

Integrated Reporting: Communicating Value Creation

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ABSTRACT

In the age of globalization, increased mutual dependency amongst the nations, advances in Information and technology, population growth and mounting worldwide consumption, the world scenario has changed. In such situation the corporate houses all over the world including India have developed new business models and strategies to do business and remain successful so as to create value for the stakeholders. Today, an organization operates keeping in mind the society and economy as a whole by means of sustainable strategy. It believes in concept of inclusive growth. Keeping the pace with the changing situations, the traditional pattern of corporate reporting has also undergone a substantial change. The information provided now by the business houses is more of stakeholders oriented rather than shareholders. Today the non-financial data along with the financial information is also reported. The corporate houses have adopted a pattern of reporting which is known as "Integrated Reporting". They report in line with the standardized framework provided by GRI (Global Reporting Initiative) and in accordance with the thinking of IIRC (International Integrated Reporting Council).

The paper attempts to provide the conceptual clarity of Integrated Reporting and to analyze how the value created for stakeholders has been reported by the companies using the integrated reporting principles.

The study reveals that IIRC has provided the guiding principles and contents elements of integrated report which help the stakeholders to know in depth the value created by the company.

It is concluded that though the benefits of integrated reporting are largely understood, the acceptability of the concept is yet delayed and the percentage of the companies who have started integrated reporting practices is very less.

1. Preface

Today the overall scenario of the whole world has changed. This is mainly due to globalization and increased mutual dependency amongst the nations, advances in Information and technology, population growth and mounting worldwide consumption. This has led to a noteworthy impact on the quality, availability and worth of resources, including the basic essentials like water, food and energy and thus creating pressure on environment. In such situation the corporate houses all over the world including India have developed new business models and strategies to do business and remain successful so as to create value for the stakeholders. Today, an organization operates keeping in mind the society and economy as a whole by means of sustainable strategy. It believes in concept of inclusive growth. Now, keeping the pace with the changing situations, the traditional pattern of corporate reporting has also undergone a substantial change. Before ten years, the annual reports of the company used to contain only the financial data. It failed to provide the information the stakeholders need to understand the future value creation potential. The information provided was more of shareholders oriented rather than stakeholders. Today the trend has changed and even the non-financial data along with the financial information is reported. The corporate houses have adopted a pattern of reporting which is known as "Integrated Reporting". They report

in line with the standardized framework provided by GRI (Global Reporting Initiative) and in accordance with the thinking of IIRC (International Integrated Reporting Council). Thus the paper attempts to provide the conceptual clarity of Integrated Reporting and to analyze how the value created for stakeholders has been reported by the companies at Global and National level using the integrated reporting principles.

2. Objective of the Study

The objectives of the study are

- To provide the conceptual clarity of Integrated Reporting.
- To analyze the value creation communicated by various companies complying through Integrated reporting principles adopted by selected companies at Global and National level

3. Integrated Reporting

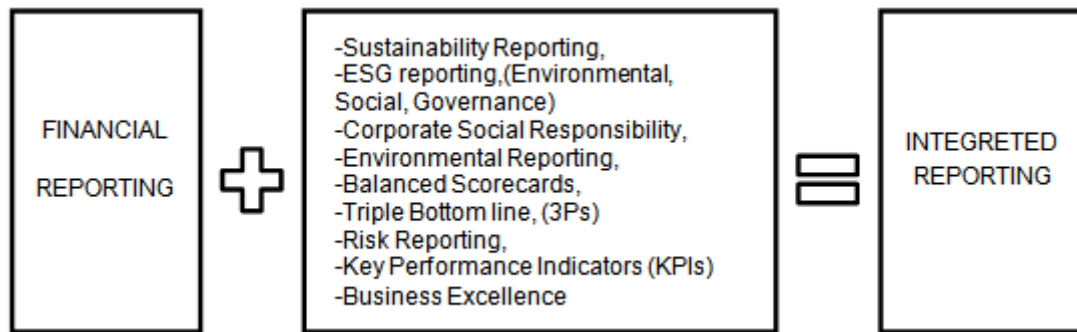
3.1 Meaning:

The International Integrated Reporting Council (IIRC) defines integrated reporting as "A process that results in communication by an organization, most visibly a periodic integrated report, about how an organization's strategy,

governance, performance, and prospects lead to the creation of value over the short, medium and long-term.” It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains

value. It provides in a single attempt the financial & nonfinancial performance of the organization at one place.

