INTEGRATED REPORTING: A MANAGEMENT TOOL FOR STRATEGY, GOVERNANCE AND PERFORMANCE

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ABSTRACT

Purpose *: The purposes of this paper is to provide an overview of integrated reporting which has become the core of corporate reporting framework and a powerful communication tool to all the stakeholders in and around business*

Secondly, the background to the development of the integrated reporting concept over the 5-year period from the inception of the IIRC in 2010 and emerging issues in the implementation of this framework is discussed.

Findings: *– finding shows that Although there are challenges in the way of integrated reporting but the evolutionary course of integrated reporting is now taking shape as more companies are trying to include mandatory financial as well as non financial voluntary information in their annual reports*

Conclusion: *A sustainable society requires that all of its companies should practice integrated reporting, so that resources used today do not jeopardize access to resources for future generations. There is no alternative to integrated reporting. This still infant idea needs to grow into a strong and robust management practice. Integrated reporting has been an important catalyst in bringing sustainability to the forefront of the management team agenda.*

Limitation: *A key limitation of this paper is that it is based upon a synthesis of the existing literature which is at quite an early stage of development but provides scope for considerable further development.*

Keywords: IR, IIRC, Capitals, **Conciseness, reliability and materiality**

I. INTRODUCTION

As the world begins a long shift toward a higher share of market-based financing, effective disclosure will become even more important. In the future, Integrated Reporting may well play a bigger role." David Wright, Director-General, IOSCO

Integrated Reporting is an evolution of corporate reporting, with a focus on conciseness, strategic relevance and future orientation. As well as improving the quality of information contained in the final report. Integrated reporting brings together material information about an organization's strategy, governance and performance.

Every company listed on a stock exchange is required to issue on at least an annual basis a financial performance report. These reports are based on a set of accounting standards. But the future of corporate reporting is currently the subject of considerable debate. Financial reporting has been criticized for over-complexity and requiring more disclosures. Sparking accusations that corporate and financial reports are too

long and not relevant, which make it hard for all but the most sophisticated users to understand the reports. There is also the difficulty of the time lag in issuing reports, the paucity of information about the risks being taken by the company to create value for shareholders, and the backward-looking nature of the reports. Questions about whether a financial report presents a "true and fair view" of a company cannot be adequately answered, because the reports do not contain various information on nonfinancial performance that can determine a company's long-term financial picture. Increasingly, businesses are expected to report not just their profit but on their impact on the wider economy, society and the environment.

II. INTEGRATED REPORTING

Integrated reporting is about integrating material financial and non-financial information to enable investors and other stakeholders to understand how an organization is really performing. An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term. The Framework enables a business to brings these elements together through the concept of 'connectivity of information', to best tell an organization's value creation story.

An integrated report looks beyond the traditional time frame and scope of the current financial report by including the wider as well as longer-term consequences of decisions and action and by making clear the link between financial and non-financial value. It is a mechanism by which a company can present the full picture of their financial, environmental, and social and governance performance into one report.

As per IIRC (International integrated Reporting Council) "an integrated reporting brings together material information about an organization, strategy governance performance and prospects in a way that reflects commercial social and environmental context within which it operates."

An integrated report tells the overall story of the organization. It is a report to stakeholders on the strategy, performance and activities of the organization in a manner that allows stakeholders to assess the ability of the organization to create and sustain value over the short, medium and long term. Importantly, IR includes forward-looking information to allow stakeholders to make a more informed assessment of the future of a company, as well as of how the organization is dealing with its sustainability risks and opportunities

An Integrated Report should, therefore, strive to deal with the following key matters as illustrated in Figure-1:

FIGURE 1: INTEGRATED REPORTING GUIDING PRINCIPLES AND CONTENT ELEMENTS

Source: International Integrated Reporting Council.

- Organizational overview and business model
- Operating context, including risks and opportunities
- Strategic objectives and strategies to achieve those objectives
- Governance and remuneration
- Performance
- Future outlook

III. REVIEW OF LITERATURE

"Business is the main driving force for resource efficiency in the economy, for technology deployment and development, for infrastructure construction and providing financial services. But business can fulfill its role only if the right framework conditions including those for reporting and disclosure are in place. Valuing and sustainability reporting must increasingly become a more integral part of economic planning and decision-making by society, government and business." Bjorn Stigson,1 Former President, World Business Council for Sustainable Development (WBCSD)

According to Peeva and Noetzel (2009) investors now want to combine the three key elements, viz., environmental, social and governance (ESG) into their analyses and decision making. The present authors wish to add unwavering focus on 4P bottom line. Those 4Ps are Product, Profit, Planet and People. The investors want to be liberated from their myopic view, as they choose to become long term value.

