Integrated Reporting—Benefits and Impediments

Reporting mechanisms have to undergo drastic changes to highlight the spill-over effects of business activities and on sustainable value. A reporting of negativities would help stakeholders and shareholders in arriving at the sustainable nature of business. Financial reporting accounts for only financial performance and on the other hand, sustainable reports prepared separately account for social and environmental performance devoid of inter-linkages between financial and non-financial performance. A reporting mechanism, which hypothesises that occurrences on social and environmental fronts have implications for financial performance and vice-versa, needs to be designed and implemented. The reporting mechanism which combines or integrates strategy, financial performance and social and environmental contributions, has come to be known as 'Integrated Reporting (IR)' or 'single report format'. It is reporting of financial and non-financial information in one report. An integrated report is a single document that presents and explains a company's financial and nonfinancial—environmental, social, and governance (ESG)—performance. Read on to know more…

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Introduction

The traditional goal of a business firm has been to maximise profits, and financial accounting has emerged as a single tool or mechanism for measuring and reporting. The pursuit of this unitary goal has been criticised on several grounds, one among them is sustainability. Sustainability is a measure of business continuity. Investors would always look at long-term sustainable value. It is a concept deep-rooted in the wellbeing of present and future generations. Sustainable development occurs when you do not encroach on the rights of future generations to meet their own development needs. Managers should view businesses on similar lines. A firm should continue to exist presently and in future and should

meet the expectations of both the present and future generations. A firm is sustainable if it does not destroy its own future by drawing on future resources beyond a particular limit.

It is always possible for a manager to maximise present wealth or profits by exploiting the existing resources to the detriment of future needs, as evidenced by recent happenings in mining, quarrying, exploration industries, etc. The present miners are unconcerned about the environmental and social side-effects as a result of extensive mining activity. The whole surrounding community and environment would have to pay a price for a longer period of time for such uncontrolled business activities. Would not business managers be evaluated on the basis of sustainability?

A sustainable society requires the vast majority of its companies to have sustainable strategies, defined as those that create value for the shareholders over the longer-term while meeting the needs of other stakeholders and not taking excessive or uninformed risks (Eccles and Serafeim, 2011).

Meaning of Integrated Reporting

IR is reporting of financial and non-financial information in one report. An integrated report is a single document that presents and explains a company's financial and nonfinancial—environmental, social, and governance (ESG)—performance (Vebsar, 2012). However, it goes beyond the provision of non-financial information in the same report. It is the integration of non-financial information into the financial information and providing the same to various stakeholders of the firm so as to enable them to judge the value-generating abilities of the firm. The King Report on Governance for South Africa 2009 (King III) defines IR as a 'holistic and integrated representation of the company's performance in terms of both its finance and its sustainability.' The Discussion Paper of the IR Committee (IEC) of South Africa echoes a similar definition. In its words, an integrated report is not simply an amalgamation of the financial statements and the sustainability report. It incorporates, in clear language, material information from these and other sources to enable stakeholders to evaluate the organisation's performance and to make an informed assessment about its ability to create and sustain value.

An integrated report or one report is a document (either online or printed) that contains the integrated representation of financial or non-financial results of a company's performance (Eccles and Kryzus, 2010). The International Integrated Reporting Council (IIRC) defines IR as a report that brings together the material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organisation demonstrates stewardship and how it creates value, now and in the future.

The emergence of the integrated report is on account of failure of traditional financial accounting in substantiating the performance of the firm on the sustainability and strategy fronts. The juxtaposition of the financial working of the firm with the environment, social and governance measures improves the quality of financial reporting.

Emergence of Integrated Reporting

The concept of IR is very new and dates to back to 2002 when Danish company Novozymes, whose core business is industrial enzymes, microorganisms and biopharmaceutical ingredients, issued an integrated report in 2002. Although some of the seeds for IR go as far back as John Elkington's concept of the triple bottom line in 1994 (Eccles and Saltzman, 2011) and the joint work of Robert G Eccles and PWC on Value Reporting in 1999. The first use of 'integrated' was made by Allen White in his work on Novo Nordisk's 'integrated, balanced and candid reporting' in 20th June, 2005, Business for Social Responsibility brief titled "New Wine, New Bottles: The Rise of Non-Financial Reporting." That same year a visionary, and largely forgotten report since it was just a few years ahead of its time, sponsored by the Canadian Cooperative Bank Vancity, appeared, called 'Integrated Reporting: Issues and Implications for Reporters'. The first US company to produce an integrated report was United Technologies Corporation in 2008. In 2010, Robert G Eccles of the Harvard Business School and Michael P Kryzus of Grant Thornton published the first book on integrated reporting.

