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Narrative reporting: State of the art and future challenges

Giovanna Michelon[a]*, Grzegorz Trojanowski[b] and Ruth Sealy[b]

**Corresponding author*

[a] *University of Bristol, School of Accounting & Finance, 15-19 Tyndalls Park Road, 2.06, Bristol, BS8 1PQ United Kingdom; email: giovanna.michelon@bristol.ac.uk*

[b] *University of Exeter Business School, Rennes Drive, Exeter, EX4 4PU, United Kingdom; email: G.Trojanowski@exeter.ac.uk; R.Sealy@exeter.ac.uk.*

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Narrative reporting: State of the art and future challenges

Narrative reporting, both in relation to financial and non-financial information, is increasingly used and often mandated, with significant managerial discretion regarding content. As policy makers consider reporting as a tool for regulation to steer the behaviour of companies towards improving practices and performance upon which they have to disclose, the aim of this paper is to provide the state of the art in the academic literature on narrative reporting and identify future challenges. In order to do so, the paper investigates three questions: (1) How has the quality of narrative reporting been defined? (2) What narrative information is required and used by various stakeholders? (3) What are the real effects of narrative reporting? In answering these three questions, our review also gives implications for both future academic research and policy makers.

Keywords: narrative reporting, disclosure, impression management, stakeholder engagement, accountability

Introduction

Since the turn of the century, corporate reporting practices have expanded, increasingly including narrative sections and documents that present and discuss both financial and non-financial performance. For example, there is an increased level of regulatory activity relating to disclosure on environmental and social matters. While mandating disclosures, most of these regulatory initiatives leave great managerial discretion with respect to the actual content of such disclosures (Peters & Romi, 2013; Schneider et al., 2018). Standards and guidance are proliferating across the world (e.g., Global Reporting Initiative, Sustainability Accounting Standards Board, Taskforce on Climate-related Financial Disclosures), and policy makers are increasingly considering disclosure as a tool for regulation (Spira & Page, 2010) to steer the behaviour of companies towards improving practices and performance upon which they have to disclose (Christensen et al., 2017).

In the UK, in October 2018, the Financial Reporting Council (FRC) launched a major project titled The Future of Corporate Reporting "to challenge existing thinking about corporate reporting and consider how companies should better meet the information needs of shareholders and other stakeholders."[1] As part of this project the FRC commissioned a literature review of academic articles to determine the extent to which current research supports the objectives of the Future of Corporate Reporting project. This paper is based on the results of this broader literature survey.[2] While the original project also covered information reported in financial statements, here we focus on the reporting of *narrative* information included in annual reports, quarterly reports,

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[1] https://www.frc.org.uk/news/october-2018/frc-to-examine-the-future-of-corporate-reporting

[2] Appendix A reports the details of the methodology used in the original survey.

restatements, earnings announcements and other ad-hoc stand-alone reports, such as sustainability, CSR, integrated reports, e.g. in the strategic report, risk disclosure, or disclosures about environmental, social and governance (ESG) issues. This change of the scope reduced the number of papers covered from 544 in the original FRC report to 261 reviewed here[3]. This final number reflects a number of additions to the list of papers helpfully made by the reviewers.

The aim of this paper is to inform future academic research and policy makers regarding what we currently know about (1) how the quality of narrative reporting has been defined, (2) what narrative information is required and used by various stakeholders, and (3) what are the real effects of narrative reporting. Hence, the review covers papers that address these three questions, and also satisfy the inclusion/exclusion criteria and search rules presented in the Appendix. Figure 1 provides an overview of the state of art in the field. We proceed with the review of these three aims and leave critical discussions and implications for the concluding section of our paper.

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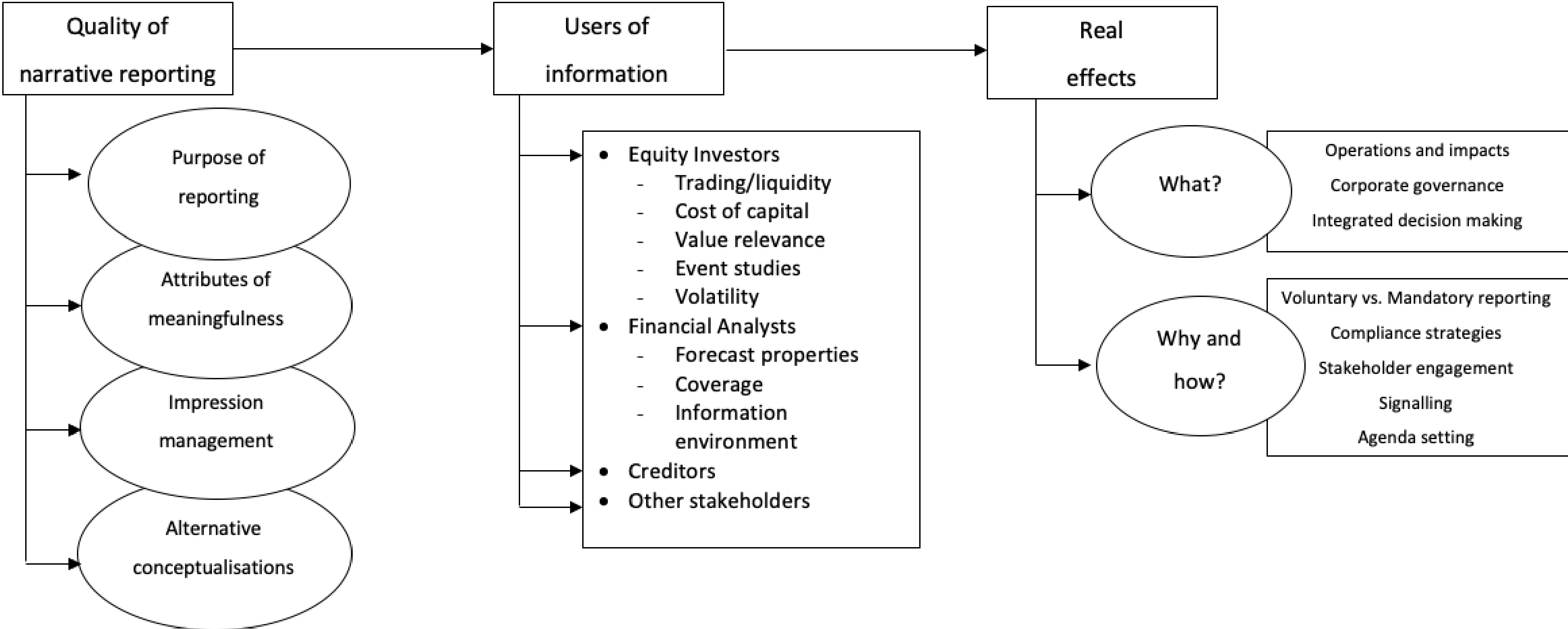
[3] Beattie (2014) notes that while the European research tradition refers to the term "narrative" reporting, the literature developed in North America mostly refers to "voluntary disclosure". There are instances where the two terms do not coincide, in that narratives can also be prepared within a mandatory regime. However, we note that mandates do not prescribe the content of reporting, and hence narratives remain discretionary in essence. In this paper, we use the term narrative and disclosure interchangeably.

Figure 1. The state of art in narrative reporting



1. The quality of narrative reporting

Defining the quality of narrative reporting requires reflection upon the purpose of corporate reporting, which the literature subsumes into three perspectives: valuation, stewardship and accountability (Beyer et al., 2010; Jonas & Blanchet, 2000). Although financial information is central to the valuation and stewardship roles, narrative reporting also helps investors[4] assess the future value of the investment, as well as allowing them to monitor the use of the capital, once it has been committed. Most of the studies adopting valuation or stewardship perspectives are rooted in neoclassical economics, and in particular the agency theory. They often assume that the primary addressees of corporate reports are financial stakeholders, i.e., investors, whereas the accountability perspective identifies wider stakeholder groups as the primary addressees, to whom the firm should be held accountable (Freeman et al., 2004; Harrison & van der Laan Smith, 2015). As different stakeholders have different, even conflicting needs (Freeman, 1984), inevitably the scope of reporting (i.e., what type of information is relevant) may vary across stakeholder groups. Accountability is defined as the duty to provide an account of the actions for which an organization is held responsible in the eyes of all stakeholders (Gray et al., 1997). In this context, the quality of reporting is related to its ability to fulfil this accountability role towards shareholders, creditors and other stakeholders.[5] Thus, from a theoretical point of view, this role of

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[4] Investors include all capital providers, i.e., equity capital (shareholders) and debt capital (creditors), whether actual or potential.

[5] The debate about to whom the firm is held accountable is not independent from the legal frame that defines the fiduciary duties of directors. While this debate is beyond the scope of this review, recent research argues that shareholder primacy is not a legal requirement of fiduciary duties in most countries, the US being an exception (Eccles & Youmans, 2015).

reporting is predominantly underpinned by the stakeholder and legitimacy theories.

As stakeholder interests are not necessarily only financial, an implication of adopting an accountability perspective is that the scope of reporting also includes non-financial information. Valuation and stewardship perspectives may also include non-financial reporting, but are traditionally focused on financial reporting, with investors as users. Hence, the scope of narrative reporting, even in financial reporting, is broader than that conveyed by the financial statements. Narrative reporting also includes other forms of non-financial information such as, among others, risk (Elshandidy et al., 2018), intellectual capital (Beattie & Smith, 2013; Beattie & Thomson, 2007), governance (Holder-Webb et al., 2008; Ntim et al., 2012), biodiversity (Samkin et al., 2014), extinction (Atkins & Maroun, 2018), greenhouse gas emissions (Comyns & Figge, 2015), climate change (Ferguson et al., 2016), gender equality (Grosser & Moon, 2008) and employee relations (Mäkelä, 2013). This information serves the purpose of helping with interpreting, contextualizing and assessing the financial performance of firms and/or the purpose of fulfilling accountability to a variety of stakeholders on impacts of corporate activities that are not strictly financial, i.e., social and environmental (Cohen et al., 2012).

Research on disclosure and narratives includes both large-scale quantitative analyses, based on manual content analysis or assisted by computerised linguistic techniques, as well as qualitative studies using discourse analysis (Beattie et al., 2004).

The literature review prepared for the FRC, however, suggests financial accounting regulators, potentially influenced by academics, have morphed corporate reporting towards a shareholder primacy perspective and away from, for example, the original intent expressed in *The Corporate Report*, released by the Accounting Standards Steering Committee in 1975 (ASSC, 1975).

Content analysis studies have developed frameworks to conceptualize and measure the characteristics of disclosure quality, with a specific concern that the quantity or extent of information does not necessarily proxy for the quality of the information (Beretta & Bozzolan, 2004; 2008). Quality is often defined in terms of how much narrative reporting is able to convey "meaning" to investors and stakeholders, in that it helps explain the underlying financial performance or other non-financial impacts.

One seminal paper is this respect is Beattie et al. (2004), who argue that disclosure is a "complex, multi-faceted concept" (p. 213) and as such, it requires going beyond considering the presence or absence of a specific information item. They propose a multi-dimensional framework that considers both the topic (i.e., information items that can be grouped into broad themes or categories) and other characteristics of the reported information, such as whether it is historical/forward-looking, financial/non-financial and quantitative/non-quantitative. Along similar lines, Beretta and Bozzolan (2008) propose a framework that considers the "richness" of the information content (what and how it is disclosed). Richness is defined in terms of breadth and depth of disclosure, the type of measure and outlook profile. The outlook profile considers both the time orientation of the information disclosed (e.g. forward-looking disclosure is more important for investors and stakeholders) and the management's orientation to action.

