

## Emphasizing Sustainable and Balanced Growth through Integrated Reporting

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### ABSTRACT

With the value base of organizations increasing due to intangible assets the reporting framework also needed a revamp. With concepts like carbon trading , corporate social responsibility , human resource accounting gaining importance and finding their way as a part of legislations in India , it does prove that the reporting is not only meant for investors, but is extended to other stakeholders like employees , customers and the society at large.

With the steps taken towards adoption of International Financial Reporting Standards by most nations, the need for a holistic reporting structure has become the need of the hour. In a circular dated 6th Feb 2017 Securities Exchange Board of India (SEBI) has asked the top 500 listed companies in India to adopt integrated reporting. One must say, a remarkable step taken by the Indian regulatory authority for capital markets when the global economy is rapidly changing.

In this paper an attempt has been made to examine and study the current reporting practices and the integrated reporting practices and highlight the differences between the two. While highlighting the same, an attempt has been made towards studying the impact it will have on various stakeholders of the company and ultimately its market price.

**Key words:** Integrated Reporting, Transparency, Sustainable Value Creation JEL Classification – G3, G 380, M840

### Introduction

"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 (business responsibility reports)," SEBI said in a circular dated 6th Feb 2017.<sup>1</sup> This news has made it clear that sooner or later all companies will have to adopt integrated reporting. This makes this attempt of studying the same relevant in the Indian context.

Every since public limited companies have been formed , 'disclosure' of material facts related to the company , so that an informed decision can be taken by the investors , has always been highlighted through accounting and auditing standards and various listing norms by the various regulatory bodies. (SEBI and Ministry of Company Affairs (MCA), in India to be specific). The disclosure helps the investor take an informed decision and the principle of ownership versus management in case of body corporate works well as the investor is protected due to the same.

As on May 2017, we can say that the last financial crisis that took place was the subprime mortgage crisis in 2008.<sup>2</sup> It is in the wake of such crisis that the need of financial stability and sustainable development of corporate is felt much more. In simple words, a sustainable economy is better than a flourishing economy which is on the brink of a collapse. Financial reporting structure becomes more holistic with the help of integrated reporting. Investment decisions, corporate behaviour and reporting need to be interlinked for sustainable development which can be achieved through integrated reporting. The Enron Scandal<sup>3</sup> was the main reason behind the Sarbanes Oxley Act in India and the Clause 49 of the Listing Agreement in India resonates that the need for stronger governance was felt worldwide due to the same. Similarly the current economic situation resonates the need for changes in financial reporting structure through integrated reporting. In a circular dated 6th Feb 2017 Securities Exchange Board of India (SEBI) has asked the top 500 listed companies in India to adopt integrated reporting. This step by the Indian regulatory authority is the first step towards adoption of the new reporting framework.

<sup>1</sup> <http://timesofindia.indiatimes.com/business/india-business/sebi-asks-top-500-listed-cos-to-adopt-integrated-reporting/articleshow/57003235.cms>

<sup>2</sup> <http://timesofindia.indiatimes.com/business/international-business/Fed-raises-interest-rates-for-first-time-in-a-decade-in-dovish-hike/articleshow/50210663.cms>. This news substantiates the fact that the latest crisis period is the 2008 subprime mortgage crisis.

<sup>3</sup> <https://www.thebalance.com/sarbanes-oxley-act-and-the-enron-scandal-393497>

**Research Methodology**

The study is mainly qualitative in nature. It has been carried out based on secondary data that has been collected through various sources like journals, newspaper articles and official websites of various regulatory authorities.

