The introduction of the six capitals models in integrated reporting brought about more disclosure in corporate reports for the benefit of the stakeholders. As an extension of the study done on the application of these capitals by the companies listed on the Zimbabwean stock exchange, this study is an investigation into the impact of industrial sector on the application of the six capitals model in integrated reporting. The study is a qualitative study that uses content analysis. The study is intended to benefit the preparers of financial reports, investors, and other stakeholders. The results showed that, the 13 sectors represented by the 20 companies reported on financial and manufactured capital. Financial, manufactured, and human capitals were the most reported capitals respectively while the lowly reported capitals were social and relationship, natural, and intellectual capital. Further analysis of data revealed that industrial sector did not only have an influence on the application of the six capitals, but had an influence on the kind of capital the sector reported the most. Recommendations are then made for the six capitals to be promoted across all industrial sectors through seminars.

Keywords: Integrated reporting; six capitals model; stakeholders.
1. INTRODUCTION

The introduction of the multi-capital model in integrated reporting was a result of stakeholder demand for more disclosure in corporate reports [1]. A study done by Muzira [2] on the application of the six capitals model in integrated reporting revealed that Zimbabwe’s listed companies had to a large extent applied the six capitals model in integrated reporting (IR). However, the impact of industrial sector on the application of these capitals was yet to be established.

It is expected that corporate reports across all sectors be transparent to help stakeholders make informed decisions [3]. Despite the promotion of the six capitals model, not all sectors have embraced the idea of multi-capital reporting. Industrial sectors such as the mining/metals, energy, industrial and manufacturing seem to disclose non-financial information more than the other sectors ("Tomorrow’s investment rules: Global survey of institutional investors on non-financial performance," 2013, p.23). Compromised transparency would result in uninformed decision making which will negatively affect the stability of companies [3]. This study therefore, sought to establish whether there is a significant relationship between industrial sector and the application of the six capitals model in IR. The research is intended to benefit the preparers of financial reports, investors, and other stakeholders. The study will also add to the body of knowledge on the six capitals model.

2. REVIEW OF LITERATURE

2.1 Historical Setting of the Study

The demand for more disclosure in corporate reports has led to changes in corporate reporting styles from financial reporting to triple bottom line to sustainability reporting and currently to integrated reporting. Each reporting style has its advantages and disadvantages.

2.1.1 Financial reporting

Some of the advantages of financial reporting are that the assurance of reports is easy since there are existing accounting standards for it, figures are easy to work with when making comparisons and most important ratios such as liquidity, profitability, investment rely on financial data. However, its disadvantages are that other relevant information for decision making such as governance, risk, environmental issues are not catered for and the focus on historical information due to its accrual basis of accounting.

2.1.2 Triple bottom line

Triple bottom line advantages include its incorporation of social and environmental issues in addition to economic issues for more disclosure and that it increases accountability in companies. The disadvantages are that it lacks present and future orientation, lacks integration on how the capitals interact for value creation and complexity in its measurement.

2.1.3 Sustainability reporting

The advantages of sustainability reporting are that it incorporates how the company’s activities impact society, environment and the economy and it also has a future orientation which lacks in financial reporting and triple bottom line. The disadvantages are that it lacks integration of financial and non-financial information and most of the reports end up being too long resulting in information overload.

2.1.4 Integrated reporting

Integrated reporting’s advantages include that it shows value creation in the short, medium and long-term; its focus is on past, present and future; it discloses information on both financial and non-financial performance; its economic view is on both tangible and intangible assets; and it shows how departmental activities interact for value creation, hence enhancing connectivity. The disadvantages are that assurance of reports is difficult to determine with no existing accounting standards and that it gives preparers of the reports additional work since they need to gather financial and non-financial information.

From the analysis above, IR seem to be the most viable system of reporting. First, because it has more advantages than the disadvantages. Second, because IR covers a wider spectrum of time (past, present, and future) than the other reporting systems. Third, IR future orientation is wider (short, medium, and long-term) than the other reporting systems. Fourth, IR shows how financial and non-financial activities of an organization interact and connect for value creation, while other reporting systems present financial and non-financial information in silos. Firth, IR discloses more information that could be
used for decision making than the other reporting systems, therefore, making IR more transparent than the other reporting systems.

2.2 Stakeholders’ Reporting Needs

Since the six capitals came as an attempt to meet different stakeholder’s needs for more disclosure in corporate reports, the analysis of stakeholders’ needs is then presented. The shareholders are mainly interested in their return on investment. The same is echoed by the international federation of accountants (2010) when operational performance is among the significant business reporting issues that shareholders require. The government is mostly interested in full disclosure of the companies’ profits for tax purposes, employees interested in the company’s profitability, liquidity, and human resources management as these impacts their remuneration and job security, while creditors are mainly interested in the company’s liquidity and relational capital as they affect their payments.