Other similar content analysis frameworks have been developed in relation to specific types of reporting, such as risk reporting (Beretta & Bozzolan, 2004), environmental reporting (Comyns & Figge, 2015; Hasseldine et al., 2005; Hooks & van Staden, 2011; Liesen et al., 2015; Toms, 2002), corporate social responsibility and sustainability reporting (Bouten et al., 2011; Chauvey et al., 2015; Michelon et al., 2015; Moneva et al., 2006), and integrated reporting (Melloni et al., 2017). These

papers choose a list of information items that is consistent with the specific type of reporting that is being analysed. For example, the Global Reporting Initiative (GRI) framework has often been adopted to define the content in CSR reporting studies (Bouten et al., 2011; Michelon et al., 2015). This first dimension capturing the content (i.e. topic) of information is then complemented with characteristics of disclosure similar to those provided in Beattie et al. (2004) and Beretta and Bozzolan (2008), or contextualised to the specific type of reporting, in relation to the guiding principles most commonly used. For example, Bouten et al. (2011) refer back to the GRI guidance to develop a second dimension that captures the degree to which each disclosure item refers to "vision and goals", "management approach" or "performance indicators". Michelon et al. (2015) apply a managerial orientation criterion to the analysis of CSR disclosures. They define managerial orientation as *boilerplate* if the disclosure talks about general expectations, context and hypotheses (forward looking) or policies and strategies (backward looking). Alternatively, disclosure is defined as *committed* when it focuses on objectives and targets (forward-looking) or results and outcomes (backward looking). A similar approach also developed in Chauvey et al. (2015), where information items are combined with quality as defined by a combination of principles reported in the GRI, Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) conceptual frameworks. For example, relevance applied to CSR reporting is operationalised as stakeholder inclusiveness.

An alternative approach to measure quality is provided in Toms (2002) who uses a survey of investors and analysts to identify which items these users deem more relevant for the credibility of the information, thus creating a hierarchy in which generic statements are penalised, and verifiable information (e.g. use of targets, results) is rewarded.

A third approach to the measurement of quality is that considered by Comyns & Figge (2015). Their quality measures embed the principles of good reporting stemming from relevant guidelines (in their case, the GRI, the European Federation of Accountants, and the GHG (greenhouse gas) protocol). They identify several dimensions of quality: accuracy, completeness, consistency, credibility, relevance, timeliness and transparency. For each quality dimension, they further consider specific criteria. For example, for completeness, the criterion considers whether companies report Scope 1, Scope 2 and Scope 3 emissions. Hence, often the quality of reporting is specific to the "topic" being reported, and therefore different characteristics and criteria apply to the definition of quality.

The above approaches mainly rely on manual classification and coding of narrative reporting. This approach bears the inherent limitation of adopting relatively small samples, with concerns over potential subjectivity in the coding (despite rigorous protocols to ensure its reliability). The advent of natural language processing, computational linguistics, and the use of automated, computer-assisted coding has enabled a better understanding of the verbal content and characteristics of company reporting, see for example Hope et al. (2016), Kravet and Muslu (2013), and Muslu et al. (2014). Key measures used under this approach are tone (Loughran & McDonald, 2011) and readability (Li, 2008 and 2010).[6] While such an approach is common for papers that analyse the narratives in financial reporting, it has also been used in relation

[6] For a complete overview of the status of the literature on linguistic analysis of corporate reporting, refer to the following literature reviews: Hassan & Marston (2019); Jones & Shoemaker (1994); Lewis & Young, (2019); Li, (2010); Loughran & McDonald, (2016). Moreover, Smith & Taffler (1992) provide an extensive analysis stressing the difference between "readability" and "understandability" of accounting narratives.

to other types of reporting. For example, Muslu et al. (2019) use textual analysis to capture the "tone", "readability", "length", "numerical content", "horizon content" which become the proxy of their measure of CSR disclosure quality. A similar approach is taken by Melloni et al. (2017) for integrated reports, where quality is defined in the concepts of "conciseness" and "completeness/balance".

In conclusion, while it is likely that the advent of computational linguistics will further develop the literature on the quality of reporting, as new frameworks and techniques are developed to measure it, the key message we learn is that quality is associated with the idea of meaningful information (and not just more information).

1.1 Meaningful information or impression management?

In a corporate reporting context, impression management describes the attempt to control and manipulate the impression conveyed to users of accounting information (Clatworthy & Jones, 2001; Clatworthy & Jones, 2006; Merkl-Davies & Brennan, 2007) by distorting readers' perceptions of company's achievements (or failures). The literature in this area has developed relatively objective proxies to identify impression management (e.g., Cho et al., 2010), as well as qualitatively explored the use of rhetorical devices (Bujaki & McConomy, 2012; Higgins & Walker, 2012; Schleicher, 2012). As the role of narrative information grows in importance (for economic performance and sustainability-related issues), the opportunity for impression management may increase. To a certain extent, impression management can be considered an inverse measure of reporting quality, yet it has hardly been considered as such by standard setters and regulators. This should be considered when designing future disclosure guidelines and mandates.

Impression management predominantly occurs in less regulated narratives, as – for example – CEO's letters (Craig & Amernic, 2018[7], Mäkelä & Laine, 2011) or Chairman's statements (Smith & Taffler, 2000) which focus on interpreting financial outcomes (Brennan et al., 2009), in non-routine reporting such as hostile takeover defence documents (Brennan et al., 2010), or in CSR or sustainability reports (Hooghiemstra, 2000). There is evidence that impression management strategies are specific to the target audience (Bozzolan, et al., 2015). Importantly, impression management in corporate reporting is not only documented in narratives, but also visuals such as graphs and pictures (Beattie, 2014; Godfrey et al., 2003).

Most of the papers considering impression management in annual reports adopt an economics-based perspective, focusing on trade-offs between costs and benefits of disclosure. This stream documents managerial opportunism in narratives, whether this is defined as opacity (Courtis, 2004), selectivity (Clatworthy & Jones, 2003; Leung et al., 2015), redundancy or boilerplate (Dyer et al., 2017; Hope et al., 2016; Kravet & Muslu, 2013).[8] Other studies have documented impression management in annual results press releases (Guillamon-Saorin et al., 2012; 2017), and that this practice is restricted when the corporate governance system is strong (Osma & Guillamon-Saorin, 2011).

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[7] This paper considers senior management personalities and captures the subtle messages conveyed by narratives, beyond tone and readability.

[8] This literature focuses on textual analysis of annual report disclosure, whether broadly (Dyer, Lang, & Stice-Lawrence, 2017; Lang & Stice-Lawrence, 2015) or in relation to specific items, such as risk disclosures (Hope, Hu, & Lu, 2016; Kravet & Muslu, 2013). While these studies do not explicitly refer to the term "impression management", they still explore ideas of managerial opportunism in management narratives, and therefore are included here under the impression management umbrella.

The idea of impression management has diffused widely within the stream of literature that investigates motives for, and practices in, sustainability (or CSR) reporting (Hooghiemstra, 2000). Developed since the early 1990s, this literature considers legitimacy theory (rooted in a social accountability conceptualization of the purpose of corporate reporting) as the conceptual underpinning for this type of reporting, as opposed to recent studies published in mainstream journals that focus on the value of CSR information in explaining firm financial performance and investor-based capture of that value.[9]

Importantly, social and environmental information has only started to be included in stand-alone reports this century, but early work in this area documents evidence of impression management in environmental (or social) information contained in annual reports. For example, Cooper & Slack (2015) analyse the disclosure of water leakage performance in water and sewerage companies in England and Wales (2005-2012) and compare this information with the counter-account provided by the industry regulator, OFWAT. They find that the level, nature and presentation of a leakage disclosures change markedly, reflective of their performance failure to meet OFWAT's target. Specifically, these changes in reporting practice include the use of tactics and presentational methods consistent with impression management, raising concerns regarding the balance and trustworthiness of such disclosures in the annual report. Based on their evidence, Cooper and Slack (2015) recommend that the IASB should consider additional guidance on narratives, including on issues relating to presentational format, to reduce the scope for impression management in annual reports. In a study of

[9] Roberts (2018) provides a critique about the lack of engagement that this most recent literature has shown with other school of thoughts, and the perils of misinterpretation of findings in light of this lack of engagement.

mandated environmental disclosures, Criado-Jiménez et al. (2008) document non-compliance and evidence of various impression management strategies, ranging from dismissal (e.g., ignoring explicit norms) to concealment: as regulation and enforcement improve, companies find it harder to be dismissive of reporting norms and so engage in evermore complex concealment. Evidence of impression management has also been documented in specific areas of sustainability reporting, such as biodiversity (Adler et al., 2018; Boiral, 2014).

Recent research on impression management tactics in sustainability reports has proposed a new theoretical concept, organized hypocrisy, to analyse the use of misleading information. Cho et al., (2015a) explain that misleading sustainability disclosure in company's narratives is related to contradictory societal and institutional pressures that require organizations to engage in hypocrisy (i.e., provide different "narratives" to different stakeholders) and develop a façade that helps maintain their legitimacy. They note that these insights suggest that it is unlikely that sustainability reporting will ever evolve into a more meaningful, substantive disclosure. Similarly, Cho et al. (2018) provide evidence of the misleading discourse contained in stand-alone reports, by considering and comparing the "*frontstage* sustainability discourse" of a sample of US oil and gas firms to their "*backstage* corporate political activities" in the context of the passage of the Arctic National Wildlife Refuge Bill. In other words, the firms' sustainability discourse on environmental stewardship and responsibility is inconsistent and misaligned with the firms' less visible but proactive political strategies. Cho et al. (2018) interpret this misalignment as evidence of organized hypocrisy.

One final note on impression management in sustainability reports is the issue of whether and how assurance of sustainability information can improve the quality of this type of reporting. It is generally assumed that assurance provides credibility to

sustainability information (Ballou et al., 2018; Simnett et al., 2009). However, another stream of accounting literature is critical of the idea that the goal of assurance providers in the sustainability reporting arena is to improve the credibility of reporting or that they are able to do so, e.g., O'Dwyer et al. (2011)*;* see also Michelon et al. (2019). Importantly, in sustainability reporting, narratives have a greater role than in financial reporting, given that not all social and environmental issues can be reported in terms of their financial costs or benefits. Hence, providing assurance for this type of reporting is quite a different process than it is in the traditional financial reporting arena.

Ultimately, there is strong evidence in the literature, over a relatively long period, that firms are prone to manage their reputation and legitimacy through sustainability reporting and portray an image that is possibly more favourable than the underlying performance. Importantly, this literature is mostly based on voluntary reporting settings. Further research is required to understand whether the widespread adoption of regulation and disclosure mandates will have a positive effect on the quality of sustainability reporting. However, sustainability reporting may also have strong transformative potential (McNally & Maroun, 2018) if it helps in changing corporate behaviour.

1.2 Other approaches to quality definitions

Whereas the majority of accounting research relies on objective, accurate proxies for the concept of quality of reporting, other epistemological streams of literature take a different perspective (Beattie, 2005). This is particularly true for the field known as social and environmental accounting, that has investigated the role of sustainability reporting for stakeholders, as well as the role of stakeholder engagement in producing

social and environmental reporting.[10] This literature offers two key messages in relation to the quality of reporting.

