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INTEGRATED REPORTING PRACTICES IN SELECT INDIAN PETROLEUM COMPANIES-AN ANALYSIS

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ABSTRACT

The inability of financial and sustainability reporting to present the performance of the company as a whole has given rise to the concept of Integrated Reporting (IR). It is a representation of the financial and non-financial performances in a standalone document. IR helps in the decision making, offers additional values, increases the transparency between the company's performance and the outside world and helps in information management. The paper describes the concept of integrated reporting and the IIR framework launched in 2012. This study also examines whether the integrated reports prepared by the companies are in compliance with IIR framework or not and studies the relationship between the disclosure index and companies' performance (ROA) and position (ROE). The annual reports of the selected companies are analyzed using content analysis. Due to the absence of statutory laws in India regarding Integrated Reported, there is discrepancy in reporting. Moreover, some steps are suggested to improve Integrated Reporting practices in India.

KEYWORDS: *Integrated reporting, IIR framework, disclosure index*

INTRODUCTION

The two main functions of corporate financial reporting are information function and transformation function. Financial reports are prepared according to accounting standards and are geared towards stakeholders. Companies employ people and utilize their skills (employees), need investors to finance their financial and capital requirements (shareholders), require to obtain licenses from the regulators, and need to pay taxes to the government. Even studies in accounting suggest that the firms with better accounting and disclosure practices receive financing on more favorable terms. (Botosan 1997). Traditional annual financial reporting being insufficient to meet the information needs of variety of stakeholders like customers, employees, suppliers, government, and local community who would like to have a holistic view of the performance of the companies. The growing base of those assets that are not recorded on the bqlance sheet is frequently considered as a failure of financial reporting to perform its information function. There was an increasing number of investors who have been showing great interest in sustainable information in the form of environmental, social and governance data. Some are driven by moral or ethical reasons whereas some are driven by economic reasons since these types of information could improve the performance of the company and improve the risk return profile of the portfolio. This has compelled the companies to look beyond financial performance.As a result companies started exhibiting sustainability reports which includes sustainability information in the form of environmental, social and governance (ESG) data.. Financial reports are prepared according to the accounting standards whereas these reports are prepared voluntarily by the companies. Due to the absence of some mandatory rules and standards, NGOs like GRI and TI have come up with some guidelines to improve disclosure. However, these reports lacks timeliness, credibility and relevance.

The inability of financial and sustainability reports to facilitate stakeholders to understand the performance of a company as a whole has given rise to the concept of Integrated Reporting (IR). Integrated Reporting (IR) refers to representation of the financial and non-financial performances in a standalone document. This report represents the sustainability embedded in the strategy of the company and provides a lot of information about company's non-financial data such as its social and environmental and corporate governance. The first integrated report was issued by the Danish company Novozymes in 2002 whose core business is Industrial Enzymes, microorganisms and biopharmaceutical. Some countries have made it mandatory to adopt integrated reporting such as South Africa, Denmark, and France.

INTEGRATED REPORTING AND IIR FRAMEWORK

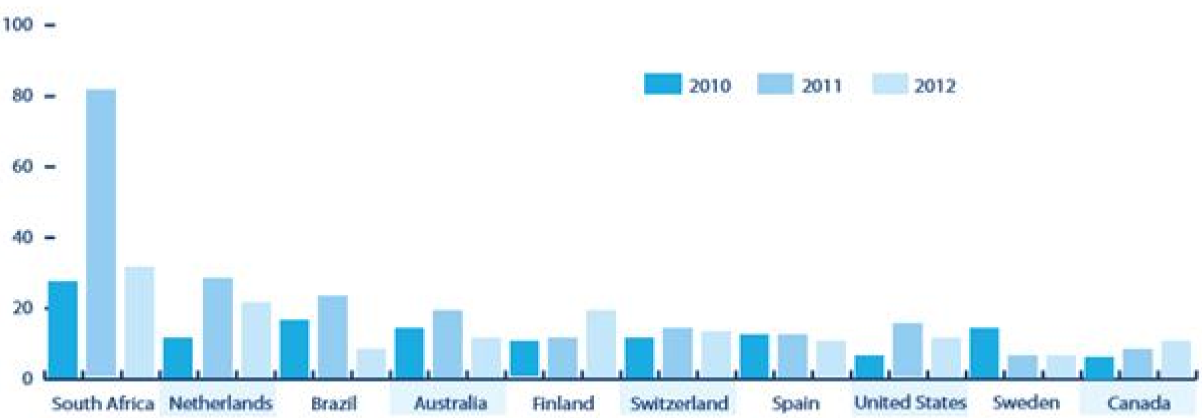
Integrated Reporting (IR), "brings together the material information about an organizations strategy, governance, performance and prospects in a way that reflects the commercials, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewards and how it creates and sustains value." (IIRC, 2011). The primary purpose of integrated reporting is to explain providers of financial capital how an organization creates value over time. It therefore contains relevant information, both financial and other. (IIRC, 2013).

