

THEORETICAL INSIGHTS ON INTEGRATED REPORTING AS A MODERN APPROACH OF CORPORATE REPORTING

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Abstract: This study is focusing on the emerging reporting system which creates a value over the period of time. This research aims to study the theoretical aspects of integrated reporting and provide an overview of this modern approach of corporate reporting. And to meet the objective of this study International Integrated Reporting Framework, literature, articles and some other past studies used to give some better ideas about this reporting system. This study tried to explain some theoretical concepts such as aims, benefits, guiding principles, content elements of integrated reporting and also show the present status of integrated reporting in India. This study concluded that integrated reporting is a revolutionary system provides the holistic picture of the organization and it is also important for sustainability and value creation purpose by being a continuous process.

Key Words: Integrated Reporting, IIRC, Guiding Principles, Sustainability, Value Creation.

1. INTRODUCTION:

Stakeholders are very keen to know about the financial position of the company but, they also want to know the effect of the company's activities on the environment. So, to become sustainable and fulfill the demand of shareholders company disclosing both types of information i.e. Financial and Non-financial through different reports. Now, the important question is that how to disclose this information so that the shareholders understand easily and also what is the reaction of shareholders towards the company if they do not understand the particular information which is disclosed by the company. In this situation Misunderstanding between shareholders and the company could make the worst relationship and at the end this is the sign that reporting and corporate governance become fail. Integrated reporting means it is based on integrated thinking and it is also describes the company's performance which is based on connectivity between financial and non-financial information, governance, social, environmental matter and other factors that are relevant to the business.

Annual Report + Corporate Social Responsibility = Integrated Reporting
(Financial Information) (Non-Financial Information)

According to IIRC, "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 over the short, medium and long term".¹ So, integrated report provides the organization's information which is beneficial to all interested stakeholders to create value over the time.

1. Consultation draft of the international < IR > framework, 2013, para.1.3, at page no. 8.

1.1. LITERATURE REVIEW:

Mohammad Enamul Hoque (2017) conducted a research on why company should adopt integrated reporting? With this question he highlights IR as the holistic reporting approach for the company and discusses the efficiency of a single report. This paper gives information about what integrated reporting can do for companies and stakeholders for instance integrated reports for sustainability and CSR reporting. So, this paper justifies the reason why companies should adopt Integrated Reporting tools.

Maria Jose Da Silva Faria (2016) undertook a study to present the state of art giving the most important steps in the history of integrated reporting and giving some points of view to verify for future research. In this study, they analyze a valuation of integrated reporting revising the recent literature and they study the history that contains integrated reporting and finally they discuss arguments in favor or against integrated reporting. This study concludes that there are several advantages above the disadvantages that need to be improved to disseminate the form of doing integrated reporting all over the world for the same kinds of companies.

Kaya, Erguden & Sayar (2016) carried out a research to deeply analyze the use of IR as a strategic tool to achieve sustainability and value creation. So, this paper concludes that IR is a revolutionary system that is a continuous process for sustainability and value creation and these things are directly related to the ability of managing the business most holistically.

3. Theoretical Background of Integrated Reporting:

The aim of this research is to describe an overview of this modern reporting approach and also study the theoretical background of integrated reporting. For this purpose by using the International Integrated Reporting Framework and literature so get a deep knowledge about the Integrated Reporting.

3.1 Brief History of Integrated Reporting:

In 2004, the integrated reporting seem in association with the Prince's accounting for sustainability project and after that, in 2009 this was become a guide to explain how all the things of organization performance can be presented in one reporting frame. In 2009, there was a high-level meeting convened by the Prince of Wales amongst investors, standards setters, companies, accounting bodies and UN representatives including Prince's accounting for sustainability project (A4S), International Federation of Accounts (IFAC) and the Global Reporting Initiative (GRI) to establish the International Integrated Reporting Council (IIRC). IIRC was established with the purpose to develop an integrated reporting. This body created a framework for integrated reporting which was accepted globally. So, two institutions i.e. The King Report on Governance for South Africa and The International Integrated Reporting Council in the United Kingdom have developed the concept of integrated reporting. In 2010, for making the basis for the development of integrated reporting one entity was created. And this entity makes some standards and this institution called the International Integrated Reporting Council (IIRC). The first draft for consultation was presented in April, 2013 by IIRC and after the different contributions in December, 2013 the final and the latest version of this document presented. In this document explained that what the structure of integrated reporting is.

3.2 Aims of Integrated Reporting:

The aims of integrated reporting to.....