The necessity on the part of corporates to provide an integrated report containing financial and non-financial information is on account of the failure of financial reports in providing complete and transparent information to various stakeholders. More than a half century after the birth of modern

There is no universally-accepted framework for IR and it has remained largely a voluntary practice. However, the interest in and adoption of IR is growing rapidly. Some countries have introduced regulations which mandate the adoption of IR by companies of certain size. South Africa and developed economies such as Denmark, France, the UK, etc., have made it mandatory. The European Union is poised to mandate ESG (environmental, social and governance reporting) within the next year.

financial reporting, it is becoming increasingly clear that incremental changes in corporate reporting are insufficient to correct the systemic weaknesses that persist (White 2005). In the words of Eccles and Saltzman (2011), financial reporting is growing in complexity, making it hard for all but the most sophisticated users to understand the reports. There is also the difficulty of finding the most relevant information, 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.

The string of corporate collapses over the past decades has led many stakeholders to question the relevance and reliability of annual financial reports as a basis for making decisions about an organisation. Reports based largely on financial information do not provide sufficient insight to enable stakeholders to form a comprehensive picture of the organisation's performance and of its ability to create and sustain value, especially in the context of growing environmental, social and economic challenges (IRCSA Report, 2011).

The increased emphasis on good governance practices in companies all over the world has also contributed to the growing importance of IR. The corporate standards of several countries expect transparency and fairness in treatment of various stakeholders' interest. Transparency, accountability and ethical leadership are the pillars of good governance. An effective reporting framework can allow leaders to reflect on the social, environmental, economic and financial impacts of the organisation they lead and demonstrate through IR, integrity, transparency and accountability in their activities (IRCSA Report, 2011).

The increased mobility of capital across frontiers has led to the necessity of integrated reports. International institutional investors, especially of western origin, are concerned about environmental and social consequences of business activities in the form of effects on living standards of local population, protection of rights of minority stakeholders, maintenance of local habitats, employment of child labour, abuse of women rights in working places, unscientific working hours and conditions, etc. Due to the urge to be sensitive to the demands of the local population and to encourage ethical investment activities, financial institutions are expecting increased disclosures integrated with financial information of the companies in which they propose to invest.

The other chief drivers include the changing pattern of business regulations, growing clout of civil organisations, interventionist role of judiciary, watchful eye of electronic and print media, ever-alert local population, etc., compelling companies to justify the financial performance in terms of social, economic and environmental performance indicators.

Objectives of Integrated Reporting

The overarching objective of integrated reporting in general, and the integrated report in particular, is to report to stakeholders on the strategy, performance and activities of the organisation in a manner that enables stakeholders to assess the ability of the organisation to create and sustain value over the short-medium and long-term (IRCSA Report, 2011). This objective is achieved by integrating financial and non-financial aspects of the working of the organisation by creating a consciousness level in the organisation that the financial performance is not independent of non-financial performance. It broadens the vision of insiders that a firm's performance can be evaluated on more than one aspect. The following can be perceived as the salient objectives of IR:

- To provide transparent and fair information on the overall performance of the firm to stakeholders
- To integrate the strategic vision of the firm in the working atmosphere of the company
- To develop alternative methods of evaluating the financial performance
- To create a persuasive climate in the organisation that better financial performance is achieved through better non-financial performance
- To create the awareness/consciousness level that today's actions have long-term implications and business activities have social and environmental consequences
- To guide the capital market in capital allocation on a sustainable basis

- To encourage administrators and other government agencies in encouraging sustainable business enterprises