There are lots of benefits of integrated reporting. Some are as follows:

1. IR helps in improving the decision making of long term investors.
2. IR offers additional values to stakeholders and are considered as breakthroughs in understanding value creation.
3. It helps in increasing the transparency between the company's performance and the outside world. Thereby helps in building trust.
4. It helps in management information and decision making.

Many companies have registered their integrated reports in the GRI database. The following figures shows the integrated reports registered in the GRI database for three years 2010 to 2012.

Figure 1: Top 10 countries publishing self declared Integarted reports (#of reports)



(Source: the sustainability content of integrated reports- a survey of pioneers. GRI: research and development series, 2013)

The above figure shows that South Africa tops the chart whereas Netherlands, Brazil and Australia secure second, third and fourth position respectively. The reason that has put these countries ahead are due to some sort of government or stock exchange initiative encouraging disclosure.

The International Integrated Reporting Council (IIRC) is a global association of investors, companies, regulators, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting. The International <IR> Framework has been developed to meet this need and provide a foundation for the future.

OBJECTIVES OF THE STUDY

1. To examine the financial and non-financial disclosure in the annual integrated reports in compliance with IIR framework.
2. To find out whether there is significant relationship between the financial performance and the level of disclosure for environmental and social information.
3. To examine whether there is significant relationship between the financial position and the level of disclosure for environmental and social information.
4. To propose suggestions for further improving the Integrated Reporting practices in India.

LITERATURE REVIEW

Although the first IR was published in 2002, there is little research in this ûeld so far. Some of the published papers focus on the theoretical development of integrated reporting and case studies. (Adams and Frost, 2006; Dey and Burns, 2010; Eccles and Kruz, 2010).

Marx and Dyk (2011) discussed the need for assurance of sustainability reporting and for assurance of information which would be included in integrated reports. They found that despite sustainability reporting is a mature practice, the information that is revealed is subject to independent assurance. The study by Eccles and Saltzman (2011) explored the strengths and challenges of Integrated Reporting and how the three sectors, public, private and non-governmental can elaborate and act more towards sustainability. Adams and Simnett (2011), suggested that the reports must be flexible and the applicability of this form of IR must also be tested across organizations of different sizes. Australia became one of the first states in which not for profit organisations adopted integrated reporting. Jensen and Berg (2012) examined the possible country specific variables tables which may predict the relevance of Integrated Reporting models in favor of more traditional reporting models. They suggested that countries with high investor protection with financial systems characterized by disperse ownership and high degrees of market coordination tend to have IR and also more in those countries where there is high level of expenditure on tertiary education and higher trade unions density.

Rensburg and Botha (2014) investigated the type of corporate related information used by various stakeholders group in South Africa in a web based survey of 421 respondents. Using regression analysis they found that the integrated reports do not contribute significant to investors' decision making process.Robert G. Eccles and George Serofeim (2014) examined the primary functions of corporate reporting and why isolated financial and sustainability reporting are not able to perform these functions.

RESEARCH METHODOLOGY

To test the relationship between the financial ratios (ROA, ROE)) and the degree of disclosure for environmental and social information of the select six petroleum companies which are Indian Oil, Bharat Petroleum Corporation Limited (BPCL), Hindustan petroleum corporation limited (HPCL), Oil India, Reliance Industries limited (RIL) and Oil India Limited (OIL), correlation was used. These companies have been selected on the basis of revenue earnings. The Annual Reports of these companies are analyzed for a period of two years from 2013-14 to 2014-15 simply because IIR framework has been launched since 2013.

