Integrated Reporting: A Structured Analysis of Application and Gaps in India

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Abstract

In India and globally corporate reporting structure is evolving significantly and becoming more and more transparent, compact, relevant and providing information to wider set of users. Integrated reporting was introduced in 2004 by A4S, but formally it started taking shape when in 2010 when IIRC (International Integrated Reporting Council) was established. It announced number of changes in the reporting in November 2011. In India, Companies Act 2013, SEBI Corporate Social Responsibility Legislation and Business Responsibility Reporting (BRR) are few regulators which regulate and control quality reporting ad help in increasing business accountability towards social issues. SEBI, in February 2017, tool a step in encouraging top 500 companies to adopt the integrated reporting framework. The main objective of this paper is to assess the status of Integrated Reporting in India. This paper uses a theoretical and empirical model to investigate the adoption of Integrated Reporting in India. In the paper Content analysis has been used to analyses the level of adoption of the framework as a strategic choice to signal equity investors and intellectual capital.

Keywords: *Integrated Reporting, IIRC, SEBI, Sustainability Reporting, Intellectual Capital*

JEL Code*: M10, M40, O50, F60*

Introduction

The framework

Integrated Reporting <IR>promotes a more consistent and efficient approach to corporate reporting and aims to improve the quality of information presented to users of financial report and to investors, to enable a more competent and effective allocation of capital. The primary objective of an integrated report is to provide all investors with information as how the organisation is using capital to create value in short, medium and long term. <IR> will benefit not only the investors but also other stakeholders like employees, government, business partners, suppliers, customers, policy makers and regulators. IIRC has released a Framework for the <IR>, the International <IR> Framework is a principle based approach. IIRC has kept it principle based intently to keep a balance between prescription and flexibility. The intention was to enable any type of organisation adopt it easily. It does not tell any specific type of measurement method or disclosure method but it gives a broad requirement that can apply to any kind of organisation.

An Integrated Report <IR> may be prepared with some alteration in the existing report or it may be a standalone report. The main idea is that it should provide insights about the resources that are used and should disclose “the Capital”. It should also explain how the internal factors of organisation interact with the external factors which eventually creates value in short, medium and long term

The Framework gives us the Guiding Principle and the Content Element and this governs the whole <IR>.The Framework identifies some very prominent issue like it identifies information to be included in the <IR> but it does not set benchmark for such things as the quality of organisation’s strategy or its performance. It is primarily made for the Profit making organisation but its flexibly makes it possible that it can be adopted by a non-profit organisation also.

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The guiding principle

The Guiding Principle as defined by IIRC in the Framework is the backbone of <IR>. It defines and explain the main principles required for preparation of <IR>.

a) **Strategic Focus and Future orientation.** It is required that the organisation provides insight into the organisation's strategies and must relate it with its future endeavours to create value.
b) **Connectivity of Information.** The report should show the complete picture of interrelated factors which will affect the company's value creation.
c) Stakeholder relationships. The report should show the extent to which the organisation is related to its key stakeholders and also to what extent organisation understand or take into account the need and interest of stakeholders
d) **Materiality.** The <IR> should disclose information about matters that fundamentally affect the organization's aptitude to create value over the short, medium and long term.
e) **Conciseness.** An <IR> should be brief and to the point.
f) **Reliability and completeness.** With a conscious report the report must contain all material information whether positive or negative
g) **Consistency and comparability.** Like all other reporting system <IR> also requires a consistent reporting so that it can be compared with other organisations.

The content element

The second most important element of the <IR> is the eight-content element

a) Organisational overview and external environment which basically tells us the purpose of organisation and its operational style
b) Governance which tells us the way company supports its value system in short, medium and long term
c) Business Model which should focus on the unique business model of the company
d) Risk and opportunities which focuses on the risk faced by the company and the unique way in which it deals with it. Also the opportunities it has in its bucket\
e) Strategy and Recourse allocation should tell what the company want to attain in future
f) Performance, this shows to what extent has the company attained its objective
g) Outlook shows the uncertainties and challenges that a company faces and how the business model will perform in this future performance
h) Basis of presentation tells how the company what should be included in the report, what is material for the company and what not.

The capital

Capital, yet another concept of The Framework has been categorised in six parts and understanding of each element is important

a) Financial Capital
b) Manufacturing Capital
c) Intellectual Capital
d) Human Capital
e) Natural Capital
f) Social and Relationship Capital

All the capitals focused in <IR> are interrelated and few of the were reported in the traditional <IR> also, but the addition of Natural, Intellectual and Human Capital is important to understand. It is important not only for companies but also for the auditors and the users of the report.

