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GROWING INTEREST IN INTEGRATED REPORTING: A MOVE TOWARDS SUSTAINABLE FUTURE

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ABSTRACT

A separate reporting of financial and non-financial information has led to a lot of criticism because of not given a same priority and relevance to non-financial information as financial information is getting. Therefore it makes difficult for the users to understand how these are related and how they influence each other. As a response to these challenges, development of integrated reporting has started to get a lot of attention. The integrated reporting is rather new approach to corporate reporting and yet more research is required in this field. It provides all sort of material information reflecting the organisation's strategy, financial performance, governance, social, environmental and economic context within which it operates. Integrated Reporting helps more in taking sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing. This study analyses the regulatory framework in India towards sustainability of corporate value. This study also examines the disclosure and methods deployed on report of sustainability performance by various companies operating in India. Further, this paper also focuses on the comparison of international adoption of <IR> of various countries.

KEY WORDS: ***Corporate Reporting, Financial Information, Organisation's Strategy.***

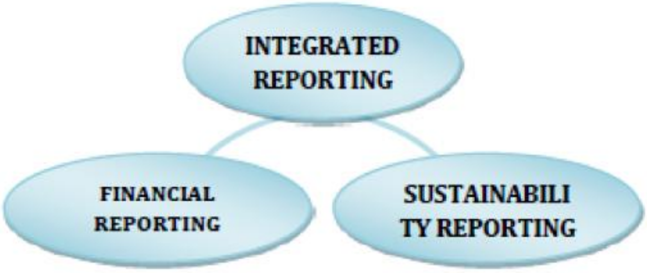
INTRODUCTION

Integrated reporting is the future phase of corporate reporting which is gaining international recognition. In recent days, there has been a growing concern of social, environmental and ethical reporting along with financial reporting because corporate reporting is undergoing a change towards the concept of sustainable development. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value.

Integrated reporting is representation of the financial and non-financial performance of a company in a single report, doesn't only mean merging financial reports, sustainability reports, business responsibility reports and corporate governance reports into one report, its true meaning is to link sustainability strategy to business strategy and help the company and its stakeholders identify the non-financial priority areas.

The International Integrated Reporting Council (IIRC) describes integrated reporting as something that "brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates". The work of the IIRC is to develop an Integrated Reporting Framework. That Framework is designed to communicate information about how an organisation's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term.

Figure 1: Integrated Reporting



Integrated reporting arises from an integrated business strategy that acknowledges all forms of capital that are essential for long term value creation. It enables a complete view of financial and sustainability performance through disclosure of the material risks and opportunities that are facing a business, for the benefit of management, investors and the public.

INTERNATIONAL INTEGRATED REPORTING FRAMEWORK

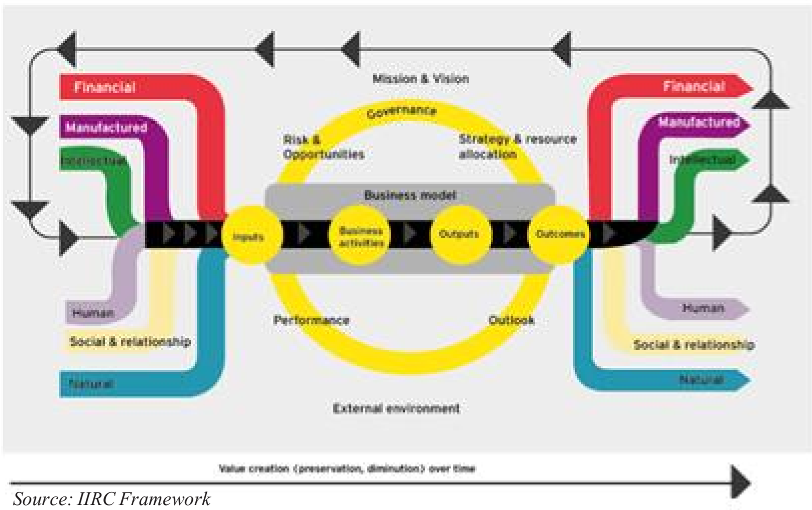
The Framework will provide high-level guidance to organizations that prepare integrated reports, helping to provide consistency of content and approach in a way that demonstrates the extent to which integrated thinking is occurring within the organization. The release of the International Integrated Reporting Framework on Monday 9th December 2013 marks an important milestone in the market-led evolution of corporate reporting. It follows a three-month global consultation led by the International Integrated Reporting Council (IIRC) earlier this year, which elicited **over 350 responses** from every region in the world, the overwhelming majority of which expressed support for integrated reporting.