First, this literature ascribes the potential for an educational, aspirational, emancipatory role to this type of reporting (Christensen et al., 2013). The emancipatory role is defined in terms of its ability to develop good reporting practice that also transforms the underlying corporate activities and decisions. In Thomson and Bebbington's (2005) words: "education should lead to a desire and ability to develop 'praxis' whereby knowing about the world and having an emancipatory goal in mind leads to actions which transform individual and collective lives in a just and equitable manner" (p. 510). In such a context, accounts are considered educational artefacts and the quality of the information, and the potential for education and change they convey, is related to the underlying quality of the stakeholder engagement that leads to the production of these accounts (Thomson & Bebbington, 2005). This requires a conceptualisation of dialogic forms of accountability (Brown, 2009; Brown et al., 2015; Irvine & Moerman, 2017). In this perspective, reporting is considered as part of the governance system, conceptualised not as control, but as participatory governance (Bebbington et al., 2007; Brown & Dillard, 2015). Although participatory governance and dialogic accountability have the potential to bring change, they could still be subject to managerial capture, if their adoption was conducted symbolically (Bebbington et al., 2007; Brown & Dillard, 2013a, 2013b; Passetti et al., 2019).

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[10] The GRI framework recommends stakeholder engagement in the definition of what issues are material for reporting. In other words, it recommends that stakeholders have a say on the issues and topics they wish to see discussed in a sustainability report. This is in contrast to the approach adopted by the SASB, where issues are ex-ante defined as material in terms of their potential impact on capital markets.

Second, stakeholders may produce information about the company, complementing that released by companies. Considering this set of “external” information may impact the overall quality of corporate reporting. These alternative “counter-accounts” may improve overall accountability, promoting corporate transparency, with the potential for social change (Gallhofer et al., 2006; Gallhofer & Haslam, 2017; Irvine & Moerman, 2017). These counter-accounts can be radical and distanced, or engaged and consensus-seeking (O’Sullivan & O’Dwyer, 2009), because of the different rationales motivating the stakeholder groups. Therefore, the overall performance of a company can be understood through a construction of the performance portrayed in multiple reports (Georgakopoulos & Thomson, 2008). As counter-accounts represent a reconstruction of the social reality of the firm, they help build accountability (Boiral, 2013; Rodrigue, 2014).

Another element that emerges from this literature is that narrative forms of reporting can be analysed in the light of dynamics of power, e.g. discourse analysis (Beelitz & Merkl-Davies, 2012; Mäkelä, 2013), story-telling (Al-Htaybat & von Alberti-Alhtaybat, 2017; Beattie, 2014; Courtis, 2004; Higgins et al., 2014; Lai et al., 2018), sense-making and sense-giving (Beattie, 2014; Merkl-Davies & Brennan, 2011). For others, quality can be assessed considering the judgements of various groups involved, whether preparers or other stakeholders (Chaidali & Jones, 2017; Diouf & Boiral, 2017; Helfaya et al., 2019; Higgins et al., 2014; Hui & Matsunaga, 2014; Lai et al., 2018). In conclusion, this stream of literature highlights the key role of stakeholder engagement processes in the production of accountable reports.

2. Stakeholder information needs and their usage of narrative reporting

In this section, we first focus on shareholders and investment analysts, then on creditors, and finally on other stakeholder groups.

2.1. Narrative reporting and equity investors

The literature examining capital market effects of corporate reporting is substantial (as reviewed by e.g., Healy & Palepu, 2001; Cascino et al., 2013, 2014; Leuz & Wysocki, 2016). There are also several comprehensive literature reviews on specific sub-topics. Beyer et al. (2010) review research on capital market implications of managers' voluntary accounting information disclosure decisions and of similar disclosures mandated by regulators. Elshandidy et al. (2018) summarise the literature on informativeness of risk reporting and its capital market effects. Chalmers et al. (2019) review recent literature on internal control reporting, including findings pertaining to capital market effects of such reporting internationally. Finally, Christensen et al. (2019) provide economic analysis of the adoption of CSR and sustainability reporting standards and review the literature on the effects of CSR reporting on shareholders and analysts.

The studies discussed below utilise many research designs, including survey or interview-based research, sometimes combined with experimental designs. They examine the effects of companies reporting particular types of information or forms of reporting (e.g., effects of voluntary adoption of Integrated Reporting); information reported within a standard reporting framework (e.g. reporting of internal control weaknesses); or regulatory changes (e.g. country-wide adoption of International Integrated Reporting Framework).

Importantly, Leuz and Wysocki (2016) highlight common methodological challenges and shortcomings of the empirical literature on the effects of corporate disclosures, in particular the capital market effects. These mostly stem from endogeneity concerns and insufficiently rigorous identification strategies employed. Hence, the results of many studies discussed below should be interpreted cautiously.

Direct evidence needs of equity investors and their usage of narrative reporting information

The literature providing primary evidence on the need for narrative information and its use is relatively scant. Extant literature debates the usefulness of narrative information included in the periodic report vis-à-vis financial statement figures. Such information is used to contextualise and add meaning to accounting data (Barker & Imam, 2008) and constitutes a highly important source of information about companies for professional investors (Cascino et al., 2016). Breton and Taffler (2001) document that whereas financial accounting information is of fundamental importance to analysts, it is not the only, nor even the most important, source: while making the recommendations, the analysts are equally concerned with the information included in the narratives (e.g., on firm's management, strategy, or trading environment). Orens and Lybaert (2007) survey sell-side financial analysts and find that their use of narrative information reported by the companies improves the accuracy of the analysts' forecasts. The benefits stem primarily from the use of more forward-looking information and more internal-structure information. Yet, Campbell and Slack (2008) suggest that the amount of such information included in annual reports might be excessive and prone to managerial opportunism and impression management. Moreover, the experimental study of Hales et al. (2011) suggests that investors might be swayed by the tone of the language used, depending on their trading strategies. In particular, vivid language significantly influences the judgement of investors who hold contrarian positions (e.g., short investors in a bull market) but has limited influence on the judgement of investors who hold positions consistent with the general tenor of the market (Hales et al., 2011).

While financial reporting, and financial statements in particular, have been seen as a cornerstone of corporate reporting for years (Cascino et al., 2016), more recent

literature provides examples of studies focussing on the usefulness of non-financial reporting. Diouf and Boiral (2017) interview a range of corporate stakeholders, including fund managers and analysts, to ascertain their perceptions of sustainability reports. They document that investors perceive the reports as reflecting impression management strategies, highlighting positive aspects of sustainability performance and obfuscating negative outcomes rather than addressing information needs of investors. Slack and Tsalavoutas (2018) provide a similarly negative view of the usefulness of integrated reports from their survey of sell-side equity analysts and fund managers. Despite institutional-level support for integrated reporting, the interviews reveal that its usefulness to fund managers and equity analysts is low, partly because of the low level of familiarity with this reporting standard among mainstream equity market actors (Slack & Tsalavoutas, 2018). On the other hand, Amel-Zadeh and Serafeim (2018) survey mainstream investment organizations on their usage of environmental, social, and governance (ESG) information. While the primary drivers for using ESG information are relevance to investment performance, client demand, product strategy, and ethical considerations, the lack of established reporting standards for such disclosures represents an impediment (Amel-Zadeh & Serafeim, 2018). Yet, many investors support mandatory integrated reporting because, in their experience, voluntary sustainability reporting has not led to more substantive disclosures or increased the quality of reporting (Stubbs & Higgins, 2018). To conclude, while some evidence emerges of some investors incorporating non-financial information in their investment decisions, its usefulness seems limited by lack of established reporting standards for such disclosures and low level of familiarity with this type of reporting.

Trading and liquidity effects

The existing literature predominantly supports the intuition that better corporate

reporting environments mitigate information asymmetries, which is then associated with improvements in liquidity at both micro and macro levels (Leuz & Wysocki, 2016). Reduction in mandatory disclosure requirements negatively affect stock liquidity, even for firms that voluntarily maintain their disclosure level (Cheng et al., 2013), which could have implications for regulation of disclosure.

Specifically, at the macro level, liquidity has been shown to improve following the adoption of common reporting standards like Sarbanes-Oxley Act of 2002 (Gupta et al., 2018; Jain et al., 2008) or International Integrated Reporting (<IR>) Framework (Barth et al., 2017). For instance, following Sarbanes-Oxley Act adoption, US firms have been mandated to provide management's report on internal controls (as per Section 302) and such disclosures have been shown to reduce stock return volatility (Gupta et al., 2018).

Attributes of corporate reporting and the reporting environment are also related to trading volume, as well as the timing of trades by (some groups of) investors. Kravet and Muslu (2013) find that annual increases in risk disclosures are associated with increased trading volumes around and after the issuance of the annual report. Baginski et al. (2018) find that abnormal trading volume is higher when the linguistic tone of management forecasts is more positive, suggesting that there is significant investor disagreement over the implication of this tone for firm value. They further show that the net buying behaviour of small investors is positively associated with residual tone, while larger investors tend to sell on this signal. Finally, difficult-to-read annual reports hinder investors' ability to process and analyse information, thereby reducing their willingness to trade, which decreases stock liquidity (Boubaker et al., 2019).

To conclude, high-quality narrative reporting about financial performance reduces information asymmetries faced by market participants, which in turn improves

stock market liquidity. However, so far there is insufficient empirical evidence illustrating similar effects for non-financial reporting.

Cost-of-capital effects

Extant literature documents associations between narrative reporting, corporate reporting environment, and firms' (implied) cost-of-capital. Bertomeu and Cheynel (2016) review theoretical literature on the subject, while Christensen et al. (2019), Larcker and Rusticus (2010), and Leuz and Wysocki (2016) review the corresponding empirical literature (in particular, earlier studies). Therefore, our review complements and updates these prior reviews.

Overall, there is some degree of consensus in the theoretical literature that more extensive and higher-quality corporate disclosures are associated with lower cost of capital (Bertomeu et al., 2011; Cheynel, 2013). Interestingly, while some of the models predict a negative link between corporate reporting and the cost of capital irrespectively of whether disclosures are mandatory or voluntary, the model of Bertomeu et al. (2011) predicts the link to be present only for mandatory disclosures.

A number of empirical studies confirm a negative link between the quality of various aspects of voluntary disclosures and firms' cost of capital. For instance, Shroff et al. (2013) document that following the regulatory reform relaxing US firms' restrictions on disclosures in the periods preceding security offerings, firms provide significantly more of such pre-offering disclosures, which are in turn associated with decreased costs of raising equity capital. Francis et al. (2005) test and find support for the prediction that firms more reliant on external financing are more likely to undertake higher levels of voluntary disclosure and that a higher level of disclosure should, in turn, lead to a lower cost of external capital (both debt and equity) in an international sample. El Ghoul et al. (2011) and Plumlee et al. (2015) find a negative relation

between the quality of a firm's voluntary environmental and social disclosures and cost of equity capital, but Clarkson et al. (2013) and Qiu et al. (2016) find no such effect, and Richardson and Welker (2001) find the relation to be positive.

With regard to mandatory disclosures, while Zhou et al. (2017) document a negative link between the quality of integrated reporting and firms' cost of capital in South Africa, this result is not mirrored in the study by Barth et al. (2017) despite the same institutional setting. Cole and Jones (2015) document that higher quality of Management's Discussion and Analysis (MD&A) is associated with lower cost of capital in the US. Elzahar et al. (2015) illustrate that the quality of disclosures pertaining to financial KPIs (mandated in the UK) has a negative effect on the firms' cost of capital.

Finally, Hoberg and Lewis (2017) argue that management could use corporate reporting strategically with the aim of lowering their firms' cost of capital. MD&A disclosures of fraudulent firms are abnormally extensive but are of lower quality: they discuss fewer details explaining the drivers of firm's performance and disclose more information about positive aspects of firm performance, consistent with the use of impression management strategies. To conclude, extant evidence illustrates that information provided by narrative reporting affects cost of capital and this finding holds when information is disclosed under both mandatory and voluntary regimes.

Value relevance studies

Some of the relevant earlier literature examining value relevance of narrative reporting and the impact of reporting environments in this context has been summarised by prior reviews (e.g., Cascino et al., 2013 and 2014; Christensen et al., 2019). Thus, the discussion below complements these prior summaries.