Need of study

Today the world is witnessing a change in the way business operates and the way value is created. These changes are part of impact of globalization, increased expectation of transparency in reporting, increased accountability, reducing resources, increasing environmental concerns.

Integrated reporting <IR> is the latest advancement in a long line of proposed reporting innovations that will improve corporate reporting. For example, <IR> would include the relationships between a company's operating and functional units, the financial and non-financial capitals that a company uses and its impact, and the relevance of those factors in demonstrating how value is created. Conceptually, <IR> allows companies to narrate its value creation story in a holistic manner and connect it with better efficiency. It is aimed at providing a complete picture of a company, including how it demonstrates stewardship and how it creates and sustains value. Actually the cornerstone of the "integrated thinking" was the integrated approach of "three pillar theory" (three "P" s: People, Planet and Profit). This theory has significantly contributed to the initiative of sustainability and "green" economy (Elkington, 1997)

In India, corporate reporting has evolved a lot through Company Act 2013, BRR & CSR report. SEBI has taken a step ahead in <IR> on 6th Feb 2017 by encouraging top 500 listed companies to adopt the <IR> framework in the corporate reporting. SEBI has given one-year time to these companies to adopt <IR> and it therefore it would be interesting to know that after one year how many companies have actually adopted it and what is their quality of reporting. The guidelines provided by International Integrated Reporting Framework has definitely helped the companies in preparing <IR>, but several organizations are and are still evolving with no unified description of the concept, process and outcome (Cheng, Green, Condie, Konishi & Romi, 2014).

Literature review

The first publication related to <IR> was done in June 2005 by co-founder of GRI, Allen White, where he concluded that <IR> is the future of Corporate Reporting. The Literature Review reveals that mostly studies have been done on integrated reporting concentrates on the Current Status of Social Responsibility (Sabina. D 2015, Kundeliene, K. &Leitoniene 2015, Morros, J. 2015) or deals with the theoretical and empirical relevance of the topic (Thaigarajan.A, Baul.U 2014, Robert G Eccles & George Serafeuim 2011, Velliers de Charl 2014). Many researchers have worked on comparative literature review of traditional and integrated reporting or Sustainability reporting (Jensen & Berg 2012, Krongkaew, Arreya & Setthasakka,2013, Bratu, A. 2017). <IR> is a solution to many problems in corporate reporting. It has been proven by studies also (Pavlopoulos, A, Magnis, C, Ennanuel, G. 2019) that more effective use of <IR> has resulted in positive stock returns. And few studies (Cortesi, A & Viena, L. 2019) point out that there is increase in the quality of reported earnings per share by following <IR>. Also many studies highlight the confusion about difference between sustainability and integrated reporting (Morros J, 2016). In India Sustainability Report is part of reporting system and is also shown in company's website, however the linkage between financial and non-financial information in these reports are low as highlighted by Athma.P, Rajyalaxmi.N (2018). Although awareness has increased regarding the roles and responsibilities for reporting to the shareholders but companies still require confirmations regarding the usefulness of the Corporate Sustainable Reporting Practices (Caraiani et al. 2015). One more issue which has been highlighted by researchers is that all the companies will have the tendency to include more management related issues than the performance insights and can present data which can easily be manipulated or is of very less relevance to the company. Companies would prefer to include only positive aspects in the report and highlight strengths of the company (Dima, Popa and Farcane 2015)

Research methodology

In order to conduct this study top 500 Indian companies listed by Economic Times have been taken. The latest list of 2018-19 has been taken as base for the study. The companies who are not trading for minimum stipulated time has been excluded for the study. Also Banks are not part of the study. All companies other than Banks which are listed in top 500 companies are analysed with respect to their adoption of <IR>.

By querying the database, using Capitaline, annual report of all the companies are analysed. Total 33 companies in the top 500(excluding banks) are found to follow <IR>. Descriptive analysis and Content Analysis has been conducted on the companies to find out the compliance level of the company report with the IIRC Framework (2013b) with respect to content and guiding principles. The guiding principle as highlighted in the IIRC Framework (2013b) have been compared with each content of the

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Annual Report of the companies following the <IR>. Ruiz and Tirado (2016) also used same method to analyse the guiding principles followed by industries. The six guiding principles as stated in the earlier part of the paper have been taken as base for the analysis of companies.

The content has been analysed with respect to, Strategic Focus and Future orientation, Connectivity of information, Stakeholder relationship, Materiality, Conciseness and Reliability. Each item was scored, if the company is not following then the lowest score of 0 is given and if they are following then the companies are given score of 1. Finally, total score was calculated for each company and an average score for each guiding principle.

