

Integrated Reporting – Opportunities and Challenges

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Abstract: *Integrated reporting is a new standard for corporate communication and helps to complete financial and sustainability reports. It benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators, and policymakers. The International Integrated Reporting Council (IIRC) has issued a final framework for integrated reporting in an effort to promote a more cohesive and efficient approach to corporate business reporting as well as to improve the quality of information available to stakeholders. Integrated Reporting Framework issued by IIRC is a positive step that provides an opportunity for companies to start to assess and address connectivity across their business and to communicate more relevant information more clearly, without spin. A clear framework has been published, but some questions remain in order to know how to apply it. The present paper is purely a descriptive paper, in which an attempt has been done to answer such questions. The present paper has been prepared in order to study concept of integrated reporting, need for integrated reporting with reference to loopholes of present reporting system, opportunities and challenges of integrated reporting and guiding principles of integrated reporting. The paper has been decided into six parts namely –*

- 1. Concept of integrated reporting*
 - 2. Relevance of the present study*
 - 3. Objectives of the present study*
 - 4. Why integrated reporting*
 - 5. Opportunities and Challenges of integrated reporting*
 - 6. Guiding principles of integrated reporting*
 - 7. Conclusion*
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Integrated Reporting – Opportunities and Challenges

I. Concept Of Integrated Reporting:

Integrated reporting is a process that results in communication, most visibly a periodic “integrated report”, about value creation over time. An integrated report is a concise communication about how an organization’s strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term. It means that it is the integrated representation of a company’s performance in terms of both financial and other value relevant information. Integrated reporting provides greater context for performance data, clarifies how value relevant information fits into operations or a business, and may help embed long-termism into company decision making. While the communications that result from integrated reporting will be of benefit to a range of stakeholders, they are principally aimed at providers of financial capital allocation decisions.

The International Integrated Reporting Council (IIRC) – a global coalition of regulators, investors, accountants, standard setters, and nongovernmental organizations – has issued a final framework for integrated reporting in an effort to promote a more cohesive and efficient approach to corporate business reporting as well as to improve the quality of information available to stakeholders. Integrated Reporting Framework issued by IIRC is a positive step that provides an opportunity for companies to start to assess and address connectivity across their business and to communicate more relevant information more clearly, without spin. Designed around six capitals, it focuses on getting companies to describe their value creation in the short, medium and long term. The framework allows companies to assess where they stand today, and what improvements they need to make going forward – a catalyst for integrated thinking and integrated internal and external reporting.

According to the IIRC, the integrated reporting framework does not include requirements on specific key performance indicators, measurement methods, or the disclosure of individual matters, but it does include requirements that should be applied before an integrated report is considered in accordance with the framework. IIRC has pointed out that "An integrated report may be prepared in response to existing compliance requirements, and may be either a standalone report or be included as a distinguishable, prominent, and

accessible part of another report or communication, it should include – transitionally on a comply or explain basis – a statement by those charged with governance accepting responsibility for the report."

In short the integrated reporting is a new standard for corporate communication and helps to complete financial and sustainability reports. Integrated reporting benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators, and policymakers.

II. Relevance of the present study:

The Integrated reporting is a new standard for corporate communication and benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators, and policymakers. A clear framework has been published, but some questions remain in order to know how to apply it. Do we need a new report? Do we need one report? Will this report be useful for investors, and for other stakeholders? Other questions could have been raised, such as who is really working for an integrated reporting, and who has interests in it.

The present paper is purely a descriptive paper, in which an attempt has been done to answer these questions.

III. Objectives of the present study:

The present paper has been studied for following objectives in view.

- To study theoretical concept of integrated reporting.
- To study need for integrated reporting with reference to loopholes of present reporting system.
- To study opportunities and challenges of integrated reporting.
- To examine guiding principles of integrated reporting.

IV. Why integrated reporting:

Current reporting system has some loopholes and integrated reporting can be useful to overcome such loopholes. In this reference, integrated reporting is needed due to following reasons.

- Overcoming silos – current reporting often shows a lack of connectivity, perhaps reflecting the reality of organizational behaviors and diverse information sets. Better connection between different internal departments is seen as a key benefit of integrated thinking and reporting.
- Looking to the future – many reports adopt the 'rear view mirror' approach, focusing on the last year's performance. An integrated report should have forward-looking elements, using current information to shape strategic insight over the long term.
- Describing value creation – many companies' reports lack insight into how dependent they are on key relationships and resources outside the organization to create value. And it's rare to get a clear sense of how the dynamics of their risks and opportunities are evolving. Integrated thinking and reporting encourage a broader perspective, better understanding of the wider impacts and how these factors feed into the business model and drive sustainable value creation.
- Measuring performance – current reporting remains largely focused on financial performance. Measuring the impact an organization has beyond traditional reporting boundaries and across multiple "capitals" is at the heart of the value of integrated thinking and reporting.

V. Opportunities and Challenges of integrated reporting:

Concept of integrated reporting is relatively new and there are no universally agreed standards yet. Hence it is more interesting to study opportunities and challenges of integrated reporting. Opportunities and challenges of integrated reporting have been mentioned below.

- **Integrated reporting can spur actions, not just display them**

According to Eccles, right now "many, if not most, sustainability reports are more window dressing than substance and so aren't very effective at influencing the company's resource allocation decisions." He believes there's a much greater potential in reporting, both externally and internally, and integrated reporting is the way to take a full advantage of it.