There is ample evidence that financial statement information has been value-relevant, although its relevance has decreased over time both in the US and internationally (Balachandran & Mohanram, 2011; Hail, 2013). Moreover, Hassanein and Hussainey (2015) and Hassanein et al. (2019) document that while financial narratives (in particular, forward-looking financial disclosures) have no effect on the value of well-performing firms, they are value-relevant for poorly performing firms. However, the literature evidencing value relevance (or lack thereof) of non-financial reporting is relatively scarce as it has only started to emerge in recent years making it more difficult to draw firm conclusions (Christensen et al., 2019), in particular given conflicting findings. For instance, Moneva and Cuellar (2009) find that financial environmental disclosures (investments, costs and contingencies) are value-relevant, but non-financial ones are not. Furthermore, Moneva and Cuellar (2009) and Ioannou and Serafeim (2017) document that CSR information provided on a compulsory basis has recently become more value relevant. However, the results of Cho et al. (2015b) challenge the claim that CSR disclosures are valued by shareholders. Plumlee et al. (2015) shows that voluntary environmental disclosures are value-relevant: they are associated with lower cost of equity capital and higher expected future cash flows. Finally, Qiu et al. (2016) find that value effects of CSR disclosures vary by the type of disclosure: while environmental disclosures (more often studied in the literature) do not appear to be valued, social disclosures are associated with higher market values, likely due to higher expected growth rates in the cash flows of such companies, rather than to cost-of-capital effects.

Event studies and other share price/return effects studies

While this section examines a fundamental issue closely related to that discussed above, the methodological approach is different, with the focus on stock returns

(predominantly in the event study context) rather than valuation models. The overarching conclusion of the literature reviewed here is that narrative is a significant factor explaining stock returns.

Following recent methodological and computational advances, researchers have started to examine price/return effects of narrative information employing textual analysis tools (see Loughran & McDonald, 2016, for a review of related literature)[11]. Loughran and McDonald (2014) find that the size of annual reports, argued to be a simple yet effective measure of readability, is positively related with the magnitude of earnings surprises, which suggests that firms trying to obscure mandated earnings-relevant information "bury" the results in longer documents. Guay et al. (2016) challenge this premise and argue that managers use voluntary disclosures (i.e., management forecasts) to mitigate the negative effects of annual report complexity. In particular, a positive relation between complexity (measured as an aggregate of various readability proxies) and management forecasts is stronger when liquidity decreases around the filing of the financial statements and/or when a firm has more outside monitors (such as financial analysts covering the firm or institutional shareholders invested in its equity) and is weaker when firms have poor performance and greater earnings management (Guay et al., 2016).

Yekini et al. (2016) show that the extent of positiveness of annual report narratives is related to market reaction around the disclosure date, concluding that narratives should not be perceived as mere impression management tools, but also as conduits for disseminating price-sensitive information. Wisniewski and Yekini (2015)

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[11] Given the nascent state of the field, the methodological debate on the merits of various methodological approaches is ongoing (Henry & Leone, 2016; Lewis & Young, 2019; Loughran & McDonald, 2011).

document that linguistic indicators measuring ‘activity’ and ‘realism’ in annual report narratives predict future returns. Karapandza (2016) shows that firms using fewer future tense phrases in their annual reports generate positive abnormal returns of about 5% annually. Such a lack of forward-looking statements results in companies being perceived as riskier with shareholders expecting to be compensated (through higher returns) for bearing the corresponding risk (Karapandza, 2016). Feldman et al. (2010) examine whether the management discussion and analysis (MD&A) section of quarterly and annual reports has incremental information content beyond financial measures such as earnings surprises and accruals. They find that short- and medium-run market reactions around the Securities and Exchange Commission (SEC) filing are significantly associated with the tone change of the MD&A section (relative to the prior filing), even after controlling for accruals and earnings surprises[12]. Baginski et al. (2018) document a negative relation between the tone of management’s earnings forecasts and future stock returns. Finally, Huang et al. (2014) investigate whether and when firms manage the tone of words in earnings press releases and find that abnormal positive tone a) predicts negative future earnings and cash flows, and b) is positively associated with upward perception management events, such as, just meeting/beating thresholds or future earnings restatements. Such an abnormally positive tone has a positive stock return effect at the earnings announcement and a delayed negative reaction in the one and two quarters afterward. Overall, the evidence is consistent with managers using strategic tone management to mislead investors about firm fundamentals, in particular in case of older firms or firms less able to manage earnings through accruals (Huang et al., 2014).

[12] For a review of the literature on the role of the MD&A, see Cole and Jones (2005).

Existing literature also provides some evidence on the association between non-financial reporting and stock returns (see Christensen et al., 2019, for a recent review).

Amer (2018) studies companies that have joined the United Nations Global Compact (UNGC) and are required to submit annual ESG reports to UNGC. She finds that failure to report to the UNGC is penalised by the financial markets, indicating that voluntary reporting commitments undertaken by firms have substantial financial market consequences. Liesen et al. (2017) show that disclosures of greenhouse gas (GHG) emissions and, to a lesser extent, carbon performance are value relevant. Consequently, Liesen et al. (2017) call for mandatory and standardised information on carbon performance, which would consequently not only increase market efficiency, but also result in better allocation of capital within the real economy. Along these lines, Grewal et al. (2019) examine the equity market reaction to events associated with the passage of the EU directive mandating non-financial disclosures for firms listed on EU exchanges or with significant operations in the EU. They predict and find an average negative market reaction. This effect is less negative for firms having higher pre-directive ESG performance or higher pre-directive ESG disclosures. At the same time results are accentuated for firms having low ESG performance, as well as investors anticipating proprietary and political costs as a result of the mandated disclosures. Overall, their results are consistent with the equity market correctly perceiving net costs (benefits) for firms with weak (strong) nonfinancial performance and disclosure around key events surrounding the mandatory disclosure regulation of nonfinancial information (Grewal et al., 2019).

Volatility effects

A small number of studies have illustrated an association between volatility of stock returns and narrative reporting. For instance, Kravet and Muslu (2013) find that

annual increases in risk disclosures are associated with increased stock return volatility. This is in contrast to prior literature documenting resolved uncertainties in response to various types of disclosures. However, this effect is less pronounced for firm-level disclosures that deviate from those of other companies in the same industry and year, supporting critics' arguments that risk disclosures are likely to be boilerplate. Benlemlih et al. (2018) paint a more nuanced picture of risk effects and find a negative and significant association between environmental and social disclosures and a firm's total and idiosyncratic risk, but not systematic risk. This result suggests that corporate transparency can help companies build a positive reputation and trust with their stakeholders, which in turn can help mitigate the firms' idiosyncratic/operational risk.

2.2. Narrative reporting and financial analysts

Some of the relevant literature examining the links between narrative reporting and reporting environment on one hand and earnings forecasts, share recommendations and coverage by financial analysts on the other, has been extensively previously reviewed by Beyer et al. (2010), Bradshaw (2011), Ramnath et al. (2008), as well as, to a lesser extent, Brown et al. (2015), Cascino et al. (2013, 2014), and Christensen et al. (2019). Therefore, our discussion below complements and updates these prior reviews, covering the emerging literature on analysts' use of non-financial information, in particular CSR reporting.

Narrative reporting, analyst forecasts and coverage

A body of literature examined the links between the features of corporate reporting

(and/or specific type of information reported)[13] and characteristics of analyst forecasts such as forecast dispersion/consensus and/or forecast accuracy (Beyer et al., 2010; Bradshaw, 2011; Brown et al., 2015; Cascino et al., 2013, 2014; Christensen et al., 2019; Ramnath et al., 2008). The conclusion of these studies is that analyst forecast dispersion decreases and analyst precision increases are associated with higher transparency as well as higher quality, broader scope, and lower complexity of narratives. Specifically, such conclusions are reached by studies employing linguistic analysis of corporate disclosures to examine the effects of its quantity and quality (e.g., readability, specificity) on analyst forecast dispersion and precision (e.g. Bozanic et al., 2018; Hope et al., 2016; Lehavy et al., 2011). Interestingly, whether the focus is on the effects of quantity or quality of disclosures, the conclusion can differ. While Hope et al. (2016) show that quality (i.e., specificity as opposed to boilerplate) of risk disclosures is beneficial, allowing analysts to assess firms' fundamental risks better, Kravet and Muslu (2013) show that increases in the extent of risk disclosures are associated with more dispersed forecast revisions around the filings, suggesting that textual risk disclosures could increase analysts' and investors' risk perceptions. Similar conclusions are reached for the length of annual reports by Loughran and McDonald (2014): longer reports are associated with higher analyst forecast dispersion.

Characteristics of corporate reporting (e.g., quality, readability, or tone) also influence the likelihood that a particular firm is covered by analysts in the first place. Analyst coverage is higher for firms with less readable annual reports (Lehavy et al., 2011), suggesting increased demand for analyst services for firms with less readable communication and a greater collective effort by analysts for firms with less readable

[13] E.g. reporting on firms' accounting policies (Hope, 2003).

disclosures. On the other hand, analyst coverage is also higher for firms with more pessimistic language tone in their annual reports (Iatridis, 2016) and with higher causal reasoning intensity on earnings-related financial outcomes in their MD&As (Zhang et al., 2019). In both cases, the effects stem from reduced information asymmetries lowering financial analysts' information processing and interpreting costs, enabling an analyst to cover a larger number of firms.

Corporate reporting environment and analyst forecasts

Analyst forecast accuracy and dispersion also vary with the institutional corporate reporting environment. For instance, Barth et al. (2017), Bernardi and Stark (2018a), and Zhou et al. (2017) examine how the mandated adoption of integrated reporting (<IR>) framework in South Africa affects capital markets in general and financial analysts in particular and they provide somewhat contrasting results in this respect. While Barth et al. (2017) argue that higher <IR> quality is not associated with greater analyst forecast accuracy, Zhou et al. (2017) find that analyst forecast errors reduce as a company's level of alignment with the <IR> framework increases. Moreover, Zhou et al. (2017) document that the beneficial effects of <IR> persist after controlling for financial transparency and the issuance of stand-alone non-financial reports, suggesting that <IR> is providing incrementally useful information to the capital market over and above other reporting mechanisms. Bernardi and Stark (2018a) corroborate these benefits of <IR> and show that ESG disclosure levels are not robustly associated with analyst forecast accuracy before the <IR> regime was introduced. However, these disclosures, in particular environmental disclosures, are associated with forecast accuracy after the introduction of the <IR> regime, suggesting a mediating rather than direct effect of <IR> (Bernardi & Stark, 2018a).

ESG reporting and financial analysts

The studies examining the links between ESG disclosures and analyst coverage and forecasts are relatively rare, indicating a need for more research on this topic. The literature provides a set of mixed results and suggests that the corresponding associations (if they indeed exist) are likely to be context-specific. For instance, Bernardi and Stark (2018b) illustrate a positive link between analyst following and the quality of firms' environmental and social disclosure. Dhaliwal et al. (2011) examine the initiation of voluntary CSR reporting and find that initiating firms with superior CSR performance attract dedicated institutional investors and analyst coverage. Moreover, these analysts achieve lower absolute forecast errors and dispersion. Lee et al. (2018) examine the relationship between CSR information and the value of financial analysts' share recommendations. They find that the value[14] of analysts' recommendation revisions is lower for companies that voluntarily issue CSR reports compared to those that do not make such disclosures (suggesting some substitutability between corporate disclosures and analyst reports). Moreover, the overall effect of CSR on the informativeness of analyst recommendations increases over time.