An integrated report is built around seven elements that define its content and communicate the organization's unique value-creation story. This includes organizational overview and external environment, governance, opportunities and risks,strategy and resource allocation, business model, performance and future outlook by linking content across these elements. An integrated report can build the story of the business from a basic description of the business model through the external factors affecting the business and management's strategy for dealing with them and developing the business. This provides a foundation from which to discuss the performance, prospects and governance of the business in a way that focuses on its most important aspects. The principles should be applied in determining the content of an Integrated Report, based on the key elements.

VALUE CREATION PROCESS

The aim of Integrated Reporting is to communicate the full range of factors that affect an organization's ability to create value over time. With this in mind, the organization should understand how it defines and creates value before it can meaningfully define report content. The exercise of internally defining and articulating the value creation process builds a collective understanding among management and those charged with governance. A clear description of the organization's business model, which identifies inputs, business activities, outputs and outcomes, can help an organization map its approach to creating value.

Figure 2: The Value creation process



Source: IIRC Framework

An integrated report explains how an organization creates value over time. Value is not created by or within an organization alone. It is:

A. Influenced by the external environment
B. Created through relationships with stakeholders
C. Dependent on various resources.

A.External environment affects an organisation

The value creation process is depicted in Figure 2. An organization's system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the organization's strategic purposes and create value over the short, medium and long term.

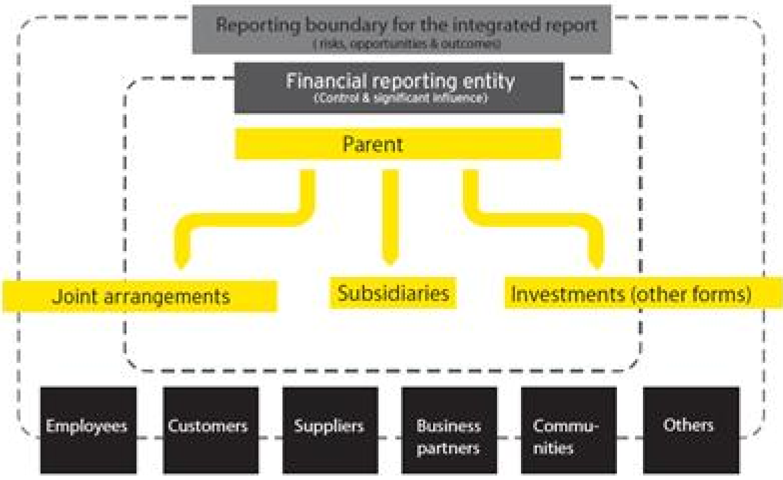
The external environment, including economic conditions, technological change, societal issues and environmental challenges, sets the context within which the organization operates. The mission and vision encompass the whole organization, identifying its purpose and intention in clear, concise terms. Those charged with governance are responsible for creating an appropriate oversight structure to support the ability of the organization to create value.

B. Stakeholders Relationships

An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests. The boundary for an integrated report should be based on:

- The financial reporting entity
- Risks, opportunities and outcomes attributable to or associated with other entities/stakeholders beyond the financial reporting entity that have a significant effect on the ability of the financial reporting entity to create value

Figure 3: Entities/stakeholders considered in determining the reporting boundary



A. Beyond Financial Capital

For the purpose of Framework, integrated reporting adds five other types of capital to the current financial reporting of a business. The concept of 'capitals' is important and it goes beyond the traditional focus on financial capital, raw materials and the organisational asset base to include intangible assets such as people's skills and experience, relationships with stakeholders, intellectual capital, brand equity, society and the environment.