**Objectives of the study**

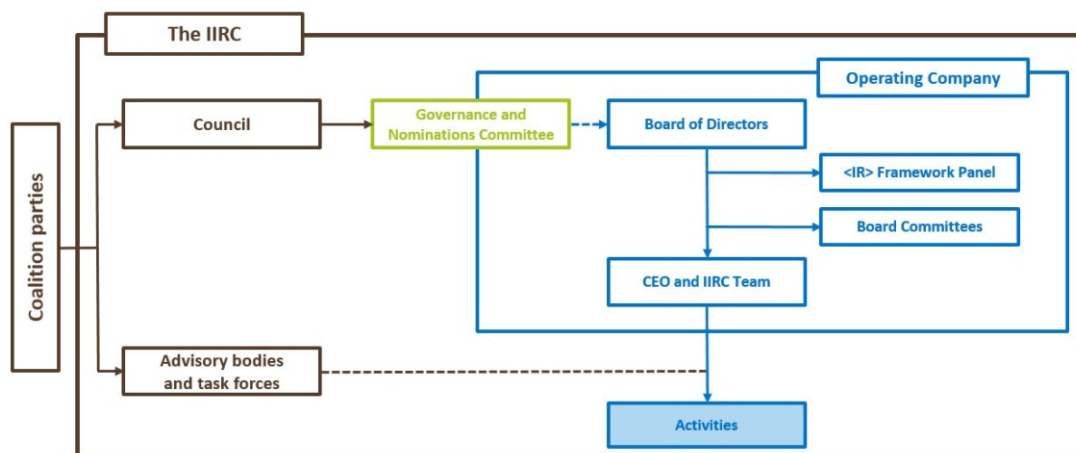
1. To study the impact that integrated reporting will have on value creation.
2. To assess the various variables other than financial information that plays a vital role in integrated reporting.
3. To study and analyze the benefit integrated reporting will provide to investors and other stakeholders.

**Integrated Reporting Framework**

The integrated reporting framework details has been taken from the international reporting, integrated framework document available on [integratedreporting.org](http://integratedreporting.org).

The first question that comes to mind when we talk about integrated reporting is that which organization has started this in the first place. “The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The coalition is promoting communication about value creation as the next step in the evolution of corporate reporting”<sup>4</sup> The mission and vision statements of the council gives a clear indication that the council is striving for

1. Inclusion of integrated reporting in the mainstream business streams in public and private sectors.
  2. Capital allocation and corporate behavior must work towards financial sustainability and sustainable development.
- From 2014 to 2017 is the breakthrough phase which involves market testing and early adoption by reporting organizations



**Figure 1:** Structure of IIRC

Source - <https://integratedreporting.org/the-iirc-2/structure-of-the-iirc/> Accessed on 24th May 2017

The current people on the advisory board, the panel, the various committees etc as mentioned above are available on their website. Through a funding model which is based on four parameters, a funding of 2.5 million dollars has been raised in 2015.

**Literature Review**

Ernst and Young Report (2017) - It highlights the fact that along with financial performance, the environmental, social and governance (ESG) practices disclosure has become important. An important concept highlighted by the report is as follows - 'Critical to integrated reporting is the concept of sustainable value creation'.

Robert G. Eccles , George Serafeim (2014) - In their paper titled 'Corporate and Integrated Reporting : A Functional Perspective' the authors have explained the need of integrated reporting through a case study approach.

<sup>4</sup> <https://integratedreporting.org/the-iirc-2/>

They have tried to reason out that financial and sustainability reporting will not function standalone and there is need for a blend of the two for effective reporting.

Ioana, Dragu; Adriana, Tudor-Tiron (July 2013) - The research paper focuses on analyzing the evolution of corporate reporting. Etymology is always useful as it gives us a better understanding and makes us appreciate the importance of a current topic. The findings of this research paper highlight three main stages which include the non financial reporting initiatives, the sustainability era and integrated reporting.

Alberto Romolini , Silvia Fissi and Elena Gori (February 2017) - The authors conduct an exploratory research to investigate IR in detail , right from the time when this concept first surfaced till date by using the most popular databases for publishing research papers on scientific debates. It focuses on “One Report: which IR finally plans to achieve by changing the reporting structure.

Chersan, Ionela-Corina (2015) - It presents the studies and practices in integrated reporting. Annual report published on the website of IIRC have been analyzed. It highlights the features of the report based on value creation. It also identifies the positive and negative tendencies.