Dhaliwal et al. (2012) examine the relationship between disclosure of nonfinancial information (proxied by issuance of stand-alone CSR reports) and analyst forecast accuracy internationally. They find that the issuance of stand-alone CSR reports is associated with lower analyst forecast error, with this relationship being stronger in stakeholder-oriented countries (where CSR performance is more likely to affect firm financial performance).The relationship is also stronger for firms and

[14] Lee et al. (2018) measure the value of analysts' recommendation revisions indirectly by examining abnormal stock returns around the date when the revisions are issued.

countries with more opaque financial disclosure, suggesting that issuance of stand-alone CSR reports plays a role complementary to financial disclosure (Dhaliwal et al., 2012)[15]. Finally, Muslu et al. (2019) develop a disclosure score based on the tone, readability, length, and the numerical and horizon content of stand-alone CSR narratives. They then examine the relationship between the CSR disclosure scores and analyst forecasts. The findings of Muslu et al. (2019) suggest that the contents of companies' CSR reports help to improve analyst forecast accuracy, but this relationship only holds for companies with high-quality substantive CSR reports (as measured by CSR disclosure scores).

2.3. Narrative reporting and creditors

The majority of the literature on creditors'[16] information needs and usage of corporate reporting focuses on financial reporting, in particular financial statements rather than narrative reporting, as evidenced by literature reviews by Armstrong et al. (2010), Ball et al. (2008), Beaver et al. (2005), Beaver et al. (2011; 2012), Cascino et al. (2013; 2014), Christensen et al. (2019), Penalva and Wagenhofer (2019), Shivakumar (2013), and Taylor (2013). While focusing on narrative reporting only, our review updates and complements those reviews.

The literature finds that the quality and credibility of narrative reporting information is reflected in the cost of debt capital (Bonsall & Miller, 2017). Bonsall and

[15] The results in Dhaliwal et al. (2012) should however be interpreted with caution, given that they use a rough proxy for CSR reporting (i.e., the presence or absence of a CSR report).

[16] Creditors, who are another group of capital providers besides shareholders, play a particularly important role, distinct from that played by other stakeholders. Hence, we review the literatures on creditors and other stakeholders separately in Sections 2.3 and 2.4, respectively.

Miller (2017), Cecchini et al. (2010), and Mayew et al. (2015) examine linguistic properties of narrative financial disclosures and link them to changes in credit ratings and likelihood of bankruptcy. Bonsall and Miller (2017) find that firms required to improve the readability of their filings experience more favourable ratings and lower bond rating disagreements. Cecchini et al. (2010) and Mayew et al. (2015) show that attributes of narrative information provided in MD&A could predict corporate bankruptcy. Strikingly, the performance of such linguistic-based models compares favourably with quantitative prediction methods. In particular, the information in MD&A disclosures is more useful in predicting bankruptcy relative to financial ratios three years prior to bankruptcy, which suggests that MD&A disclosures are more timely than financial ratios and hence, a leading indicator of going concern problems (Mayew et al., 2015).

There is only limited evidence of relevance and usage of non-financial reporting (e.g., CSR reporting) in the context of credit markets. Christensen et al. (2019) note that the literature on effects in debt markets is primarily focused on firms' CSR activities, while there is hardly any empirical evidence on the effects of CSR *reporting* (with some authors extrapolating the evidence on the effects of CSR activities to CSR disclosures) with few notable exceptions. Gong et al. (2018) find that Chinese firms with high CSR disclosure quality face lower costs of corporate bonds. This inverse relationship is stronger for firms with weak corporate governance and firms located in regions with weak institutional environments. Moreover, firms' misconduct significantly mitigates the influence of CSR disclosure quality. Finally, firms with higher quality of CSR information are less likely to be subject to collateral terms, but they tend to include covenants that are more restrictive (Gong et al., 2018). Jung et al. (2018) document that Australian firms with higher carbon-related risk exposure (as reflected by historical

carbon emissions) experience significantly higher cost of debt. However, this carbon penalty does not apply to firms exhibiting carbon risk awareness and corresponding proactive behaviour (either by means of extended carbon disclosures or new capital investments in “cleaner” technology assets).

Overall, research on the relationship between narrative information and credit markets is scarce. This gap in the literature calls for more research examining whether the contents and quality of narrative reporting has implications for access to credit (e.g., credit rationing, provision of trade credit, etc.), cost of debt capital (in particular, loan pricing), debt terms (e.g. covenant structure, maturity structure), and bankruptcy predictions.

2.4. Narrative corporate reporting and other stakeholders

Here we review the studies examining the information needs and usage by other stakeholders (e.g. consumers, employees, suppliers, managers, industry bodies, professional associations, accounting firms, consultants, NGOs, academics).[17] Among these users of corporate reporting, non-financial reporting appears particularly relevant. Our summary of the corresponding studies below complements the recent review of the relevant literature by Christensen et al. (2019).[18]

Chalmers et al. (2019) thoroughly reviews the literature on internal control disclosures finding that such disclosures affect shareholders, analysts, as well as various stakeholders of a firm. In particular, Su et al. (2014) find that internal control weakness

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[17] Aspects of the usage of corporate reporting by regulators, standard setters, and auditors are outside of the scope of this review.

[18] Importantly, our literature search only identified studies focusing on the usage of non-financial or integrated reporting rather than of narrative financial reporting by stakeholders.

disclosures adversely affect customers' perceptions of firms' ability and incentives to honour implicit commitments to customers and therefore customers are less willing to buy from such firms (which is then shown to lead to a decline in firms' sales growth after such a disclosure).

Studies by Briem and Wald (2018), Searcy and Buslovich (2014), and Stubbs and Higgins (2018) provide direct evidence of stakeholders' perspectives on integrated reporting <IR>. In particular, Briem and Wald (2018) illustrate that companies follow coercive pressures by investors and other stakeholders (such as NGOs and customers) when obtaining external assurance of their integrated reports and that they increase credibility and reliability of non-financial information disclosed. Stubbs and Higgins (2018) suggest limited appetite for mandating of <IR> among corporate insiders, such as executives. Yet, many stakeholders (e.g. regulators, standard setters, industry bodies, professional associations, or accounting firms) believe that <IR> will become the reporting norm over time if left to market forces as more and more companies adopt the <IR> practice. Over time <IR> is expected to be perceived as a legitimate practice, where the actions of integrated reporters are seen as desirable, proper, or appropriate (Briem and Wald, 2018).

Abdo et al. (2018), Bradford et al. (2017), Diouf and Boiral (2017), Haque et al. (2016), O'Dwyer et al. (2005), Searcy and Buslovich (2014), and Wong and Millington (2014) provide direct evidence on perspectives of various categories of investors and other stakeholders (e.g. consumers, employees, managers, regulators, standard setters, industry bodies, professional associations, auditors, accounting firms, consultants,

NGOs, academics) on CSR/sustainability reporting.[19] A common theme that emerges is the discrepancy between the information that the stakeholders expect on the one hand and the contents of the disclosure standards and actual disclosures made by the companies on the other hand (Abdo et al., 2018; Bradford et al., 2017, Haque et al., 2016, Diouf & Boiral, 2017, O'Dwyer et al., 2005). Specific stakeholders' concerns identified by the literature in this context include:

- companies' tendency to take a tick-box approach providing only minimum disclosure requirements and concerns about the credibility of the information provided (Abdo et al., 2018);
- mismatch between dimensions of reporting, e.g. those promoted by Global Reporting Initiative (GRI) and customers' information needs (Bradford et al., 2017);
- tendency for sustainability reports to reflect impression management strategies that highlight positive aspects of sustainability performance and obfuscate negative outcomes (Diouf & Boiral, 2017);
- an apparent preoccupation with financial performance and advancing shareholders interest coupled with a failure by managers to accept accountability (Haque et al., 2016);
- general resistance to disclosures on the part of companies (O'Dwyer et al., 2005).

[19] In some cases, conflicting pressures from various stakeholder groups may result in firms tending to adopt ad-hoc reporting strategies for different stakeholders, pretending to be addressing their respective concerns (Cho et al., 2015a).

These findings have clear implications for the regulation of corporate disclosures and enforcement of reporting standards. For instance, it might be desirable for the regulators to engage stakeholder groups in the process of design and implementation of reporting standards to ensure that their information needs are adequately satisfied. The findings also raise a bigger question about prioritising potentially conflicting information needs of various groups of stakeholders (in particular, vis-à-vis shareholders) by the bodies responsible for regulating corporate reporting and disclosures. Haque et al. (2016), O'Dwyer et al. (2005), and Searcy and Buslovich (2014) also point out the issues of a lack of proactive stakeholder engagement as an impediment to the efficiency of the disclosure process.[20]

Fernandez-Feijoo et al. (2014), Guenther et al. (2016), Liesen et al. (2015), and Thijssens et al. (2015) examine the effects of pressure of various stakeholder groups (e.g. government, customers, clients, employees, media, NGOs, general public) on CSR disclosures, which allows for drawing some indirect inferences about the information needs of these groups of stakeholders. There is some disagreement regarding the effectiveness of this pressure. For instance, Liesen et al. (2015) suggest that external stakeholder pressure is a determinant of the existence, but not of the completeness of emissions disclosure, whereas Fernandez-Feijoo et al. (2014) find that stakeholder pressure improves the quality of transparency of sustainability reports prepared within the GRI framework. Thijssens et al. (2015) argues that differences in environmental disclosures across companies are associated with differences between their

[20] Engagement of stakeholders in the corporate reporting process discussed here is of a different nature than that discussed in the context of their production of counter-accounts. Here we refer to stakeholders being engaged in the preparation of the company's own reporting information.

environmental stakeholders' legitimacy, implicitly implying varying degrees of effectiveness of stakeholder pressure. Finally, Axjonow et al. (2018) find that, in contrast to the common belief, stand-alone CSR reports do not influence corporate reputation among non-professional stakeholders like (potential) consumers, employees, and the general public changes. However, they are able to document that stand-alone CSR reports influence corporate reputation among professional stakeholders.

3. Real effects of narrative reporting

Here we focus on the effects narrative reporting has on managers' or firms' behaviour. This contrasts with capital market effects which reflect behaviour changes of those receiving the information. The two are closely connected because it is often information about the potential or actual response of the receiver that the sender of the information is responding to (Kanodia & Sapra, 2016). Despite some arguing that managers have little real discretion to change behaviour unless directly beneficial to shareholders (Harrison et al., 2015), the real effects hypothesis contradicts the assumption that the accounting process is a neutral one. For example, during the 2008-2009 financial crisis, did accounting disclosures exacerbate the downward spiral in the economy or were they merely "the messengers of an unpleasant reality" (Kanodia & Sapra, 2016, p. 624)? Hence, while there is some evidence to suggest that organizations may use narratives to improve practice, research on real effects is still nascent and faces many challenges (Leuz & Wysocki, 2016), for example, establishing causality.

Whilst the primary addressees of financial statements are financial stakeholders and the complexity of this information has precluded its use by other stakeholders (Gray, 2006), more narrative reporting (e.g., on intangible and intellectual capital) socializes accountability to a wider group of (often non-financial) stakeholders and gives account of a broader view of the assets to be managed (Brown & Dillard, 2014;

Castilla-Pollo and Gallardo-Vasquez, 2016; Lai et al., 2018). Hence the real effects of narrative vis-à-vis financial statement reporting may be broader.

3.1. What does corporate reporting change?

Operations and impacts

In addition to narrative reporting informing external providers of capital to make efficient allocations, it can also have real effects on internal decision-making and actions that create value for the company. Much of current non-financial reporting literature focuses on ESG or CSR reporting. Non-financial stakeholders can use CSR disclosures to put pressure on firms regarding particular CSR issues. Christensen et al. (2019) consider how mandating CSR standards may harmonise CSR disclosure and increase transparency of narrative reporting, resulting in firms adjusting CSR behaviour leading to real effects, e.g., benchmarking.