1. **Financial Capital:** Capital raised from various sources either owned or borrowed capital that are available for productive uses.
2. **Manufactured Capital:** Manufactured physical objects (other than natural physical objects) such as machines, equipments, infrastructure, buildings, etc available to an organisation for use in the production of goods or the provision of services.
3. **Intellectual Capital:** Organisational knowledge based intangible assets like patents, software, copyrights, licenses and 'organisational capital' includes tacit knowledge, systems, procedures and protocol that provide competitive advantage.
4. **Human Capital:** People's skills, competencies, capabilities and experience, and their motivations or rewards to innovate.
5. **Natural Capital:** All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization.
6. **Social Capital:** The institutions and relationships that exist in a community, group of stakeholders and other networks to enhance individual and collective wellbeing.

RECENT REGULATORY DEVELOPMENTS IN INDIA

Securities and Exchange Board of India (SEBI) has mandated the requirement of submission of Business Responsibility Report ('BRR') for top 500 listed entities under Regulation 34(2)(f) of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 ("SEBI LODR"). The key principles which are required to be reported by the entities pertain to areas such as environment, governance, stakeholder's relationships, etc.

It has been observed that certain listed entities in India and other jurisdictions have been making disclosures voluntarily by following the principles of integrated reporting. Towards the objective of improving disclosure standards, in consultation with industry bodies and stock exchanges, the listed entities are advised to adhere to the following:

- Integrated Reporting may be adopted on a voluntary basis from the financial year 2017-18 by top 500 companies which are required to prepare BRR.

- The information related to Integrated Reporting may be provided in the annual report separately or by incorporating in Management Discussion & Analysis or by preparing a separate report (annual report prepared as per <IR> framework).
- In case the company has already provided the relevant information in any other report prepared in accordance with national/international requirement / framework, it may provide appropriate reference to the same in its Integrated Report so as to avoid duplication of information.
- As a green initiative, the companies may host the Integrated Report on their website and provide appropriate reference to the same in their Annual Report.

CHALLENGES OF INTEGRATED REPORTING

Integrated Reporting provides the framework within which more long-term decisions can be made, unlocking financial capital for investment as well as providing a more holistic picture of how value is created over time. However, organizations must now successfully tackle a range of longer-term strategic challenges are listed below;

1. Integrated reporting is not limited to the integration of financial and non-financial information in the annual report. It also includes integration of ESG issues, sustainability, CSR into all aspects of organisation, its strategy, objectives, management and operations.
2. To make understand the different stakeholders about the long term value and the consequences of working with ESG issues.
3. Inclusion of ESG information in the annual report is not just sufficient but quality of reporting, the follow up and the extent of the auditing process needs to be considered.
4. Lack of stuffiest knowledge to financial analysts about non-financial information.
5. Current GRI indicators are not sufficient to report and visualize impacts by companies where sustainability is core business model.

COMPARISION OF COMMON BUSINESS REPORTING STANDARDS

Some organizations considered it as challenging task to prepare corporate report considering material information which should have set of standards, regulations and frameworks. Table 1, explains a concept which varies between various report forms. Attributes such as purpose, audience and scope vary, leading to different considerations in determining materiality.

Table 1: Comparision of Common Business Reporting Standards

	Financial Reporting		Sustainability Reporting	Integrated Reporting
	Financial statements	**Narrative report***		
Purpose	Communicate financial performance, position and cash flows in a specific reporting period	Provide context for financial statements and forward-looking information through the eyes of management	Communicate the entity's broader social and environmental impacts, strategies and goals	Explain to providers of financial capital how value is created over time
Audience	Current and prospective investors, lenders and other creditors	Current and prospective investors, lenders and other creditors	Investors (when including sustainability data in investor-focused communications) or multi-stakeholder (when preparing a stand-alone sustainability report)	Providers of financial capital. Others interested in the organization's ability to create value will also benefit
Scope	Information about: • Recognized assets • Liabilities • Equity • Income • Expenses • Changes in equity • Cash flows	• Risk exposure • Risk management strategies and the effectiveness of those strategies • Effect of beyond financial statement factors on operations and financial statement performance	Significant impacts in the following performance areas: • Economic • Environmental • Social, including labour practices, human rights and broader societal influences • Governance	Content Elements: • Organizational overview and external environment • Governance • Business model • Risks and opportunities • Strategy and resource allocation • Performance • Outlook • Basis of preparation and presentation

** For example, the Directors' Report, Management Commentary, Management's Discussion and Analysis, or Operating and Financial Review.*

Source: Materiality in <IR>: Guidance for the preparation of integrated reports, November 2015.

