Research Paper
Impact Factor: 4.729
Refereed, Listed & Indexed

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

INTEGRATED REPORTING: AN INDIAN PERSPECTIVE

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Abstract
The modern world of commerce, economics and finance has gone much above figures appearing in the data sheets. With the value of information increasing day by day, qualitative information is receiving equal importance as that of quantitative information. The concept of Integrated Reporting talks beyond the distinct financial and non-financial reporting requirements and aims to put forth a more comprehensive disclosure of the entity to its stakeholders. The aim of Integrated Reporting is to provide a holistic yet concise view of the overall value and performance of the company on financial as well as social terms.

Integrated Reporting is becoming a popular tool worldwide and leading corporates including the Fortune 500 companies observed the IIRC's <IR> Framework as the need of the hour. The process of integrating financial results with qualitative results on the basis of ESG factors is what make this concept special. Recently, the SEBI suggested the top 500 listed companies to adopt Integrated Reporting on a voluntary basis from the financial year 2017-18.

This paper provides an overview of this concept and examine its relevance in Indian context. Further, it aims to examine the preparedness in India towards integrated reporting through annual reports of five major companies representing five different industries.

Introduction

There was a time when students with good hold of mathematics used to choose Finance as the area of study. To be honest, the perception has not changed much till date. Talking about Finance, the first thing that comes to mind is numbers. Mathematicians say, numbers are everything; the whole universe can be described with numbers. Behind every thought and activity, some combinations of numbers are said to be present. In Finance, we talk about figures. From some sets of figure, we try to derive much more than the disclosed values, thereby judge the present and estimate the future.

In the world of commerce and business, results of an entity generally implies the financial results only. In simple words, it is the Financial Statements including the Statement of Profit and Loss, Balance Sheet, Cash Flow and other accounts determine the performance of an entity. However, when we turn our attention to the share market, we observe that the share prices are not solely dependent on the performance determined from the above. The perceptions and expectations of shareholders depend on several factors beyond mere financial results. Gradually, experts started to discover that the qualitative factors influence stakeholders no less than the quantitative outcomes. Companies understood that every decision is judged by the stakeholders, irrespective of its effect on the financial results. Accordingly, both the companies and the regulatory authorities observed the importance of non-financial disclosures.

This observation resulted into a variety of voluntary disclosures regarding the social, environmental and economic impacts. Many methods regarding "what and how much to disclose" were proposed and discussed by academicians and practitioners. These includeEnvironmental reporting (Ullman, 1976), Human Resource Accounting (Maunders, 1984), Triple Bottom Line reporting (Elkington, 1997) Sustainability Reporting (Global Reporting Initiative, 2000) etc. In the early years, it was assumed that additional information will provide a strategic legitimacy to companies through demonstrating their acceptable and proper behaviour and changing social perceptions.

However, parallel disclosures in financial reporting and sustainability reporting created to prominent problems; first, over-burdening of information in some areas and second, information gap in the others. researchers observed that parallel disclosure of financial and non-financial information increases the reporting quantity of information with no impact or adverse impact on the information which is actually relevant to the stakeholders (Abeysekera, 2012). An integrated form of reporting aims to address this issue with a more holistic framework of reporting.

In recent times, integrated reporting practices have been undertaken as a very timely area of research around the world. However, the Indian scenario is unique in its own way. India, the largest democracy of the world, is undergoing a revolutionary change in respect of financial reporting as the newly issued IFRS-Converged Indian Accounting Standards (commonly known as the Ind AS) are being implemented in a phased manner. On the other hand, with the high population and pollution, the question of sustainability has been a major headache.

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

Integrated Reporting

Long ago, Brudney (1985) contended that the concept of equal power to management and shareholder is itself rhetorical as in reality the management enjoys significant discretion in rewarding itself and restricting efforts to maximise the shareholders' wealth. Abeysekera (2012), pointing out this power imbalance, stated that the organisational intent and strategic thinking of the board to faithfully disclose the organisation to its stakeholders is the foundation of accountability and transparency in reporting. On the other hand, there has been a gradual increase of stakeholders interested in sustainability disclosures in the form of Environmental, Social and Governance (ESG) information. However, while discussing the adequacy of sustainability reporting to fill the vacuum of information resulting from corporate reporting, Eccles and Serafeim (2015) contended that the sustainability reporting lacks credibility, timeliness and relevance in the absence of auditing and positive-assurance. Information gap and information overlap ultimately results in confusion and contradictions which raises questions to the purpose of reporting itself. At this serious point of disclosure discrepancy, the concept of Integrated Reporting can be a helpful tool leading towards a more acceptable solution.