- ✓ Improve the quality of information which is available to the shareholders who provide the financial capital to the organization.
- ✓ Promote a more combining and efficient approach to corporate reporting and it is affecting the ability of organization to create a value over time.
- ✓ Support integrated thinking, decision making and action.
- ✓ Enhance the accountability and stewardship for the broad base of capitals and promote understanding of their interdependencies.

3.3 The Six Capitals included in Integrated Reporting:

The framework issued by the IIRC considers the different types of capitals and all organizations depend on the various capitals. For this purpose IIRC identified six types of capitals that are on the basis for an organization's value creation. These capitals are not totally independent but they are directly or indirectly dependent on each other. These capitals are categorized and explained as follows...

- **Financial Capital:** Financial capital is acquiring a fund from various sources of finance and it is available to the organization which is utilized in the production of goods or provision of services.
- **Manufactured Capital:** It includes manufactured physical objects which are available in the company and it is used in the production of goods or the provision of services which are buildings, equipment, and infrastructure (In infrastructure roads, ports, bridges, and plant for wastewater treatment). Manufactured capital elements include assets that are manufactured by a reporting company for sale or held for its use.
- **Intellectual Capital:** It includes an intangible asset of the organization based on knowledge such assets are patents, copyrights, software, rights, and licenses. It is also based on the tacit knowledge, systems, procedures and protocol.
- **Human Capital:** This capital related to human resources of the company and checks the competencies, capabilities and experience of the people and their motivations to innovation. It ensures that human resources in organizations are aligned with the structure and give support for the company's governance framework and management conflict and also encourages ethics, their ability to understand implemented strategy of the organization and also their loyalties, motivations for improving processes, making them part of the company. It also includes their ability to lead, manage, and cooperation towards the organization.
- **Social and Relationship Capital:** The Company's relationship with the communities, groups of stakeholders and also company's ability to share information to the individuals this is the social relationship of company which is the most complex and comprehensive from all capital. This capital includes shared standards like common values and behaviors, relationships with stakeholders, trust and also wants to engage that company develops and seeks to build and protect with external stakeholders, intangibles association with the brand and develop the reputation of the company.

- **Natural Capital:** It consists of all renewable and non-renewable environmental resources and also environmental processes that give goods or services which support past, current and future exuberance of the company and these resources are air, water, land, forest, mineral and the quality of biodiversity and eco-system.

3.4 Other Aspects of Integrated Reporting:

- **Financial Aspects:** financial aspects include disclosure of financial information to the company and common people that how the organization is performing in a specific period of time. It is useful to the management in effective decision making and gives important information regarding the financial health and other activities of the company to its stakeholders.
- **Environment Aspects:** There are not any regulations enforcing in India related to the disclosure of environmental information but the ministry of environment and forests has proposed that every organization should disclose the information related to environment and also what type of steps they have taken for prevention of pollution and other things for the protection of the environment and other conservative resources.
- **Social Aspects:** In integrated reporting required to disclose both types of information i.e. financial and non-financial information including social aspects like providing better education, gender equality, environmental protection, better employment opportunity, etc. so the company sustains in the international competition.
- **Governance Aspects:** Corporate governance is a method of how to govern the company. There are many policies and laws included in corporate governance. So, it is a set of relationships between shareholders, the company's board and other stakeholders.

3.5 Guiding Principles of Integrated Reporting:

Guiding Principles are applied by the organization to present and prepare an integrated report. Following are some content of the report that how information is presented while preparing and presenting an integrated report

- ✓ **Strategic focus and future orientation:** This report should give a better understanding of the organizational strategy, objective and how it contributes to the organization to create value over a while with its use and effects on the capitals. For this purpose it includes significant risks and opportunities and also shows how the organization learned from the past experience to set the strategic objective for the future.
- ✓ **Connectivity of Information:** Integrated report should show the interdependence between the different factors that affect the company's capability to create value in the short, medium and long term. This term includes
 - Content elements which are connected with the organization as a whole to reflect the dynamic and systematic interactions.
 - The past and present activities of the organization are useful to define the objectives of the future.
 - The capital there are interdependencies between the six capitals and these capitals affect the ability of the company to create value.
 - Financial and other information
 - Quantitative and qualitative information
- ✓ **Stakeholder relationships:** This principle shows the importance of key stakeholders because the value is not created only by or within an organization but the relationship with others is also very important so it provides the quality of relationship with shareholders.
- ✓ **Materiality:** The materiality involves: identifying important matters based on their ability to affect the value creation, evaluating the substantial and prioritizing relevant matters in terms of their known or contingent effect on value creation, and determining in which way it will be disclosed about material matters. This process will be applied to positive and negative both types of matters including risk and opportunities and for favorable and unfavorable prospects and also to financial and non-financial information.
- ✓ **Conciseness:** an integrated report must be concise so the organization should avoid disclosing the less relevant information in the report. In achieving conciseness integrated reports are disclosed in a particular manner which is as follow....
 - The company applies the material determination process.
 - Follow a logical structure and minimize the repetition of the information.
 - For more detailed information use external links for reference purposes.
 - Define the concept clearly by using few words.
 - Use simple and common language.
 - Avoid generic disclosure, which are not specific to the company.