ADOPTION OF INTEGRATED REPORTING

Interest in and adoption of integrated reporting regarding a company's ESG performance is growing rapidly. The connection between the company ethics and the core business is likely to be relatively straightforward and so relatively easily expressed in companies annual reports. Companies are experimenting with different approaches in adoption of integrated reporting as the future phase of corporate reporting. Most of the MNC's operating in India started to disclose non-financial information in its integrated reporting considering ESG aspects. Table-2 expresses the latest Integrated Reporting published in its websites by various companies operating in India.

Table 2: Integrated Reporting adopted by various MNC's operating in India

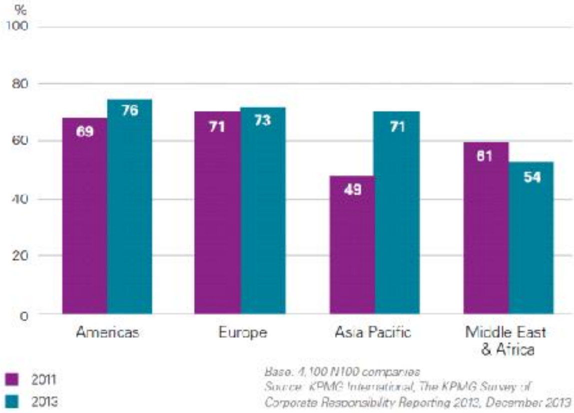
Sl. No.	Organisation	Industry	Region	Year of latest <IR> published
1	ABN AMRO	Financial Services	Europe	2017
2	ACCA	Professional Services	Europe	2018
3	Aegon	Financial Services	Europe	2017
4	Astellas Pharma Inc.	Healthcare	Europe	2016
5	AstraZeneca	Healthcare	Europe	2016
6	BASF	Basic Materials	Europe	2017
7	Bank of Ceylon	Financial Services	Asia	2017
8	Coca-Cola	Consumer Goods	North America	2017
9	DBS	Financial Services	Asia	2017
10	Dellas	Industrials	Europe	2017
11	Diageo	Consumer Goods	Europe	2018
12	DIMO	Industrials	Asia	2017-18
13	DSM	Healthcare	Europe	2017
14	General Electric	Technology	North America	2017
15	Generali	Financial Services	Europe	2017
16	HSBC	Financial Services	Europe	2018
17	ING Group	Financial Services	Europe	2017
18	ITOCHU Corporation	Basic Materials	Asia	2018
19	JLL	Professional Services	North America	2017
20	Kingfisher	Consumer Services	Europe	2017-18
21	Lintec Corp.		Asia	2018
22	Marks and Spencer Groups	Consumer Goods	Europe	2018
23	Mitsubishi Corporation	Basic materials	Asia	2017
24	Mitusi & Co	Financial Services	Asia	2018
25	MS&AD Insurance Group Holdings, Inc	Financial Services	Asia	2018
26	Novo Nordisk	Healthcare	Europe	2017
27	Omron Corporation	Healthcare	Asia	2018
28	Pearson		Europe	2016
29	Sanlam Ltd.	Financial Services	Africa	2017
30	SAP	Technology	Europe	2017
31	Sasol	Oil & Gas	Africa	2017
32	SGS	Consumer Services	Europe	2017
33	Toyota Bhshoku Corporation	Automobile	Asia	2017
34	Tata Power		Aisa	2017
35	Tata Steel	Industrials	Asia	2017
36	Unilever	Consumer Goods	Europe	2017
37	Vodafone	Telecommunications	Europe	2018
38	Wilderness Holdings	Consumer Services	Africa	2018
39	WIPRO		Asia	2017-2018
40	Yes Bank	Financial Services	Asia	2017-2018

Source: Integrated Reporting Examples Database

INTERNATIONAL ADOPTION OF <IR>

More than 1,000 global businesses have adopted <IR> since it was introduced in 2010. Reporting on ESG is not universal among large companies, even if there is general progress on a global basis, according to KPMG's survey of the top 100 companies in 41 countries (KPMG International, 2013). In a closer look at the top 250 global companies, the survey finds a wide spread of quality depending on whether companies are screened by sector, country or dimensions of ESG report (e.g. targets & indicators; materiality; strategy, risk & opportunity; etc.).