Difference between Traditional Reporting and Integrated Reporting

The emergence of the IR is on account of the failure of traditional financial accounting in substantiating the performance of the firm on the sustainability and strategy fronts. The juxtaposition of the financial working of the firm with the environment, social and governance measures improves the quality of financial reporting. In order to help users and preparers understand how IR differs from traditional corporate reporting, IIRC contrasts IR from current financial reporting on eight points:

Points of difference	Financial Reporting	Integrated Reporting
Feature	Current Reporting	Integrated Reporting
Trust	Narrow Disclosures	Greater Transparency
Stewardship	Financial	All Forms of Capital
Thinking	Isolated	Integrated
Focus	Past, financial	Past and future; connected; strategic
Time frame	Short-term	Short, medium and long term
Adaptive	Rule bound	Responsive to individual circumstances
Concise	Long and complex	Concise and material
Technology enabled	Paper based	Technology enabled

The discussion paper issued by the IIRC sets out five Guiding Principles and six Content Elements for an integrated report. The Guiding Principles are 'Strategic Focus,' 'Future Orientation,' 'Connectivity of Information,' 'Responsiveness and Stakeholders' Inclusiveness' and 'Conciseness, Reliability and Materiality.' The content elements are 'Organisational Overview and Business Model,' 'Operating Context, including Risks and Opportunities,' 'Strategic Objectives,' 'Governance and Remuneration,' 'Performance' and 'Future Outlook.'

Advantages of Integrated Reporting

An IR unifies financial and non-financial information. It is a reporting in sustainability. Through the mechanism of single report, the integrated report provides justification for the financial performance in terms of social, economic and environmental criteria. There is a clarity of the firm's performance *vis-à-vis* the firm's stakeholders. Every stakeholder would get an opportunity to view the performance from his or her own angle and help in individual or group decisions. The IR has the following merits from the point of an organisation (IRCSA Report, 2011):

- The process of producing an integrated report is an excellent means for the leadership of the organisation to gain an in-depth understanding of the organisation's strategy and how it affects and is affected by environmental, social, financial and economic issues. The process also helps to improve the internal awareness of these issues and the impact they have on the organisation.
- The leadership can demonstrate to a wide range of stakeholders that it fully understands the business and the challenges facing the business, and that it is being effective in steering the organisation towards a long-term sustainable future.
- The report provides a holistic view of the organisation and is useful to any stakeholder who has a longer term interest in the organisation, enabling them to make an informed assessment of its ability to create and sustain value.
- The increased transparency of the report, which contains both the positive and negative issues and challenges, can result in greater trust and confidence in the organisation and an enhanced reputation among stakeholders.
- Risk management can be enhanced because organisations will consider risks from an integrated perspective.
- The leadership's ability to demonstrate its effectiveness coupled with the increase in transparency could result in a lower cost of capital to the organisation.
- As organisations look for the efficiencies required to address the challenges of resource constraints, they frequently realise cost savings in their business processes and discover ways to improve their products and services.
- This process of integration encourages the development of a culture of innovation in the organisation.

- Organisations that understand and address their external challenges are likely to be more competitive in the marketplace, and enjoy enhanced brand value and improved customer support.
- Organisations that better understand their external environment are in a better position to exploit new business opportunities.

Benefits to Shareholders and Other Stakeholders

The big gainers from IR are shareholders and other stakeholders. Shareholders would have access to a clear, concise and transparent reporting relating to a firm's environmental, social and governance aspects along with financial measures of performance. This improves the quality of decisions made by them and later on, shareholders would have no complaints to raise. Other stakeholders also would be benefitted as their concerns are incorporated in the process of preparing an integrated report. The external oversight by civil entities and NGOs, green activists, etc., would help stakeholders to obtain precise and concise sustainable reports.

