

Integrated Reporting: It's Impact on Value Creation

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Abstract: Corporate reporting provides the comprehensive picture of an organisation's performance and position to the stakeholders. In the recent years, corporate reporting has seen a major changes and it has evolved from the financial reporting to the integrated reporting (IR). IR is a corporate reporting reform practised recently by many big companies all over the world. In a precise way, IR has combined the financial report and sustainability report, thus making it more integrated and transparent. Integrated report focuses on the six capitals in a broad way and their value creation for the company over the years. This article has examined many recent research articles to find out the research progress in the area of IR. Analysis of data of 12 companies in six sectors has been made to analyse the value creation of these companies in six capitals. It is observed that the score of reporting for human capital, social and relationship capital, and financial capital was better as compared to intellectual capital, manufacturing capital and natural capital.

Keywords: Corporate Reporting, Integrated Reporting, Sustainability reporting, Stakeholders.

I. INTRODUCTION

Corporate reporting has evolved over the years and has gone through major changes to meet the information demands of the stakeholders. Financial reporting considered the past financial data of the organisation, but only the past financial data is not enough for the stakeholders' decision making. The organisation, along with the past data, must have the current plans and the future prospects regarding all other aspects apart from financial aspect. Moreover, the accounting profession has found that the financial reports do not provide proper information needed by the stakeholders. The organisations are expected to be more transparent about their strategies and the future value creation, which should be reported.

IR is a corporate reporting reform which aims at reducing the limitations of financial reporting and sustainability reporting. IR converges the financial report and the sustainability report to a single report. IR focuses on six different capitals, i.e., financial capital, intellectual capital, human capital, manufactured capital, social and relationship capital, and natural capital. The company's report must show how the company's strategy relating to these capitals are followed in the value creation process over short, medium and long run.

Manuscript received on May 25, 2020.
Revised Manuscript received on June 29, 2020.
Manuscript published on July 30, 2020.

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More corporate disclosure enlightens the stakeholders and helps them to understand the business activities to take proper decisions. Even though accounting standards and reporting guidelines have helped in maintaining the reporting quality to some extent, the onus of providing high quality corporate report is on the IR system now.

A qualitative IR provides information to the stakeholders about the business organisation's risks, governance and strategy.

II. OBJECTIVES AND METHODOLOGY

The specific objectives of this research study are as follows:

- To study the current state of research on IR and its practices in India and abroad.
- To examine the value creation process of six capitals of selected companies in six sectors.

Twelve companies have been selected who are preparing IR for the last 3 years. The data for six capitals have been taken from 2016-17 to 2018-19 for analysis. Statistical techniques, such as mean, standard deviation, chi-square test and F-test have been used for analysis of data.

III. LITERATURE REVIEW

The research articles published during 2016 to 2019 have been reviewed to find out the research gap. Most of the companies adopted IR only after 2016.

Lee and Yeo (2016), in their research article, investigated the association between IR and firm valuation using some of the listed companies in South Africa. They found that the firm valuation is positively associated with IR disclosure. They inferred that firms with IR do well as compared to those without IR both in stock market and accounting performance.

Vazet *et al.* (2016) examined the IR practices in various countries. They observed that intra-country companies are more similar to one another in their reporting than companies from different countries. Their empirical results confirmed significant inter-country variance in reporting IR. Humphrey *et al.* (2017) studied the growth and development of IIRC, the organisation responsible for promoting the use of IR globally. They observed that IR which came after the global financial crisis has many advantages as compared to limitations, because it combines both financial and non-financial information to present a holistic picture of the business organisation.

Rupleyet *et al.* (2017) analysed the evolution of corporate reporting from stand-alone corporate social responsibility reporting to integrated reporting.

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They found that IRs have little focus on governance and do not provide the information mostly desired by investors, i.e., market share, executive compensation, etc. Velte and Stawinoga (2017), in their research on IR observed that IR combines both traditional financial accounting with sustainability and corporate governance issues as a consequence of 'integrated thinking' to enhance the decision making of modern business organisations.