It means that integrated reporting doesn't only demonstrate the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates, as the IIRC defines it, but is also an integrator of sustainability into a company's core business.

Challenge: Enhancing the role of an integrated report from a greenwash gatekeeper into a sustainability driver isn't easy at all. It's clear that an integrated report can help spot dishonesty or incoherence, but can it really be an eye opener and a driver for change for a company?

- **Integrated reporting will help developing the metrics everyone is waiting for**

One of the main problems in the sustainable business space today is the lack of clear metrics, translating social and environmental issues into business language, i.e. figures. The GRI standards, the most common framework used by companies for reporting hasn't been able to fill this void yet. Integrated reporting is supposed to change it by including ESG metrics, like the ones that companies like Puma are experimenting with these days. It's going to be an important step for investors and other stakeholders as well as a way to encourage competition between companies over who is more sustainable.

Challenge: First, creating valuable yet simple metrics. No one really did it to date. Second, how you compare apples to apples? As Eccles mentions in the interview, there's still a debate between setting a generic set of standards applicable across all industries, or sector-specific. "That would be a fundamental, strategic decision. On the one hand, it's good to have a set of metrics that are applicable to any circumstances, so that you can compare apples to apples. On the other hand, when you get into the sustainability, nonfinancial measures, ESG metrics, whatever you want to call them, what's important tends to vary by sector," he said.

- **Integrated report to sustainability report is like shared value (CSV) to CSR**

In other words, integrated reporting reframes the whole idea of value creation, providing an alternative to an existing model that provides very little value. Michael Porter (Eccles's colleague at Harvard Business School) explained that while CSR is separate from profit maximization, discretionary or is in response to external pressure and is based on an agenda that is determined by external reporting personal preferences, CSV is integral to competing and to profit maximization with an agenda that is internally generated.

Integrated reporting is also offering a better alternative to what we have now, which Eccles describes as ineffective and invaluable system. It's no wonder there's a clear similarity between the way Porter describes shared value and the way Eccles describes the opportunity in integrated reporting: "Good companies will see integrated reporting as an opportunity to communicate on and implement a sustainable strategy, which I define as one that creates value for shareholders over the long term while contributing to a sustainable society."

Challenge: Both integrated reporting and CSV sounds great in theory and have some solid examples from companies that already implement them, yet the substance behind their promise is not clear yet, and it's also not that obvious that the majority of companies will truly benefit from implementing them.

- **Creating a global regulated sustainability reporting system**

So far all the frameworks we have, from GRI reports to CDP surveys are voluntary. Thousands of companies use these frameworks, but a greater number of companies don't. As Eccles mentions, to achieve the goals behind integrated reporting at a global scale means "that integrated reporting needs to be a mandatory, not voluntary, exercise." There's just no other way to do it.

Challenge: Who will be the regulating body? Will it be done through stock exchanges, such as the SEC, making it a listing requirement? Should it pass through legislation or maybe developed by a global body like the U.N. that will set up the standards?

- **Integrating a third-party audit requirement to ensure quality**

Right now the majority of reports are not audited, which is one of the reasons why the data presented is many times questionable, not to mention the latest criticism on many mistakes found in unaudited reports. Clearly, the addition of third-party verification will make ESG data much more trustworthy and therefore more valuable.

Challenge: Creating an auditing system that will be accepted on all the involved parties. Since we're talking about accountants here, it won't be simple. Let's just hope it won't take too long.

VI. Guiding principles of integrated reporting:

The IIRC has defined the following seven guiding principles of integrated reporting.

- **Strategic focus and future orientation:** An integrated report should provide information into the organization's strategy and how it relates to the company's ability to create value in the short, medium, and long term as well as to its use of and effects on the capitals.
- **Connectivity of information.** A holistic picture should be shown of the combination, interrelatedness, and dependencies between the factors that affect the organization's ability to create value over time.
- **Stakeholder relationships:** Insight should be provided into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account, and responds to their legitimate needs and interests.
- **Materiality:** Information should be disclosed that substantively affects the organization's ability to create value over the short, medium, and long term.
- **Conciseness.** The report should be concise.
- **Reliability and completeness:** All positive and negative matters should be included in a balanced way and without error.

- Consistency and comparability: Information should be presented (a) on a consistent basis over time, and (b) in a way that it can be compared with other organizations to the extent it is material to the organization's own ability to create value over time.

VII. Conclusion:

An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term. The International Integrated Reporting Council (IIRC) has issued a final framework for integrated reporting in an effort to promote a more cohesive and efficient approach to corporate business reporting as well as to improve the quality of information available to stakeholders. Integrated reporting framework does not include requirements on specific key performance indicators, measurement methods, or the disclosure of individual matters, but it does include requirements that should be applied before an integrated report is considered in accordance with the framework. This framework will provide companies the foundation for enhanced business reporting and benefit investors by serving as a complement to financial reporting. It is a new standard for corporate communication and benefits all stakeholders interested in an organization's ability to create value over time. Current reporting system has some loopholes and integrated reporting can be useful to overcome such loopholes. As integrated reporting is relatively new and there are no universally agreed standards yet, there are new opportunities and challenges of integrated reporting. The IIRC has defined guiding principles of integrated reporting, which can help to prepare integrated reporting precisely.

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