Extent of Integration

Integrated reporting is more than a static document. It entails providing performance information in a more integrated way to shareholders and other stakeholders. As a result, the extent of integration assumes all the more importance. The extent of integration could vary across firms and across different nations. There can be a combined reporting or financial integration or holistic reporting. Firms in practice provide glimpses of IR indicating that IR is not a new phenomenon. There has been an emphasis on reporting on social and environmental fronts without integration. Vancity (2005) in its survey of Canadian corporations finds the following ways companies demonstrate integration in their reports:

- ❖ Including social, economic and environmental performance in the performance highlights of the report;
- ❖ Explaining the company's sustainability vision in the message from the Chair/Chief Executive;
- ❖ Identifying material risks associated with social or environmental factors in management's discussion and analysis;
- ❖ Describing the social and environmental accounting policies with as much detail as the financial policies;
- ❖ Explaining how CSR/sustainability policies and performance are relevant to business success; and
- ❖ Providing a detailed and interactive GRI index.

The extent of integration depends on:

i) Governance structure of firms,
ii) Size of the business,
iii) Listing status of the firm,
iv) Percent of Institutional Investors' shareholding,
v) Legal environment,
vi) Social progress of the nation,
vii) Role of NGOs and other civil organisations,
viii) Profitability position, etc.

A socially conscious corporate board would use its influence to improve the level of integration. Similarly, independent directors on corporate boards would also be a force to reckon with. Besides these broad board qualities, board committees on environment, strategy, ethics, etc., can chalk out clear rules and guidelines for the integration. Generally speaking, a large company would disclose more than small companies for the simple reason that large companies are followed more by investors, analysts, regulators, media, etc. A listed company needs to comply with listing norms and higher levels of disclosures.

Institutional investors, especially investors based overseas, would seek highly profitable and socially and environmentally responsive firms for investment. The existence of legal machinery can also mandate the companies for higher levels of integration. Europe-based companies adopt a greater level of integration to comply with the norm of a 'just society.' NGOs, civil organisations, social and environmental activists, etc., can play a significant role in integration. Profitability can be a deciding factor in reintegration. Generally speaking, profitable firms would report more than loss-making firms. A loss-making firm has all incentive to hide than to reveal and may adopt lower levels of integration.

The integrated report is an answer to the question of how well the business firm is performing on social and environmental dimensions. It is an answer by the firm to the demands of investing and other stakeholders for report which substantiate financial and non-financial performance. However, its application to a world of undeveloped economies, where the existing practices of financial disclosures are less than satisfactory, is a difficult proposition. Even among listed firms, sustainability reports are rarely prepared.

There can be three forms of integration of reports:
i) Combined Reports
ii) Financial Integration
iii) Holistic Reporting

Combined Reporting – At its most basic, IR is a single document combining the annual (financial) report and the sustainability report. When it is done well, combining reports into one document makes a statement that there is one holistic story about the business. It demonstrates that sustainable performance and financial performance are seen by the company to be equally important and interdependent aspects of overall business performance (Vancity, 2005).

In practice, combined reports sometimes look like different stories inexplicably found in the same volume. Symptoms of this forced cohabitation include messages from the Chair or Chief Executive that make only passing reference to employees and the environment, performance highlights that show only financial data, and the compartmentalised presentation of social and environmental data. Considering the practical challenges of bringing all the data and stories together in one place, the combined report could be seen as a useful first step in IR (Vancity, 2005).

Financial Integration – At the far end of the spectrum is a vision of reporting that in effect turns each company's report into a case study for the business value of sustainability. The financial consequences of company actions in relation to sustainability issues are clearly visible in reports, where financial statements include narrative explanation in plain language or where the links between business strategy and sustainability performance are made apparent.

Holistic Reporting – This form of reporting is based on the belief that IR springs from the holistic perspective of the business and its stakeholders. It is viewed as a natural expression of the company's values and its approach to business.

An integrated report is not intended to be a collection of every single piece of performance information. Rather, it brings together material information on financial and nonfinancial performance in one place (Vebsar, 2012).