Christensen et al. (2017), looking at disclosure regulation on safety in the mining industry, conclude that information on social responsibility in financial reports can have additional real effects, even if this information is already available elsewhere. Increased awareness of safety issues is linked to increases in compliance, for example with mine-safety leading to fewer violations and a decrease in injuries.

Several CSR reporting studies demonstrate real effects - for example that carbon reporting can lead to better carbon performance (e.g., Burritt & Schaltegger, 2010; Qian & Schaltegger, 2017). Qian and Schaltegger (2017, p. 365) state that even where disclosure had previously been used as a legitimizing tool, “carbon disclosure motivates companies and creates an outside-in driven effect for subsequent change and improvement in carbon performance.”

However, there are many issues with this and similar studies. Firstly, they use carbon emissions as self-reported measures by organizations, and research shows that emissions may be misstated (Ballou et al., 2018; Michelon et al., 2019). Secondly, whilst the paper attempts to address the causality issue with a change regression and fixed effects, it is unclear that it is sufficient to completely solve the endogeneity issue. Thirdly, they use carbon emission intensity, so whilst they could say that there is an increase in emission efficiency, their results do not say anything in terms of the overall emissions released. Whilst this information is interesting and useful to investors, if the emissions overall increase, this is a clear example of the tension that exists when disclosure is intended for investors vis-à-vis other stakeholders.

Similarly, Kim and Lyon (2011) report that voluntary greenhouse gas emission reporting is not well understood. In their study of firms' strategic (voluntary) disclosures to the US government, organizations in particular geographic regions reported very similarly, revealing normative pressures to adopt particular business practices. However, firms engaged in highly selective reporting and in the aggregate, emissions actually increased over time, despite reductions being reported by individual firms. In contrast, non-participating firms in the same region decreased emissions over time. Those voluntarily disclosing tended to be larger firms facing stronger regulatory pressure.

Christensen et al. (2019) suggest a controversial real effect intention by policy makers or regulators may be to ensure the exit of firms perceived to be contributing to societal problems (such as dangerous or heavily polluting companies). They cite a limitation of studies looking for behavioural change is that they are often focused on a single industry or a narrow sample.

However, the case of reporting on behavioural change regarding increasing boardroom gender diversity in UK public limited companies did lead to a substantive change in the aggregated figure of women on boards across all premium-listed companies (Sealy et al., 2017). Changes announced in 2012 by the Financial Reporting Council, requiring premium-listed companies to report on their boardroom diversity policy and any objectives, were followed by a significant increase in the gender diversity of boards, even if within the aggregated increase (from 12.5% in 2012 to 25.8% in 2015), there were substantial individual firm differences (ranging from having 50% to 9.1% female board directors). The reporting requirement to state a board diversity policy may have aided an increase in overall numbers of women. However, the focus on 'counting heads' revealed little about changes in board dynamics or inclusive cultures (Financial Reporting Council, 2018).

Corporate governance

The literature shows how commitment to quality reporting can influence both the board and ownership structures. Specifically, managers recognising the need for transparency in reporting may invite more NEDs to join the board (Armstrong et al., 2010).

Eccles et al. (2014) compared firms who have been conducting sustainability reporting for a long time (i.e., since 1990s) with those that had not, to reveal a number of differences, such as established processes for stakeholder engagement, more long-term orientation, and higher measurement and disclosure of nonfinancial information. Boards made responsible for sustainability are also more likely to create sustainability committees, devoted to these issues (Salvioni et al., 2016). Companies with longer term orientation are also more likely to link sustainability performance to executive compensation in order to sharpen their focus on sustainability issues. However, linking executive compensation to some form of ESG measure is still not commonplace, but

sustainability reporting is evolving, and investors are increasingly identifying the value of sustainability performance (Tonnello & Singer, 2015). Nevertheless, Burchman and Sullivan (2017) found just 2% of S&P500 firms tied environmental metrics to executive compensation, and 2.6% had a diversity metric. Safety metrics were more common, with 5%, mostly those in more dangerous environments, such as mining.

'Say on pay' laws are an influential governance mechanism influencing both reporting and shareholder activism in many countries, including the UK and the US. In the UK, the board of directors is solely responsible for the Directors' Remuneration Report (DRR) in the annual report, specifically not subject to the Chief Executive (CEO) or Chief Finance Officer signing it off. The DRR has to be approved at the annual general meeting and what is perceived by shareholders as excessive CEO pay can garner a high level of voting dissent. This then places the board under scrutiny and criticism and can be reputationally damaging. Therefore, directors are sensitive to the threat of dissent (Ertimur et al., 2010; Ferri & Maber, 2013). One possible response in advance to proactively mitigate some damage is referred to as obfuscation – i.e., trying to hide the realities in complex reporting. Although the content of remuneration reports is regulated, there is no requirement for 'plain English' and the information can be presented however the company chooses. In the US, Laksmana et al. (2012) find that the more excessive the CEO's compensation package, the less readable the disclosures were. CEO compensation packages *are* undoubtedly complex, and the information is difficult to process. Possibly, when the cognitive cost of processing information is too high, the reader disengages and/or the information (and the decision-making it predicates) may be discarded. This could have the effect of reducing shareholders' dissenting voices on 'say on pay'. However, this does not seem to be the case with the more sophisticated investors. Institutional investors can recognise the obfuscation of

difficult-to-read remuneration reports and take it as a warning sign, reacting negatively to the pay disclosure (Hooghiemstra et al., 2017; Miller, 2010; Tan et al., 2014). Hooghiemstra et al. (2017) find that even when institutional investors were the minority of shareholders, their negative response to such obfuscation caused voter dissent. By implication, regulators should recognise that boards can undermine regulators' efforts to ensure shareholders have sufficient information on the appropriateness of CEO compensation (Conyon & Sadler, 2010). Given the directors' current total discretion, regulators could minimise obfuscation by prescribing how the information should be presented in the DRR (Hooghiemstra et al., 2017).

The literature examining shareholder activism and whether they hold directors accountable for internal controls, through shareholder voting, is not large. If, as a response to what is being reported, directors have many votes withheld, this reputational penalty may motivate better director oversight (Ertimur et al., 2012). A study by Ye et al. (2013) considers the post-SOX-404 environment in the US and finds shareholders react negatively to the presence of material weaknesses reported and vote against managers. Unsurprisingly, shareholders demonstrate greater dissatisfaction with a higher number of weaknesses, but this can be mitigated if the company provides early warning of weakness during the financial year. Specifically, audit committee directors are not penalised for internal weaknesses but are penalised for accounting restatements.

Integrated decision-making and thinking

The literature debates whether narrative reporting impacts decision-making processes or vice versa, and more empirical evidence is needed regarding the prevalence or magnitude of such effects (Leuz & Wysocki, 2016). Anecdotally, what gets measured gets managed, causing valuable constructive change in strategic thinking, which enables companies to convert data into action (Qian & Schaltegger, 2017; Burritt &

Schaltegger, 2010), integrate thinking and decision-making, thus creating more value for the firm (Barth et al., 2017; De George et al., 2016). For example, a case study by Lai et al. (2018) suggests that the narrative elements of integrated reporting (<IR>) facilitate integrated thinking, through enhancing dialogue across departments. The need or decision to produce sustainability reports may influence the board in terms of integrated thinking, connectivity and governance (Adams et al., 2019) and such disclosures may influence decision-making as companies are motivated to perform better. This is contrasted by Al-Htaybat and von Alberti-Alhtaybat (2018), whose case study suggests that the occurrence of integrated thinking within organizational strategy leads to the possibility of integrated reporting.

If a company is coerced into integrated reporting through regulation or legitimacy concerns, then integrated thinking may well be an unintended positive outcome of this – "an outside-in driven effect" for change (Qian & Schaltegger, 2017, p. 365). However, as United Nations' Sustainable Development Goals gain more prominence (for example, environmental issues such as carbon output, or social issues such as leadership diversity), they may be incorporated more overtly into strategy and the firm's business models, leading to greater authenticity as firms behave more consistently with the values they espouse (Harrison & van der Laan Smith, 2015). If the focus of the reporting is in line with the broader organizational culture and/or the firms' institutional logics, managers may be more likely to change their behaviour accordingly (Bundy et al., 2013; Hall et al., 2015). This may include management approach, strategy, governance, the use of targets and reporting on performance against those targets, influencing the value chain and value creation behaviour that contribute to business success (Adams et al., 2019; Adams 2017a, 2017b). However, it is important

to highlight that research is not unequivocal. Instead, evidence suggests that reporting is often used as an impression management tool.

This has led to calls for further <IR> research to address senior management thinking and decision-making in practice (de Villiers et al., 2017). Vesty et al. (2018) conducted an in-depth case-study with one Chairman recalling the relationship between integrated thinking and integrated reporting. The Chairman was clear that the mission and values of the company drive strategy and that integrated strategic thinking drives reporting, rather than the other way around. Additionally, she claimed that the integrated annual report adds value in attraction and selection as it gives potential employees and senior managers a fuller, more accurate picture of the organization's identity.

3.2. Why and how does reporting affect behaviour?

Why do mandatory or voluntary approaches to reporting affect behaviour?

It may seem obvious that the simplest way to alter behaviour is to regulate it, but the question here is what is being regulated: the reporting of behaviour or the actual behaviour? A body of literature focussed on the integration of information on environmental, social or governance issues, discusses the pros and cons of mandated versus voluntary reporting. Overall, the literature suggests that companies prefer a voluntary approach to non-financial reporting, whereas other stakeholders may prefer mandated (Stubbs & Higgins, 2018). Leong and Hazleton (2019), focusing on sustainability disclosure, argue that mandating is not likely to lead to social change because often the information disclosed is not useful for activists' purposes. Yet, mandated reporting is described as preferable as it has the potential for being more homogeneous, comparable and potentially more useful. This, however, would depend

on it being well-designed and specified. A possible solution is for minimum standards to be recommended, but for organizations to be able to go above and beyond should they choose (see also Leuz & Wysocki, 2016), but with the inherent trade-off that by leaving discretion to managers, they may use it opportunistically. As the recent EU Non-Financial Reporting Directive is such an example, future research will reveal further insights on this issue.

Changing disclosure & compliance strategies and managing impressions

Whereas changes in reporting requirements may intend to have real effects on corporate behaviour, they may just impact behaviour relating to disclosure and compliance strategies. Avoidance strategies can be a real effect of mandating if the costs of reporting are considered too onerous, or the companies are scared of the reputational damage of reporting. Gao et al. (2009) describe actions such as keeping firms under certain size limits, with investment cuts or re-categorising employees. Gender pay gap (GPG) reporting, recently mandated in the UK, was designed to encourage firms to reduce their GPG. However, because it applies to all companies with over 250 employees (Goergen & Tonks, 2019), anecdotal evidence shows companies reducing or changing the contract types of employees. Further research is required on the unintended outcomes of reporting policies. Research suggests that with social, moral or ethical issues (e.g. CSR, diversity, tax-avoidance), pressures from other peer firms, rather than formal regulatory pressures are more likely to influence firms to change behaviour, such as disclosing previous wrong-doing (Pffarer et al., 2008).

With particular regards to sustainability reporting, many papers express a deep scepticism, with companies using metaphorical representations of ‘a sustainability journey’, attempting to win trust from and improve legitimacy with their stakeholders (Al-Shaer & Zaman, 2019; Camilleri, 2018). Milne et al. (2006, p. 819) suggest the

focus is on creating a "sustainable business rather than contributing to a sustainable society". Selective reporting can give an air of transparency, whilst masking the truth (Dawkins & Ngunjiri, 2008). However, in their study looking at public firms across 45 countries, Marquis et al., (2016) found that those organizations known to have poorer environmental performance were often more visible to stakeholders and therefore less likely to be selective in disclosure. Institutional pressures and scrutiny may lead to more substantive, as opposed to symbolic transparency.