- ✓ **Reliability and completeness:** This report consists of all material elements in the report both positive and negative in a balanced way. The company will increase the reliability of the information through internal audit, internal control and external assurance. For the correct decision-making report should include all essential information then an integrated report is considered to be a complete report. The company should present the material matters in the report in such a way that it will give the cost benefits and competitive advantage in the future.
- ✓ **Consistency and Comparability:** The integrated report will give the information in such a way that it will be consistent over time and also comparable with other companies.

Source: REPORTING, I. (2013). Consultation draft of the international< IR> framework. *Recuperado em, 20.*

3.6 Content Elements of Integrated Reporting:

Content elements are interrelated with each other they are not mutually exclusive. There are eight content elements included in integrated reporting. These elements are mentioned in the International Integrated Reporting Framework (IIRF) in the form of questions that organizations should answer. The following are the questions related to each content element.....

1	Organizational overview and external environment	What does the organization do and what are the circumstances under which it operates?
2	Governance	How does the organization’s governance structure support its ability to create value in the short, medium and long term?
3	Business model	What is the organization’s business model?
4	Risks and opportunities	What are the specific risks and opportunities that affect the organization’s ability to create value over the short, medium and long term and how is the organization dealing with them?
5	Strategy and resource allocation	Where does the organization want to go and how does it intend to get there?
6	Performance	To what extent has the organization achieved its strategic objectives for the period and what is its outcome in terms of effects on the capitals?
7	Outlook	What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
8	Basis of presentation	How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?

Source: REPORTING, I. (2013). Consultation draft of the international< IR> framework. *Recuperado em, 20.*

4. Significance and Current Scenario of Integrated Reporting in India:

4.1. The Benefits of Integrated Reporting:

There are several benefits of integrated reporting to the organization and also to the other related party with the organization. It provides a better understanding of the financial and non-financial performance of the companies. So, there is no need to disclose the all information of the company through different reports. This reporting system brings more transparency by showing the link between the financial and sustainable performance of organizations in a single document. So it becomes the most effective tool to interact with the shareholders of the organization. This sustainable strategy becomes more affective among the investors and long term investors take the interest in the organization. So it also develops a strong relationship between the company and stakeholders. Some customers are very sensitive about the sustainability and environment so this reporting system increases the loyalty of the customers. It is also increase the loyalty to the employees of the organization. This reporting system is also useful for the company to decide for the effective and efficient utilization of the capital and other sources according to the financial and non- financial performance of the company. Integrated reporting will create the value of organization over the short, medium and long term because it provides the holistic picture of the organization. So, this reporting system is very vital in all perspectives so it increases the efficiency of the business process.

4.2 The Current Position of Integrated Reporting in India:

There is not any mandatory standard provided by IIRC which gives the vital information to investors and the framework of integrated reporting is not accepted globally yet. In India it is not mandatory for the organization to disclose the information through integrated reporting. But, from the financial year 2017-18 Securities Exchange Board of India suggested that the top 500 listed companies adopt the integrated reporting voluntarily. There are several companies now a day’s present their information by integrated reporting. In India TATA Steel, Kirloskar Brothers

Ltd., Mahindra and Mahindra, etc. such companies are following integrated reporting in a full-fledged manner and now other companies also started to follow this reporting system or presenting some components of integrated reporting in their annual report.

5. CONCLUSION:

This study gives some basic ideas about integrated reporting. This research tries to cover all the possible terms and theoretical aspects of integrated reporting and also, provides some fundamental explanation of the International Integrated Reporting Framework (IIRF). So it becomes easy to understand that what is an integrated reporting is. Now a day's only financial information is not important to attract the attention of the external stakeholders but, there are also need of some other reporting system which provides both the type of information and this emerging tool which disclose all the information in a single frame and gives the better solution of this reporting is called Integrated Reporting. This study concludes that integrated reporting is an emerging tool that is helpful to correct the future strategy for becoming successful. This reporting system provides both the type of information financial and non-financial so it improves the communication between an organization and external stakeholders. This study clearly provides a maximum idea about all theoretical concepts which are very useful for the further study on this reporting system. So this integrated reporting is a revolutionary reporting system for sustainability and value creation over a period of time. This reflects the holistic picture of the organization.

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