In order to examine the financial and non-financial disclosure in the annual integrated reports in compliance with IIR framework., it was seen whether the components in the annual reports are in compliance with the contents as mentioned in International <IR> framework. ROA of the selected petroleum companies for the two years were calculated and examined. Regarding the scores for compliance with the contents as per IIR framework, the following codification were used: "0" for the content that are not mentioned within the report, "0.5" for partial reporting and "1" for full disclosure about the content.

The disclosure Index for the contents in Integrated Reports as per IIR Framework has been computed according to the following formula using content analysis.

DI_{IR} = " (d_i effectively disclosed) / " (d_i all possible cases of disclosure)

The annual reports of the companies were analyzed and examined whether the eight contents as prescribed in IIR framework were compiled or not.

The elements of integrated reports as specified in IIR framework are as follows:

A. Organizational overview and external environment
B. Governance
C. Business model
D. Risks and opportunities
E. Strategy and resource allocation

F. Performance
G. Outlook
H. Basis of preparation and presentation

The following null hypothesis were tested:

Hypothesis no 1

H1: There is no significant relationship between the company's financial performance and level of disclosure in integrated reports as per IIR Framework.

Hypothesis no 2

H2: There is no significant relationship between the company's financial position and level of disclosure in integrated reports as per IIR Framework.

ANALYISIS AND FINDINGS OF THE STUDY

By extracting the data from the annual reports, the following figures were calculated.

Computation of Disclosure Index

	BPCL		Indain Oil		ONGC	
	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15
1.Organisationaloverview & External Environment	0.5	0.5	1	1	0.5	0.5
2.Governance	1	1	1	1	0.5	1
3.Business Model	0.5	0.5	0.5	0.5	0.5	0.5
4.Risks & Opportunities	0.5	0.5	0.5	1	1	1
5.Strategy & resources Allocation	0.5	0.5	1	1	0.5	0.5
6.Performance	1	1	1	1	1	1
7.Outlook	0.5	0.5	0.5	0.5	1	1
8.Basic of presentation	0.5	0.5	0.5	0.5	0.5	0.5
Score (i)	5	5	6	6.5	5.5	6
Total score (ii)	8	8	8	8	8	8
DI (i)/ (ii)	0.625	0.625	0.75	0.8125	0.6875	0.75

	HPCL		RIL		OIL	
	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15
1.Organisational overview&External Environment	0.5	0.5	1	1	0.5	0.5
2.Governance	1	1	1	1	0.5	0.5
3.Business Model	0.5	0.5	0.5	0.5	0.5	0.5
4.Risks & Opportunities	0.5	0.5	1	1	0.5	0.5
5.Strategy & resources Allocation	0.5	0.5	1	1	0.5	0.5
6.Performance	1	1	1	1	1	1
7.Outlook	0.5	0.5	0.5	0.5	0.5	0.5
8.Basic of presentation	0.5	0.5	0.5	0.5	0.5	0.5
Score (i)	5	5	6.5	6.5	4.5	4.5
Total score (ii)	8	8	8	8	8	8
DI (i)/ (ii)	0.625	0.625	0.8125	0.8125	0.5625	0.5625

(Source: authors compilation from annual reports of select companies)

Table :1 The calculated figures of the disclosure index and return on assets and return on capital employed.

Name of the company	2013-14			2014-15		
	Disclosure index	ROA (%)	ROE (%)	Disclosure index	ROA (%)	ROE (%)
Bharat Petroleum corporation limited (BPCL)	0.625	2.038	19.43	0.625	7.29	27.25
Indian oil corporations (IOC)	0.75	2.78	11.45	0.8125	2.39	9.61
ONGC	0.6875	11.08	39.6	0.75	8.52	33.2
Hindustan petroleum corporation limited (HPCL)	0.625	2.22	11.35	0.625	4.04	13.33
Reliance Industries Limited (RIL)	0.75	5.98	11.5	0.8125	5.71	12.7
Oil India Limited	0.5625	8.55	36.54	0.5625	6.92	20.6

(Source: Authors compilation from annual reports of the select companies)

From the above table, it can be said that Reliance Industries Limited and Indian Oil Corporations have the highest disclosure index and has increased in the second year. This is due to slightest change in their integrated reporting practices. Whereas, there is no change in the level of integrated reporting in some companies.