Result and discussion

The initial descriptive study conducted in the paper to achieve the result was done on the annual report of the companies which are listed by ET in top 500. It was found that total 33 companies are following the <IR>. A table and chart showing their sector is shown below.

Table 1. Showing division of companies according to economic sector

Economic Sector	Number of Companies	Percentage
Automobile	4	12.12%
Consumer Goods	5	15.15%
Utilities	3	9.09%
Oil and Gas	2	6.06%
Software Service	4	12.12%
Metal and Mining	5	15.15%
Others	10	30.30%
Total	33	100%

Source- Author's calculation

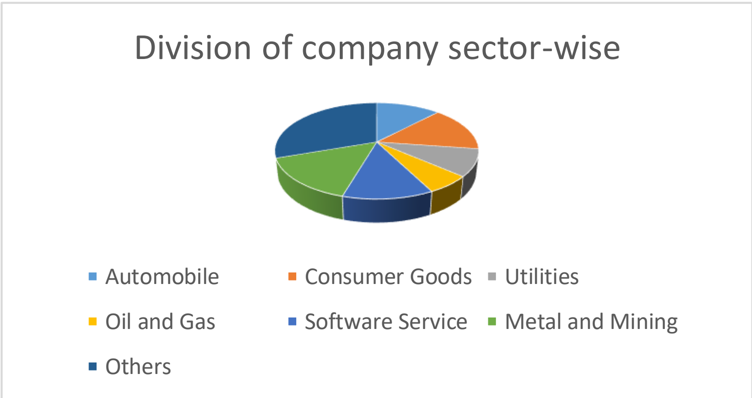

Figure 1

The other category highlighted here is the category which consist of companies like Cipla, or Indian Hotel or Voltas which are one in its sector and therefore categories in the others segment. If we keep aside others category, then it can be seen that the Consumer Goods sector and Metal and Mining sector are doing well in <IR> and have adopted <IR>. After finding out the companies who have adopted <IR>, the second objective of the paper was to find out the compliance level of these reports. Content analysis was adopted for the same and the result of the total score is as under.

Table 2. Showing total score of the companies

Range of Score of Companies	Number of Companies	Percentage
5-10	12	36.36%
11-15	13	39.39%
16-20	8	24.24%
Total	33	100%

Source – Author's Calculation

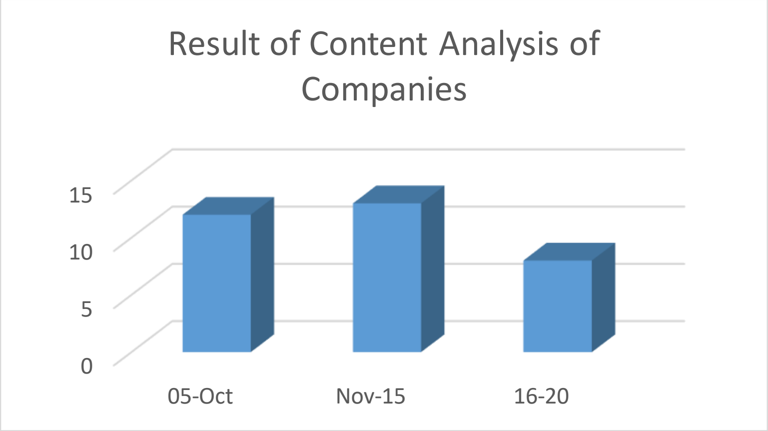

Figure 2

The average score obtained by different companies with respect to Guiding Principles of IIRC Framework (2013b) is shown in the table above. Only 8 companies reached the highest scale of score. The highest score is 18. Maximum companies fall in the range of 11-15 which means that they are working for <IR> but the disclosures are neither insufficient nor they are par excellence. Approximately 40% of the companies following <IR> are placed in this range. Lastly a study was conducted to find out where the companies lag behind amongst the 6 guiding principle, scoring method was used to do that same. The score was calculated for Strategic Focus, Connectivity of Information, Stakeholder Relationship, Materiality, Conciseness and Reliability. The result is shown in the table below

Table 3. Showing average score of company with respect to guiding principle

Guiding Principle	Score
Strategic Focus	2.43
Connectivity of Information	2.01
Stakeholder Relationship	2.16
Materiality	2.10
Conciseness	2.01
Reliability and Completeness	2.53

Source – Author’s Calculation

The table shows that Reliability and Completeness is the guiding principle which is focus the most by the Indian Companies. Strategic Focus being the second. The main reason which the author finds for the higher score of Reliability and Completeness is that mostly all companies have presented and focused on providing assurance on the financial information by publishing an audited report. Also the companies show the ways of increasing the assurance and reliability level. The Internal audit and a complete audit process is highlighted. Second highest score is scored by Strategic Focus which has scored fairly good score. It was found that the companies are showing the potential risk, opportunities and the strategies which the company will adopt for overcoming it. The Main point which was missing in all annual report was the link between the strategic focus and future planning. Thirdly the score of Stakeholder Relationship is next. The score is fairly low because the financial disclosure is there in the <IR> but they are unable to relate it to the stakeholder interest.