Early assumptions were that the balance of power between business and society would be altered by the additional information provided in social and environmental narrative reporting, empowering stakeholders (Gray et al., 1996). However, the literature suggests that corporate sustainability reporting may also be counter-productive to social change (Boiral, 2013; Milne & Gray, 2013). A key aspect appears to be that of formal versus informal power, with a lack of the former described as "the biggest conceptual limitation to believing that sustainability accounting can promote organizational change" (Leong & Hazleton, 2019, p. 815). The question of the purpose of sustainability reporting is then raised – is it accounting to report *per se*, or accounting as a pre-cursor to change? In addition, there is growing criticism in the literature of sustainability reporting as an impression management tool (as highlighted previously), describing the "deceptive nature of discourse contained in stand-alone sustainability reports", whilst the company engages in covert politicking activity to the contrary (Cho et al., 2018, p. 865). Boiral (2013) analysed how sustainability reports from firms in the energy and mining industry projected idealised versions of themselves, using GRI indicators to camouflage sustainability problems. Demonstrating the counter-accounting approach, Boiral (2013) estimated that 90% of significant negative events across those

organizations were not reported, contravening the GRI principles of balance, completeness and transparency.

Finally, McNally and Maroun (2018) challenge the idea that <IR> is only about box-ticking and impression management, suggesting instead that it has the potential to expand our understanding of accounting systems, facilitating broader management controls and bringing a wider perspective to value creation.

Why does stakeholder engagement lead to real effects?

Better quality reporting may reveal activities to shareholders that are not aligned with their priorities (whether financial or otherwise). Therefore, in response to shareholder reaction (real or anticipated), companies may adjust or reduce some activities in order to align with shareholder interests (Christensen et al., 2019; Schultz et al., 2018). In contrast, stakeholder reaction may influence how companies report. For example, Kim and Lyon (2015) investigated how companies sought to either 'greenwash' (inflate their ESG credentials) or 'brownwash' (minimise them). This relationship was dependent on the balance of power between consumer and investor stakeholders. Michelon et al. (2020), showed an increase in the amount of CSR disclosures for a sample of firms targeted by shareholder resolutions demanding improved transparency. However, they did not document a similar positive change in the underlying CSR practices. Additionally, Adams et al. (2016) found that whilst firms endeavour to present themselves as responsible, for example, by adopting UNGC or GRI, they may choose to avoid presenting themselves as maximising their stewardship in the annual report. This may be out of concern of an impression of a reduction in flexibility or competitiveness from adoption of standards.

New forms of disclosures have been aimed at widening the sphere of accountability from shareholder primacy to include other stakeholders (Andon et el.,

2015). Behaviour may change in response to either financial or non-financial reporting, but the latter may have broader effects as it has a wider user group – e.g., consumers, activists, special-interest groups – who may be interested in issues such as ethics, values and contributions to wider society (Christensen et al., 2019). This broader user group also makes it harder to predict the real effects. Accessible and good quality reporting reduces the transaction costs of this wider stakeholder group obtaining information, which may enhance their ability to push for change within organizations (Leong & Hazleton, 2019; Stephan, 2002). For example, Dyreng et al. (2015) describe how a non-profit UK activist group used a subsidiary disclosure requirement to exert pressure on companies using tax havens for their subsidiaries. Companies were publicly shamed for tax avoidance which then led to them paying higher effective tax rates in subsequent years. Similar 'shaming' occurred during the Davies Review period (2011-2015) focused on gender diversity in UK boardrooms, highlighting the FTSE 100 companies with all-male boards. Activist organizations use reported board membership data to increase the pressure for change. By 2014 there were no all-male boards among the 100 largest UK-listed firms. Narrative reporting on the benefits of increased diversity from those organizations with diverse boards, has contributed to increasing activity from institutional investors on boardroom diversity in the UK who actively implemented a voting policy of 30% female representation on boards (Tornero, 2019). However, it should be noted this is minority action, and power is limited by institutions such as capital markets, majority investors and competitors that push against such action (Leong & Hazleton, 2019). The increased transparency in the UK designed to increase shareholder activism and better stewardship may not yet have achieved that aim (Chiu, 2014).

How does signalling identity affect behaviour?

As well as managing external impressions of itself, what and how a company reports may play a role in signalling internal identity, which may impact corporate behaviour. Within management and organizational studies literature, signalling theory (based on social and psychological mechanisms) explains how people alter their behaviour in circumstances of imperfect information, according to what information gains salience (see Connelly et al., 2011 for a review). Whilst <IR> challenges the dominant view of performance management as solely based on financial metrics (de Villiers et al., 2014), existing research on non-financial reporting says little about the actual process of its adoption. Gibassier et al. (2018) conducted a seven-year, longitudinal ethnographic study of a large multinational corporation and how they adopted <IR>. Their study revealed the potentially aspirational nature of <IR> and how multiple participants conceptualized the narrative elements of reporting as based on the foundational vision and mission of the company. Whereas previous studies have argued *why* companies may adopt <IR>, little research has shown *how* they do so, once interested. Gibassier et al. (2018) considering that process, argue that innovations such as <IR> can be generative, partly because they are ill-defined and unknown (and therefore companies need to consider how and why they are adopting it). Busco and Quattrone (2017) suggest that the additional time and effort invested in constructing the integrated report rejuvenates the original purpose, mission and vision, thus signaling the identity of the organization.

When reporting includes intangibles such as intellectual capital and goodwill, a company can make explicit to its employees and other stakeholders otherwise implicit assets (Castilla-Pollo & Gallardo-Vasquez, 2016). This and other narrative aspects of reporting give a greater understanding internally and externally of both identity

development i.e. ‘who we are’ (Lev & Zambon, 2003), and how the company achieves its performance (Lail et al., 2015), in addition to improving an external image and corporate reputation. Internally, companies engaging in CSR reporting may do so to signal core values and governance beliefs (Dawkins & Ngunjiri, 2008). This ‘strategic storytelling’ (Higgins et al., 2014) may also be used to enhance legitimacy and dialogue with investors and analysts. Reporting that signals identity internally can enhance organizational identification. In management and organizational studies, there is a substantial literature on the positive benefits of organizational identification. For example, Vadera and Pratt (2013) highlight benefits such as enhanced individual self-esteem, greater job satisfaction, increasing employee loyalty, motivating employees to act in the firm’s best interests, reduce turnover intentions and increase performance.

How does agenda-setting reporting change behaviour?

Reporting may change corporate behaviour through its agenda-setting role (Camilleri, 2018; Leong & Hazelton, 2019; Qian & Schaltegger, 2017; Stephan, 2002). This is particularly the case when public commitment to disclosure is made upfront “to provide information regardless of its content” (Armstrong et al., 2010, p. 187).

In the context of <IR>, companies manage both the external environment and the six capitals in its value management and value creation (Castilla-Pollo & Gallardo-Vasquez, 2016). Through the narrative element of <IR>, the purpose and outcomes of social investments can be more clearly articulated and associated with longer-term notions of progress, risk and strategy. This articulation provides the focus for action for managers’ behaviour. Adams et al. (2016) analyse case studies of four major global companies, each using <IR> to distinguish themselves as a responsible company, telling more human-centred, value-creation stories, connected to firm financial performance. Increasing numbers of asset owners and asset managers, focused on more integrated

reporting, are also seeking the simultaneous objectives of both long-term returns and contributing to a more sustainable and inclusive world. This more engaged behaviour of owners and managers will likely influence the focus of a firm's behaviour (Adams et al., 2019).

In the UK, publicity and media reports regarding reporting requirements for boardroom diversity firmly placed the gender agenda in the spotlight. Since the Davies Review of 2011 and subsequent changes to the UK's Code of Corporate Governance (2014 and 2018), the diversity agenda has spread to include senior management pipeline and multiple characteristics and definitions of diversity (Financial Reporting Council, 2018). Media coverage (in national and business press as well as social media), particularly of the largest listed companies (FTSE 100 firms) focused leaders' agendas on the need to improve gender diversity, for reputational and relational purposes (Sealy et al., 2017).

Discussion and conclusions

Our review reveals that there is a substantial literature on the role, characteristics, and effects of narrative reporting, which include both financial and non-financial information. Whereas the valuation and stewardship perspectives have traditionally focused on the role of financial information and investors as the main addressees of such information, the accountability view has instead focused on non-financial reporting addressing the information needs of wider stakeholder groups. Recent policy interventions and regulatory changes, particularly in response to climate change awareness, have brought social and environmental issues to the forefront of investors' agenda, consequently raising the attention of academics interested in the role of narrative information.

Since the turn of the century academics and professionals have debated whether the principal purpose of corporate reporting should be investor decision-making or the needs of corporate governance, for the benefits of a wider range of stakeholders and society in general (Baker & Wallage, 2000; Beattie, 2000). Today, despite some exceptions[21], the debate still seems to adopt a shareholder-centric view of corporate reporting, with an emphasis on widening the scope of the topics covered by corporate reporting to fulfill the information needs of investors, as for example illustrated by the recent Consultation Paper on "Sustainability Reporting" issued by the International Financial Reporting Standards Foundation in September 2020.

Contrastingly, Harrison and van der Laan Smith (2015) developed a critique of the FASB choice to limit the range of addressees of financial reports, challenging the idea of shareholder supremacy (vis-à-vis other stakeholders). Brown and Dillard (2015) also challenge the shareholder focus of conventional accounting and call for new approaches that promote wider accountability and participatory governance.

Christensen et al. (2019) also note that the definition of what is deemed material when it comes to sustainability reporting is unclear, as the relevant decision-makers for this type of information would be much broader. The GRI framework, in this regard, recommends extensive stakeholder engagement in the definition and identification of

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[21] See for example the following projects, all of which are challenging these shareholder primacy notions: The Purpose of the Corporation (http://purposeofcorporation.org/), The Modern Corporation: Corporate Governance for the 21st Century (http://themoderncorporation.org) and the Future of the Corporation (https://www.thebritishacademy.ac.uk/future-corporation) [all websites accessed on December 10, 2020]. We also note that the recent Discussion Paper released by the Financial Reporting Council embeds a notion of network, objective-driven reporting.

social and environmental matters that are to be deemed as material, whereas the SASB identifies which items are material by industry in terms of their potential effects on capital markets. Ultimately, which approach is better – once again – depends on the purpose of reporting, but it is important to note a trade-off between the two. There is a risk that items that do not necessarily have (short term) financial implications for capital markets, do have an impact for other stakeholders (i.e., negative externalities) and until these potential negative impacts become a risk for the firm (whether operational or reputational), it may go unaccounted for (Unerman et al., 2018).

The key consideration emerging from this review is that widening the scope of narrative reporting to include the provision of non-financial information does not necessarily require that the purpose of corporate reporting will change or has changed. Specifically, the inclusion of non-financial information may not be enough to satisfy the information needs of decision-makers other than shareholders. Recently critiques have been made that the Integrated Reporting (<IR>) framework, for example, while having broadened the range of information companies are asked to report, has done so with a disproportionate focus on the needs of investors (Flower, 2015). Similar concerns have been brought about by the requirements of the Non-Financial Reporting Directive (Monciardini, 2016).