Instant communications, whistle blowers, inquisitive media, and Goggling, citizens, NGOs and communities routinely put firms under the microscope. Transparency is access to pertinent information by stakeholders. By pertinent, it means information that can help if you have it and hurt if you do not. Companies need to act with integrity, not just, to secure a healthy business environment, but for their own sustainability and competitive advantage‖ Integrated reporting, provides a single version of the truth to all concerned parties, inside and out. Rethinking, reporting, is at the very heart of the success and survival of companies and even our economy‖ [**Eccles, R.G., and Krzus, M.P., (2010)**

Although the broadening of accountability and reporting aspects has already begun among organizations, such initiatives are reported with no coherence to organizations long term objectives, and are often presented as unconnected activities undertaken by organizations, in separate reports such as annual reports and sustainability reports. Integrated reporting, attempts to combine the reporting of different facets of organizational activities on a common platform with a unified objective (K**PMG (2011),**

This situation has experienced a rapid turnaround and there are currently several frameworks for measuring and reporting IC. Measuring and assessing IC by firms have become more important with the adoption of International Financial Reporting Standards (IFRS) by many countries. IFRS takes a prudent approach in recognizing assets and the treatment of assets revaluation (D**ixon, J (2003).**

The historical focus of financial reporting provides an incomplete picture of a firm‘s current status to auditors, investors, and creditors and has limited relevance for evaluating future prospects (**Lev, B and .Zarowin.1999)**

Integrated reporting unifies these two aspects by reviewing them through organizational vision and organizational values: Does managerial action account for the organization‘s vision? Is managerial action founde on the organization‘s values? Integrated reporting has brought an additional aspect to governance in that it inquires into the organization‘s vision and values. Has the governance provided sufficient independent oversight towards reaching organizational vision to become accountable for action and facilitating perform risk profile. (Robert **G. Eccles and Michale P Krzus, 2010)**

IV. NEED OF INTEGRATED REPORTING

The economic crisis was a sharp reminder that financial reporting alone cannot provide sufficient insight into business performance and resilience Investors - and other stakeholders are looking for a more holistic picture of how organisations create value and of the external drivers that impact their business model now and in the medium to long term.

Since the current corporate reporting model was designed which mainly focuses on financial performance of companies, there have been major changes in the way business is conducted, and how business creates value and the context in which business operates. The need of integrated reporting arises because of the following reasons:.

• Globalization,

• Growing policy activity around the world in response to financial, governance and other crises,

• Heightened expectations of corporate transparency and accountability,

• Actual and prospective resource scarcity,

• Population growth, and

• Environmental concerns.

V. OBJECTIVES OF INTEGRATED REPORTING

THE integrated reporting is a better reporting and not more reporting. It focuses that ultimately business strategies should be designed in a manner that will facilitate both business and stakeholders The objective of integrated reporting is to enable organization to define their own destiny instead of allowing analysts and share brokers. The objectives of integrated reporting are as following: **he quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital**

- To improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital
- To promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time
- To enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies
- To foster appreciation, both within the organization and among its stakeholders, of the extent to which the organization's ability to create and sustain value is based on financial, social, economic and environmental systems.

VI. DEVELOPMENT OF INTEGRATED REPORTING FRAMEWORK

Although some of the seeds for integrated reporting go back as far as John Ellington's concept of the triple bottom line in 1994 but on Jan. 25, 2011, at a press conference held at the Johannesburg Stock Ex-change, the world's first guidance document for companies practicing integrated reporting was issued. King Report on Governance for South Africa 2009 (King III), written by University of South Africa professor Mervyn King, which recommended that companies and other organizations to produce integrated reports connecting material financial and sustainability information in their financial report. But the integrated reporting started to take it shape by emergence of International Integrated Reporting Council (IIRC)

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The IIRC is developing an International Integrated Reporting Framework that will facilitate the development of reporting over the coming decades. The core objective of the Framework is to guide organizations on communicating the broad set of information needed by investors and other stakeholders to assess the organization's long-term prospects in a clear, concise, connected and comparable format. This will enable those organizations, their investors and others to make better short- and long-term decisions. The IIRC issued a draft framework for consultation which discussed what an integrated report could cover (IIRC, 2013b).

Integrated Reporting <IR> is on the agenda of international bodies, for example the B20 and IOSCO are both taking an interest in <IR> as part of the answer to market challenges worldwide. Regulators in countries such as Japan, India and the UK are among those taking a greater interest in <IR> as a route towards achieving more cohesive reporting and promoting financial stability, with the European Commission labelling <IR> as 'a step-ahead.International Interting Council (IIRC) (previously the International Integrated Reporting Committee) was formed in August 2010 and aims to create a globally accepted framework for a process that results time.

What might an integrated report look like?