Examples of the kind of information that would be included in an integrated report are: How much water does a company use per unit of production compared to its competitors? To what extent do energy-efficiency programs reduce carbon emissions and lower the costs of production? What is the impact of training programmes on improved workforce productivity, lower turnover, and greater customer satisfaction? How do improvements in customer satisfaction lead to greater customer loyalty, a larger percentage of the customer's spending, and higher revenue growth? How is better management of reputational risk through good corporate governance contributing to the value and robustness of the company's brand? (Vebsar, 2012)

State of Use Integrated Reporting

There is no universally accepted framework for IR and it has remained largely a voluntary practice. However, the interest in and adoption of IR is growing rapidly. Some countries have introduced regulations which mandate the adoption of IR by companies of certain size. South Africa and other developed economies such as Denmark, France, UK, etc., have made it mandatory. The European Union is poised to mandate ESG (environmental, social and governance reporting) within the next year. Various initiatives were undertaken to create more visibility for IR, including getting this topic on the agenda of the G20 meeting hosted at France in November, 2011 and at the Earth Summit held at Rio de Janeiro in June 2012 (Eccles and Steifam, 2011).

In South Africa, the adherence to the King III Code on Governance, which is a part of the requirements under the Johannesburg Stock Exchange (JSE) listing requirements, requires all the listed companies to produce an IR with effect from 1st March, 2010. King III was created to maintain South Africa's leadership in standards and practices for corporate governance. It also reflects the country's intention to be "at the forefront of governance internationally," as the report states. South Africa's integrated reporting requirement is an important step toward creating a more sustainable economic, social, and environmental society. A law adopted in December 2008 has made it mandatory for publicly listed companies, state-owned companies and institutional investors in Denmark to include information on non-financial metrics (Khandelwala, 2011). The Sustainable Asset Management (SAM) is an international investment company with a specific focus on

sustainable investments and the company is based in Zurich, Switzerland. Its proprietary database of 2,225 companies shows that 48.25% of companies practice some degree of integration in the reporting of their financial and non-financial performance and the other 51.75% practice none (Eccles and Steifam, 2011). The GRI list of companies practicing IR reveals that 45% of companies are European. Companies of US and Canada are less convinced of the utility of IR.

The IIRC has launched a pilot programme on IR enlisting the support of companies in the world. Over 80 companies are testing the principles of IR in their corporate reporting as a part of the pilot programme. Table - 1 shows the country-wise classification of companies adopting the IIRC programme:

Table – 1: Countries adopting IIRC's Pilot Programme

Country	No of Cos	Country	No of Cos
Australia	03	Netherlands	12
Belgium	01	New Zealand	01
Brazil	04	Russia	02
Canada	02	South Africa	05
Chile	01	South Korea	02
China	01	Spain	05
Denmark	02	Sri Lanka	01
France	01	Sweden	01
Germany	04	Switzerland	01
India	01	UK	12
Italy	08	USA	07
Japan	03		

Source: www.theiirc.org

A perusal of Table – 1 reveals that the concept of IR is deep-rooted in the European Union where the enlightened society values ethical, environmental, social and governance aspects highly. More and more EU countries are adopting IR as a norm of corporate reporting. The US and Canada are sceptical as to the significance of IR. In the Asian continent, adoption is at a slower pace and it would take a few more years for the concept of IR to make any real impact. Since South Africa is a pioneer in IR due to the King III Committee recommendations and mandatory nature of IR, a greater use of IR is observed.

Table – 2 provides the names of the popular companies in the world adopting the IR practice:

Table – 2: Popular Companies adopting IR/Pilot Programme of IIRC

Sl. No	Name of the company	Name of the country
1	AB Volvo	Sweden
2	Aegon NV	The Netherlands
3	BAM Group	The Netherlands
4	HSBC Holdings Plc	UK
5	Hyundai Eng	S. Korea
6	KPMG	Switzerland
7	Microsoft	USA
8	National Australia Bank	Australia
9	Natura	Brazil
10	New Zealand Post	New Zealand
11	Novo Nordisk	Denmark
12	Novo Zymes	The Netherlands
13	PWC	Italy
14	Prudential Financial Inc	USA
15	Rabo Bank	The Netherlands
16	Tata Steel	India
17	Coca-Cola	USA
18	Unilever	UK
19	Vancity	Canada

Source: www.theiirc.org

A perusal of Table - 2 indicates that very few of the world's top companies or Fortune 100/500/1000 companies are using IR as a reporting mechanism. The world's top companies located in the USA are relatively less convinced on the utility of IR.