2.3 The Six Capitals’ Theoretical Support

The main theory that supports the six capitals model is the agency theory. The theory stipulates that the owners/shareholders (also known as principals) hire managers (also known as agents) whom they delegate authority to make decisions on their behalf on the company’s daily operations [4,5]. These agents have personal interests that most of the times are not in harmony with the interests of the principals [6]. These agents also have tendencies to place their interest as priority over the interests of their employer, the principals. This creates conflict of interest, which is known as the agency problem [6,4].

Furthermore, the agents are entrusted with managing the firm and, therefore, have more inside information regarding the firm relative to the principals. This creates a situation known as information asymmetries [7]. The agency problem and information asymmetry lead to various efforts from the principal to reduce if not eliminate the problem and this leads to agency costs [5]. The principals hire auditors to be the gatekeepers who monitor the managers in an effort to reduce the agency problem which is an extra cost [8]. Another method the principals use to reduce the agency problem is matching the agents’ interests with the principals’ interest. This is done by offering the agents incentives such as performance bonuses and share ownership such that performance improvement, which is the interest of the principals, is also the interest of the agents [6,4]. As the agents increase performance to get bonuses, the interests of the principal is met also by increasing profitability and the share value. This is an extra cost to the organization. Disclosure of information is one way of reducing information asymmetry thereby potentially reducing the agency costs [7]. IR then comes as a solution to the agency problem and information asymmetry when it recognizes the need for disclosure of the six capitals not just the traditional financial capital.

2.4 Industrial Sector

Many studies have shown that industrial sector has an influence on non-financial information disclosure in corporate reports. The non-financial information disclosure includes reporting on environmental, social and governance issues [9]. This, therefore, means that reporting on natural, social and relationship capital would be affected by the industrial sector. This then prompted the investigation on whether there is a relationship between industrial sector and the application level of the six capitals. Other studies have revealed that industrial sectors such as mining, manufacturing, and energy tend to disclose more on their impact to the environment than non-industrial sectors. This is because the sectors that have potential to heavily pollute the environment attract public pressure and regulator monitoring [10]. The proposition for this study being that reporting on the six capitals will be higher for industry sectors that have direct environmental impact (mining, manufacturing, and energy) than non-industrial sectors.

3. METHODOLOGY AND DESIGN

3.1 Research Design

This study was a desk top research that used qualitative content analysis to determine whether industrial sector had an impact on the application of the six capitals model in IR. Interpretivism philosophy was applied because it does not seek to generate theory, but it seeks to evaluate/judge theories. This study adopted the inductive approach since it is a qualitative study that used qualitative content analysis [11]. The researcher was the one who filled the scoring sheet for the study. This inductive study sought to determine if industrial sector had an impact on the application of the six capitals in IR. A cross-sectional time horizon was adopted in this study.
The study used the scoring sheet as the data collection technique. Year 2017 annual report was considered in this study. Both quantitative and qualitative data was codified in order to derive patterns of presentation and reporting of information on the six capitals. Further analysis of data used descriptive statistical method such as the mean, mode, and percentages. The study population consisted of the 62 listed companies on the ZSE (see ZSE listed companies). Purposive sampling was used to draw a sample of twenty largest companies using total assets figure in year 2017 annual reports. Using Krejcie and Morgan [12]'s table, the sample size for the study was 20 companies.

The scoring sheet was filled in by the researcher using the published annual reports. The following steps were used in data collection for this study:

- 20 companies' annual reports were downloaded.
- Colourcodes were used to distinguish the different capitals mentioned in the reports.
- Each indicator given a code that was put just above word/sentence the indicator was mentioned in the report.
- A worksheet with information for each company was then completed after the coding.
- A table was then drawn from the information in the worksheet to show the frequencies of the reported capitals in the top 20 companies.
- Descriptive statistics such as mean, mode, and percentages were used for data analysis.

4. DATA PRESENTATION, ANALYSIS, AND DISCUSSION

Research Question: Is there a relationship between the industrial sector and the application level of the six capitals?

Table 1 is the sample composition in terms of the number of companies per industrial sector.

Table 1 show that there is a fair representation of the companies according to the ZSE industrial sector distribution.

