reports from 2009 to 2011, findings revealed that these statements include lengthy discussions about the 'belief' by senior directors in long-term stakeholder relationships and the creation of long-term value and wealth creation (Solomon & Maroun, 2012: 48). Another study found that South African companies' annual reports during this period were 61% longer than those of their United Kingdom (UK) counterparts. This was mainly attributed to South Africa's uptake of integrated reporting prior to the UK (Deloitte, 2014: 3).

As South African legislation does not stipulate what should be contained in the chairperson's statement, the content of the statement is often not standardised, posing challenges to executives about what to include (Setia *et al*., 2015). According to Abrahamson and Amir (1996: 1159), this relative freedom and lack of restriction make the chairperson's statement an interesting document to analyse. It is to the chairperson's statement that stakeholders look for an indication of how the company has fared over the past year, the context in which the company performed, and a basic idea of how the company is likely to perform beyond the current year (Holmes & Sugden, 1986: 131). Worldwide, narrative communication in annual reports, such as the chairperson's statement, is seen as a crucial element in achieving the desired quality of corporate annual reports (Beattie, McInnes & Fearnley, 2004: 206). Yet, South Africa, like many of its global counterparts, is still in the position where the auditor's report does not validate whether the information contained in the chairperson's statement is correct (Bhana, 2009: 32).

As a customary component of the annual report, the chairperson's statement communicates a company's planning, performance and forecasting abilities (IoDSA, 2013:1). Understanding this document may reveal to readers which issues a company prioritise. From a corporate perspective, it is noted that purposeful communication can be useful to clarify messages and to create shared meaning. As such, the disclosure of voluntary information is often justified from an economic standpoint, where the advantages of disclosure must outweigh the disadvantages of failing to disclose. The cost of disclosure is often measured in terms of information costs and the extent of the risk that has the potential to become financially harmful to the company, for example if used by competitors against the company (Depoers, 2000:248). Discretion over the content elements included in this statement combined with the strategic prominence attributed to the chairperson's statement creates an opportunity to investigate how executives incorporate integrated reporting content elements in constructing and presenting corporate information.

Methodology

The research methodology of the study was qualitative, and content analysis was used to identify the content elements of the chairpersons' statements of 100 JSE-listed companies. Companies' inclusion criteria were informed by performance, and a distinction was made between high- and poor-performing companies. The 100 companies that formed part of this study were selected using Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) to rank them as either high-performing or poor-performing. EBITDA was considered a fair means to compare companies across industries since it does not take into account financing and accounting decisions. Although EBITDA does not measure cash flow, which can be misleading to an extent, it is useful when comparing companies with different capital structures (Nagar, Petroni & Wolfenzon, 2011: 951).

In various studies, understanding and capturing the essence of the chairperson's statement have been achieved through content analysis (Abrahamson & Amir, 1996: 1160; Bhana, 2009: 37; Breton, 2009: 188; Kohut & Segars, 1992: 12). Analysis was done as a process of generating findings from the data, where the complete process included organising, describing, theorising, interpreting, discussing and presenting the findings to the reader (Ryan, 2006: 95). The annual reports of the 50 high- and 50 poor-performing companies at 31 December 2012 were downloaded from the various company websites. Companies ranged from mining companies to pharmaceutical companies, hotel groups, banking companies, real estate companies, transport and freight companies and medical groups. The units of analysis, that is, the chairpersons' statements of the various companies, are contained within the annual reports. The chairpersons' statements were extracted from these annual reports and saved in Rich Text Format (RTF) to allow for optimal analysis using ATLAS.ti software. ATLAS.ti software allowed the researchers to create codes. The purpose of coding is to capture meaning in data and create a set of related information units for the purpose of comparison (ATLAS.ti 7, 2013: 16). The researchers were then able to group similar or related codes into code families, which were interpreted as the content elements of an integrated report in the chairperson's statement.

The list of the 50 high- and 50 poor-performing companies is publicly available on the McGregor BFA database. As required by the Companies Act (No. 71 of 2008), publicly listed companies are required to make available their annual reports, of which the chairperson's statement is a customary component. Therefore, the units of analysis using the McGregor BFA database are freely available to anyone who wishes to acquire them. However, the study did not aim to bring any company into disrepute, and therefore anonymity of the companies is maintained in the discussion of the findings.

