

Essence of Integrated Reporting: A Holistic Framework for Sustainability and Value Creation¹

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Abstract *Primary objective of businesses have solely been improving financial performance specifically maximizing the wealth of shareholders. While measures employed in performance evaluation have the ability to reveal performance, numerical values may lack indication with regard to value creation. Over time, materialistic focus of businesses has shifted towards a more value-creation oriented bundle of factors. Today's competitive environment challenges businesses with so many threats one which is to be sustainable. The aim of this paper is to thoroughly analyze the use of Integrated Reporting as a strategic tool to achieve sustainability and sustainable value creation.*

Key words Integrated Reporting, Corporate Governance

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1. Introduction

Antediluvian and myopic objectives like solely profit and shareholder wealth maximization have become obsolete in today's reshaped business environment. It is not only about income statement figures or market value of shares anymore; but it is about creating value and coping with every obstacle and surviving in the market with the objective of sustainability. Certainly, such challenging set of objective cannot be achieved without fully transparent and high quality information available to all financial capital providers. Corporate governance, within the scope of implementing a philosophy to continuously create value has become a precondition. Provision of economic balances and sustainability is one of the major and difficult issues in the 21st century. These two subjects have critical importance for the changing world. The global financial crises have shown that economic activities are interconnected with each other. Markets need internal arrangement, in other words, they need good management, as well as external arrangements. Generally speaking, markets have become much more than being only financial markets in the forms of commodity markets, futures markets, and derivatives markets. The intersection and sustainability points of these markets form the "carbon", "petroleum", "coal", and "food" markets, etc, while their derivatives must be taken up and dealt with internal and external arrangements. From this viewpoint, Integrated Reporting emerges as a holistic system, which aims at value creation and sustainable span of life for businesses.

2. Literature review

2.1 Aims of Integrated Reporting

Integrated Reporting (IR) emerged as a strategic and a holistic groundwork for businesses in order to integrate the overall aims in the name achieving value addition to the business.

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It is a process of understanding the links between financial results and sustainability impacts, which are vital for business managers, and increasingly connected to not only long but short term business success as well (<https://www.globalreporting.org>). Undoubtedly, in order to apprehend such system, businesses must be able to clearly identify the material sustainability topics to monitor and manage to ensure that businesses avoid impoverishment, survive; and finally grow. With regard to a functioning system, integrated report is the key. It is a concise communication that conveys internal dynamics of businesses ranging from how an organization's strategy, governance, performance and prospects, in the context of its external environment, are established to leading creation of value in all stages of planning phases from the short, medium; all the way to long term plans.

As the accounting numbers can reveal limited information to the users of the financial statements, IR aims to improve the quality of information to the users of the statements especially to the financial capital providers so that allocation of capital may be managed more efficiently and productively. While information quality is one key aspect within the scope of IR, value creation is a vitally concentrated area as well. A sound, cohesive, and efficient approach to corporate reporting focusing on different reporting strands and seeking a full range of factors that considerably affect the ability of an organization to create value over time is a philosophy that IR aims to implement and improve continuously. Since there is a substantial shift from solely materialistic objectives to holistic values on the corporate side, one other aim of IR is to enrich accountability and stewardship for the broad base of capitals not only with regard to financial or manufactured but for intellectual, human, social and relationship, and natural capital as well. Last but not the least, as an integrated system, IR stimulates an integrated thinking model both at the decision-making level and actions which allocates a great deal of emphasis on the value creation over short, medium, and long term (<http://www.theiirc.org>). IR puts forth its strategy, management, and financial performance, and the connections and relationships with environmental and social issues. Some of the elements that direct integrated reporting are as follows: the present situation of the world, today's consumers, new capitalistic understanding, identity and credit of the company, its competition advantages, a management with more knowledge, and marketing power. The interest in integrated reporting in which the environmental, social, and corporate management (ESG) performance of a company is reported and the usage of integrated reporting has been increasing speedily. Even though it is optional in many countries, the fact that integrated reporting is obligatory in South Africa and that it is expected to be obligatory for all of the listed companies in France are a very important step taken towards obligatory integrated reporting. In Turkey, the companies whose shares are traded in the Istanbul Stock exchange will start using integrated reporting by the year 2020.