3.2 Reports under Integrated Reporting:



The integrated reporting combines Financial Reporting (represented by Mandatory financial statements) and other reports as mentioned above which is more of non-financial in nature.

3.3 IIRC:

The International Integrated Reporting Council (IIRC), a nonprofit organization, is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The objective is to create awareness of integrated reporting and thinking within mainstream business practice in public & private sectors for their financial stability and sustainable development .IIRC was established in 2010 by The Prince’s Accounting for Sustainability Project, the Global Reporting Initiative and the International Federation of Accountants. At present the IIRC is chaired by Professor Mervyn King and Paul Druckman is Chief Executive Officer.

4. Fundamental Concepts

The three fundamental concepts that underline the content elements & guiding principles of an integrated report are as follows:

1. Value Creation for the organization and for others:

Value creation means value created for all stakeholders. Value created by an organisation over time is evident in form of increase or decrease of the capitals as a result of the business activities and outputs.

2. The Capitals:

All organization relies on various type of capital for its success such as Financial Capital, Manufactured Capital, Human Capital, Social and Relationship Capital and Natural Capital. All the above capital should be included in the integrated report as they serve as part of the theoretical foundation for the concept of value creation.

3. Value Creation Process:

The various capitals are the inputs for the business model. The business activity converts them into output in form of

products, services, by-products and waste. The activities and output lead to outcomes in terms of effects on capital. Outcomes are the internal and external consequences (positive and negative) for the capitals. The capacity of the business model to adapt to changes (e.g., in the availability, quality and affordability of inputs) can affect the organization’s longer term viability and create higher value for the stake holders.

5. Guiding Principles

A well-structured integrated report can be prepared applying the guiding principles laid down by IIRC. The succeeding part of the paper discuss the guiding principles

5.1 Strategic Focus and future Orientation:

The objective of the report is to briefly narrate the company’s strategy and its influence on creating value for the stakeholders in short, medium and long term. The report should include the statements on expected future performance and should emphasis on how business makes money today and how that value will convert into cash in future.

5.2 Connectivity of Information:

An integrated report should disclose in its report the blending, interrelatedness and interdependency of the factors that have impact on the organisations’ ability to create value over time..

5.3 Stakeholders Relationship:

The nature & quality of the organization’s relationships with its key stakeholders , response to their legitimate needs, interests and wishes that increase the transparency and responsibility should be incorporated in the report.

5.4 Materiality:

All relevant information having significant impact on the organization’s ability to create value over the short, medium and long term must be disclosed.

5.5 Conciseness:

An integrated report should be brief and should avoid duplication of information.

5.6 Reliability and Completeness:

An integrated report should include all material matters, without any error and omission. The report content should include research projections and estimates.

5.7 Consistency and Comparability:

The reporting policies adopted should not be changed frequently. The change may be for improving the quality of information reported. The information reported should make possible the inter-firm comparison

6. Contents Elements of Integrated Reporting

An Integrated Report includes the following Content Elements:

- **Organizational overview and external environment:**

Information related to organizations culture, ethics and values, its ownership and operating structure, its core activities, its position with the value chain and the competitive landscape, market positioning, quantitative information related to number of employees, revenue and number of countries in the organization operates and the significant factors affecting external environment & corresponding response given by the organization should be included.

- **Governance:**

An insight into the organizations governance structure helping to create value in short, medium and long term should be included in the report.

- **Business Model:**

A business model adopted to convert the inputs into output so as to attain the objective and create value for the stakeholders should also be reported.

- **Risk and Opportunities:**

The major risk and opportunities affecting the organization's ability to create value should be identified and reported. For instance factors responsible for constant availability of capital identified and reported.