Findings and discussion

The results from the content analysis are reviewed under two relevant themes, namely commitment towards integrated reporting, and inclusion of content elements of the integrated annual report. The findings also report on the approach to formulation used, specifically whether statements were formulated to provide a reactive or proactive perspective and the differences observed between high- and poor performing companies.

Commitment towards integrated reporting

Hasbani and Breton (2013) assert that companies need to show that their values are congruent with the values of the society in which they operate. Furthermore, legitimacy increases when companies meet stakeholder expectations of the current period. From the chairperson's perspective, the inclusion of these issues may be seen as a display of sincere effort to be accountable. From the reader's perspective, the inclusion of such issues may be seen as a way to judge the legitimacy of the organisation. Both high- and poor-performing companies acknowledged the various challenges in compiling integrated annual reports, but a clear commitment to the adherence of reporting standards was apparent. This is highlighted in the following quote:

> *The board and management are committed to good corporate governance. We are aware that the guidelines suggested by King III are possibly not all in place, but we are committed to implementing these principles as they apply to* [company name withheld] *moving ahead.* (Poor-performing company 34)

It should, however, be noted that it was never the intention of the King III Code to be prescriptive on the content and format of the integrated report, but rather to provide recommendations that reporting should reflect the business reality where strategy, risk, performance and sustainability have become inseparable (IoD Southern Africa, 2014). As one chairperson stated, "*the challenge remains to ensure that we are able to integrate sustainability into our business strategy and practice*" (High-performing company 21).

Inclusion of content elements of the IRCSA in the chairperson's statement

Figure 1 reflects the integration of the content elements of integrated reporting in the chairpersons' statements of the 50 high-performing and 50 poor-performing companies.

Figure 1: Inclusion of content elements of an integrated report in the chairpersons' statements of JSE-listed companies

In total, six high-performing companies clearly and explicitly covered all the content elements of an integrated report in their chairpersons' statements, while only four poor-performing companies met these criteria. Each content element will be discussed in more detail below.

Organisational overview and business model

Companies are required to state what the company does and under which circumstances it operates. The IIRC (2013) states that the business-model element of the integrated plan must answer the question: "*What are the organisation's key inputs, value-adding activities and outputs by which it aims to create value over the short, medium and long term*?" Overall, the least number of chairperson statements included this element. A possible reason put forward to explain this is that companies with longer JSE listing track records did not consider it necessary to introduce the company. Only 20 high-performing companies described what the company does and how it creates and sustains value in the short, medium and long term. It was further observed that the content element was often integrated with performance to provide a holistic perspective as illustrated in the quote below:

> [Company name withheld] *is a company that was listed on the JSE in 1986 with a market capitalisation of R170 m which has currently grown to around R24 bn*. (High-performing company 23)

Additionally, it was found that chairpersons of 40 high-performing companies considered the business model and strategic objectives to be closely related. Since the emphasis was placed on the visible direction of the company, content was included under the strategic objectives theme.

Operating context

In this section, companies had to explain their ethics and put forward quantitative information, such as their turnover and number of employees. Any other substantial information pertaining to the environment and external factors, including risk and opportunities, was also contained in this section. In only seven high-performing and nine poor-performing companies, no clear mention was made of the company's operating context. Where companies did mention of the operating context, the effect of the global financial crisis of 2009 was consistently mentioned as a key factor in the performance and operations of the company.

A prevailing trend observed in the analysis was the close link between the organisational overview and business model and the operating context. It was thus observed that this link was an indication of strategic fit between the operating model of companies and the environment in which they operate. This link is illustrated in the following quote:

> [Company name withheld] *continues to focus on growing in the South African market through the development of new lines of business, organic growth as well as appropriate acquisitions. There remain numerous opportunities for the development of more integrated models of healthcare delivery to service untapped markets, as well as partnering with government to provide critical health services, including hospital care.* (Poor-performing company 21)

It was also found that this content element was used in an attempt to manage stakeholders' expectations. Statements such as reflected in the quote below could often be found at the beginning of the chairperson's statement, a move that could be interpreted as managing stakeholder expectations and a major point of reference in explaining the company's performance throughout the chairperson's statement.