To help generate discussion to guide the development of the International Integrated Reporting Framework, the IIRC has published in its discussion paper a series of principles and content elements for preparing an integrated report.

The elements of an integrated report as suggested by the IIRC in the discussion paper are:

Organizational overview and business model*:* What does the organization do, and how does it create and sustain value in the short, medium and long term?

Operating context, including risks and opportunities*:* What are the circumstances under which the organization operates, including the key resources and relationships on which it depends and the key risks and opportunities that it faces?

Strategic objectives and strategies to achieve those objectives*:* Where does the organization want to go, and how is it going to get there?

Governance and remuneration: What is the organization's governance structure, and how does governance support the strategic objectives of the organization and relate to the organization's approach to remuneration?

Performance: How has the organization performed against its strategic objectives and related strategies?

Future outlook: What opportunities, challenges and uncertainties is the organization likely to encounter in achieving its strategic objectives, and what are the resulting implications for its strategies and future performance?

While many of these components should be familiar, the business model element deserves some discussion as it introduces the concept of how the business creates and sustains value in the short, medium and long term and the businesses' interaction with external factors, its relationships and use of resources. In doing so this element considers six capitals that the business may use: financial, manufactured, human, intellectual, natural and social. These are defined thus:

Financial capital: the pool of funds available to the organization

Manufactured capital*:* manufactured physical objects, as distinct from natural physical objects

Human capital: people's skills and experience, and their motivations to innovate

Intellectual capital*:* intangibles that provide competitive advantage

Natural capital*:* includes water, land, minerals and forests; and biodiversity and ecosystem health

Social capital: the institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being; include an organization's social license to operate

Integrated reporting, then, will include a lot more information about how the entity fits within the environment and society and how it creates long-term value. It will be tailored to the reporting entity's specific circumstances and likely have a greater degree of transparency.

The IIRC has issued a set of guiding principles underpinning the preparation of an integrated report:

Strategic focus: An Integrated Report provides insight into the organization's strategic objectives, and how those objectives relate to its ability to create and sustain value over time and the resources and relationships on which the organization depends.

Connectivity of information*:* An Integrated Report shows the connections between the different components of the organization's business model, external factors that affect the organization, and the various resources and relationships on which the organization and its performance depend.

Future orientation*:* An Integrated Report includes management's expectations about the future, as well as other information to help report users understand and assess the organization's prospects and the uncertainties it faces.

Responsiveness and stakeholder inclusiveness: An Integrated Report provides insight into the organization's relationships with its key stakeholders and how and to what extent the organization understands, takes into account and responds to their needs.

Conciseness, reliability and materiality*:* An Integrated Report provides concise, reliable information that is material to assessing the organization's ability to create and sustain value in the short, medium and long term.[11]

Given the numerous elements that integrated reporting includes one can't help thinking that conciseness may be one of the biggest challenges.

Objectives and fundamental concepts of integrated reporting

Problems in Implementation:

Though the benefit of integrated reporting are accepted by reporting companies but the development and acceptance of the concept is yet very difficult Accountants see the concept getting wider acceptance in the coming years, but have some concerns. P R Ramesh, chairman, Deloitte, observed integrated reporting would involve some amount of judgment which is inherent to accounting. "The challenge would be to move away from qualitative parameters to more objective ones to facilitate comparison,". He also pointed out how companies may be worried about disclosing too much information because integrated reporting requires companies to reveal their business models.

Companies interested in implementing integrated reporting face a number of challenges, beginning with the fact that there is no globally accepted framework specifying what should be the content into an integrated report. Besides, there is no globally accepted set of standards for measuring and reporting nonfinancial information. Although the G3 Guidelines can be useful, they may not be entirely appropriate to a company's circumstances. As a consequence, few companies have internal control and measurement systems for nonfinancial information that are of same quality as for financial information. Simply gathering all the nonfinancial and financial information to issue an integrated report is a formidable challenge in most companies. Users of integrated reports also face constraints that limit the value of integrated reporting to them today. The lack of a framework and standards for nonfinancial information makes it difficult to compare the performance of different companies. Another fact is that the professional assistance is not available for compiling integrated report.

VII. SUGGESTIONS FOR IMPLEMENTATION

IR endeavors at better reporting and not more reporting. It demands that ultimately, business strategies should be designed in a manner that will facilitate both the business
and the stakeholder to grow hand -in- hand. Therefore for successful implementation of integrated reporting in an organization some suggestions are as following:

An integrated reporting committee must be constituted

- Relevant information on economic, social and environmental aspects should be disclosed.
- There should be a time line for compilation of integrated report.
- Its framework should be principles based and not rule based.
- The flexibility is needed to accommodate differing company circumstances and some degree of comparability.
- An integrated report should communicates those factors which are most important to the creation of value over time

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