Rebecca McCaffry, Nick Topazio (Integrated Reporting in Public Sector, report) - The authors have highlighted the benefits of adopting integrated reporting to public sector organisation. The report explains that IIRC recognizes six distinct but interrelated capitals namely,

a) Financial b) Manufactured c) Natural d) Human e) Intellectual and f) Social and relationship

The report further explains in detail the concept of value creation and then focuses on the role it shall play in the public sector. Case studies from across the world have been discussed in detail.

SEBI Circular Feb 6 , 2017 – “The Indian Market regulator , SEBI in exercise of the powers conferred under Section 11 read with Section 11A of the Securities and Exchange Board of India Act, 1992 , has made it compulsory for top 500 companies listed in India to submit Business Responsibility report (BRR). A very well appreciated step taken towards moving to Integrated Reporting”.

PWC Report (2015) - Implementing Integrated Reporting - A detailed report on steps that can be followed is highlighted in the report. Five main steps are provided in this report which will help organizations adopt IR with ease.

Robert G. Eccles & Daniela Saltzman (2011) - This report cites the first time the document for companies practicing integrated reporting was issued on Jan 25 , 2011 at the press conference held at Johannesburg Stock Exchange. It mentions that it is being practiced around the globe by companies like Philips, Novo Nordisk, PepsiCo and Southwest Airlines.

Charl de Villiers, Leonardo Rinaldi, Jeffrey Unerman, (2014) - This paper focuses on the initial aspects of integrated reporting in its infant stage. It highlights the need for further robust academic research to guide developments in policy and practice.

Christopher Humphrey , Brendan O'Dwyer , Jeffrey Unerman (2014) - This paper reveals a number of distinctive elements. These elements are related to IR development. The paper discusses an important concept that whether the IIRC can continue to 'inspire, harness and control different interest groups' and is surely a challenging policy task.

The website [globalreporting.org](http://globalreporting.org) (Accessed on 5 June 2017) emphasizes that “GRI is supportive of integrated reporting as it develops as an important and necessary innovation of corporate reporting.” Many organizations across the globe are using the standards provided by Global Reporting to disclose sustainability development.

### Research Gap

Being slowly getting accepted worldwide, there is a need to study the impact of IR on Indian companies and it has been mandated by SEBI for the top 500 listed companies. Studies have been conducted on various aspects of IR around the world. Through a sample report published buy a listed company the various parameters involved have been analyzed.

**Assumption for the research paper case taken-**

The case is purely based on annual report of the company for the year 2012, the first year the company adopted integrated reporting. No other information like sustainability reports , news , board announcements have been used to judge assuming that a normal investor would generally rely on one report and may not read everything about the company before taking a decision.

Benchmark Report to analyze changes - Coca Cola Report Integrated Reports of 2012

The Coca -Cola Report - Integrated Reports of 2012 has been used as a benchmark for studying and analyzing the impact of integrated report.

**Reason for choosing the 2012 report -**

Coca Cola published its first integrated report in the year 2012.<sup>5</sup> The report right on page one highlights the various stakeholders of the report and the impact of the company in the following tabular format which highlights the integrated reporting framework.

**Table 1: Key Performance Indicators**

Value Created	Key Stakeholders	Main Areas of Risk	Key Performance Indicator
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**Five Capitals**

Page 8 of the report highlights the five capitals necessary for integrated reporting through the business models. The page also states the Vision and Mission of the company.

1. Financial Capital - 7186 Shareholders
2. Human Capital - 40,232 employees
3. Intellectual Capital - Popularly known in the media to keep the formula a secret , the report highlights brand's, standards, recipes, processes, manufacturing, reputation
4. Relationships with suppliers - 84,000 Suppliers
5. Social Relationships - Governments , Communities License to operate

Page 9 of the report explains the process of value creation and sustenance through very simplified diagrams. Such diagram helps investors from even a non financial background understand the business process. One of the well renowned and very well respected investors, Mr. Warren Buffet<sup>6</sup> is said to invest in companies whose business he can understand and analyze. Such diagrams boosts / lowers the investor confidence depending upon the expectations of the investor from the company. But it surely provides a very clear picture for the investor to understand. The Chief Executive's Review highlights - "The value proposition we offer our shareholders and wider stakeholders is positioning Coca-Cola Hellenic for continued competitive advantage and success." This highlights that the company considers both the shareholders and the stakeholders. The strategic framework mentions the four Cs which are the strategic priorities of the company community trust, consumer relevance, and customer preference and cost leadership.