> *The 2012 financial year has been characterised by challenging market conditions from a global macro-economic and local perspective. The global economy continued to experience the effects of the financial downturn, and recovery has taken longer than anticipated, particularly in Europe and the United States.* (Poor-performing company 50)

On the other hand, high-performing companies often used this as a means to show that they still achieved good results despite a difficult macro-economic environment that had many adverse effects on many sectors:

> *These achievements are especially pleasing considering the tough economic climate in 2012; a difficult year for many exploration companies both locally and internationally.* (High-performing company 18)

Strategic objectives and tactical strategies

The organisation's long-, medium- and short-term strategic objectives had to be described. The resource allocation to implement these plans also had to be specified. Strategic objectives were mostly addressed through a discussion of current and future plans and projects. Quotes of these objectives are not included in this review as it is company-specific. It is noteworthy however to mention that most objectives included the current status, the envisaged outcome and the required resources. High-performing companies often communicated plans, current projects and strategic intent more clearly than poor-performing companies did. As Mantere and Sillince (2007) advise, communication of strategic intent leaves room for interpretation; yet, in this study, high-performing companies remained vague in their expression of returns on their investments and projects. Mantere and Sillince (2007: 407) add that detailed plans could be better discussed in documents meant for consumption within the organisation and not in the chairperson's statement.

Governance and remuneration

According to the IIRC, a published integrated report should answer the question "How does the organisation's governance structure support its ability to create value in the short, medium and long term?" Findings suggest that chairpersons' statements did not include comments on remuneration but addressed this content element under the various themes included in Table 2.

Table 2: Themes supporting governance

Theme	Supporting quote
Alignment with King III Code of Corporate Governance requirements	[Company name withheld] *is committed to the highest standards of corporate governance and to conducting its business in an ethical manner. The company has applied the recommendations of King III in line with the guidance issues by the JSE. Its sustainability ethos encompasses a commitment to good governance across a wide range of business areas and stakeholder groups.* (High-performance company 18)
Governance structures and responses within the listed company	*Good governance practices are fundamental to creating, protecting and sustaining shareholder value. Our board's approach to ensuring that we remain informed is to keep track of governance developments nationally and internationally, and adopt those practices that are most relevant to the group.* (Poor-performing company 44)
Sustainability efforts by the listed company	*We are committed to fulfilling our broader duties and obligations to contribute to the improvement of the standards of living of our employees, people living near our mines and other stakeholders; as well as the protection and rehabilitation of the environment.* (High performance company 2)
Response to the South African mandate of black economic empowerment (BEE)	*We are fully committed to transformation in South Africa and I am pleased that we achieved a level 3 rating on our B-BBEE scorecard. We are also pleased with the extension of our partnership with* [company name withheld] *for a further five years.* (Poor-performing company 25)
Corporate social responsibility (CSR) within the listed company	[Company name withheld] *also remains committed to making a positive contribution to our communities through capital investment, supporting local industry and creating jobs. Expanding on that commitment, this year we once again contributed one per cent of our pre-tax profit to community programs by voluntarily investing US$214 million.* (High-performance company 9)

In many instances, a full report detailing corporate governance and sustainability efforts of the company was contained as a separate report in the overall annual report. Chairpersons, as a result, did not over-elaborate on corporate governance in the chairperson's statement. A distinct difference between high-performing companies and poor-performing companies was the understanding of the umbrella term "corporate governance and sustainability". For thirteen poor-performing companies, corporate governance and sustainability were still deeply rooted in corporate social investment efforts.

Performance

In this section of the integrated report, companies are required to provide qualitative as well as quantitative information pertaining to how the company has performed in achieving its strategic objectives. Companies must show they have responded to the needs of key stakeholders. Findings of the analysis suggest that chairpersons' statements of high-performing companies clearly stated how they met or exceeded targets, while poor-performing companies tended to avert the blame of not meeting targets to poor external factors such as poor economic conditions.

> [Company name withheld] *achieved iron ore sales of 13.4 million tonnes this year, against planned sales of 11.4 million tonnes.* (High-performing company 2)

> *Despite the challenges of the year under review,* [company name withheld] *achieved a marked improvement in its performance.* (Poor-performing company 5)

In many instances, regardless of performance, companies followed the discussion of performance with other evidence of achievement (for example external recognition received, strong brand name, or established track record) to allay investors' fears and manage shareholders expectations. Proactive efforts to improve performance was also included most statements.