In order to test Hypothesis (H1), correlation was applied to find out the relationship between Return on Assets (ROA) and the level of disclosure for environmental and social information

Table 2: Table showing calculated figures of r_1

Year	2013-14	2014-15
r_1	-0.075	-0.32

Two tailed T-test is used to test the significance of correlation at 0.05 level of significance.

Table 3: Table showing critical and calculated values of t

	2013-14	2014-15
P (T<=t)	0.026	0.002
T (critical value)	2.57	2.57

Since the calculated values of t are less than the critical value, the relationship is insignificant. The null hypothesis is accepted which means there is no relationship between Return on Assets (ROA) and the level of disclosure for environmental and social information. The negative value of r is due to mere chance only.

In order to test Hypothesis (H2), correlation was applied to find out the relationship between Return on Equity (ROE) and the level of disclosure for environmental and social information

Table 4: Table showing calculated figures of r_2

Year	2013-14	2014-15
r_1	-.047317	-0.29

Two tailed T-test is used to test the significance of correlation at 0.05 level of significance.

Table 5: Table showing critical and calculated values of t

	2013-14	2014-15
t	0.0113	0.004
T (critical value)	2.57	2.57

The null hypothesis is accepted because the calculated values of t are less than the critical value.

The relationship is insignificant which means there is no relationship between Return on Equity (ROE) and the level of disclosure for environmental and social information. The negative value of r is due to mere chance only.

SUGGESTIONS

Following suggestions are proposed to further improve the Integrated Reporting practices in India:

- Integrated reporting is voluntary in nature in Indian companies. It is strongly recommended that Integrated Reporting should be made mandatory in India.
- The audit of integrated reports should be conducted at regular intervals.
- It is recommended that professional accounting bodies at national levels should also develop a separate conceptual framework on IR specifying the objectives, general assumptions, qualitative characteristics and guidelines for the companies.
- A clause in the listing agreement may be inserted by SEBI for compliance with IR Framework.
- There should be a separate department in the companies to create awareness about Integrated reporting in a specified format and compliance with IIR Framework.
- It can be concluded that there is a low level of Integrated Reporting practices in India. The accounting profession and the companies has yet to respond to these issues and learnt a lot in dealing with the matters in the books of accounts.

LIMITATIONS OF THE STUDY

1. The annual reports of only six petroleum companies were analyzed. The study could be made more wide if the sample size is made large.
2. Secondly, the time frame of research is short i.e two years because IIR framework was launched in 2013. A longer study period would have given the more accurate results.
3. Thirdly, market based measures of financial performance are not considered in this paper.
4. ROA and ROE were calculated to find out the relation between company's financial performance and level of disclosure. Some other ratios can also be calculated.
5. The present work has analyzed environmental and social information disclosure in the annual report only.

CONCLUSION

The financial reporting is more focused on the information function and sustainability reports are more geared towards transformation function. The main aim of integrated reporting is to accomplish both the purposes. The <IR> movement is in its initial phase of development. The empirical research in this field has contributed to the literature and has provided an in depth understanding of the integrated reporting concept. In most of the countries like South Africa, Netherlands and Brazil, IR has been made compulsory under some statutory laws. In India integrated reporting is in its infancy. Very few companies publish separate integrated reports. Most of the companies publish annual reports which consist both financial and non-financial. So the annual reports of the petroleum companies were analyzed and it was observed that the annual reports are not fully prepared according to IIR framework which was launched in 2013. In annual reports, partial information was given regarding some elements as specified in IIR framework, whereas full information was mentioned regarding other elements. This discrepancy in reporting is due to the lack of some statutory laws in India. No mandatory laws and rules are made in India regarding integrated reporting. Further research can be done in this field. The actual contents of the IR can be studied and how companies are reporting on their risk and strategies as well as whether the integrated reporting has an effect on their performance and value generation. However, the credibility of these reports should also be taken into consideration. Even though integrated reporting is voluntary in practice in India, the government should promote this practice. If a proper combination of voluntary disclosure and regulatory standards is achieved, IR can be the best way to communicate the overall financial and non-financial performance of the company as a whole.

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