Integrated Reporting is still an evolving concept trying to bridge the reporting gaps. Nevertheless, two institutional reference may be cited in order to understand its meaning. the King Report on Governance for South Africa - Integrated Reporting Council of South Africa (IRCSA 2011) defines it as a "holistic and integrated representation of the company's performance in terms of both its finance and its sustainability". On the other hand, the International Integrated Reporting Council in the United Kingdom (IIRC, 2011) stated that integrated reporting "provides a clear and concise representation of how an organization demonstrates stewardship and how it creates value, now and in the future." Integrated reporting in fact, combines the most relevant information that were previously reported under separate frameworks. In other words, Integrated Reporting is the "integration" of six capitals (financial, manufactured, intellectual, human, social and relationship, and natural) which capture the factors to be incorporated in to managerial strategy to ensure their long-term feasibility. Thereby, a holistic yet concise representation of the entity may be possible with better accountability and relevance.

The IIRC was formed in August 2010 with an objective of forming a body with likeminded cross-sectional representation and providing a "cohesive and efficient approach" to improve the reporting quality. IIRC also includes members from the various accounting bodies like the IASB, FASB etc.The IASB, formulators of the International Financial Reporting Standards (IFRS) which is gradually becoming a worldwide acceptable financial reporting framework, has also endorsed widening of the corporate reporting landscape.

Novozymes (a Danish enzyme company in 2002), Natura (a Brazilian cosmetics fragrances company in 2003) and Novo Nordisk (a Danish pharmaceutical company in 2004) are the first few companies that came out with integrated reporting practice. The Danish companies were outcomes of a demerger and therefore a similar approach in disclosure may not be surprising. But interestingly Natura, the Brazilian company, just discovered this practice, found it suitable for them and applied it. (Eccles and Serafeim, 2015). The framework of reporting used in these cases does not seem to have any legal or regulatory affiliation. In 2013, the IIRC came out with a draft of International <IR> Framework based on a principle-based approach. This framework has been prepared with an intent to strike an appropriate balance between flexibility and prescription that takes into account the organisational variations while providing sufficient degree of comparability and thereby meeting the information requirements.Under this framework, the following principles have been stressed on for preparing an integrated report of the entity –

1. Strategic focus and future orientation.
2. Connectivity of information.
3. Stakeholder relationships.
4. Materiality.
5. Conciseness and
6. Consistency and comparability.

In 2015, Jeff Gowdy prepared a ranking system based on the issues covered in the reports, location and type of the reports covering Environmental (E), Social (S), Governance (G) and Financial (F) metrics to evaluate the annual reports of Fortune 500 companies on the basis of 2013-14 data.

Grade	Breadth/ Coverage	Report Centrality (Type/Location)	Percentage of Global Fortune 500
A+	E, S, G, F	Integrated Reporting Standards	1%
A	E, S, G, F	Annual Report	18%
B+/ B	E, S, G	GRI G4 Standards Report/ Sustainability Report	32%
C	E and/or S and/or G	Multiple Reports	34%
D	E and/or S and/or G	Website	4%
F	None	None	11%

The above research reveal that though a major portion of the Fortune 500 companies were reporting relevant information with regard to environmental, social and governance aspects, very few followed the integrated reporting framework for the disclosures.Researches further show that companies like SAP, Nokia Corporations, Phillips, CEBU Holdings, UBS and others who were enlisted in the Fortune Global 500 list, published self-declared Integrated Reports which were not in conformity with the International <IR> framework (Eccles andKrzus, 2014). In 2016, the renowned US company, General Electric published its first Integrated Report while Intel Corporation released an integrated executive summary to supplement the financial reports. It is evident that the leading market players across various sectors have sensed the perceived value of "data centrality" and initiated the move towards integrated reporting.