Academic research widely acknowledges that different stakeholders may have different information needs, so it is difficult for one size to fit all. The quality of narrative reporting is therefore a multidimensional concept. Several papers employ definitions of quality that descend from qualitative attributes of reporting as stated in accounting conceptual frameworks or reporting guidelines, using multidimensional frames of analysis (i.e. quality is defined in terms of reliability, materiality, comparability, neutrality, completeness etc.). The quality of reporting cannot be studied

in isolation from the firm's wider reporting incentives, which include firm-specific factors, such as the governance system (e.g., rules, practices and processes by which a company is directed and controlled) or growth opportunities, but also other market incentives and the wider institutional arrangements. The quantity of information is not necessarily a proxy for quality as it does not allow to fully capture the intrinsic characteristics of the information reported. Further, more disclosure may simply be associated with less meaningful information (boilerplate or statement of the obvious), as well with more opportunities to manage impressions. Some out-of-the-box, yet more radical approaches suggest that much could be learnt from dialogic accounting and participatory governance systems. Dialogic accounting recognises multiple points of view and denies capital markets and investors the 'priority' stakeholder status. Such accounting practices also reject the idea of a universal narrative, preferring to conceive the overall portrayal of a firm's performance and practices as the result of self-reported information and accounts provided by stakeholders. In this perspective, the process of co-producing corporate reporting with stakeholders would enhance the quality of reporting itself.

The literature documents a mismatch between the needs of users and what is being reported, and this is particularly the case for non-financial information such as CSR or sustainability information, which reveals extensive impression management and gaps in performance portrayal. This relates back to the purpose of reporting being focused on the information needs of investors, rather than wider stakeholders. While the scope of reporting is widening, the purpose is not changing, and for most standard setters the primary users of corporate reports are still shareholders and investors, i.e., they adopt a valuation/stewardship perspective rather than a (social) accountability view.

Research has documented that narrative reporting matters for and is used by stakeholders, in particular investors (shareholders and creditors), and its relevance is reflected in a number of ways. For shareholders, literature finds indirect effects of corporate reporting manifesting itself via market liquidity, trading behaviour, value relevance, cost of capital, stock returns and their volatility. In many cases, the effects documented for narrative reporting mirror those documented earlier for financial statement information (e.g., as far as the effects of the quality of reporting are concerned). There is also growing evidence of the usage of narrative reporting information (both financial and non-financial) by financial analysts (who serve investors). Properties of narrative reporting influence have been shown to influence analyst coverage as well as accuracy and dispersion of forecasts.

For creditors, the limited evidence available illustrates that narrative reporting matters for terms of debt contracts agreed (e.g., covenants, pricing, and maturity), ability to assess lenders' creditworthiness and to predict bankruptcy. Yet, the relative paucity of research on narrative reporting and creditors is a promising research avenue. Christensen et al. (2019, p. 70) note that "the CSR literature on effects in debt markets is primarily focused on firms' CSR activities. There is not much empirical evidence on the effects of CSR reporting. Thus, a discussion of the potential implications of mandatory CSR reporting standards largely relies on extrapolating the evidence on CSR".

Corporate narrative reporting (in particular, non-financial reporting) has a broad audience covering many categories of stakeholders who are not capital providers and is primarily relevant in the accountability role. Non-financial reporting has huge potential to address the information needs of various stakeholders. Yet, this potential remains largely unfulfilled so far due to discrepancies between the information that the

stakeholders expect and the contents of the disclosure standards and actual disclosures made by the companies. This mismatch is magnified by the lack of stakeholder engagement in the process of design and implementation of reporting standards and in the reporting activities of the companies.

Finally, research on "real effects" of disclosure (i.e. changes in corporate behaviour that are triggered by reporting) is still in its infancy, faces many empirical challenges and causal estimates are hard to obtain. Research has documented that corporate reporting has real effects on firms' policies and on stakeholders. However, it is yet unclear whether these real effects are aligned with the aim of reporting (e.g. whether ESG reporting influences ESG performance). As the scope of disclosure regulations starts to expand beyond financial reporting, understanding the effects of firm practices becomes incredibly important and where more research is needed. As societal attention to sustainable development increases and the awareness of future environmental and social challenges improves, a potential unintended consequence of regulatory initiatives that maintain an investor-focus is to lead companies to reporting how new risks and opportunities affect corporate financial performance, rather than to inform about how corporate activities affect sustainable development. Further, documented evidence of impression management in narrative reporting implies that non-financial disclosure may become almost akin to corporate communications and a PR function, which implies there is little need to change if companies can successfully manage impressions.

Implications for research and policy makers

As non-financial reporting becomes more predominant, and as the role of narrative reporting (even within financial reporting) assumes more weight, two considerations are in order. First, designing comparability standards for non-financial reporting and

ensuring reliability and credibility of this type of information will be challenging. Second, reporting standards, guidelines and regulation face the challenges that allowing discretion in narrative reporting choices (minimum requirements) entails. Hence policy makers and regulators may need to conceive reporting standards and guidelines together with other institutional arrangements, including enforcement.

The literature has largely failed to solve conceptually the problem prioritising potentially conflicting information needs of various groups of stakeholders, in particular vis-à-vis shareholders. It has also focused mostly on investors and on large-scale indirect evidence rather than direct examination of stakeholder needs and their usage of narrative information. It might be the case that as far as the big questions are concerned, we are in the situation of 'we don't know what we don't know'. Hence, future research could embrace mixed-methods and/or experimental approaches to better ascertain directly stakeholder needs and how narrative information is used. Further, case-based research may be able to provide insights on how desired changes are implemented within organizations and what challenges and tension may impede them.

While the literature highlights aspirational goals and potential for reporting, particularly around accountability and social change, there are methodological challenges for large-scale studies. In order to ensure a proper impact assessment of reporting regulations, standards and guidelines, policies should be conceived and implemented with the aim of testing their impact, for example by working collaboratively with academics to design randomized pilot studies or collect specific data around regulatory changes.

Finally, a key question for policy makers is whether the traditional investor-focus of most of the reporting regulation and guidance is considered still to be the most appropriate for the future of reporting. The literature does not uniquely identify the

purpose of reporting. While frameworks such as the <IR> have the merits of having created momentum in the financial community to acknowledge the importance of non-financial issues for corporate activities, expanding the scope of corporate reporting, several scholars criticise the excessive focus on the needs of investors, vis-à-vis other stakeholders and society. Considerations of what should be reported are related to risks and opportunities that may have financial implications for companies in the short-term, at the expense of transparency over externalities and impacts that may have long-term consequences, on the firm financial performance but also on society overall. While it is not for us to say whether the policy makers and regulators believe that capital markets are perfectly efficient, and ultimately will drive the optimal allocation of capital for the greater societal benefit, we can highlight that there is not academic consensus on this issue.

Another recommendation is to reflect on the opportunity to consider more participatory models of reporting, where users could be more deeply engaged in the production process of the reporting itself. This clearly would entail several challenges because of the different nature of various stakeholder interests, but dialogic accounting is reputed to allow for a more pluralistic expression of public interest. In relation to this, new forms of reporting that integrate financial and non-financial concerns are important but keeping the focus on investor needs may inhibit more disruptive and innovative ways of conceptualising corporate reporting in the face of challenges that society is facing today. The evidence on whether it actually changes firm decision-making is debatable and there is not enough evidence to say whether it satisfied investors' needs to start with.

A final recommendation in light of the evidence presented in this literature review is that standard setters and regulators may need to start considering not only

what firms should report (content), but also how (format), as well as in which channels, which may not only be restricted to structured and period reporting.

Limitations

As with all papers, ours is not without limitations. There is clearly a trade-off between the breadth of our analysis and its depth. Furthermore, although we have tried to provide a comprehensive and representative overview of the literature on narrative reporting, the methodology followed cannot be classified as a fully systematic literature review and we acknowledge limitations stemming from the less than perfect effectiveness of relatively simple automated keyword searches. Nevertheless, we attempt to address these by supplementing the sample of papers identified through this route through inclusion of additional sources, guided by our expertise, academic judgement and helpful suggestions from reviewers.

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Appendix A: Methodology of the Financial Reporting Council (FRC) literature review project

The literature universe underpinning this review are studies included in Scopus, written in English, published (or accepted for publication) from 1992 onwards (with particular focus on later work, up to May 2019), and identified by searching titles and abstracts for keywords from the pre-agreed list with the FRC.[22]

The usual stemming and lemmatisation procedures employed in linguistic studies have then been followed (to eliminate the impact of a grammatical form of a word and to remove inflectional endings only and to return the base or dictionary form of a word, which is known as the lemma, allowing for the joint analysis of the common lemma, e.g. report, reports, and reporting). This first-stage exercise identified over 18 thousand papers. Then, the second stage involved elimination of the papers with no full-text availability, missing information, missing abstracts, etc., which reduced the sample size to 16,428 papers.

Given the desire to focus on high-quality work and feasibility of the project, we only include papers from journals belonging to the top three quality tiers, i.e., of quality classified as "world-leading journals of Distinction (4*), "world-leading in originality, significance and rigour" (4) or "internationally excellent in originality, significance and

[22] Keywords list: financial report/disclosure; corporate report/disclosure; annual report; financial statement; corporate governance statement; remuneration report; earnings announcement/preliminary announcement; risk report/disclosure; voluntary report/disclosure; mandatory report/disclosure; narrative information/disclosure/reporting; strategic report; MD&A/management discussion and analysis; non-financial report/disclosure; corporate social responsibility/CSR report/disclosure/assurance; sustainability report/disclosure/assurance; social/environmental/governance report/disclosure/assurance; integrated report; stakeholder engagement/dialogue.

rigour" (3), as per the Academic Journal Guide (2018) published by the Chartered Association of Business Schools. This step allowed for a considerable reduction of the number of papers to be analysed, with the resulting sample containing 3,373 papers. In the fourth step, we have examined these papers and applied the list of exclusions (as agreed with the FRC and discussed below), reducing the sample further to 2,814 papers. Among those, 6.2% of papers have been published during 1992-2000 period, 34.4% during 2001-2010 period, and the remaining 59.4% from 2011 onwards.

This sample of 2,814 papers has then been used to identify papers relevant for each section and subsection of the report using additional targeted keyword searches and academic judgement by the members of the team. While identifying the final set of papers to be included and covered in the report, we have focused in particular on the most recent papers and papers not included in prior surveys of literature on the related topics.

Finally, we have made a relatively small number of additions to the list of papers covered in this report (less than 10% of the total) by using papers not picked up by the automated searches discussed above, to reach the final sample of 544 papers covered in this report. The most common sources of these additions are as follows:

- "snowballing", i.e., additions to the list based on reading of the papers identified by automated searches;
- seminal papers in the field, often pre-dating our sampling window;
- some high-quality working papers of high relevance included based on our academic judgement;
- published papers of relevance not picked up by automated keyword searches but included on the basis of our academic judgement.

Following the discussions between the team preparing the report and the FRC, a number of exclusions, both in terms of topics and sources, have been agreed to assure viability of the project within the agreed timeframe and its alignment with the FRC's goals. These include the following:

- exclusion of the literature on economic and regulatory determinants of reporting choices (for instance, accounting standards for the former and determinants of voluntary reporting and earnings management for the latter), unless relevant for other aims of the FRC project;
- exclusion of the literature discussing information needs and usage of corporate reporting by regulators, in particular in enforcement actions by regulators or by the State (e.g., SEC enforcement);
- exclusion of the discussion of the literature on the use of corporate reporting by auditors;
- exclusion of the details of the implementation of some accounting standards (e.g., IFRS);
- focussing only on publicly listed companies (thus excluding private firms, charities, public sector bodies, etc.);
- focussing only on studies relevant for well-developed markets (thus, in particular, excluding a number of studies on emerging economies deemed irrelevant for the goals of the current project);
- focussing only periodic and structured corporate reporting only, as defined above (thus excluding discussion of other corporate disclosure channels such as e.g., conference calls, companies' websites and social media, etc.);
- focussing only on published and forthcoming English-language academic papers only, thus excluding most of the academic working papers (see above, however)

and substantial body of the so-called “grey” practitioner-oriented literature on related topics.