Fig. 1 shows capitals reporting across industrial sectors. Of the 13 industrial sectors represented by the 20 companies, financial, manufactured, and human capitals were the most reported capitals respectively. The lowly reported capitals were social and relationship, natural and intellectual capital, with intellectual capital being the least reported capital. Intellectual capital is difficult to measure [13,14]. This could probably explain why it was the least reported capital. All the 13 sectors reported on financial and manufactured capital. These results are contrary to Carels, Maroun, and Padia [15] who found that mining sectors in South Africa had applied integrated reporting more than the other sectors probably for legitimacy, yet for Zimbabwe, the mining sector is among the least on application of integrated reporting. Another study on South Africa’s mining sector had the following as reasons for its mining sector to report more on the six capitals than any other sector; the mining sector is the dominant industry in the country, the sector provides employment to a big proportion of the populace and that because of mining’s negative effects on the environment, it receives a close watch from environmentalists and social groups [16]. All the 13 sectors on Zimbabwe’s stock exchange could have reported on the financial and manufactured capital because it is the norm since Zimbabwean companies follow the IFRS in producing annual reports. IFRS's concentration is more on financial than non-financial information. IR which emphasizes reporting on non-financial capitals over and above the traditional financial and manufactured capitals has not been made mandatory in Zimbabwe, hence some companies are slow to embrace it. The other reason for all sectors to report on financial and manufactured capital is that, these two capitals are audited in financial reports while the other four capitals just need assurance in the integrated report because they are subjective [17].

Tourism and engineering industry only reported on financial and manufactured capital, with financial capital being the most reported one. For the building industry, human capital was the most reported capital, followed by financial capital while intellectual capital was the least. For the food, retail, property and insurance industry, financial capital was the most reported one while the banking and financial sector had manufactured capital as the most reported one. Human capital was the most reported capital in the building, agricultural, industrial holding, and beverages industrial sectors.

A close analysis of the data shows that, industrial sector has an influence on the application of the six capitals. Further, it has an influence on the kind of capital the sector reports the most.
Banking and finance report mostly on financial and manufactured capital possibly because their core business has to do with finances. Human capital’s prominence in the building, agricultural, industrial holding, and beverages industrial sectors, might be due these sectors closely related to human beings. The health and safety of the employees as well as the consumers being of major interest in these industrial sectors [16]. Natural capital was mostly reported by the agricultural sector probably due to the industrial sector’s close reliance on natural resources such as land, water and a favourable climate for farming purposes. It can therefore be concluded that industrial sector has a relationship with the application of the six capitals even though other studies show that the chief executive officer had an influence on what gets reported and the lack of guidelines and standards to follow when reporting non-financial capitals also influenced low reporting on them [17].

Fig. 1. Reported capitals across industrial sector
Table 1. Sample composition using industrial sector

<table>
<thead>
<tr>
<th>Industrial sector</th>
<th>Number of companies in sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
<td>2</td>
</tr>
<tr>
<td>Banking &amp; Financial</td>
<td>3</td>
</tr>
<tr>
<td>Beverages</td>
<td>1</td>
</tr>
<tr>
<td>Industrial Holding</td>
<td>1</td>
</tr>
<tr>
<td>Agric-Industrial</td>
<td>1</td>
</tr>
<tr>
<td>Mining</td>
<td>1</td>
</tr>
<tr>
<td>Property</td>
<td>2</td>
</tr>
<tr>
<td>Retail</td>
<td>2</td>
</tr>
<tr>
<td>Agricultural</td>
<td>2</td>
</tr>
<tr>
<td>Food</td>
<td>2</td>
</tr>
<tr>
<td>Building</td>
<td>1</td>
</tr>
<tr>
<td>Engineering</td>
<td>1</td>
</tr>
<tr>
<td>Tourism</td>
<td>1</td>
</tr>
</tbody>
</table>

Total number of companies 20

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The above findings led to the following conclusions.

1. It could be concluded that all the 13 sectors reported on financial and manufactured capital because Zimbabwe’s corporate reporting is guided by IFRS and its generally accepted accounting standards that require companies to report on these capitals in the statement of financial position. Moreover, financial, and manufactured capitals have been traditionally reported in the annual reports, thereby making it easy to value them through the financial information readily available in the company’s financial records.

2. Another conclusion from the findings was that industrial sectors had an impact on the kind of capital the sectors reported the most. The core business of companies in the sector could be associated to the most reported capital. This was notable when banking and financial sector reported the most in financial and manufactured capital, agricultural sector scored the highest on reporting on natural capital, and building, agricultural, industrial holding, and beverages industrial sectors reported the most in human capital (see Fig. 1).

3. It was generally concluded that industrial sector had an influence on the application of the six capitals. The 6 companies that reported on all of the six capitals were from industrial holdings, beverages, banking and financial, and insurance sectors while those who reported the least on the capitals were from the tourism and engineering sectors.

Recommendation is made for the six capitals to be promoted especially to the sectors that reported the least on them. Regulators could also give incentives such as tax holidays for full application of the six capitals to these sectors as a way of encouraging them to report on the six capitals.

COMPARING INTERESTS

Author has declared that no competing interests exist.

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