Reporting Practices in India

The Indian companies registered under the Companies Act, 2013 (which replaced the old act of 1956) are required to prepare Financial Statements (both stand-alone and consolidated) under section 129 (which replaced section 211(3C) of the old act) of the act. This section further provides that the financial statements shall be prepared as per the accounting standards notified under section 133 of the act. Any deviation from the accounting standards and their financial effect requires separate disclosure. The management, in the Directors' Responsibility Statement has to declare the applicable accounting standards and any departure which has a material effect. Above all these, the statutoryauditor in his report has to assure that the financial statements of the company have been prepared as per the applicable financial reporting framework. The Standard of Auditing 700 (Revised), Forming an Opinion and Reporting on Financial Statements, issued by the Institute of Chartered Accountants of India (ICAI) which is binding on every auditor auditing financial statements of companies, stressed that the auditor should evaluate the relevance, reliability, comparability and understandability of the information presented in the financial statements, reasonableness of the accounting estimates and adequacy of the disclosures in order to help the user of the statements understand the significant events and transactions.

There were many Indian companies which engaged themselves in philanthropy along with business. However, there is a line of difference between philanthropy and social awareness. The need of non-financial disclosures was first felt after the Bhopal Gas Tragedy in 1984 where more than two thousand lives were lost due to leakage of toxic gas and chemicals from the factory of Union Carbide India Limited. The nation felt that mere financial performance of a company may not always be sufficient enough to draw a conclusion regarding its sustainability. Nevertheless, Tata Steel formed its Social Audit Committee and came out with its report back in 1980. This report made disclosures about the company's performance in achieving the social and moral objectives contained in its Article of Association. Appreciations received to Tata Steel from stakeholders and improvement in the market capitalisation encouraged many companies to improve their reporting and disclosures. Sustainability Reporting gained popularity in India and many Indian companies including Infosys, Reliance, ITC etc. took up this practice. Over and above, the Institute of Company Secretaries of India (ICSI) identified that pressures from stakeholders and regulators, growing popularity of sustainability reporting worldwide and maintenance of reputation to be the major driving forces for the Indian multi-national companies to take up sustainability reporting. Recent research works revealed that while the information-technology and cement companies are the most compliant and diligent reporters, the Indian banking and finance sector as well as the healthcare and pharma sector are still far away from expressive sustainability reporting (Kumar and Rama Devi, 2013). The Companies Act, 2013 requires, under section 134(3), every company to report on energy conservation and measures taken in this regard in the Directors' Report as per the prescribed rules. In addition to this, every listed company in India has to provide relevant information to the Securities and Exchange Board of India (SEBI) regarding sources of inputs and their sustainability, establishment of Environment Management System, recycling mechanism and compliance with The Principles to Assess Compliance with Environmental, Social and Governance Norms under the Business Responsibility Report, to be submitted to SEBI.

However, the question of data relevance was yet to be solved. Worldwide, companies started to stress on perceived value of data to the stakeholders and sort the relevant information to be disclosed. Indian companies also understood that there is a gap in the information reported and the information actually sought for. Public sector companies were publishing non-financial information since long. In 2015, the Confederation of Indian Industry (CII)-ITC Centre of Excellence for Sustainable Development (CIICESD)in collaboration with the IIRC established the IR Lab India, to promote Integrated Reporting. In recent times, many Indian companies contributed a gross in approach as part of the IR Lab India initiative. The Institute of Chartered Accountants of India (ICAI) was also made a part of this transition towards integrated reporting to explore how accounting professionals could support this transition. The CIICESD made a survey from a sample group (termed as the India Focus Group) consisting of companies from the banking, cement, consultancy, steel, IT sector on their experience and probable solutions in areas like multiple capitals, connectivity and integrated thinking, key stakeholder needs, materiality and value creation, conciseness, business model outcomes etc. This survey reveals that the reporting companies either used the exact categorisation given in a framework to report the Capitals or they just did not report them at all and did not even provided reasons for such decision. The survey termed the practice of quantifying and articulating the organisational value of non-financial capitals to be “immature”. Inappropriate disclosures relating to Key Performance Indicators (KPI) and monetary expressions of non-financial capitals based on inconsistent assumptions reinforced this conclusion. Determination of Materiality, especially in case of ‘Risk’ can be very vital. The definition of Materiality under the GRI guidelines which is more followed by organisations across the globe is somewhat different from that in the <IR> framework. This helps the companies to reduce the reporting of risks and disclosing risks which have very little chance of materialising. The report of CIICESD also supported the view that companies restrict disclosures to the maximum possible extent because of the fear of market. In order words, the disclosures are more directed towards legal compliance than voluntary motivations.