> *In April of this year,* [company name withheld] *received a remarkable accolade. The Reputation Institute surveyed a broad base of South African respondents about their view of the reputation of South Africa's 20 most reputable companies. On every single criteria,* [company name withheld] *came first – the company is the most admired brand in South Africa.* (High-performing company 43)

In general it was observed that high-performing companies typically used their 'track records' as a selling proposition to assure investors that they were doing the right things and had the required expertise to achieve their set targets. Poor-performing companies had limited accomplishments to refer to and instead used the credentials of board members as an assurance to shareholders that the company's strategy could be entrusted to them. Findings supported previous studies (Abrahamson & Park, 1994; Bournois & Point, 2006; Stanton & Stanton, 2002), which suggested that high-performing companies are more inclined to take credit for high performance, while bad results in poor-performing companies are often attributed to the unfavourable economic climate.

Future outlook

This section highlights probable changes that will occur over time. This information is provided to enhance the transparency of the organisation. With the exception of seven high-performing and seven poor-performing companies who did not describe the company's outlook, 86 chairpersons delineated their company's future performance and operations. This was often discussed towards the end of the statement and the discussion. However, this aspect was not detailed to the level where the chairpersons attempted to explain how the strategic objectives would be achieved; they often just briefly mentioned whether the year ahead would continue to be challenging or whether conditions were set to improve. This is illustrated in the following quote:

> *The* [company name withheld] *anticipates that infrastructure investment by the public sector over the next two years will remain under pressure given the current environment of global economic uncertainty.* (High-performing company 6)

The discussion of the future outlook was often linked to the company's performance. The quote below displays the close link between these two content elements:

> [Company name withheld] *is experiencing relatively strong demand for its loans and advances, as well as its other products and services, and provided that this trend continues, an increase in revenue and efficiency during the 2013 financial year is anticipated, despite higher costs and compressed margins. Over the next few years,* [company name withheld] *aims to get closer to the returns on equity of over 20% that it enjoyed prior to the recent credit crisis.* (Poor-performing company 39)

Formulation of responses

Attributes of the signalling theory were clearly evident from the disclosures contained in the chairpersons' statements of high-performing and poor-performing companies. The signalling theory states that high-performing companies are more motivated to signal high quality in absolute and clear terms. Because companies were operating under uncertain economic and social conditions, both high- and poor-performing companies avoided quantified promises to shareholders but committed themselves to putting the interests of the investor first. The following quote captures this sentiment:

> *All the while, we will continue to make judicious, disciplined decisions on capital allocation in order to ensure we maintain our record of delivering industry-leading returns. We will continue to evaluate the impact of these efforts and make adjustments where necessary as we work to deliver real value to our shareholders.* (High-performing company 40)

Some companies provided what could be deemed a 'disclaimer' in the chairperson's statement with a clearly written sentence that pointed out to the reader explicitly that forward-looking information contained in the chairperson's statement was naturally subject to the exigencies of the future.

> *While these forward-looking statements represent our judgments and future expectations, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. These include factors that could adversely affect our businesses and financial performance.* (High performing company 35)

Nonetheless, the chairperson of a company ought to endeavour to communicate honestly the real state of company affairs without engendering fear in the stakeholders. Therefore the chairpersons in high-performing companies appeared to display what Bournois and Point (2006:46) deem 'optimistic bias'. Irrespective of whether the company did well or not, reassurance was provided that the company was in good hands and that future success was imminent. The following quote from a high-performing company expresses the tone at the end of the chairperson's statement illustrating confidence in the sustainability of the company's performance.