Integrated reporting integrates financial and nonfinancial information (ESG) in one full document and ideally it must show the relationship between the two. The analysis on integrated reporting revealed the existence of three stages in corporate reporting literature: (1) non-financial reporting initiatives; (2) sustainability era; (3) integrated reporting revolution (Ioana and Adriana, 2013). Good performance in nonfinancial subjects and fields may positively affect the performance in financial subjects and fields, and vice versa. At the same time, integrated reporting may show the relationship between the financial and nonfinancial performance. Today, while it is compulsory that all of the companies that are open to the public report their financial information at least annually, reporting the nonfinancial information is optional in many countries. However, the research made in this respect show that compulsory ESG reporting is good both for the company and for the society (Ioannou and Serafein, 2011). The same, and even more, is valid for integrated reporting. The fundamental proposal behind integrated reporting is a sustainable society. And a sustainable society may be defined as one which meets the needs of the present and future generations, and most of the companies, if not all, must have sustainable strategies which may create values in the short run and in the long run for the shareholders and for their other stakeholders (Eccles and Krzuz, 2010).

2.2. History of Integrated Reporting

IR is a relatively recent approach, which emerged to sustain businesses' existence by aiming at establishing a framework of reporting philosophy so integrated that enables businesses to assess their standing holistically. Below is a brief chronology of the evolution of IR.

Date	Development	Comments
12 September 2011	Discussion Paper <i>Towards Integrated Reporting – Communicating Value in the 21st Century</i> published	Comment deadline 14 December 2011
October 2011	Initial organizations participating in the IIRC Pilot Program announced	The Pilot Program is a two-year program for a group of companies who will work as a network of peer group organizations, exchanging knowledge and sharing experiences on integrated reporting.
July 2012	<i>Draft Outline of the Integrated Reporting Framework</i>	Not part of the formal consultation process, but the IIRC welcomed feedback
November 2012	<i>Prototype of the International Integrated Reporting (<IR> Framework</i>	Not part of the formal consultation process, but the IIRC welcomed feedback
16 April 2013	<i>Consultation Draft of the International <IR> Framework</i> published	Comment deadline 15 July 2013
9 December 2013	<i>International <IR> Framework</i> published	Available on IIRC website

Source: (Deloitte, 2014)

2.3. The International Integrated Reporting Council

The International Integrated Reporting Council (IIRC) is an internationally diverse cross-section of members. Members are leader who are active key players in the sectors they belong to ranging from both corporate and academic to bridge the gap between theory and academia; all the way to investment, accounting, securities, regulatory, academic, civil society and standard-setting sectors. Major work of IIRC focuses on creating a common ground for establishing globally accepted Integrated Reporting Framework, which aims at disclosing critical information about the organizations in the areas of their strategy, corporate governance, corporate performance and prospects in a format that is clearly comparable and transparent. Such change requires hard work and this development should be agile in order to keep up with the actual changes in business world. Therefore the Framework intends to reinforce and hasten the evolution of corporate reporting, reflecting developments in financial, corporate governance, management commentary and sustainability reporting. In order to establish a globally accepted Integrated Framework, standard setters play a key role. For this reason, the IIRC is in a process of seeking to secure the adoption of IR by report preparers and gain the recognition of a number of fundamental parties such as standard setters, academia, civil societies, regulators, and investors (<http://www.theiirc.org>). However, Flower (2015) believes that IIRC's proposals will have little impact on corporate reporting practice, because of their lack of force that the Council has been the victim of 'regulatory capture'.