Reporting Principles

Should IR be based on any principles? What should be the reporting principles for IR? A principle is a rule or guide adopted or professed as a guide to action, or a settled course to action. Since IR is at a nascent stage, well-set and sound principles are required to guide the actions of corporate entities in preparing the integrated reports. 'The reporting principles describe the outcomes a report should achieve and are intended to guide decisions relating to the report boundary, the information to be reported on, and the manner in which such information is presented' (IRCSA, 2011).

The Discussion Papers issued by IRCSA and IIRC both provide a set of principles to be adopted in preparing the integrated report. The discussion paper of IRCSA provides that a firm has to exercise caution and judgement in determining the extent of

the details to be disclosed about the organisation's strategy. It is not intended that the organisation should disclose competitive information. However, this should not become a pretext for avoiding the disclosures. The reporting principles are intended to assist the organisation to prioritise the various issues to be addressed in the report.

The discussion paper of IRCSA classifies the reporting principles into three categories:

- Principles informing the report scope and boundary
- Principles informing the selection of the report content
- Principles informing the quality of the reported information

As far as principles informing the report scope and boundary are concerned, the IRCSA advocates full disclosure on scope and boundary setting. The scope and boundary can involve determining the entities to be represented in the report (e.g. subsidiaries, JVs, franchisees) and the nature of the information to be provided for each entity (e.g., full or *pro rata* performance data, disclosure on the management approach applied to that entity). The IRCSA recommends the consideration of the principles provided in IFRS, as well as those contained in the Sustainability Reporting Guidelines of the GRI and other relevant initiatives.

The principles informing the selection of the report content deal with the relevance, materiality and faithful representation of the information. Relevance has to do with providing information that assists stakeholders to evaluate the organisation's performance and to make assessments about the ability of the organisation to create and sustain value over the short, medium and long-term. The IRCSA opines that the materiality, at the level of IR, is a very difficult measure to define and a great deal of judgment is required. Thus, it is important for the organisation's leadership to apply its mind to what needs to be reported. Relevant issues are those that may reasonably be considered important for reflecting the organisation's financial, environmental, economic and social impacts, or influencing the decisions of stakeholders.

To be useful, the information in an integrated report needs to be relevant and should faithfully represent the situation and circumstances. The goal of faithful representation is to ensure that the information presented is complete, neutral and free from error.

The IRCSA classifies the principles informing the quality of the reported information into i)comparability and consistency, ii)verifiability, iii)timeliness, and iv)understandability or clarity. To be useful, the integrated reports should provide comparable information with the same organisation over a period of time and with other organisations. Comparability is meaningful only if information is generated on a consistent basis. Information is more useful if it is verifiable and integrated reports are not an exception. Though it is not possible to verify all explanation and forward-looking information, an honest effort should be made by the firm to disclose all the underlying assumptions, the methods of compiling the information and any other relevant information in the report. Relevance of information depends on its timeliness. The information must be made available to stakeholders in time to be capable of influencing their assessments and decisions.

In addition to broad guidelines, the discussion paper of IRCSA suggests certain broad elements to be addressed in the integrated report. These elements are only recommendatory and are not intended to be prescriptive nor limit what is included in the report. These guidelines are:

- Report profile
- Organisational overview, business model, and governance structure
- Understanding the operating context
- Strategic objectives, competencies, KPIs and KRIs
- Account of the organisation's performance
- Future performance objectives
- Remuneration policies
- Analytical commentary

The 'Report Profile' could include the reporting cycle, the reporting boundary like geographic scope, entities represented, nature of information provided for each entity; process used for identifying the reporting boundary; reporting principles followed; policy and practice relating to seeking assurance on the report, significant restatements from prior reporting periods, etc.

Under the head 'Organisational Overview, Business Model, and Governance Structure' the company should include an overview of the organisation, the manner in which it currently creates value and a description of its governance structure. The level of detail provided should be sufficient for stakeholders to make an informed assessment on the organisation's ability to create and sustain value over the short, medium and long term and on how efficiently and effectively the organisation's executive team and governing structure have discharged their

responsibilities to use the organisation's resources responsibly.