> *We live in uncertain and challenging times. However, I am confident that* [company name withheld] *will continue to grow and create value for all its stakeholders.* (High performing company 2)

The same type of reassurance provided by poor-performing companies was not as strong and to a certain extent it was also less convincing. This unconvincing tone is highlighted in the following quote:

> *It is very disappointing that, despite their efforts and their talent, current market conditions mean that the* [company name withheld] *may be unable to see their plans fulfilled.* (Poor performing company 2)

There is no denying that the recession affected company performance for both high-performing and poor-performing companies. However, it was evident that high-performing companies presented 'reactive proactivity' to the prevailing financial climate. Reactive proactivity in analysis means reacting to changes in the macro environment (e.g. the global financial crisis), over which companies had very little control, yet putting in place contingency plans to ensure that the company still performs. Reactive proactivity in poor-performing companies was, however, experienced differently. New plans were effected during this period to respond to the current recession. For many of these poor-performing companies it seemed as though previous strategies and plans did not realise as a result of the recession and this required major re-evaluation as illustrated in the following quote.

> *I alluded previously to the state of the global economy and the financial markets. We are obviously concerned about the state of the coking coal and thermal coal markets and we will no doubt be placed under more pressure for as long as these conditions persist. Nonetheless, we are fortunate that our significant coking coal assets at* [locations withheld] *will be producing premium products*

and should therefore be able to maintain their market position through this cycle (Poor performing company 2).

To conclude the presentation and discussion of findings, this study found that chairpersons' reports mostly painted a holistic picture of the state of the company and contained many content elements suggested by the IRC of South Africa in its discussion paper of 2011. Even though the chairperson's statement was not the platform to discuss all the elements in detail, the content elements of integrated reporting seemed to provide a useful framework for the chairpersons of companies on what to include in their chairperson's statement.

Conclusions and recommendations

In 2010, the JSE revised their listing requirements to oblige listed companies to integrate their sustainability reports with their annual reports. This move was in reaction to the stipulation in the King III Code, which recommended that boards compile a report that provides a holistic and reliable view of a company's performance. In comparison to financial statements and other audited disclosures which are guided by established reporting standards, executives are required to rely on their own judgement to compile discretionary narrative disclosure. Although guidelines are provided by the IRC which outline the scope and content elements of narratives, little has been reported on the practices of integrated reporting within annual corporate reports. This article reported on how integrated performance elements were presented and communicated in 100 JSE-listed companies' annual reports released during 2012. To provide practical examples to professional managers, this article described the inclusion of the suggested content elements of the IRC of South Africa in the chairpersons' statements contained within annual corporate reports.

Following the analysis of the statements of the 2012 chairpersons of 50 high-performing and 50 poor-performing JSE-listed companies, insight was obtained not only into the performance of each company but also into what the company deems important for its sustained existence. The perspectives of the chairpersons of the companies were important to examine because these not only expressed the alignment of the companies to external standards but also highlighted progress on the projects in which the companies were involved and their plans for the future and detailed the commitment by the companies' management and employees to the achievement of the companies' strategic goals. Findings suggested that high- and poor-performing companies experienced challenges in compiling integrated annual reports, but a clear commitment to the adherence of reporting standards was apparent. It was furthermore found that chairpersons' reports mostly painted a holistic picture of the state of the companies and contained many content elements suggested by the IRC of South Africa in its discussion paper of 2011. Even though the chairperson's statement was not the platform to discuss all the elements in detail, the content elements of integrated reporting seemed to provide a useful framework for the chairpersons of companies on what to include in their chairperson's statement.

Depending on the issue at hand and its importance for the reputation of the company, the chairpersons' statements were formulated reactively to meet the desires of the potential audience, and proactively from the perspective of the chairperson in covering what he/she deemed necessary for the audience to know. This was done without tainting the organisation's image while maintaining legitimacy and displaying accountability. The chairperson's report is but one narrative used to convey information about integrative performance, and it needs to be acknowledged that other sections of the report may be more suitable to convey detailed overviews of the prescribed content elements of an integrated report. While it is not recommended that the chairperson's report be audited, it is recommended that when aspects are discussed in more detail elsewhere, this statement provides for cross-referencing. Cross-references to relevant page numbers or sections may be useful for the reader who requires more information or those that want to verify claims that the chairperson makes in his/her statement. While the intention of current guidelines is not to be prescriptive, it would also be beneficial for regulators or bodies such as the JSE to provide specific checklists for standardised narrative disclosures.

Findings indicated that South African companies have embraced new reporting requirements. Just as the King Code have been praised as "the most effective summary of the best international practices in governance" (Banhegyi *et al.*, 2007:317), the annual corporate statements of JSE-listed companies can become an international benchmark for integrated reporting.

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