Zhou *et al.* (2017), studied the effect of IR on the capital market, and found that IR provided very useful information to the capital market. They also pointed out how IR facilitates transparent, ethical and sustainable business practices.

Stubbs and Higgins, (2018), in their research to explore the perspective of users of IR on regulatory and voluntary approaches, concluded that there is more support for voluntary approaches to IR. They also observed that IR is heading down the same path as sustainability reporting.

Bernardi and Stark (2018) studied environmental, social and governance (ESG) disclosure, IR and the accuracy of analysts' forecasts. They found out that after the introduction of IR regime, environmental disclosure levels are associated with forecast accuracy. They also stated that IR can provide useful information to capital markets.

Kilic and Kuzey (2018) analysed the forward-looking disclosures of the firms in IR and found that majority of the organisations are inclined to provide futuristic qualitative information. Their analysis revealed that gender diversity and firm size were positively related to forward-looking disclosures.

Girella *et al.* (2019) studied the various characteristics that influence the voluntary acceptance of IR. They inferred that countries with good risk ratings and more corruption perception are keener towards implementing IR. They also stated that in the firm level, higher efficiency, board diversity and high level of leverage does not influence IR.

Tlili *et al.* (2019) studied the value relevance of the organisational capital. They followed a quantitative method and found a positive relation of IR on value relevance of organisational capital of the companies.

Zambon *et al.* (2019) examined the effects of intellectual capital and intangibles on governance of the organisations and also their influence on the users' behaviour. They inferred that the interrelation between the three elements gives tremendous scope for further research and analysis.

Vitolla *et al.* (2019) stated that the novelty of IR should be described as unexplored in the research field. They inferred that value creation, qualitative determinants and the quality of IR needs further clarification.

A review of the above research papers reveals that most of the IR research suffers from non-availability of structured data of the business organisations. Some research studies have found out the determinants of IR and its effects on its financial performance, value creation and governance of the organisations.

IV. IR: A CONCEPTUAL STUDY

IR is a presentation of organisation's overall performance that creates value over a period of time. It is the combination of sustainability and the company's financial

performance. It takes into consideration six capitals and their value creation in short, medium and long run. They are as follows:

- Financial capital is the economic resources that can be measured in terms of money.
- Manufactured capital is the physical objects that are used in production of goods and provision of services.
- Intellectual capital is the intangible that give the competitive advantage to the organisation.
- Human capital involves the skill, experience and motivation of the people associated with the organisation.
- Social and relationship capital is the investment that the organisation does to improve the collective wellbeing of the stakeholders and the community at a large.
- Natural capital involves the water, land, minerals, forests, and the ecosystem.

The guiding principles of IR are as follows: (IR Framework, IIRC)

- Strategic Focus and Future Orientation
- Connectivity of Information
- Stakeholder Relationships
- Materiality and Conciseness
- Reliability and Completeness
- Consistency and Comparability

The content elements of IR that are outlined by the IIRC are organizational overview and external environment, governance of the organisation, its business model, risks and opportunities faced, its strategy and resource allocation, financial and non-financial performance, outlook and the basis of presentation.

V. ANALYSIS OF VALUE CREATION PROCESS

The data have been collected from the annual reports and integrated reports of twelve companies in six sectors for the period 2016-17 to 2018-19. Here, as followed by Global Reporting Initiatives (GRI), partially reported has been taken as 1, clearly reported as 2 and not reported as 0. Six major input variables as identified by GRI have been taken and the values are assigned accordingly. The six sectors taken in this study are Banking, Health Care and Medicine, Oil, Information and Technology, Steel and Manufacturing, and Telecommunication. The companies under study are ICICI Bank, HDFC Bank, Cipla, Sun Pharma, Indian Oil, HPCL, Wipro, TCS, Tata Steel, SAIL, Airtel and Reliance Jio.

A. All Capitals (Inputs) Across Sectors

The input variables are the capitals as per integrated reporting of the companies. These six capitals have been incorporated on integrated reporting platform to analyse the data.