- **Strategy and Resource allocation;**

The information related to the strategy adopted by the organization and plans framed and implemented for allocating the available resource should be reported.

- **Performance:**

The qualitative and quantitative information about the outcomes showing positive and negative impacts on the various capitals should also form the part of report.

- **Outlook**

An integrated report should highlight all the obstacles and hurdles it is going to face in implementations of targeted strategy.

7. Value creation reporting by various companies :(International Scenario)

The integrated reporting is practiced by companies all over the world. As stated by PWC in the "Point of View: Integrated Reporting Going beyond financial Results" by PWC in South Africa the listed companies must adopt integrated reporting and have to disclose the reasons for not reporting. Many countries have enacted/ proposed rules on integrated reporting. In the US, certain companies have shown an interest in reporting more non-financial information voluntarily.

The observation related to Value Creation has been exhibited by IIRC on its website. The extracts of the observations of few companies pertaining to different sectors at International level have been selected and mentioned in the succeeding part of the paper.

7.1 Value creation reported by SASOL Ltd.

Sasol Ltd. is an International Integrated energy and chemicals company operating in 37 countries. It is a .Public Listed Company based at Johannesburg, South Africa falling under Oil and Gas Industry. In its Integrated Report of 2014, the company demonstrates (IR) guiding principles like Connectivity of Information, Stakeholder Relationships, Materiality and Conciseness.

Sasol outlines the company's investment criteria, connecting the strategic decisions made in allocating resources to run Sasol's business and advance the company's growth projects based on integrated criteria (the six capitals). It provides an overview of each capital, which describes how each enables the company to operate sustainably and grow. The report provides signposting to the 'value creation scorecard', which addresses each of these capitals in more detail. Specifically, for each capital, the relevance of the capital is discussed, key inputs are identified, and outcomes (described as the impacts on the capital) are highlighted. The key activities related to each capital are also outlined. All in all, this provides the reader with an understanding of the importance of the capitals and how these stocks of value are increased, decreased or transformed through the activities of the business.

7.2 Value Creation reported by SAGE Ltd

Sage Ltd is a Europe based company listed on London Stock Exchange falling under Technology industry is operating in 24 countries. In its Integrated Report of 2014, the company demonstrates (IR) guiding principles like Strategic focus and future orientation and Connectivity of information.

Sage's business model discussion presents a comprehensive insight into value creation at the company. The diagrams utilize both narrative descriptions as well as quantitative measures to highlight performance. The report identifies the key inputs and activities of the company's

business model that enable it to create value for a variety of stakeholders including shareholders, employees, and society as a whole. Effort has been made to quantify the actual value created in financial terms, and further context is provided by including year-over-year trending and explanations in the footnotes.

7.3 Value Creation by NATURA Ltd.

Natura Cosmetics is a Brazilian manufacturer and marketer of beauty products, household, and personal care, skin care, solar filters, cosmetics, perfume and hair care products the company that sells products through representatives in many countries across the world. The company in its Integrated Report of 2014 the company demonstrates (IR) guiding principles like Strategic focus and future orientation, Materiality, Conciseness, Consistency and Comparability.

The company's business model is driven by a commitment to creating value for all key stakeholder groups and is underpinned by the company's "essence"; that is, its vision, beliefs and reason for being. The business model diagram indicates the various inputs and resources used to drive performance and deliver value. The "How we transform" section describes the processes and activities applied throughout the value chain. The "What we deliver" section speaks to the value that is actually created for the company's stakeholders with a combination of quantitative and qualitative information. These outputs and outcomes are strengthened by the inclusion of various environmental, social, economic and other performance indicators that allow for users to compare performance over the past three reporting periods.

7.4 Value Creation reported by AEGON Ltd

Aegon Ltd is one of the world's leading financial Services organizations, providing life insurance, pensions and asset management. It is a public listed company based at Nether lands. The company in its Integrated Report of 2014 demonstrates (IR) guiding principles like Connectivity of information and stake holders' relationships.