3. The Benefits of Integrated Reporting

According to literature, benefits of integrated reporting for companies are indicated in general as follows (Eccles and Krzuz, 2011):

- Better understanding the relationship between the financial and nonfinancial performance,
- Developing the measuring and control systems internally in order that nonfinancial information can be provided on a timely and reliable basis,
- Low credit (esteem) risk,
- The increase of loyalty of the employees to the company,
- The increase of loyalty of the customers to the company who are sensitive about sustainability,
- Long-term investors who place importance on sustainable strategies,
- More developed relationships with the other stakeholders

It is argued that the adaption of high quality integrated reporting in general is essential for the capital markets and for the society. Therefore, the companies that are open to the public should be encouraged to

adopt the implementation of integrated reporting within the following five-year period. In order that this can be realized, a combination of the market and the arrangements will be needed even though the ratios will show differences from one country to another. Members of boards of directors may play important roles in the adoption of the generalization of integrated reporting. It will be their benefits, as well if they do this, because they will be better able to fulfill their duties of representing the shareholders and other stakeholders by virtue of integrating reporting. The interests and targets of other stakeholders more and more and day-by-day affect the interests of shareholders, and boards of directors are obligated to take into consideration the interests of both sides.

4. The Position of Integrated Reporting Today

Because the framework of integrated reporting is not fully defined and it is a voluntary practice integrated reporting is not fully defined yet as of the present time. However, it is possible to understand how hard companies endeavor to make reports of their financial and nonfinancial performances and also to understand their differences between many countries. For example, 237 companies out of 1861 companies, which make use of the G3 guide, which is prepared by Global Reporting Initiative voluntarily, published their integrated reports (GRI Reports, 2011). In the ever raising complexity of the environment within which companies are trying to currently operate, the drawing up of integrated reporting seems to be one of the most challenging and demanding tasks for any company, which have to deal both with an increasing number of powerful stakeholders and provide its managers with increasingly complex and useful information (Ruggiero and Monfardini, 2013).

Another way whereby it will be evaluated how companies will put integrated reporting into practice is the database of the Sustainable Asset Management (SAM), which is made up of 2,255 companies. The countries where companies publish their integrated reports on the basis of both environmental and social data and where companies are at the highest level in terms of social data are Brazil and European countries. This complies with the fact that 45 % of the companies which implement integrated reporting according to the GRI list are in Europe. Most of the companies at the lowest levels in this respect are in Asia with the exclusion of the United States of America and Canada. The companies in the United States and Canada are very suspicious with respect to the strategies of sustainability and this situation becomes more intense due to the fact that the short-term nature of the financial markets of these countries.

The companies in countries such as China, India, and South Korea, which have developing economies, are usually after short-term growth opportunities that they encounter, and therefore, they are less interested in long-term growth opportunities and long-term sustainability. The common complaint of companies that prepare integrated or sustainability reporting is the indifferent attitudes of investors. These companies ask the question what is the purpose behind creating long-term sustainable value if investors are not interested in the long-term investments. Therefore, they think to themselves “why should related persons prepare integrated reporting if they have no impact on the investor”. While there seems to be a great deal of velocity in attempting or claiming to be creating Integrated Reports such as seen in companies like Coca-Cola. HSBC. Hyundai, Tata Steel. Unilever and Pctrobras (Kan, 2012), the level of integration is still very low. Few companies have incorporated or understood the importance of environmental and social sustainability in achieving long-term success (Van Zyl, 2013). Additionally, the extent to which financial and non-financial reports are integrated is generally low (Perrini, 2006).

Achieving truly integrated reporting is far more than a technical exercise or a “show off” to enhance the image of the company. It is challenge to mesh of two fundamentally traditions of corporate disclosure namely financial reporting and sustainability reporting which embody distinctly different definitions of the nature of the firm. If integrated reporting is to evolve into more than the casual juxtaposition of financial and sustainability information in paper or electronic format, these two traditions must converge toward a reporting architecture that builds on the strengths of both while enabling assimilation of new knowledge, new issues and new metrics that flow from the social, environmental and economic dynamics in the 21st century (White, 2010).