Figure - 4: Corporate Responsibility Reporting by Region (Percentage of companies with CR reports)



Note: Based on a KPMG survey of the 100 largest companies in 41 countries (KPMG, 2013)

The survey finds that targets and indicators are usually well documented, whereas suppliers and value chain, and stakeholder engagement, are areas where reporting could be improved. Following are the extraction of some of the countries adopting <IR>.

1. Integrated Reporting was included in the **Philippines** Corporate Governance Code which came into force on 1 January 2017 and is expected to encourage increasing number of companies to use the International <IR> Framework.
2. Over 100 integrated reports have been released by **Russian** companies since 2009. When integrated reports first appeared in Russia, Da Strategia Group will be updating the database annually.
3. According to the **Malaysian** Institute of Accountants (MIA), which has been endorsing IR locally since 2015, some 24 companies have pledged to adopt this concept within the next two to five years.
4. The Network has been established by a group of influential **Turkish** institutions who believe in the importance of introducing integrated thinking and reporting to the Turkish market.
5. **South Africa** has made it a mandatory practice.
6. **Singapore** is the only other Asian nation to be in the know of the practice.
7. In the **US,** the SEC interpretive guidance on climate disclosure seems to have had limited effects, with 59 percent of S&P 500 companies reporting on climate.

The appropriately named Carrots and Sticks report (KPMG et al., 2013) surveyed the policy practice on corporate reporting in 45 countries and identified 134 "separate mandatory policies covering different aspects of Corporate Responsibility Reporting and a further 53 voluntary policies". Here is a small sample of current public policies in ESG reporting:

1. In **Brazil**, the Sao Paolo stock exchange requires that listed companies to adopt corporate responsibility report. This initiative was recently scaled up to cover integrated reports and has been renamed "Report or explain for Sustainability or Integrated Reports".
2. **China** introduced a reporting requirement for state-owned enterprises via its State-owned Assets Supervision and Administration Commission (SASAC) in 2008. The Shenzhen, Shanghai and Hong Kong stock exchanges introduced reporting CSR guidelines for listed companies.
3. **Denmark** has mandated CSR reporting for large companies (state-owned, listed and others) since 2009 – the requirement also applies to institutional investors. Companies can, however, state that they do not to have a CSR policy, and are then exempted from reporting.
4. The **EU** recently agreed to a mandatory report or explain approach on "non-financial and diversity information by certain large companies".
5. **France** introduced legislations imposing CSR reporting in 2001 and 2012, obligatory for companies of more than 500 employees, with a comply-or-explain approach and third-party verification of the CSR information. Environmental and social aspects are to be reported in the company's annual report – a move towards integrated reporting.
6. **Norway** passed legislation in 2013 mandating large companies to report on how they integrate their broad social responsibilities into their strategies, with a report or explain approach. It refers to GRI and the UN Global Compact, and does not a priori seek to develop any new reporting framework for this legislation.
7. **South Africa** now has a long history of corporate responsibility reporting. Recently, the King Code of Governance Principles for South Africa 2009 (known as King III) established voluntary guidelines, adopted by the Johannesburg Stock Exchange as a listing requirement, on an apply-or-explain basis.

Not all major economies have established legislation fostering full ESG reporting. Notable exceptions include the United States. In that case, the requirement for listed companies to report on all things material, via the Securities and Exchange Commission Form 10-K, does create an opening for such reporting – hence the efforts of SASB to establish standards on materiality reporting.

CONCLUSION

By integrating the non-financial information in the Corporate Annual Report, company can ensure sustainability and can make economic decisions to meet the needs of the global economy. Globally Accepted Integrated Reporting Framework brings together all financial, social, environmental and governance information in a single reporting. Further, stakeholders expect the company to adhere the standard and also to adopt Corporate Social Responsibility (CSR) in disclosing the integrated reporting which helps them to access the ESG issues and analyse the company's risks, opportunities and operations. Furthermore, there is a lack of experts and practitioners who are having ESG knowledge to analyse all dimensions of company's performance and impact. It is true that including ESG information in the annual report is a major challenge as it is not accessible like financial information. However, Final success of integrated reporting builds co-operation, loyalty and long term collaborative relationships.

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