Under the head 'Understanding the Operating Context', the firm should describe the circumstances under which it operates—describing the material, financial, social, environmental, economic and governance issues and trends; significant impact of the organisation's decisions and activities on these; quality of relationship with stakeholders; a concise statement of the principal risks and opportunities having a bearing on the organisation's activities, etc.

The firm should provide a statement of its strategic objectives and targets, competencies required to realise these objectives and succinct list of Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs) that will track performance against the strategic objectives, etc., under the heading "Strategic Objectives, Competencies, KPIs and KRIs."

The firm should use "Account of the Organisation's Performance" head to give an account of the organisation's current financial performance and other appropriate measures of performance. Abridged financial statements, factors explaining few changes in profits, segmented information, capacity expansion, etc., should be stated in the integrated report.

In addition to reporting on the performance during the reporting period, the integrated report should include a forward-looking statement of the organisation's anticipated activities and performance of objectives, informed by its assessment of recent performance and understanding of societal trends and stakeholder expectations.

An integrated report should provide high-level information on how employees in general and senior executives in particular are remunerated under the head 'Remuneration Policies.' A description of fixed and variable components, the factors influencing the variable components, etc., should also be stated. Major components of remuneration package, such as bonus, stock options, housing benefits, retirement benefits, etc., should be stated.

The report should also include a brief analytical commentary that reflects the understanding of the members of the organisation's governing structure and executive team regarding the nature of the organisation's current and anticipated performance in the context of the organisation's strategic objectives.

The King Code of Governance Principles for South Africa 2009 (King III) identifies the following principles that should form the process of IR:

- Effective communication with stakeholders is essential.
- IR should be focused on substance over form and should transparently disclose information that is material, relevant, accessible, understandable and comparable with past performance of the company.
- IR and disclosure should be formalised as a part of the company's reporting processes.
- Effective reporting should take place at least once a year.
- IR and disclosure should have independent assurance.

The discussion paper issued by the IIRC sets out five Guiding Principles and six Content Elements for an integrated report:

Guiding Principles:

- Strategic Focus
- Future Orientation
- Connectivity of Information
- Responsiveness and Stakeholders Inclusiveness
- Conciseness, Reliability and Materiality

Content Elements:

- Organisational Overview and Business Model
- Operating Context, including Risks and Opportunities
- Strategic Objectives
- Governance and Remuneration
- Performance
- Future Outlook

Major Impediments/Challenges of Integrated Reporting

The concept of IR is Western in nature. It is an outcome of a highly developed society. A developed society is assertive in nature and has several options or remedies for the ills afflicting the society. Increased incidences of corporate scandals and environmental disasters have propelled them to develop an IR mechanism. The objective is to evaluate a firm on more than one aspect. It appears to be a continuation of the 'balanced scorecard' tool developed by Kaplan and Norton in 1990.

Its application in countries like India and other developing and undeveloped economies is fraught with several difficulties. The following impediments and difficulties can be encountered in its adoption and implementation.