As far as sustainable development is considered page 15 onwards mentions the major key performance indicators which ensures that the company respects the 4Cs.

<sup>5</sup> <http://coca-colahellenic.com/en/investors/reports/2012-integrated-annual-report/>

<sup>6</sup> Buffett adamantly restricts himself to his "circle of competence" – businesses he can understand and analyze. What Is Warren Buffett's Investing Style?<http://www.investopedia.com/articles/05/012705.asp#ixzz4kiBFalz9>

**Table 2 - 4Cs of strategic framework**

Sustainable indices, carbon footprint, water footprint and safety would surely earn the community trust.	Community Trust
Per Capita Consumption , Quality index , Consumer Complaints	Consumer Relevance
Customer Satisfaction , DIFOTAI (Deliver In Full On Time Accurately Invoiced) , CHANNEL profitability	Customer Preference
Operating Expenses as a percentage of NSR , Working Capital , Water Use Ratio and Energy Use Ratio	Cost Leadership

All the above parameters have been aligned to the strategy of the company and the performance of them in 2012 is evaluated.

The operating review also focuses on value creation by the company and its impact on the 4Cs mentioned above. Adding value is a major constituent for integrated reporting. The investors surely get more information than mere financial and on financial indicators of the company's growth.

The markets are divided into established, developing and emerging to communicate to the investors the segment splits of revenue, volume and comparable EBIT. While explaining the 2012 performance across the segment safety rate and carbon emissions are also mentioned.

Page 48 highlights the Financial Sustainability Review. This page highlights the revenue, costs profits, tax, and group debt financing i.e. all financial aspects with a focus on maintaining the results in relation to the external changing environment. Economic impact on the investors is given clearly. This provides a perspective to investors looking for long term investments in the company and helps them in taking prudent decisions for future.

The coca cola report highlights the fact that it is a strategic report right at the uppermost right corner of the initial pages ensuring that the investor also understands this and reads the report accordingly ultimately benefiting the investor.