Integrated Reporting and India
On 6th February, 2017, the SEBI came out with a circular advising the top 500 listed companies to voluntarily adopt Integrated Reporting practices from the financial year 2017-18. It is significant to note that the SEBI notified the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) in September 2015. It is these regulations that mandated the listed companies to prepare and submit the Business Responsibility Report discussed earlier. The integrated report is to be published in addition to the above. Since there is a high chance of data duplication and overlap, SEBI advised to give reference of the other reports where the data has already been included. Companies have three options of complying with it - by creating a separate chapter in their annual report, by incorporating it in their Management Discussion and Analysis section or by re-structuring the annual report as per the <IR> Framework. The circular referred to all the guiding principles prepared by the IIRC and the six different classes of capital. It further provided that the companies can just upload the Integrated Report on their website “as a green initiative” and give reference in the Annual Report without actually printing the same.

As the movement towards Integrated Reporting obtained legal validity through the above circular, we have selected the Annual Reports of the following companies to have an insight of the non-financial reporting practices.

1. **Reliance India Limited (RIL)**
   RIL started reporting on sustainable development since 2004-05 as per GRI 3 guidelines. It was among the first to adopt GRI’s G4 Guidelines from Financial Year 2014-15. It also aligned the report to the seventeen Sustainable Development Goals released at the United Nations Sustainable Development Summit in 2015. On the face of the annual report of 2016-17, it is disclosed that the report has been prepared in alignment with the <IR> framework. RIL has identified and reported Capital under the six heads as per the <IR> framework. It prepared an Integrated Report under the IIRC’s framework in accordance with the SEBI circular from Financial Year 2016-17 itself and made appropriate cross-references of the various information consisted in other parts of the Annual Report to avoid data duplication. It also reported the Business Model and Outcomes under the<IR> framework. In crux, RIL took an early-bird approach towards Integrated Reporting in a diagrammatic and understandable manner, complying with the SEBI circular.

2. **HDFC Bank**
   HDFC Bank is the largest private bank in India in terms of market capitalisation. Unlike other companies in the survey, HDFC Bank did not include the Business Responsibility Report in the Annual Report for 2016-17. Instead,

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

they uploaded it in their website as a public document for open access. The annual report however makes no reference of integrated reporting. Surprisingly, the annual report does not also include any sustainability report or makes any reference in this regard.

3. **Tata Consultancy Services (TCS)**
TCS is a part of the Tata Group that was pioneer in publishing sustainability reports in India. For the financial year 2016-17, TCS published Corporate Sustainability Report and Business Responsibility Report and attached both with the Annual Reports. The sustainability report is not as per the GRI guidelines and very much customised. Under the headings of ‘People’ and ‘Planet’, the company disclosed its various initiatives towards sustainability. However, TCS neither prepared a report under the IIRC’s <IR> framework, nor brought any reference of it.

4. **ITC Limited**
It is the company which initiated collaboration for the establishment of CIICESD. ITC has been providing Sustainability Report since 2001-02. Though the Annual Report did not contain any portion of the Sustainability Report, it informed that the report was under preparation as on the date of publication of the Annual Report. Later on, they published the 14^{th} Sustainability Report which was in accordance with the GRI G4 guidelines and assured by Ernst and Young LLP. However, reference of integrated reporting was present neither in the Annual Report nor in any of the 205 pages of the Sustainability Report.

5. **Lupin Limited**
Lupin, in its Business Responsibility Report submitted to the SEBI, reported that the company does not publish any Sustainability Report. Nevertheless, they established a separate Corporate Social Responsibility arm in the name of Lupin Human Welfare and Research Foundation (LHWRF) and this foundation prepares the Sustainability Report. The report is in accordance with the GRI G4 guidelines. It also suggests that LHWRF is the first CSR foundation in India to do that. However, like most other Indian companies, Lupin does not make any reference of integrated reporting in its Annual Report.