1. Lack of clarity of the concept—the concept has no universally acceptable definition
2. Extent of integration—It can be partial or complete. Complete integration in the near future would be difficult.
3. Elements of the report—It is unclear on what to include in the single report.
4. Competitive Pressures—For fear of competition, the firms would be hesitant to disclose every detail of its operations.
5. Lack of Enforceability—Financial reporting is mandatory and IR is an outcome of voluntary efforts of some professional organisations. Companies would be unwilling to comply with what is not mandatory.
6. Lack of understandability—Though the King III and Discussion Paper of IRCSA outline understandability as a basic principle, inclusion of too many aspects may make the whole report less than understandable.
7. Investors' Apathy—Investors, especially individuals, earmark less time for reviewing financial reports. It is very difficult for them to devote complete time for the analysis of integrated reports.
8. Lack of Top Management Support—IR represents a significant change with the implications for several business areas—communication, investor relations, finance, sustainability—and external stakeholders (Vancity, 2005). Adequate leadership skills need to be exhibited by top management for the propagation of the concept of IR.
9. Practical Challenges—Time pressures and data-gathering—Gathering the non-financial data every year within the stipulated time would pose a big challenge. Generally, in India an average delay of 3 to 6 months is observed in announcing financial results and IR responsibility would add to such delays. Suitable strategies need to be devised to manage time schedules and data-gathering.
10. Size of the Report—What should be the size of the integrated report? Presently also there is no fixed size for financial reports. The size of the report is decided by the nature and size of firms, investor base, institutional investors' requirements, listing status, governance standards, etc. Due to the combination of annual report and sustainability report content combined with all the data intact, the resulting volume could be a barrier. With the increase in size, investors would take less interest and would find it difficult to locate the required information.
11. Lack of Integration Skills—The combination of financial and sustainability reports require multidimensional skills, which companies sometime lack abundantly. Further, establishing linkages between financial and social and environment performance can also be a hurdle. A half-hearted attempt in this regard could jeopardise the very purpose of integration.
12. Loss of Primacy of Financial Reporting—It is feared especially by accountants that integration would be against the time-tested measurement and reporting systems. The financial reporting contents are largely determined by regulators, securities administrators and investors. Though inclusion of sustainable reports can be a welcome phenomenon, the primacy of financial reports would be lost.
13. Implications for Financial Auditors—Should financial auditors be held responsible for audit of sustainability reports? Their inclusion with audited financial information could create an impression that the auditors have seen the sustainability reports. If the auditors are associated with the sustainability information in annual reports, they would then need to perform certain limited procedures to assure themselves that the other information in the annual reports is not inconsistent with the financial statements. This would add to the risks of auditors and would complicate their job to a greater extent. In view of this, auditors would in all probability dissociate themselves from the integrated reports, ruining the usefulness of the reports. Engaging independent experts in the form of social auditor, environmental auditor, etc., would add to the cost of reporting and to the assurance of sustainability information.

Conclusion

In the present changed business environment, firms need to score well not only on the financial aspect but also on non-financial aspects. The enlightened investing world is using several modes to measure the performance and hence an integration of financial and non-financial performance is inevitable. Preparation of a single or one report absolves the business of the difficulty of preparing separate reports on financial and social and environmental aspects. The integrated report is an answer to the question of how well the business firm is performing on the social and environmental dimensions. It is an answer by the firm to the demands of investing and other stakeholders

for a report which substantiates financial and non-financial performance.

However, its application to a world of undeveloped economies, where the existing practices of financial disclosures are less than satisfactory, is a difficult proposition. Even among listed firms, the sustainability reports are rarely prepared. Generally, social and environmental performance is a luxury and viewed sceptically in such economies. There are no acceptable measures of evaluating the performance of the firms on social and environmental angles. There is investor apathy also where they hardly view the financial reports. Hence, some of these challenges seem to be insurmountable. The concept needs to be popularised and suitable amendments to the listing and legal framework needs to be done. The entire framework of integrating of financial and non-financial measures needs to be developed.

Areas of Research in Integrated Reporting: The concept of IR is unclear and its adoption rate is less than satisfactory. Many countries and companies are yet to hear a word or two about IR. Is IR the future form of corporate reporting? Does IR replace the traditional financial reporting mechanisms? What is the penetration level of IR in practice? The IR initiative builds on prior initiatives and advances, such as the GRI framework, sustainability accounting initiatives, and social and environmental reporting initiatives without invoking these terms. By avoiding explicit association with existing initiatives and terminology, this new initiative might draw in new players and stimulate innovation in disclosure mechanisms. There is a renewed hope that these "alternative accountings" will become mainstream accounting.

However some commentators critique the IR drive by pointing out the de-emphasis of sustainability and accountability, and the focus on investor information needs, in the IIRC's recent IR discussion paper. Concerns have also been raised that the agenda may already have been set and may be controlled and captured by the business community. This could result in the initiative being unable to achieve meaningful change that addresses the real underlying issues of moving towards a sustainable economy with stakeholder oversight enabled by a full recognition of corporate responsibilities and accountabilities.

The drive towards IR as an organisation's primary reporting vehicle, the lack of a shared understanding of what this entails, and the critiques ensure that the meaning of the term IR is still fluid, contested and still open for interpretation. Not to mention uncertainty regarding what a good integrated report looks like and how to assess an integrated report.

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