In Table I, year wise analysis (Y1 for 2016-17, Y2 for 2017-18 and Y3 for 2018-19) of all the six sectors with all six inputs have been undertaken for measurement in one way ANOVA to identify the differences across sectors. Also descriptive analysis has been done to know mean score along with the P-significance values for each sector in different years.

Table I: Descriptive analysis of input variables during the years from 2016-17 to 2018-19

Year wise/ Sectors /	No. of capitals	T Mean score	Std. Deviation (α)	P-values	
Y1 2016-17	Banking	6	11.00	8.72	3.56
	Health care & medicine	6	10.67	7.58	3.09
	Oil sector	6	10.33	7.87	3.21
	IT sector	6	9.33	7.28	2.97
	Steel & manufacturing	6	11.17	8.93	3.65
	Telecommunication	6	10.83	8.21	3.35
Total	36	10.56	7.54	1.26	
Y2 2017-18	Banking	6	10.33	7.42	3.03
	Health care & medicine	6	11.17	7.78	3.18
	Oil	6	10.17	7.86	3.21
	IT	6	9.83	6.97	2.85
	Steel & manufacturing	6	10.33	8.04	3.28
	Telecommunication	6	9.83	6.91	2.82
Total	36	10.28	6.97	1.16	
Y3 2018-19	Banking	6	10.83	7.86	3.21
	Health care & medicine	6	10.67	7.58	3.09
	Oil	6	10.00	7.62	3.11
	IT	6	11.00	7.54	3.08
	Steel & manufacturing	6	10.83	7.49	3.06
	Telecommunication	6	9.17	6.94	2.83
Total	36	10.42	6.98	1.16	

Source: Compiled from the Integrated Reports of the 12 companies.

Table-I reported the results of descriptive analysis of six capitals. Any significant change across the sectors on any input values relating to capitals during the three years of reporting have been highlighted with their mean scores, standard deviations and standard errors.

The results show a minimum mean score in IT sector in the first year of reporting, 2016-17, i.e., 9.33, whereas the score is 9.83 in the second year (Y2) in Telecommunication sector along with IT sector. Further, in the third year (Y3), the analysis revealed lower mean score in Telecommunication sector. The other sectors show a good reporting of their six capitals that they have taken into consideration.

Table II: Analysis of ANOVA of Six sectors

		Sum of Squares	Df	T ²	F-value	P-value
Y1 2016-17	Between Sectors	13.222	5	2.644	0.040	0.999
	Within Groups	1977.667	30	65.922		
	Total	1990.889	35			
Y2 2017-18	Between Sectors	7.222	5	1.444	0.026	0.999
	Within Groups	1692.000	30	56.400		
	Total	1699.222	35			
Y3 2018-19	Between Sectors	14.917	5	2.983	0.053	0.998
	Within Groups	1691.833	30	56.394		
	Total	1706.750	35			

Source: Compiled from the Integrated Reports of the 12 companies.

Table-II reported the results of ANOVA for all these six sectors on their inputs (capitals) during the three years of reporting. Here, the degrees of freedom, 5, refers to six sectors and within the groups, 30 indicates within the sectors and within the capitals, i.e. (n-1)n. F-test indicates lower values. P-values are ≥ 0.05 in all these three years (Y1, Y2 and Y3), which show that there is no significant differences in integrated reporting among the sectors as the values are almost equal to 1.0 for three years average score during the period under analysis.

Table-III: General Linear Model: All capital of different sectors

Tests of Between-Subjects Effects						
Source	Dependent Variable	Type III Sum of Squares	Df	T ²	F-Value	P-value
Corrected Model	Total	2304.000 ^a	8	288.000	.	.887
	Type (sector wise)	12.082 ^b	8	1.510	.439	.
Intercept	Total	21.417	1	21.417	.	.037
	Type (sector wise)	16.664	1	16.664	4.842	.
Items (Capital inputs)	Total	22.600	5	4.520	.	.763
	Type (sector wise)	8.840	5	1.768	.514	.
Y1	Total	0.001	1	0.001	.	.945
	Type (sector wise)	0.017	1	0.017	.005	.
Y2	Total	0.001	1	0.001	.	.377
	Type (sector wise)	2.782	1	2.782	.808	.
Y3	Total	0.001	1	0.001	.	.003
	Type (sector wise)	3.800	1	3.800	1.104	.