The company's value chain maps the company's relationship with a wide range of key stakeholder groups, capturing the inputs (capitals/resources) and outputs of the value creation process, focusing on the transformation of shareholder capital, employee talent and customer trust into dividends, wages, skill development, taxes and vital community investment. What follows is a

more detailed narrative of value creation on a stakeholder-by-stakeholder basis. The insights presented are supported by both qualitative and quantitative data outlining the ways in which company succeeds as a socially responsible company while maintaining a commitment to the providers of its financial capital. To this end, value creation is explored not only as a financial services company but also in its role as an employer, an investor, a responsible local community member and a shareholder steward.

8. Integrated Reporting – Indian Perspective

The Confederation of Indian Industry Centre, in partnership with the International Integrated Reporting Council (IIRC), has introduced Integrated Reporting to India and set up the country-level network, the IR Lab India. This lab in India is a collective of companies, investors, regulators, accounting firms and academics, to practice and advocate in India, and to bridge with IIRC and country networks. In the 9TH Sustainable and Inclusive Solution Summit Organized by CII-ITC Centre of Excellence for Sustainable Development held on 16-17th September 2014, Mr. U.K.Sinha the chairman of SEBI invited CII to develop a roadmap on integrated Development in India. Currently the integrated reporting is in its infancy. As per the report appearing on the website of csrtree.com, only 2 Indian companies namely Kirloskar Brother Limited (Manufacturing) and Tata Steel Ltd have participated in the IIRC pilot programme for Integrated Reporting.

9. Regulatory Framework-India

The present scenario in India is that **SEBI in its circular No. SEBI/HO/CFD/CMD/CIR/P/2017/10 dated February 6, 2017 mentioned that 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.
- 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).

• Tata Steel Ltd.

TATA Steel Ltd is one of world's pioneering steel companies manufacturing wide range of Steel Products. The 108th Annual Report of 2014-15 is based on IIRC principle of reporting. The integrated report of the company is based in accordance with the guiding principles laid by IIRC. All the six parameters namely organizational overview of the business model, Operating Context-risk and opportunities, Strategic objectives and Strategies, Governance, Performance and Outlook are covered. It is in keeping with company's own belief in transparency, accountability and ethics.

• Kirloskar Brother Ltd.

Kirloskar Brothers Limited is a global fluid management solutions provider and the largest manufacturer and exporter of centrifugal pumps and valves from India. The Integrated Report provides concise summary of the company's strategy, performance, governance and prospects. The company believes in "Integrated Thinking" and believes in creating sustainable value for all the stakeholders. The company's functional task force will continue to work for value creation not only in terms of financial but also manufactured, human, intellectual, social and natural capitals through Integrated Reporting. It believes that Integrated Reporting will help to grow as a "Sustainable Enterprise", enhancing its credibility for all its stakeholders.

• RELIANCE INDUSTRIES LTD.

The company has already commenced preparation of the Integrated Report from the year 2016-17 in totality emphasizing more on value creation with reference to all capitals

10. Conclusion

The integrated reporting provides in a single attempt the financial and nonfinancial performance of the organization at one place. It is powerful tool for understanding the organizations culture ethics, its core activities and the governance structure helping to create value in short, medium and long term for the various stakeholders. Integrated reporting is built around the business model to provide an understanding how different capital inputs are being used to transform them into an output creating value for each of the capital. The importance and need of the integrated reporting is now taking its shape as companies

have now moved from traditional financial reporting to an Integrated reporting covering Sustainability Reporting, ESG (Environmental, Social, Governance) reporting, Corporate Social Responsibility, Environmental Reporting, and Business Excellence. The standardized framework of GRI and IIRC provides the guidelines widening the scope of disclosure aspects. The guiding principles and contents elements of integrated report which help the stakeholders to know in depth the value created by the company. Though the benefits of integrated reporting are largely understood, the acceptability of the concept is yet delayed and the percentage of the companies who have started integrated reporting practices is very less. In India very few companies have fully adopted the guidelines provided by IIRC framework for Integrated Reporting.

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