Analysing The Scenario
Five companies from five different industries, oil and Petroleum (RIL), banking (HDFC) information-technology (TCS), Fast moving consumer goods (ITC) and pharmaceutical (Lupin), were evaluated under this study. It is a fact that the companies were not required to prepare an integrated report for the financial year 2016-17. Therefore, it may not appear surprising to find no indication of such report in the Annual Report for that year. However, it should be noted that the SEBI released the circular regarding voluntary adoption of <IR> framework in February 2017, i.e. – much before the preparation of the annual report for 2016-17. In other words, all the above companies, being within the top 500 companies, had the knowledge that this circular was addressed to them and will be applicable from financial year 2017-18. Out of the companies under evaluation, only RIL prepared a <IR> compliant report and attached to the annual report. Companies who kept publishing a Sustainability Report, generally followed the GRI G4 guidelines. However, since there is no compulsion in this regard, instances were found where companies customised their report as per convenience. Though this customisation result in deviation from the guidelines, it in deed made the report simple and understandable by one and all.

After the SEBI regulations mandated Business Responsibility Report which incorporates sustainability information, companies attached published this report to the stakeholders as an alternative to a separate sustainability report. One major problem in this respect is the differences in the much celebrated and popular GRI guidelines and the <IR> framework. Unless and until, the GRI and IIRC make serious collaborations to bridge these gaps, the target of data centrality will not be achieved. Another problem in applying <IR> Framework is its complexities and extensiveness which have every possibility to add to the confusions of the stakeholder. Compromising with the understandability of the information may not be welcomed. On the other hand, unless SEBI regulations requiring Business Responsibility Report will not be relaxed, incorporating <IR> framework will definitely result in data duplication. The SEBI, addressing this growing possibility of data repetition, advised for cross-referencing. Through cross-referencing, a company can give reference of the exact location where that area has already been thoroughly discussed. Though cross referencing will restrict overburdening of data to a great extent, this can also affect the simplicity and comprehensiveness of the report. A stakeholder may find it difficult to refer to some different report to understand the contents of the integrated report. One may argue that a similar way of preparation is undertaken in case of Financial Statements by referring to annexures and the notes to accounts. However, it should be remembered that in financial report, the intention is to project the state of affairs and profit/loss of the entity and therefore distinguishing them from the detailed calculations is important. This in fact increase understandability. But in case of

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

integrated report, the intention is to provide a holistic view of the company and any compromise with the understandability may defeat the very intention of the report.While the Ministry of Corporate Affairs have had its phase-wise road-map for transition to IFRS-based Indian Accounting Standards ready since quite a long time, no significant decision regarding Integrated Reporting has yet been taken. Even the SEBI circular does not make it compulsory to adopt <IR> framework as a listing requirement, but restrict its scope in mere suggesting the integrated report.

Conclusions

It is high time to recognise that qualitative data gets no less importance than quantitative data, be it in terms of market perceptions, regulatory vigilance or image building. The concept of integrated report basically focuses on identifying every value-relevant information and presenting them in a single framework. If this objective is achieved, it will definitely bring a conclusion to the debate relating to comprehensive reporting practices. In India, voluntary presentation of integrated reporting is a rare case.In a country which is undergoing a transition in the financial reporting framework, it is not feasible for companies to voluntarily publish a report under a completely new framework. On the other hand, an official move in this respect from the regulators also suffer from some inherent complexities. Demanding an integrated report while making no relaxations in the present reporting requirements will result into either data replication or difficulty in readability.

The IIRC's vision is "to align capital allocation and corporate behaviour to wider goals of financial stability and sustainable development". In simple words, integrated reporting is based on the foundation of integrated thinking. It may be early days to reach this objective but considering the constant changes in the financial reporting standards, providing more space for discretional treatments and IIRC's attempts to collaborate with GRI and IASB do indicate a positive future. If India, the den of versatility, can take a pioneer role in implementing integrated reporting, it will definitely address the conflicts of social and financial interests and bring more transparency and accountability for the Indian economy around the globe.

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