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Error	Total	0.001	27	0.001		
	Type (sector wise)	92.918	27	3.441		
Total	Total	7488.000	36			
	Type (sector wise)	546.000	36			
Corrected Total	Total	2304.000	35			
	Type (sector wise)	105.000	35			
a. R Squared = 1.000 (Adjusted R Squared = 1.000)						
b. R Squared = .115 (Adjusted R Squared = -.147)						
# Covariates appearing in the model are evaluated at the following values: Y1 = 10.5556, Y2 = 10.2778, Y3 = 10.4167.						

Source: Compiled from the Integrated Reports of the 12 companies.

The sector wise differences of integrated reporting system in different years are measured in the table-III. It is found that, in the Y1, it is significant (P-value \geq 0.05) as it indicates 0.945 for total value and in the Y2, it indicates 0.377(P-value \geq 0.05) like the first year. So in these two years (Y1 & Y2) all the sectors maintain the standard norm of IR as per guidelines prescribed by IIRC. Further, in the third year, the P-value shows 0.003(\leq 0.005) which indicates cross-sectoral difference in the reporting scenario for all the inputs. It may be due to different but a better reporting system in every sector following the best practices in the absence of Indian accounting standards.

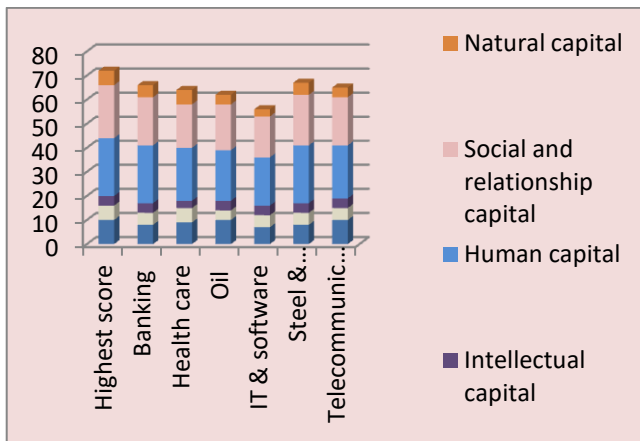


Figure 1: Showing the average score of capitals during 3 years across sectors

The above figure highlights the average score for the three years. The financial capital secured the highest score and the Intellectual capital, the lowest. Human capital scores were marked more followed by social and relationship capital during these three years of study. The IT sector has the lowest average score, whereas the highest is secured by steel and manufacturing sector. Nearly 90 percent scores have been secured by all the sectors, which indicates that the companies followed the prescribed norms of IIRC on IR.

VI. CONCLUSION

IR, which is an innovative corporate reporting, needs integrated thinking and transformation in approach of the management. The information disclosed in IR under six capitals will help all the stakeholders of the business organisation in their decision making process. The analysis of data of selected companies shows that the scores of reporting for human capital, social and relationship capital and financial capital are better as compared to intellectual capital, manufacturing capital and natural capital. As the IT

sector followed IR recently, it has the lowest average score, whereas the highest score is secured by steel and manufacturing sector.

We acknowledge that our research article suffers from the limitations which apply to small sample studies. The sample size is less due to non-availability of high quality integrated reports in Indian companies. The key performance indicators which were disclosed by the companies varied from company to company. Due to these issues, analysis and comparison was limited. Therefore, future research studies should analyse structured IR data of many companies in India and can be extended to IR data of many other countries for examining cross country comparison. We conclude that a number of research studies will be undertaken in future to identify the determinants and to find out the effects of IR.

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Tulika Bal is continuing her Ph.D. research work in Sri Sri University, Cuttack, India, under the supervision of Prof. Sunil Kumar Dhal. She has three research publications. As a chartered accountant, she has experience in chartered firms and HDFC Bank. Now, she is practicing as a partner in a CA firm. Her area of interest is finance and corporate reporting.



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