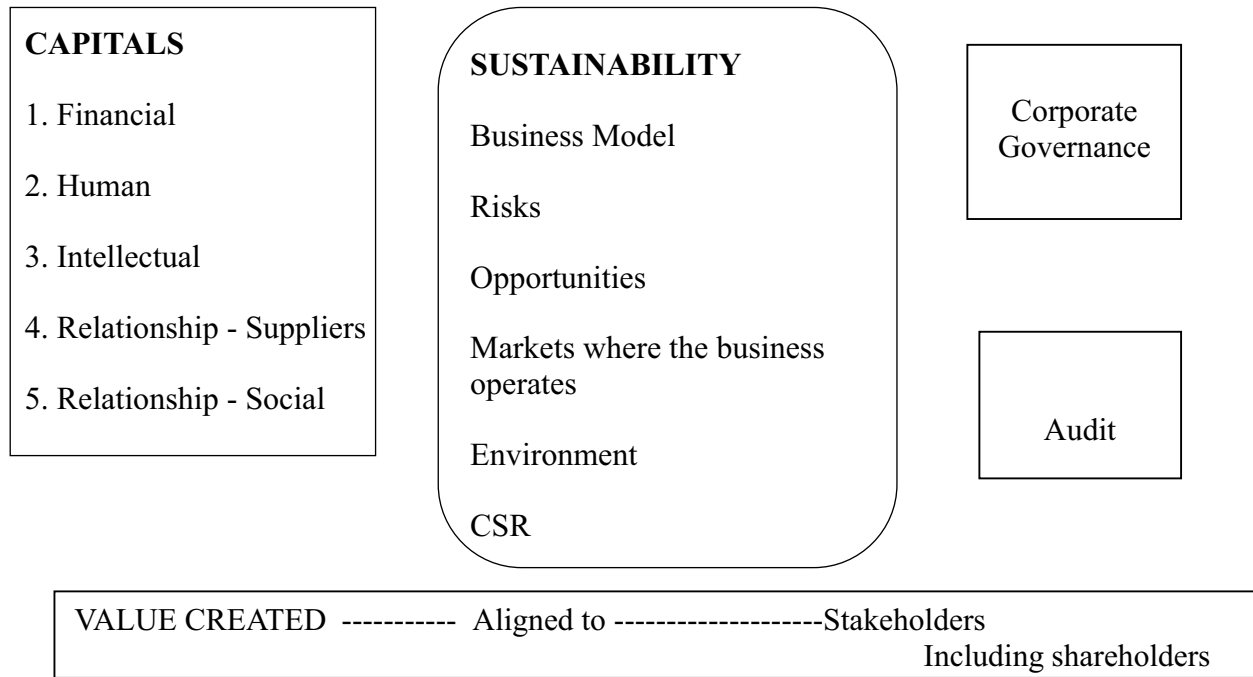
Risks and Opportunities for the business are mentioned before moving towards governance. This guides the investor truly ensuring that the investor is well aware of the business threats the company is facing and also the actions the company is taking to mitigate the risk. It also showcases the opportunity angle, so that the investor can weigh the pros and cons simultaneously.

The part of Corporate Governance builds or breaks the trust of an investor. The investor can read about the composition of the board, the various meetings, independence related to the board composition, board nominated by whom etc. This tells the investor about the people actually governing the company. The major committees - social responsibility committee, audit Committee, nomination committee and remuneration committee definitely add value to the investor reporting framework.

The report ends with two main aspects to any corporate reporting framework namely Corporate Governance and Audit. Pages 60 -61 are dedicated to shareholders information which is of utmost importance to investors. The Investor Relations department manages the interaction with the investor. The share price performance for two prior years is compared for analysis. The Auditor's Validation is provided for independent verification of the 2012 Integrated Report.

### **Impact of Change in Reporting Framework**

Companies are now adopting integrated reporting framework rather than the traditional reporting framework which had only the annual report available for investors. After studying the above report in detail and the IIRC guidelines the integrated framework is depicted by the following figure-



**Figure 2 - Framework for Integrated Reporting**

“Value is created through an organization's business model, which takes inputs from the capitals and transforms them through business activities and interactions to produce outputs and outcomes that, over the short, medium and long term, create or destroy value for the organization, its stakeholders, society and the environment “7

**Value Creation**

Natural Resources are the basic capital used by any business. This capital should be sustained by the business model and not destroyed. Same holds true for all the six capitals mentioned as a part of the integrated reporting framework. It is needed to have a sustainable business model. The dot com bubble and subprime mortgage crisis prove that only sustainable business models will survive in the competitive era and during extreme volatile conditions. These sustainable business models add value to the environment and the external factors keeping the investors also well informed. The investors who invest in such business models are truly looking for a long term relationship with good capital appreciation without disturbing the other factors relying on the business.

**Conclusion**

Integrated reporting is a must for every company. It is not only useful to external parties but it adds great value to the business itself. Integrated reporting itself highlights the lacunae in the business model for sustainability and suggests improvements for the same. Investors are surely benefitted as they can understand the business model and know what they are exactly investing into apart from only the financial and few non financial indicators. Distinguishing the capital into six types it makes us understand the worth of the business in the long term. Along with the robust accounting standards that add value to the reporting structure and disclosure practices, Integrated reporting is a must for every business to progress towards a more sustainable economy as a whole.

The step taken by the Indian market regulatory authority SEBI is good and would surely help the investors have a holistic view of the company chosen for investing. The decision making for the investors will be impacted on release of integrated reports especially for long term purposes.

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