4.1. Values Created for the Enterprise by Integrated Reporting

- If companies better understand the relationship between financial and nonfinancial activities by virtue of integrated reporting, and if they make progress in terms of auditing and control, then there will be an increasing efficacy and efficiency in the system and business process.
- With better and richer information and measurements, better decisions can be made. More consciously made decisions with respect to the relationship between financial and nonfinancial performances help in the efficient and effective utilization of the capital and other resources.
- Formation of the business understanding based on the fact that the existence of a business entity is not only based on economical and financial aspects but it is also based on environmental and social subjects and aspects is pretty difficult; in other words, putting the sustainable strategy into practice is a hard process. This difficulty also encompasses the specification of the relationships between accounting, finance, communication, investor relations, public order, legal and regulatory affairs, sustainability, marketing, and line activities team.
- Integrated reporting does not only accelerate the collection of economic, environmental, financial, and social issued under a commercial (business) strategy, but it also pushes companies to an integrated risk management system. For example, the more the responsibility of a company increases with respect to its social responsibility and the more the importance it places on sustainability increases, the more the concentration of that company on its credit risk (risk on its esteem) increases.
- Integrated reporting takes a company towards a chain of events, which requires being more effectively concentrated on the subject of risk.
- Integrated reporting helps companies better understand and conceive the effects of their strategic and tactical preferences on the society, because internal and external communications help the company strategy be in compliance with the social needs as a whole.

4.2. Content of the report

An organization's ability to connect the dots internally provides an important basis for IR. In particular, the capacity to bridge functional silos allows a holistic assessment of value creation in the short, medium and long term. Therefore, connectivity is not merely a feature of the organization's integrated report; it also becomes engrained in the organization itself. Interestingly, the preceding questions can be readily mapped to the concepts and terminology presented in the IIRC's draft Framework. This mapping is shown in the below table.

Table 1. Mapping of management considerations to IR considerations (WICI, 2013)

MANAGEMENT CONSIDERATIONS	==>	IR CONSIDERATIONS
What are the key factors that drive business value?	==>	Fundamental concept value creation
How are the organization's objectives influenced by its operating context?	==>	Content element organizational overview & external environment
How might the operating context help or hinder matters in the future?	==>	Content elements opportunities and risks future outlook
How do resource dependencies and stakeholder expectations influence strategy and core activities?	==>	Fundamental concept stock and flow of capitals Content elements strategy and resource allocation business model
How are the organization's objectives reflected in internal policies, systems and processes?	==>	Content element governance
How does past performance position the organization for the future?	==>	Content element performance future outlook

5. Conclusions

IR has emerged as a tool to clearly assess the correct strategy for becoming successful. Success, though a subjective aim, has been reshaped over the years in the light of changing market conditions.

Among others, it could be argued that sustainability and ability to create value are leading factors for success. IR has the suitable philosophy embedded which can enable the capabilities of businesses to successfully communicate with external stakeholders, who progressively demand that companies are to apply and improve sustainable and responsible actions. Additionally, IR will increase customer and employee loyalty that can possibly cause additional financing opportunities (Marianne, 2013). Since the philosophy of IR's aspiration is to establish a relationship between the financial and nonfinancial performance, it will empower companies to take a holistic stand in evaluating all levels of decisions. As an essential requirement for IR is to accept and adopt integrated thinking throughout the organization (Ewings, 2013), it acts more of a philosophy than just a way of reporting. IR is a revolutionary system for sustainability and value creation by being a continuous process, which is directly associated with the ability of managing,

With the latest financial crisis and corporate scandals, numerous individuals consider businesses as one of the main reasons of economic, social and environmental problems. Vast national debts in addition to encouraged individual debts, high unemployment rates, rising inequalities within citizens, unethical management styles in enterprises and growing anxieties for the environment overall drive societies to be overly frustrated, irritated and dissatisfied about the current social and economic order. As a consequence, the concept of sustainability and corporate value creation have been significantly highlighted and become the present center of attention (Busco *et al.*, 2013). IR is a revolutionary system for sustainability and value creation by being a continuous process, which is directly associated with the ability of managing the organization in the most holistic manner.

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