Materiality has also scored low, but point which should be noted is that the average score is low and to its contract few companies are scoring highest in this and few very less and this is the reason that average score goes down.

Connectivity of information and Conciseness are the two Guiding Principle which stands 5th in line with same score. Mostly all companies fail in the Conciseness and the reason may be that the companies are over burdened by the number of regulations and requirement of the disclosures. The report shows same figures and facts again and again with similar overview. Also companies scored very less in connectivity of the information. The result has been shown by Bar Graph.

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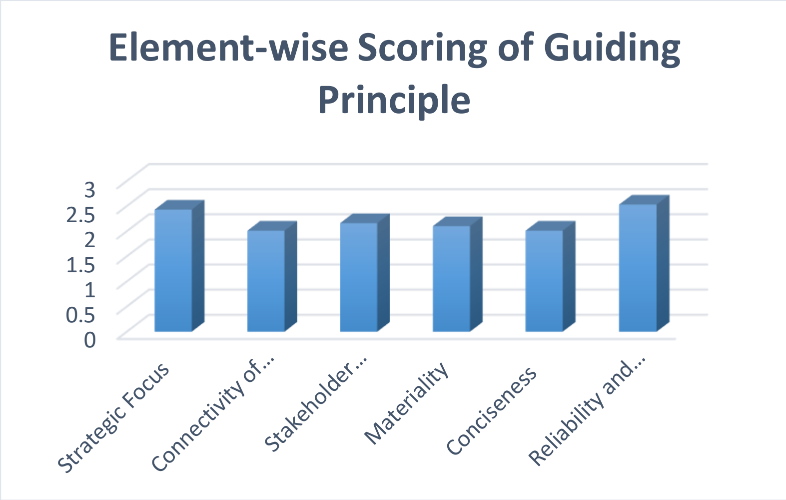

Figure 3

Source – Author's Calculation

Conclusion and limitations

The objective of the study was to find out the level of implementation of <IR> in India specially after the SEBI latest guideline in 2017 where it has advised top 500 listed India companies to adopt <IR>. The study was conducted on Top 500 ET companies and the result shows that the level of adoption of <IR> in India is at its initial level but if we compare it pan Asia then the results are not disheartening. Srilanka, India and Bangladesh are doing really well in the field of <IR>. Companies are adopting <IR> and few companies adopted <IR> even before the SEBI Guidelines came. Kirloskar Brothers Ltd was first to adopt <IR> in 2013-2014 followed by Tata Steel in 2014-15. The sample used in the study was ET-500 companies and total 33 companies were analysed for the level of compliance in <IR>. Content analysis shows that the level of compliance is fairly good in these companies but only 8 companies reporting can be categorized in the high ranking. And if the analyses are done with respect to guiding principles, the guiding principle which shows best result is Reliability and Completeness. But author also conclude that the Guiding Principles are given fair disclosures because none of the Principle score is very low. The Reliability and Completeness has scored highest because mostly all companies are presenting audit final account and a good emphasis is given to the audit process. But the guiding principles which lag behind is the Connectivity of information and Conciseness. The reason identified by the author is that in India there are many regulations with respect to disclosures both financial and non-financial. Because of number of disclosures the report lack in connectivity of information, same information has been repeated in different forms and therefore the report is not concise. The study concludes that <IR> should be given more importance in India because it is that only way we can reduce the number of standalone report. The number of information provided in the Annual Report is very high, whether done voluntarily or by compulsion of some law or body. <IR> is the best solution to this problem and hence Indian companies should focus and take it in positive way and adopt the same.

The result of the study has a limitation that the study was conducted on small number of companies as number of companies adopting IIRC guidelines is less in India. But the positive aspect is that the number is increasing and India is showing positive signals towards adoption of <IR>. In conclusion, the current <IR> project is in a stage where there needs to be a debate about the possibility of harmonisation. Harmonisation may depend on the creation of international communities of practice, which bring together practitioners, policy makers and thought leaders from around the world as has happened in the GRI project over the past two decades. Lessons learnt from the GRI project would provide illustrations of how to institutionalise these communities of practice and provide an appropriate vehicle for facilitating debates, mediating knowledge and practice, and improving international collaborations and harmonisation. Further research should be undertaken into the theoretical and empirical underpinnings of these to gauge if it is possible to have one met integrated reporting framework.

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